



April 17, 2009

Ms. Melinda Marks, Executive Officer
San Joaquin River Conservancy
5469 E. Olive Ave
Fresno, CA 93727

Dear Ms. Marks:

Final Report—Audit of San Joaquin River Conservancy's Proposition 12, 13, and 40 Bond Funds

The Department of Finance, Office of State Audits and Evaluations (Finance), has completed its audit of the Proposition 12, 13, and 40 bond funds of the San Joaquin River Conservancy (Conservancy) as of June 30, 2007.

Our draft report was issued February 27, 2009. The Conservancy agreed with the audit finding and its response has been incorporated into this report. In accordance with Finance's policy of increased transparency, this report will be placed on our website.

We appreciate the Conservancy's assistance and cooperation during the audit. If you have any questions regarding this report, please contact Diana Antony, Manager, or Sherry Ma, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

David Botelho, CPA
Chief, Office of State Audits and Evaluations

Enclosure

cc: Mr. Bryan Cash, Deputy Assistant Secretary, Resources Agency
Ms. Julie Alvis, Deputy Assistant Secretary, Resources Agency
Mr. John Donnelly, Executive Director, Wildlife Conservation Board
Ms. Cheryl Taylor, Budget Officer, Department of Parks and Recreation
Ms. Marilyn Evans-Jones, Budget Manager, Department of Parks and Recreation

AN AUDIT OF BOND FUNDS

San Joaquin River Conservancy Propositions 12, 13, and 40



Prepared By:
Office of State Audits and Evaluations
Department of Finance

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Final reports are available on our website at <http://www.dof.ca.gov>

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EXECUTIVE SUMMARY

In response to Department of Finance's (Finance) bond oversight responsibilities, we have audited the San Joaquin River Conservancy's (Conservancy) funding under Propositions 12, 13, and 40 as of June 30, 2007. The primary objectives of this audit were to determine whether bond funds were awarded and expended in compliance with applicable legal requirements and established criteria, and to determine if the Conservancy had adequate project monitoring processes.

The Conservancy awarded and expended funds in compliance with applicable legal requirements and established criteria; however, project monitoring efforts can be improved. Specifically, project monitoring responsibilities between the Conservancy and the Wildlife Conservation Board (WCB) are informal and not clearly defined to adequately coordinate monitoring efforts during a project's interim and close-out phases.

Based on a review of seven projects, we were unable to determine the extent of actual monitoring efforts. The Conservancy is primarily involved in identifying and submitting project recommendations to the WCB for project funding; monitoring project's progress, including site visits; and providing technical guidance. The WCB administers bonds funds on behalf of the Conservancy which includes drafting the grant agreement, reviewing and approving reimbursement requests for payment, and performing project close-out procedures, including final site inspections. However, monitoring efforts, including final site inspections, are informal and not consistently documented. Additionally, no written agreement or procedures exist defining the Conservancy's and the WCB's roles and responsibilities to ensure monitoring is consistently conducted or to avoid possible duplication.

Also, as noted in our separate audit of the WCB, fiscal monitoring efforts need improvement. According to the Conservancy, until recently and for only one project, all grantee invoices are submitted directly to WCB for approval and payment. Communication and coordination between the Conservancy and WCB is required to ensure the project scope and timeline are on target prior to invoice payments.

We recommend the Conservancy develop a written memorandum of understanding to define project monitoring roles and responsibilities for all project phases, including but not limited to, interim and final site visits and inspections, grant invoice reviews, and long-term post-closing monitoring.

BACKGROUND, SCOPE, AND METHODOLOGY

BACKGROUND

Between March 2000 and November 2002, California voters passed four bond measures totaling \$10.1 billion. The Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000 (Proposition 12) and the Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act (Proposition 13) were passed on the March 2000 ballot. The California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002 (Proposition 40), and the Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002 (Proposition 50) were passed on the March and November 2002 ballots, respectively. These propositions authorized the sale of bonds to finance a variety of resource programs. Administered by a number of state departments, agencies, boards, and conservancies, the proceeds from these bonds support a broad range of programs that protect, preserve, and improve California's water and air quality, open space, public parks, wildlife habitats, and historical and cultural resources. Bond proceeds are expended directly by the administering departments on various capital outlay projects, and are also disbursed to federal, state, local, and non-profit entities in the form of grants, contracts, and loans.

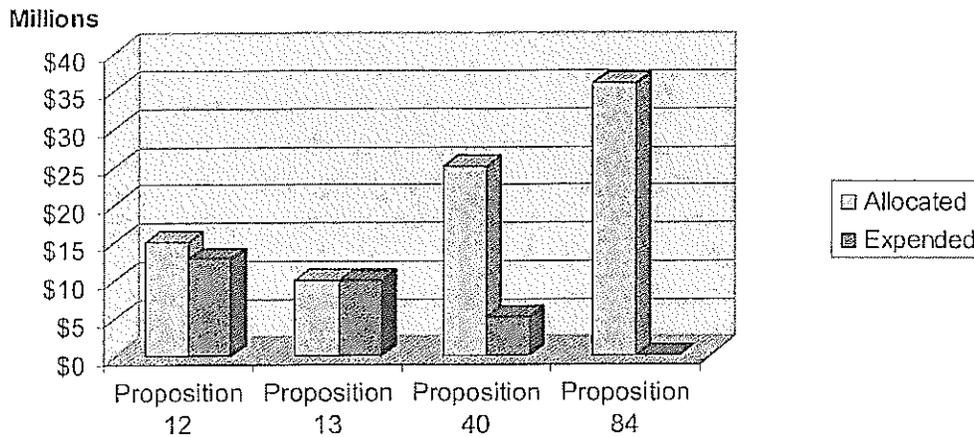
San Joaquin River Conservancy

The San Joaquin River Conservancy (Conservancy) provides leadership and acquires, preserves, manages, and promotes access to lands within the flood plains on both sides of the San Joaquin River from Friant Dam to Highway 99. Propositions 12, 13, and 40 provided the Conservancy with a total of \$30.8 million in bond funds to support its San Joaquin River Parkway Master Plan (Master Plan). The Master Plan is a conceptual plan derived from natural features of the San Joaquin River, its wildlife and aquatic resources, and the constraints and opportunities of the river and its surrounding conditions. The development of the Master Plan is based on the goals to provide public use of the river without adverse effects on these resources. Having the same goals, objectives, and policies among the three jurisdictions, the County of Fresno, the County of Madera, and the City of Fresno will facilitate a more uniform implementation of the Master Plan and will enable the Conservancy to carry out its responsibilities in land acquisition and parkway operations on a consistent basis in all three jurisdictions.¹

As of June 30, 2007, a total of \$27.9 million was expended. See Figure 1 for detail regarding allocations and expenditures. In November 2006, voters approved an additional bond measure, the Safe Drinking Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006 (Proposition 84). This will provide the Conservancy with an additional \$36 million in bond funds; however, as of June 30, 2007, no Proposition 84 funds had been expended.

¹ Recompiled San Joaquin River Parkway Master Plan, 2000, page 8.

FIGURE 1: Total Proposition Funds Allocated and Expended



Source: San Joaquin River Conservancy financial statements for fiscal years 2000-01 to 2006-07.

Pursuant to Budget Act provisions, the Wildlife Conservation Board (WCB) administers the capital outlay bond funds on behalf of the Conservancy. In December 1997, the Conservancy's governing board (Board) approved the Master Plan with two types of project categories: (1) land acquisitions, which at the Board's discretion are allocated 80 percent of the bond funds, and (2) capital improvements², which are allocated approximately 20 percent of the bond funds.

As part of the pre-award process, the Conservancy meets periodically with an Interagency Project Development Committee (IDPC)³ to discuss, evaluate, and recommend priorities for potential Master Planned projects. The IDPC has developed criteria to evaluate and prioritize the attributes of various lands offered for sale to the Conservancy and potential capital improvement projects. For land acquisition projects, recommended project priorities are forwarded to a Conservancy Board Ad Hoc Committee for further review, site visits, and prioritization. All project recommendations must be approved by the Board and then forwarded to the WCB for final funding approval and grant agreement preparation including purchase agreements, final deeds, and other related documents. Recently, the WCB has included the Conservancy as a party to the grant agreements.

SCOPE

The audit was conducted to determine whether bond funds were awarded and expended in compliance with applicable legal requirements and established criteria, and to determine if the Conservancy had adequate project monitoring processes in place.

The audit did not include an assessment of the bond authorization, issuance, and sale processes, or an examination of the efficiency or effectiveness of program operations. Further, no assessment for the reasonableness of the land acquisition costs or the conservation value of the land acquired or projects completed was performed.

² Capital improvements may include projects for habitat enhancement, public access, recreation, education, and other programs mandated by the Conservancy's enabling act.

³ The IDPC members include representation from the Department of Fish and Game, the Department of Parks and Recreation, the Department of Water Resources, the State Lands Commission, U.S. Bureau of Reclamation, local government agencies, the county education department, and local non-profits involved in the San Joaquin River.

METHODOLOGY

To assess whether the Conservancy awarded bond funds in compliance with applicable legal requirements and established criteria, we reviewed the Conservancy's goals and objectives, the Master Plan, written project management policies and procedures, and program guidelines. We interviewed executive management and key staff directly responsible for project management. Because WCB administers bond grants for the Conservancy, we incorporated and referred to audit results from the concurrent Department of Finance (Finance) audit of the WCB. Where applicable, the WCB audit results are referenced in this report.

We selected a sample of 7 out of 26 projects awarded as of June 30, 2007. The projects selected for review represent land acquisition and capital improvement projects which may include funding from other sources. In addition, 2 grant recipients from this same sample were visited to determine whether they complied with the grant agreement requirements.

To assess whether the Conservancy had adequate project monitoring processes, we interviewed management and reviewed documented bond accountability procedures relating to front-end, in-progress, and follow-up monitoring. Using the same sample noted above, we reviewed project files to determine how project monitoring processes were implemented. Project files reviewed included documents such as project recommendation memorandums addressed to the Conservancy's Board, IDPC Meeting summaries, email or fax communications, fair market value property appraisals, preliminary title reports, competitive bids, project advertisements, and grant agreements, including budgets and scopes of work. We also reviewed fiscal records related to the project monitoring processes.

Recommendations were developed based on our review of documentation made available to us as well as interviews with the Conservancy, WCB's management, and key staff directly responsible for administering bond funds. This review was conducted during the period March 2008 through October 2008.

The audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. In connection with this audit, there are certain disclosures required by *Government Auditing Standards*. Finance is not independent of the Conservancy, as both are part of the State of California's Executive Branch. As required by various statutes within the California Government Code, Finance performs certain management and accounting functions. These activities impair independence. However, sufficient safeguards exist for readers of this report to rely on the information contained herein.

The San Joaquin River Conservancy (Conservancy) awarded and expended bond funds consistent with the applicable legal requirements and established criteria. However, the following observation was identified:

The Conservancy's Project Monitoring Responsibilities Are Not Clearly Defined and Fiscal Monitoring Needs Improvement

A review of seven Conservancy projects identified weaknesses in monitoring within the interim and post-closing phases, including informal and inadequately documented fiscal monitoring efforts. The Conservancy is primarily involved in identifying the projects and submitting recommendations to Wildlife Conservation Board (WCB) for project funding, monitoring project's progress, and providing technical guidance. The WCB administers bond funds on behalf of the Conservancy which includes drafting the grant agreement, reviewing and approving reimbursement requests for payment, and performing project close-out procedures, including final site inspections. However, no written agreement or procedures exist to define monitoring roles and responsibilities and to avoid duplication. Additionally, the monitoring efforts, including final site inspections, are informal and not consistently documented.

According to the Conservancy, they perform final site inspections, which may or may not be performed in conjunction with the WCB. Per grant agreement language, the WCB also performs project close-out procedures, such as final report reviews and final site inspections. And as the bond administrator, WCB makes all grant reimbursement claim payments for the Conservancy. However, the recent Department of Finance WCB audit report noted inconsistencies and lack of evidence of monitoring practices. In addition, based on our review of project files at both departments and at the grantees' offices, we could not confirm monitoring efforts. There was no documentation to confirm whether the final site inspections were completed for all closed projects. While the Conservancy did provide evidence of emails to document their ongoing communication efforts with WCB, the communications were inconsistent. Monitoring can be improved by ensuring each department is clearly responsible for specific areas and each communicates their monitoring efforts to avoid duplicating efforts.

Additionally, WCB's fiscal monitoring efforts need improvement as described in our separate WCB audit report. Specifically, WCB had inadequate documentation of project status, lacked adequate fiscal monitoring, and had ineffective close-out and post-monitoring processes. All grantee invoices are submitted directly to WCB for approval and payment. According to the Conservancy, in one case, the WCB requested the Conservancy to review the reimbursement claim prior to payment. It is unclear if this was an isolated incident or if this process will be applied to all future projects. Without ongoing monitoring to ensure the project is staying within the grant's scope and timelines, inappropriate expenditures may be reimbursed. Communication between the Conservancy and WCB is required to ensure the project scope and timeline are on target prior to paying invoices.

The Conservancy is responsible for post monitoring when a project is complete; however, it is not readily apparent to what extent the monitoring entails. For example, the Conservancy will informally observe the properties to determine if it operated as intended and was consistent with the San Joaquin River Parkway Master Plan (Master Plan). These observations are not necessarily conducted in regular time cycles and the informal observations do not include an assessment of the property's service-level maintenance, which the Conservancy states is the responsibility of the grantee.

The primary goal of the Conservancy is to implement the Master Plan. The Conservancy states they are in constant communication with the grantee to monitor the project's direction and technical aspects. Therefore, the Conservancy's oversight of the projects is critical and, although they do not directly administer funds to grantees, they can validate projects' progress and related claimed costs. Additionally, the recent WCB audit report identified control weaknesses over project monitoring that warrants documented and clearly defined areas of responsibility for both the WCB and the Conservancy.

Recommendation

Develop a written memorandum of understanding to define project monitoring roles and responsibilities for all project phases, including but not limited to, interim site visits, final site inspections, grant invoice reviews, and long-term post-closing monitoring.



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 STATE OF CALIFORNIA

March 18, 2009

Mr. David Botelho, CPA
 Chief, Office of State Audits and Evaluations
 State of California, Department of Finance
 915 L Street
 Sacramento, CA 95814-3706

Dear Mr. Botelho:

Response to Draft Audit Report for the Conservancy (No. 080540086)

Thank you for the opportunity to respond to the Draft Audit Report (No. 080540086) received in this office on March 4, 2009, pertaining to the San Joaquin River Conservancy's management of Proposition 12, 13, and 40 bond funds. The Conservancy's bond funds are appropriated in the Wildlife Conservation Board's (WCB) budget for use at the Conservancy's discretion; therefore, the audit's observations and findings pertain to the procedures, practices, documentation, and coordination of the WCB and Conservancy.

The report finds that, "The Conservancy awarded and expended funds in compliance with applicable legal requirements and established criteria." The Conservancy is fully committed to responsible and effective management of all of the public funds entrusted to the agency, and values this conclusion drawn from the audit by the Department of Finance.

The report makes two general observations and one recommendation:

Observation 1: Project monitoring efforts can be improved.

Due to a lack of inspection-specific documentation, the report understates the actual level of project monitoring.

Project monitoring occurs in the form of close, proactive involvement of the Conservancy management and staff in every aspect of a grantee's project, including: ensuring the scope of work and budget meet the objectives of the San Joaquin River Parkway Master Plan, developing staff reports and recommendations for Conservancy Board and WCB authorizations, assisting grantees in the selection of consultants, facilitating regulatory and interagency coordination, evaluating project designs and problem-solving, facilitating and coordinating public and stakeholder outreach, and reviewing reports and California Environmental Quality Act documents. Pre-project site visits are conducted by staff of the Conservancy and WCB

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individually, and by the Conservancy's Interagency Project Development Committee, of which the WCB is an active participant. Documentation is kept in the form of emails, memos, status reports, meeting notices and agendas, and written guidance and technical assistance to grantees.

The Conservancy's jurisdictional area is very small (approximately 2,700 acres at thirteen properties to date) and confined to a relatively narrow and highly visible corridor along the San Joaquin River. Visual monitoring of all projects in-progress and post-project is easily accomplished whenever staff is in field. Further, staff maintains frequent communications with all of its twelve member agencies and one primary nonprofit partner—these comprise the grantees.

Nonetheless, consistent documentation of site visits will be implemented as suggested in the audit report. Pre-, interim, and post-project inspections will be clearly documented by developing and requiring the use of inspection forms for Conservancy staff.

Observation 2: Project monitoring responsibilities between the WCB and the Conservancy are informal and not clearly defined.

Project administration responsibilities of the WCB and Conservancy are the direct result of the formal departmental duties to conduct their mandated programs and ensure the appropriate use of bond funds. The draft report accurately reflects the WCB's and Conservancy's roles, which are derived from our legal, fiscal, and programmatic obligations.

WCB inspects all project sites before recommending them to the WCB, while in progress (if the project duration is relatively long), and at close-out. WCB land agents are intimately and actively involved in Conservancy land acquisitions, visiting sites, resolving title issues, negotiating with owners, and preparing all transaction documents. The WCB and Conservancy confer frequently—no less often than quarterly when the WCB prepares routine internal status reports—on the scope, budget, and progress of all projects.

The WCB provides all fiscal accounting. The WCB fiscal section and Conservancy Executive Officer confer on a frequent basis—no less often than when a new project is proposed or fiscal report is due (such as annual capital outlay Budget Change Proposals, Finance Letters, etc.).

Final payment is not released by WCB unless and until the project is satisfactorily completed, the WCB has reviewed a final report, and completion is confirmed by a WCB inspection. The information is tracked and transmitted in a report to the Department of Fish and Game Director.

As noted above, the Conservancy is an active partner in all of its capital improvement grants; therefore the Conservancy takes the primary role in monitoring in-progress projects. The Conservancy is included as a party to the WCB grant agreement whenever the Conservancy is the underlying property owner for the project. The Conservancy reviews and recommends WCB approval (as appropriate) of grantees' invoices whenever it is a party to the grant agreement. The Conservancy ensures that the work reports included in the invoices accurately reflect the work to date.

For land acquisitions, the Conservancy has retained ownership of all but two properties that were "granted" to the Department of Fish and Game. The Conservancy is fully responsible for monitoring and managing its lands. The Conservancy provides fire prevention, security, stewardship, protects

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conservation values, and provides public access where possible. The Conservancy, its licensees and service providers maintain a frequent management presence on all lands throughout the year. The Conservancy coordinates with WCB on reporting the land assets on the Department of General Services Real Property Inventory and fixed asset reports.

After more than ten years of effective coordination and implementation of cooperative bond fund projects between the WCB and Conservancy these roles are commonly understood by the two agencies, and accurately reflected in the documentation reviewed by the auditors. That said, the Conservancy does not object to defining these roles within a Memorandum of Understanding (MOU) as recommended in the audit report.

Recommendation: Develop a Memorandum of Understanding with the WCB

The Conservancy does not object to the recommendation that the WCB and Conservancy develop and enter into an MOU to define project monitoring roles and responsibilities in writing. The draft report notes that the MOU would include, but not be limited to, responsibilities for performing and documenting interim site visits, final project inspections, grant invoice reviews, and long-term post-project monitoring. As noted in the draft report, the Conservancy's level of oversight is critical and validates projects' progress and claimed costs. The intent of the written roles and responsibilities would be to formally recognize the value of the WCB's and Conservancy's separate roles and to ensure: continued close coordination among the Conservancy, grantees, WCB and stakeholders; continued accomplishment of San Joaquin River Parkway Master Plan objectives; long-term compliance with post-project requirements; and minimal potential for duplication of effort. The Conservancy and WCB will prepare an MOU for execution by June 30, 2009.

I appreciate the opportunity to comment on the draft audit report and look forward to the continued implementation of conservation bond fund programs under the guidance of the Department of Finance.

Please correct the address for all future correspondence to the San Joaquin River Conservancy: 5469 E. Olive Avenue, Fresno, CA 93727. Please call me at (559) 253-7324 or email Melinda.Marks@sirc.ca.gov if you have any questions or need additional information.

Respectfully,

Original signed by:

Melinda S. Marks
Executive Officer

c: Mr. Patrick Kemp, Natural Resources Agency
Mr. Bryan Cash, Natural Resources Agency
Ms. Julie Alvis, Natural Resources Agency
Mr. John Donnelly, Wildlife Conservation Board
Ms. Cheryl Taylor, Department of Parks and Recreation
Ms. Marilyn Evans-Jones, Department of Parks and Recreation

EVALUATION OF RESPONSE

The San Joaquin River Conservancy's (Conservancy) response to the draft audit report has been reviewed and incorporated into the final report. We acknowledge the Conservancy's willingness to implement the recommendations and its commitment to effectively manage its bond funds.

The following comments are based on our review of the Conservancy's response for the identified observations:

Observation 1: Project Monitoring Efforts Can be Improved

The Conservancy claims the report understates the actual level of project monitoring due to a lack of inspection-specific documentation. While the Conservancy provided evidence of e-mails documenting its ongoing communication efforts with WCB, the communications were inconsistent. In addition, project files reviewed at the WCB and the grantee's offices lacked documentation to support monitoring efforts. Without consistent documentation to support monitoring efforts, it is difficult to determine the extent and performance of project monitoring.

We commend the Conservancy's plan to use inspection forms to consistently document pre-interim, and post-project inspections.

Observation 2: Project Monitoring Responsibilities Between the WCB and the Conservancy are Informal and Not Clearly Defined

According to the Conservancy, grantee invoices are reviewed prior to recommending WCB approval whenever the Conservancy is a party to the agreement. However, our discussions with the Conservancy at the time of our review indicated there was only one instance in which the WCB requested the Conservancy to review grantee invoices. In addition, the lack of adequate fiscal project monitoring noted in our recent WCB audit underscores the need to clearly define monitoring responsibilities between the WCB and the Conservancy.

Again, we commend the Conservancy's plan to define the roles in a Memorandum of Understanding as recommended in the audit report.