



May 26, 2009

Mr. David Muraki, Director
California Conservation Corps
1719 24th Street
Sacramento, CA 95816

Dear Mr. Muraki:

Final Report—Audit of California Conservation Corps' Propositions 12 and 40 Bond Funds

The Department of Finance, Office of State Audits and Evaluations (Finance), has completed its audit of the California Conservation Corps' Propositions 12 and 40 bond funds for the period ending June 30, 2008.

The enclosed report is for your information and use. The California Conservation Corps' response to the report findings and our evaluation of the response are incorporated into this final report. In accordance with Finance's policy of increased transparency, this report will be placed on our website.

We appreciate the assistance and cooperation of the California Conservation Corps. If you have questions regarding this report, please contact Frances Parmelee, 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: Ms. Erin Healy, Chief, Administrative Services Division, California Conservation Corps
Mr. Brad Duncan, Chief, Program Development and Support Division, California Conservation Corps
Ms. Kris Escarda, Policy Development Manager, California Conservation Corps
Mr. Patrick Kemp, Assistant Secretary, California Natural Resources Agency
Mr. Bryan Cash, Deputy Assistant Secretary, California Natural Resources Agency
Ms. Julie Alvis, Deputy Assistant Secretary, California Natural Resources Agency

AUDIT OF BOND FUNDS

California Conservation Corps Propositions 12 and 40



Prepared By:
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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 the Department of Finance's (Finance) bond oversight responsibilities, we have audited the California Conservation Corps' (CCC) funding under Propositions 12 and 40 as of June 30, 2008. 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 CCC had adequate monitoring processes in place.

Overall, CCC awarded bond funds in compliance with applicable legal requirements and established criteria. However, the processes related to awarding and monitoring of those programs to ensure funds were adequately expended require improvement. Specifically, a lack of documentation exists in relation to the CCC's selection of projects awarded (such as site visits, scoring, checklists, or notes), the review of applications, and the grantee's financial capability for long-term monitoring. The grant agreement language had vague scopes of work, lacked detailed budgets, and did not contain verbiage related to the project's long-term maintenance. Also, the Local Conservation Corps' (LCC) indirect and direct cost pool allocations and usage of projected costs versus actual costs were inconsistent, and some indirect cost categories appear questionable with respect to the Office of Management and Budget's (OMB) Circulars A-87 and A-122. We recommend the CCC to implement a pre-award and award process which may include, but is not limited to, the development of established procedures to ensure projects selected for funding have adequate documentation. Activities to be documented could include site visits, a review of project applications, a review of the direct and indirect cost plans, and a review of the grantee's initial financial viability.

The CCC's processes related to the interim monitoring, closing, and post-monitoring of projects need strengthening as well. Although the CCC has mechanisms to track projects, we could not determine the adequacy and the extent of the information being tracked because documentation provided contains conflicting information, the information could not be verified, and the project files lacked documentation to support the information provided to us. Furthermore, the project files did not contain evidence of final site visits and approvals even though final project payments were issued. Additionally, the Proposition 40 projects reported to the California Natural Resources Agency is incomplete. We recommend the CCC establish a centralized method for monitoring projects and ensure that information is complete, accurate, and adequately documented.

During 2006, the CCC had significant staff and management turnover. Although some of the CCC's current management team had prior CCC experience, they were all relatively new to their current positions. The management transition coupled with the high turnover and vacancy of staff were major contributors to the CCC's inadequate monitoring of bond-funded projects. With the passage of the November 2006 Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act (Proposition 84), the CCC has responded and developed more defined program guidelines and identified program monitoring efforts over those funds even though Proposition 84 funds have not been awarded as of the date of this audit. Guidelines, with respect to awarding of Proposition 84 funds to grantees, have been developed and finalized; however, the CCC needs to develop procedures specific to their internal program practices. The CCC's fiscal and administrative controls over bond funds would be strengthened if the CCC develops a plan to address the observations and recommendations noted in this report.

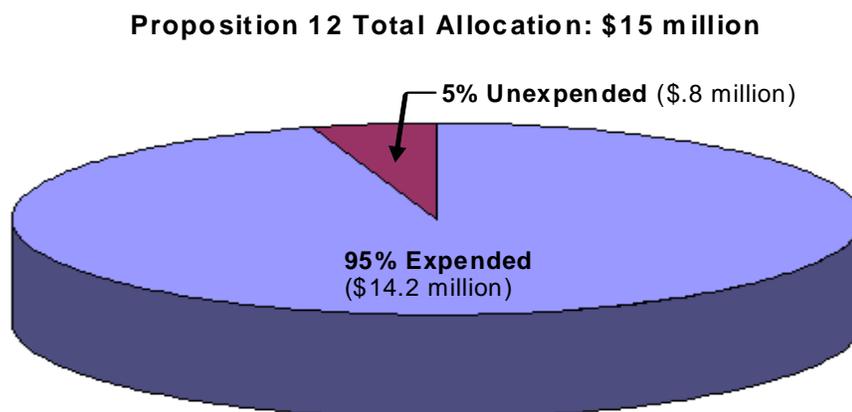
BACKGROUND, SCOPE, AND METHODOLOGY

BACKGROUND

On the March 2000 and 2002 ballots, the Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Act of 2000 (Proposition 12) and the California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002 (Proposition 40) were passed for \$2.1 billion and \$2.6 billion, respectively. These bond proceeds were to support programs to conserve natural resources, to acquire and improve state and local parks, and to preserve historical and cultural resources. Up to 18 state departments administer Propositions 12 and 40 funds. Section 5096.310 of the Proposition 12 Bond Act allocates a total of \$15 million to the California Conservation Corps (CCC)—of which \$12.5 million is for grants to Local Conservation Corps (LCC)—for capital outlay and resource conservation projects and administrative costs allocable to bond funded projects. Section 5096.650 of the Proposition 40 Bond Act allocates a total of \$20 million to CCC, of which \$15 million is for grants to LCCs for acquisition and development of facilities to support LCC programs.

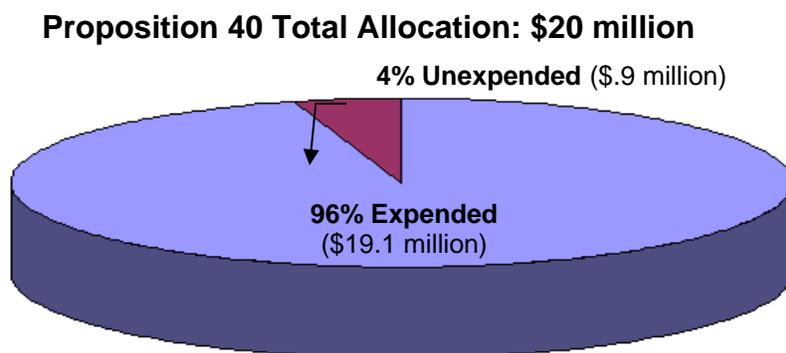
As of June 30, 2008, out of the total \$35 million dollars allocated, \$14.2 million for Proposition 12 and \$19.1 million for Proposition 40 was expended (refer to Figures 1 and 2). Additionally, in November 2006, the CCC was appropriated \$45 million for resource conservation and restoration projects, LCC projects, facilities acquisition, and development and restoration activities from the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act (Proposition 84). This audit does not include a review of Proposition 84 funds because there were no expenditures as of June 30, 2008.

Figure 1. Proposition 12 Funds Allocated and Expended as of June 30, 2008



Source: The CCC's certified financial statements as of June 30, 2008

Figure 2. Proposition 40 Funds Allocated and Expended as of June 30, 2008



Source: The CCC's certified financial statements as of June 30, 2008.

California Conservation Corps

Created in 1976, the CCC is a department within the California Natural Resources Agency. The CCC's mission is to engage young men and women in meaningful work, public service, and educational activities to assist them in becoming responsible citizens while protecting and enhancing California's environment, human resources, and communities. The CCC hires men and women (collectively referred to as corpsmembers) between the ages of 18 and 25 for a year of natural resource work such as landscaping, trail building, and tree planting. The corpsmembers provided logistical support at fire camps and evacuation centers during the recent California wildfires. During their year with CCC, corpsmembers receive on-the-job and classroom training. In addition, corpsmembers can also receive instruction from adult education centers or the Muir Charter School to earn their high school diplomas or a general education diploma.

The CCC administers resource and development projects and acquisition-related projects to LCCs, state and local agencies, and themselves. All resource conservation activities must conserve, preserve, protect, and/or restore a local natural resource in addition to providing a long-term benefit to the community, and should have components which provide a positive impact towards corpsmember development. Related activities may include restoration of fisheries, habitat, natural resource conservation and trail rehabilitation, correction of corrosion issues, installation of water conservation systems, and acquisition and development of facilities. Appendix A depicts CCC's grant process at a high level.

In 2006, the CCC encountered challenges. There was significant management and staff turnover, and Proposition 84 was passed by the California voters. The CCC was faced with a newly appointed key management team over administration and programs, and was required to develop and implement Proposition 84 guidelines as well as take on its associated administrative responsibilities.

Local Conservation Corps

Each LCC is an independent nonprofit organization, governed by a local board of community leaders whose mission is similar to the CCC. To become a certified LCC, it must meet certain criteria as established by law, including being in operation for at least two years, conducting an educational component, and having at least 50 corpsmembers enrolled. In accordance with Public Resources Code Section 14507.5, the CCC conducts the certification process annually. This certification enables an LCC to receive funding from the CCC to work collaboratively in many areas. As of June 30, 2008, there are currently 12 LCCs¹. Appendix B depicts the LCCs' grant process at a high level.

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 CCC 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. Furthermore, no assessment was performed for the reasonableness of the land acquisition costs or the conservation value of the land acquired or projects completed. Additionally, we did not verify information and processes related to Proposition 84 programs.

METHODOLOGY

To determine whether bond funds were awarded and expended in compliance with applicable legal requirements and established criteria, and whether the CCC had adequate monitoring processes, we performed the following procedures:

- Reviewed applicable bond acts and CCC grant management policies, procedures, and program guidelines, including legal provisions and regulations.
- Interviewed key personnel responsible for administering bond funds to obtain an understanding of how CCC oversees various project stages: pre-award, award, interim monitoring, closeout, and post-close monitoring.
- Conducted a follow-up on the Department of Finance's prior year audit performed in 2005-06.
- Inquired about corrective action plans taken to address the State Controller's Office Proposition 40 audit conducted in 2007.
- Examined a sample of CCC and LCC project files, including a review of expenditures to determine if the projects stayed within scope and cost. Our sample did not include project files reviewed in the audits mentioned above. Since both audits did not include a review of CCC projects, we selected 20 CCC projects for examination.

¹ Eleven LCCs exist for Propositions 12 and 40; however, with the passage of Proposition 84 in 2006, one additional LCC was created. Our audit was limited to Propositions 12 and 40 only.

- Identified and assessed the CCC's project tracking methods to determine its adequacy for monitoring projects.
- Conducted a web-based survey of the 11 certified LCCs regarding the CCC's award and project monitoring practices (see Appendix C for LCC survey results).
- Reviewed a sample to verify expenditures were recorded and reported accurately in CCC's accounting system and financial statements.
- Reviewed the reasonableness of CCC's administrative expenditures charged to bond funds.

Recommendations were developed based on review of documentation made available to us and interviews with CCC management and key staff directly responsible for administering bond funds. This audit was conducted during the period October 2008 through January 2009.

This 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*. The Department of Finance is not independent of the CCC, as both are part of the State of California's Executive Branch. As required by various statutes within the California Government Code, the Department of 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.

Overall, the California Conservation Corps (CCC) awarded bond funds in compliance with applicable legal requirements and established criteria. Although there are areas for improvement as noted below, the CCC has made strides in its operations. The Local Conservation Corps (LCC) survey we conducted attests that the current management team's administration and oversight has significantly improved from previous years. Additionally, the CCC has developed tools and guidelines for LCC program participation in response to the passage of Proposition 84.

This audit identified the following observations requiring the CCC management's attention. With the passage of Proposition 84 providing the CCC with an additional \$45 million, the CCC needs to improve transparency and accountability to the public.

Observation 1: Pre-Award and Award Processes Are Insufficient

Generally, the pre-award process involves identifying and evaluating potential projects to ensure that established legislative and CCC guidelines are met. Completion of applicable pre-award activities is important because the knowledge gained about the project beforehand provides a clearer basis for selecting projects for funding. Based upon our review of project files and interviews with staff, we could not make a determination regarding the adequacy of the CCC's project selection process. Although CCC does not have written policies and procedures, prudent business practices suggest project files would contain certain basic elements (refer to Figure 3). Based on our web-based survey, 80 percent of the LCCs responded that a pre-award site visit was never conducted. We identified some examples during our audit that signify a weak pre-award and award process.

One specific example we identified during our audit was inconsistencies exist amongst the various LCC cost pool allocations and the usage of projected costs versus actual costs. In addition, some indirect cost categories appear questionable with respect to the Office of Management and Budget's (OMB) A-87 and A-122. Due to the lack of supporting documentation maintained in the project files, it is uncertain how the CCC was able to identify what were reasonable and valid costs without a thorough review of documents to support the stated indirect and direct costs. We recognize CCC's Proposition 84 guidelines will apply OMB Circulars for determining allowable costs.

Figure 3: Basic Elements included in Project Files

- Evidence of pre-award site visits, such as photos.
- Communications between the grantor and the grant recipient.
- Evidence of project application review by grantor. Such evidence could be scoring sheets, checklists, or notes to document how projects were selected or how they met specific criteria.
- Documentation of the California Environmental Quality Act (CEQA) exempt status.

Another example is that grant agreements did not contain detailed scopes of work, budgets, and long-term maintenance language to ensure the state's interest is protected. Additionally, the CCC does not evaluate a grantee's ability to provide long-term maintenance and does not incorporate a review or require grantees to report on their financial viability to complete the project prior to awarding grant funds. Based on the information provided to us, the basis of CCC's recommendations to approve or deny funding for projects is not apparent. Without evidence of the rationale for which the projects were approved or denied, reasonability can not be ascertained.

Other state agencies have established fiscal criteria in their grant applications where grantees are required to identify the fiscal resources to be used to accomplish the project's management objectives. In addition, grant management "promising practices" articulated by members of the *Grant Accountability Project*², includes assessing an applicant's ability to achieve grant objectives. By developing and implementing similar methods, the CCC can better assess whether a grantee has sufficient resources before awarding bond funds.

Recommendations

Implement a pre-award and award process which may include, but is not limited to:

- Established procedures to ensure projects selected for funding have adequate documentation.
- A review over LCC direct and indirect costs plans, including an inspection of the respective supporting documentation.
- The performance and documentation of site visits prior to awarding bond funds.
- Basic elements, to be determined by CCC, to be documented in the project files.
- A review of a grantee's initial financial viability to determine if available funds are reasonable for long-term monitoring. Inclusion of standard contract language in grant agreements regarding long-term maintenance and reporting requirements (e.g., periodic reports on the grantee's fiscal capacity to monitor and manage the project) may facilitate this effort.

Observation 2: Project Monitoring Efforts Need Improvement

CCC lacks adequate project monitoring controls which may increase the risk of not meeting a project's scope and cost. As the administrator of bond funds, it is important the CCC takes a proactive role of monitoring bond-funded projects and demonstrates accountability and transparency of bond fund use. Inherent in such activities would be ensuring adequate project file documentation. California Government Code Section 13401 states effective systems of internal control and administrative control are necessary to assure that state assets and funds are adequately safeguarded, and to produce reliable financial information. Without complete

² A collection of federal, state, and local audit organizations tasked by the Comptroller General of the United States' Domestic Working Group to offer suggestions for improving grant accountability.

files containing the necessary project information, there is uncertainty in how adequately and diligently the project progress is monitored.

The below mentioned examples demonstrate inadequate project monitoring and may indicate a lack of due diligence. It runs the risk of losing public confidence in state operations because the public cannot be assured of the project's progress.

- Some LCC project files did not contain progress reports, payment logs, or documents to support payment requests.
- A LCC project file contained a corpsmember salary and wage budget line item increase of 28 percent (from \$77,136 to \$98,453) that was not approved by the CCC. The CCC's policy requires changes greater than 10 percent to be approved.
- Some of the LCC project files contained invoices where labor rates charged exceeded the contracted rates. In addition, the files did not contain evidence of amended hourly rates. As a result, approximately \$67,289 paid to the LCCs is identified as questioned costs.
- Some project files did not contain evidence of CCC reviewing (1) the payment requests and supporting documentation to ensure all claimed costs were accurate, and (2) the progress reports submitted by the LCCs.
- The CCC project files reviewed were either incomplete or were recently created during our review containing minimal records. Our interviews with CCC indicate that progress reports (CCC-45) are required to be completed. However, not all project files contained the CCC-45s or evidence of communication between the CCC crew supervisor and the CCC headquarters. Although the CCC stated the CCC project files were located at various centers, and due to the age of the files, some files may have been purged in accordance with the CCC's record retention policy. However, we noted project files from fiscal years 2004-05 through 2006-07 still had missing documents.

During our audit, we also noted that actual hours worked and total amount of labor dollars paid for a majority of the CCC project files could not be verified. The CCC projects are allocated based on projected hours worked versus total dollars awarded; therefore, to verify the CCC project's actual cost, total actual hours worked and the applicable labor reimbursement rate must be identified. The CCC project files did not contain either the total amount of hours worked via the Crew Roster (CCC-123) or actual timesheets, and the labor hour reimbursement rates for 2002-03 and 2004-05 could not be obtained. As a result, we could not verify the accuracy of the amount reported as expended as well as verify compliance with the amount awarded for 12 out of 20 CCC project files.

Recommendations

- Implement policy to establish adequate project file management. Documentation to be maintained could include, but is not limited to, contract amendments, approved annual reimbursement rates, and timekeeping records.

- Develop project monitoring tools to ensure consistent application and adequate documentation.
- Establish a review process for payment requests to ensure invoices are checked for reasonableness and accuracy.
- Work with the LCCs to recover \$67,289 in questioned costs.

Observation 3: Closeout and Post-Close Monitoring Processes Need Further Development

A review of the project files revealed final site visits did not always occur and that no follow-up for completed projects were conducted to ensure the state's investments were being maintained properly. These observations coincide with the results of the LCC surveys (see Appendix C). Specifically:

- Only 1 out of 11 LCC projects reviewed contained evidence of a final site visit during the closeout stage, which was not completed until 237 days after the visit was conducted. Furthermore, the final report indicated that the project was pending posting of signage, but no further follow-up by CCC was conducted as of the time of our review.
- A final project payment of \$25,717 was issued to a LCC without the completion of a final report that states all project tasks and accomplishments agreed upon were complete. Additionally, for those project files that contained final reports, evidence of review and approval by the CCC was not evidenced. According to CCC's policy as well as prudent business practices, a final report must be approved before a final payment is authorized.
- Both the CCC and LCC project files reviewed did not contain evidence of post-monitoring activities, such as communication between the grantees and CCC, progress reports, or site visits to ensure the state's investment was adhered. With proper ongoing monitoring in place, prompt corrective actions can be taken and costly expenses, such as enforcement and legal costs, may be avoided.

Although the CCC has developed guidelines and checklists for Proposition 84, these guidelines are essentially geared towards the grantees and do not clearly and adequately identify the duties and timelines to be completed by the CCC. Without clearly defined CCC program monitoring procedures, coupled with the lack of evidence identified during our project file review and staff and management turnover, we could not determine whether projects were monitored adequately.

Recommendations

Establish a process in which post-monitoring efforts are identified, documented, and assigned to a responsible party. It should address that site visits and other project close-out processes are performed prior to issuance of final project payment.

Observation 4: Project Tracking in Place Is Inadequate

CCC and LCC projects are tracked separately; however, our audit identified that both types of project tracking mechanisms need improvement because they can lead to inaccurate project status information and increases the risk of unreliable financial records. Without a comprehensive LCC project list in existence and not separately tracking the CCC's reimbursement and grant projects³, it is difficult to determine how the CCC is able to: (1) verify the accuracy of the information reported on the financial statements and the California Natural Resources Agency's (Agency) website, (2) determine the number of grant projects, and (3) determine whether these projects were effectively and adequately monitored. Although projects are tracked systematically, we were unable to determine the extent and how often the project tracking system is updated since inconsistency exists in capturing and storing the data.

LCC Project Tracking

Interviews with CCC reveal that during 2000 through 2007, a centralized tracking database for LCC projects did not exist. Projects were tracked using different Excel spreadsheets by bond program analysts and district analysts; however, the information tracked was not consistent amongst the analysts. Upon our request for a comprehensive project listing, the CCC consolidated the various spreadsheets. However, information reported on this consolidated project listing specifically the total project amounts expended did not agree to what was reported on the financial records as of June 30, 2008.

CCC Project Tracking

CCC stated the CCC Automated Data Collection and Reporting System (CADCARS) is used to track all CCC projects, both reimbursement and grant projects. Due to the information not being centrally stored and system limitations, the retrieval of project status information may not adequately capture all the necessary information to effectively monitor each project's progress. The CCC utilizes CADCARS to obtain actual corpmember hours worked on CCC projects to develop tracking spreadsheets at the center, district, and statewide levels. These spreadsheets track the reimbursement rate used, cumulative hours worked for each project, the status of the project, and a description of the project. However, when we requested the 2006-07 spreadsheets, CCC could not provide them to us. The CCC stated the spreadsheets were not stored in an accessible location; therefore, to retrieve the information would require laborious hours. Because the spreadsheets were not made available to us, we could not verify the information reported in CADCARS and the financial records.

California Natural Resources Agency Website

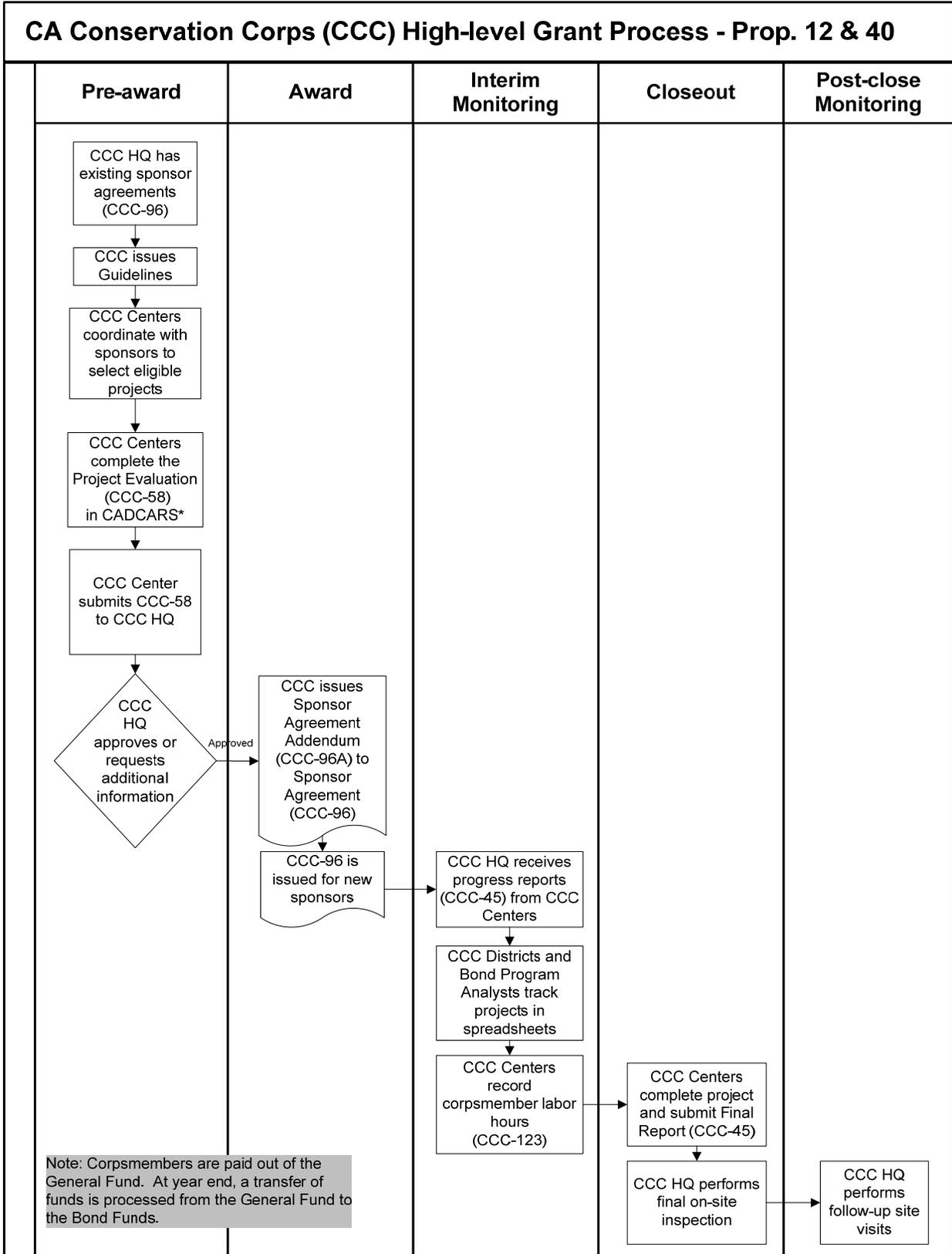
Not all Proposition 40 projects were reported on the Agency's website as required by the Public Resources Code Section 5096.686. For those projects listed, the project status information was incomplete. Specifically, only 84 out of 241 Proposition 40 projects (both CCC and LCC) were listed on the website. Of the 84 projects listed, only 80 projects could be verified and only 12 projects had expenditure amounts that agreed to the data reported by CADCARS.

³ The reimbursement projects are those projects in which the CCC provides the corpmember labor to assist other agencies with projects and are subsequently reimbursed for their efforts. The grant projects are those bond projects designated as Proposition 12 and 40 projects.

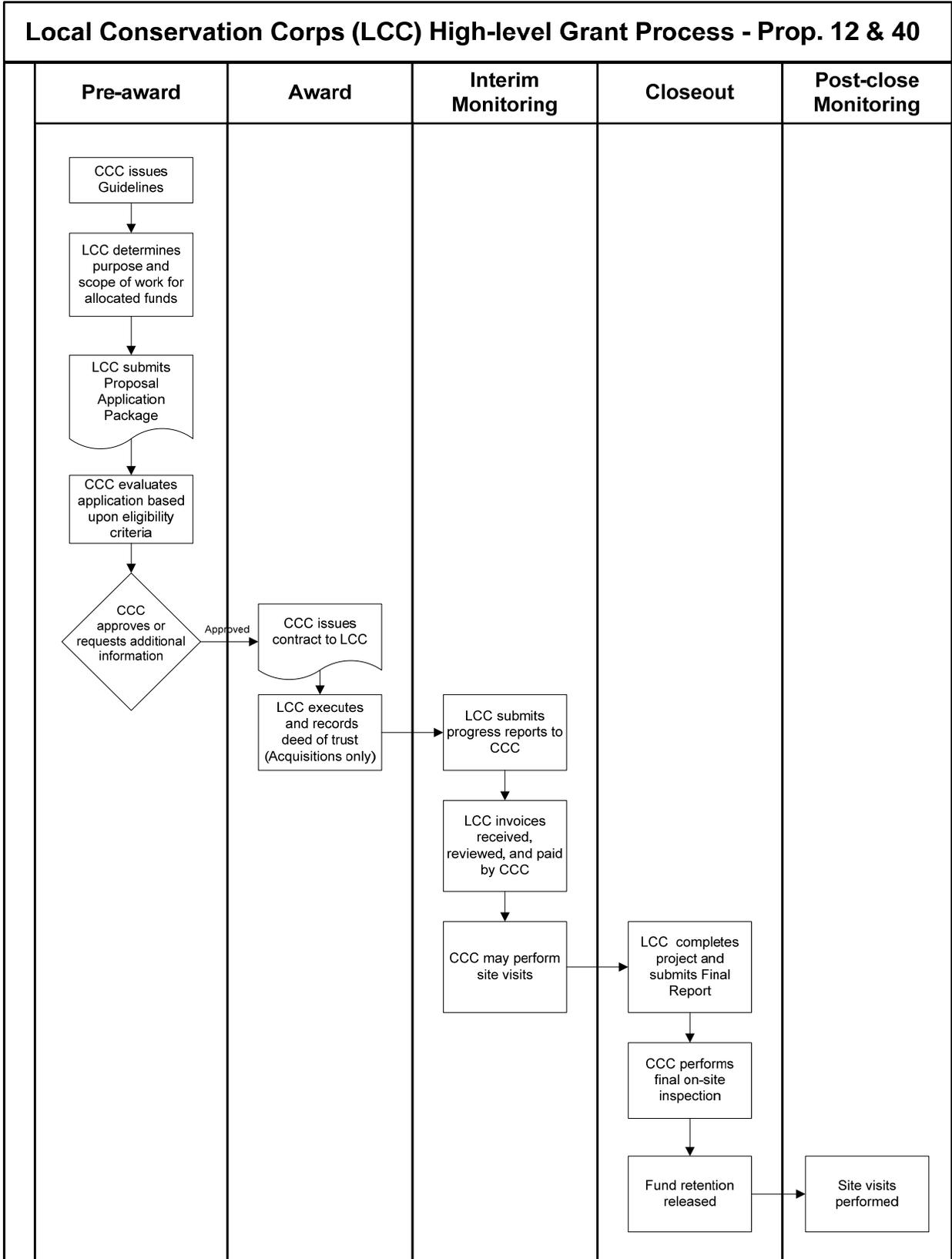
Because of our inability to verify information and CCC's inconsistent process of capturing and storing data, the risk exists that the project status information and financial records may be unreliable and incorrect.

Recommendation

Reassess the current project tracking mechanisms and procedures to ensure that all bond funded projects are adequately captured and accurately reported.



* CADCARS = California Conservation Corps Automated Data Collection and Reporting System



APPENDIX C

This appendix includes the results of our web-based survey of the Local Conservation Corps (LCC). Comments for question 14 were omitted to ensure anonymity of respondents.

CCC's LCC Survey

1. How does your organization determine which projects should be bond-funded and be considered by CCC? You may select more than 1 answer.

	Response Percent	Response Count
Management decision	100.0%	5
CCC recommendations	0.0%	0
From a pre-selected list of projects	40.0%	2
Surveys	0.0%	0
Community input	80.0%	4
Other (Please specify)	80.0%	4
<i>answered question</i>		5
<i>skipped question</i>		0

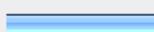
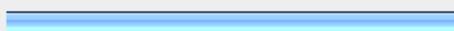
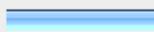
2. When submitting a bond-funded project proposal application, how would you rate CCC prior to the application's approval with respect to the following:

	excellent	good	satisfactory	fair	poor	not observed	N/A	Rating Average	Response Count
Communication Efforts	0.0% (0)	80.0% (4)	0.0% (0)	20.0% (1)	0.0% (0)	0.0% (0)	0.0% (0)	2.40	5
Consistency	0.0% (0)	40.0% (2)	40.0% (2)	0.0% (0)	20.0% (1)	0.0% (0)	0.0% (0)	3.00	5
Subject Matter Knowledge	20.0% (1)	60.0% (3)	0.0% (0)	20.0% (1)	0.0% (0)	0.0% (0)	0.0% (0)	2.20	5
Willingness to Assist	40.0% (2)	40.0% (2)	0.0% (0)	20.0% (1)	0.0% (0)	0.0% (0)	0.0% (0)	2.00	5
Time to Determine Approval	0.0% (0)	40.0% (2)	20.0% (1)	40.0% (2)	0.0% (0)	0.0% (0)	0.0% (0)	3.00	5
Comments									1
<i>answered question</i>									5
<i>skipped question</i>									0

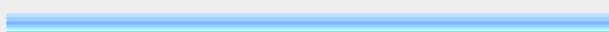
3. How often are site visits conducted prior to project approval?

	Response Percent	Response Count
Always	0.0%	0
Sometimes	20.0%	1
Never	80.0%	4
Comments		0
<i>answered question</i>		5
<i>skipped question</i>		0

4. How would you describe CCC's level of communication after the contract/grant agreement is signed and work has started?

	Response Percent	Response Count
Frequently, once a week 	20.0%	1
Some, once a month 	60.0%	3
Minimal, every 6 months 	20.0%	1
Other (Please specify)	0.0%	0
<i>answered question</i>		5
<i>skipped question</i>		0

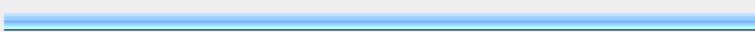
5. Who is responsible for the ongoing maintenance of bond-funded projects? You may select more than 1 answer.

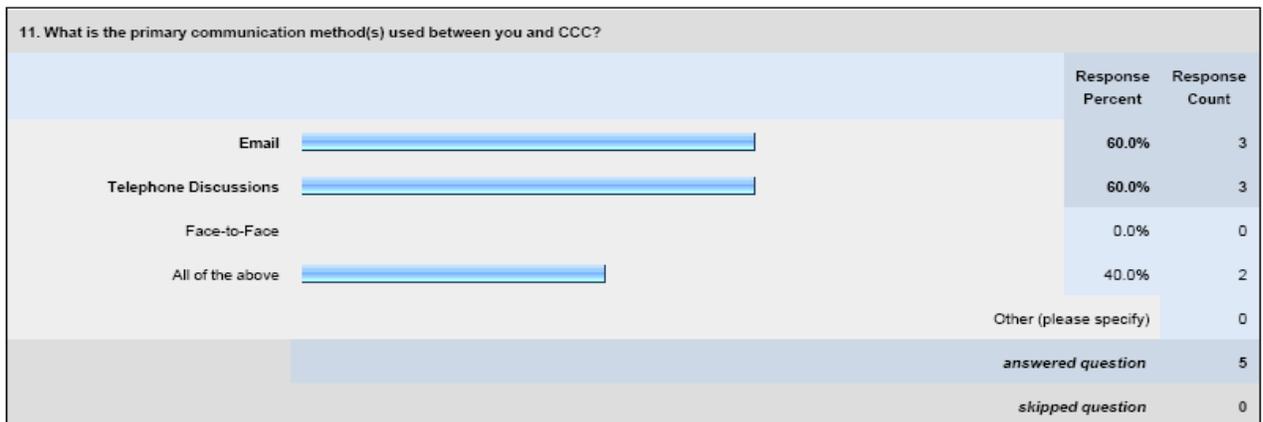
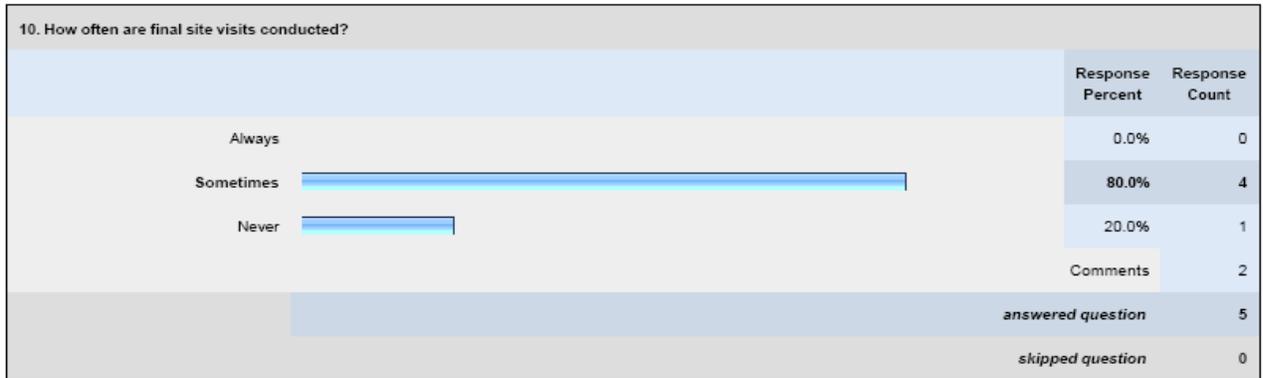
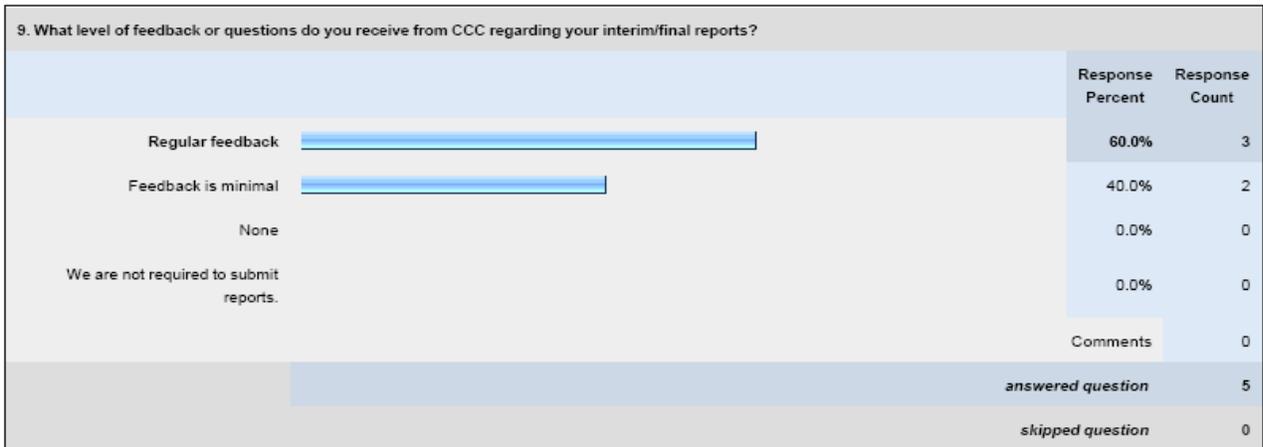
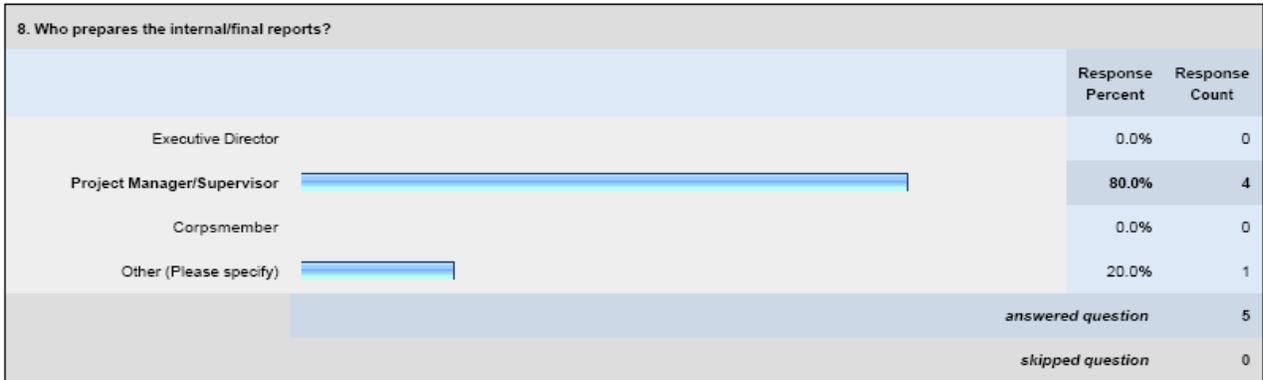
	Response Percent	Response Count
Our organization 	80.0%	4
Another organization 	100.0%	5
CCC	0.0%	0
Unknown	0.0%	0
Other (please specify)	0.0%	0
<i>answered question</i>		5
<i>skipped question</i>		0

6. Regarding the payment requests submitted for reimbursement, how would you rate CCC with respect to the following:

	excellent	good	satisfactory	fair	poor	not observed	Rating Average	Response Count
Level of Scrutiny	20.0% (1)	60.0% (3)	0.0% (0)	0.0% (0)	20.0% (1)	0.0% (0)	2.40	5
Amount of Questions Asked	20.0% (1)	60.0% (3)	0.0% (0)	0.0% (0)	20.0% (1)	0.0% (0)	2.40	5
Request for Additional Documents	0.0% (0)	80.0% (4)	0.0% (0)	0.0% (0)	20.0% (1)	0.0% (0)	2.80	5
Timeliness of Approvals	0.0% (0)	40.0% (2)	40.0% (2)	20.0% (1)	0.0% (0)	0.0% (0)	2.80	5
Comments								2
<i>answered question</i>								5
<i>skipped question</i>								0

7. Are you required to submit reports to CCC regarding projects?

	Response Percent	Response Count
No	0.0%	0
Yes 	100.0%	5
If yes, how often?		5
<i>answered question</i>		5
<i>skipped question</i>		0



12. Please rate the CCC's monitoring efforts with respect to the following:

	excellent	good	satisfactory	fair	Poor or none at all	Not observed	N/A	Rating Average	Response Count
Site Visits	0.0% (0)	60.0% (3)	0.0% (0)	20.0% (1)	20.0% (1)	0.0% (0)	0.0% (0)	3.00	5
Report Submission Monitoring	20.0% (1)	60.0% (3)	0.0% (0)	0.0% (0)	20.0% (1)	0.0% (0)	0.0% (0)	2.40	5
Follow-Up	0.0% (0)	80.0% (4)	0.0% (0)	0.0% (0)	20.0% (1)	0.0% (0)	0.0% (0)	2.80	5
Project Payment Request Review	0.0% (0)	20.0% (1)	40.0% (2)	40.0% (2)	0.0% (0)	0.0% (0)	0.0% (0)	3.20	5
If poor, please provide a brief explanation. You may provide additional comments in this section also.									1
<i>answered question</i>									5
<i>skipped question</i>									0

13. Please rate your overall experience with CCC staff pertaining to the following:

	excellent	good	satisfactory	fair	poor	not observed	Rating Average	Response Count	
Customer Service	20.0% (1)	40.0% (2)	20.0% (1)	20.0% (1)	0.0% (0)	0.0% (0)	2.40	5	
Timeliness of response	20.0% (1)	40.0% (2)	20.0% (1)	20.0% (1)	0.0% (0)	0.0% (0)	2.40	5	
Knowledge of subject matter	40.0% (2)	20.0% (1)	20.0% (1)	20.0% (1)	0.0% (0)	0.0% (0)	2.20	5	
Quality of response	20.0% (1)	20.0% (1)	40.0% (2)	20.0% (1)	0.0% (0)	0.0% (0)	2.80	5	
Accuracy of information provided	0.0% (0)	60.0% (3)	20.0% (1)	20.0% (1)	0.0% (0)	0.0% (0)	2.80	5	
Ability to resolve your questions or concerns	0.0% (0)	60.0% (3)	20.0% (1)	20.0% (1)	0.0% (0)	0.0% (0)	2.80	5	
If poor, please provide a brief explanation. You may provide additional comments in this section also.									1
<i>answered question</i>									5
<i>skipped question</i>									0

14. Please provide any additional comments.

	Response Count
	3
<i>answered question</i>	3
<i>skipped question</i>	2

CALIFORNIA CONSERVATION CORPS**Executive Office**

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April 8, 2009

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

Dear Mr. Botelho:

The California Conservation Corps (CCC) has reviewed the draft report of the Department of Finance (DOF) *Audit of California Conservation Corps' Propositions 12 and 40 Bond Funds*. We are pleased that the audit found that "overall, the CCC awarded bond funds in compliance with applicable legal requirements and established criteria". The CCC respectfully submits the following response to the DOF regarding observations and recommendations in the current draft report.

The CCC has made a number of improvements in its bond administration as a result of two prior audits for the same funds and time periods, as well as our most recent development of Proposition 84 guidelines.

In 2004, an audit was conducted by the State Controller's Office (SCO) that examined the CCC's contract payment processes and expenditure claims for Proposition 12 and 40. In 2006, the DOF conducted an audit of these same bond funds and the CCC provided a corrective action plan regarding the findings from the prior audit. The scope of the earlier DOF audit included a review of "internal control for (Propositions 12 and 40) bond expenditures as of June 30, 2006 (support and local assistance) and a determination as to whether these expenditures were in compliance with the bond acts, budget change proposals, and state policies and procedures."

The scope of the 2008 DOF audit was "to determine whether bond funds were awarded and expended in compliance with applicable legal requirements and established criteria, and to determine if the CCC had adequate project monitoring processes in place." The 2008 DOF audit included a review of both CCC and LCC Proposition 12 and 40 bond fund awards and expenditures since inception.

The following corrective actions have been taken:

1. The CCC conducted the analysis necessary to properly allocate charges for support expenditures and developed an allocation methodology, which is completed annually and filed in the Budget Office.
2. The CCC developed procedures for processing of payment disbursements to grantees that require a grant monitor (Bond Program Analyst) review of the payment request (using a checklist) and signature, Program Manager review and approval, and Accounting review of contract balance.
3. Vacant accounting positions have been filled and weaknesses eliminated. Desk procedures continue to be developed.
4. The Department has established accountability controls as required by the Governor's Executive Order S-02-07 and is continuing to develop procedures and checklists that will ensure all processes are properly followed. Improvements include proposal and project review procedures and checklists that follow detailed guidelines established for Proposition 84.
5. Accounting and Business Services have filled vacancies, trained staff, and submitted SCO financial statements on time.

Between Spring 2007 and the time of the most recent 2008 DOF audit of Proposition 12 and 40 bond funds, the CCC, in collaboration with the California Natural Resources Agency, developed department-wide improvements in order to implement Proposition 84 bond fund administration and establish accountability controls set forth in Governor's Executive Order S-02-07. These improvements include the preparation of detailed Proposition 84 bond fund guidelines, including project application requirements, for both CCC projects and Local Conservation Corps (LCC) projects to ensure compliance with Proposition 84 and bond fund accountability requirements.

Specific responses to the recommendations contained in the DOF 2008 *Audit of CCC Proposition 12 and Proposition 40 Bond Funds* include the following:

Observation 1: Pre-Award and Award Processes Are Insufficient

(General comment: please note that the Proposition 12, Proposition 40, and Proposition 84 bond funds for both CCC and LCC are non-competitive awards or grants open only to California Conservation Corps or Local Conservation Corps applicants. As such, the proposal review, including the scoring criteria is evaluated on a "pass/fail" basis.)

Recommendations:

Implement a pre-award and award process which may include, but is not limited to:

- Establishing procedures to ensure projects selected for funding have adequate documentation.

The CCC has developed, with California Natural Resources Agency guidance, detailed Proposition 84 guidelines for both LCC and CCC project proposal development and for

the CCC bond program administration staff to use in project analysis and review. In addition, the CCC is establishing written procedures including a desk reference for bond program analysts. The CCC is already using a project analysis and approval checklist that bond program analysts use to assess the adequacy of proposed project applications.

All CCC projects awarded in the fall of 2008 (before the Pooled Money Investment Board bond fund freeze in December 2008) included complete project proposal applications and were awarded in accordance with the Proposition 84 guidelines. All CCC and LCC project proposals awaiting approval (pending lifting of the PMIB freeze) will also be awarded based on compliance with the Proposition 84 guidelines.

- Reviewing LCC direct and indirect costs plans, including an inspection of the respective supporting documentation.

Currently (per CCC Guidelines developed prior to the 2008 DOF audit), the CCC requires LCCs to submit direct and indirect cost plans as part of the project application process. The written project analysis and approval checklist includes items related to direct and indirect cost plan (budget) requirements. As stated in the audit, the CCC's Proposition 84 guidelines will apply OMB Circulars A-87 and A-122 for determining allowable costs.

- Performing and documenting site visits prior to awarding bond funds.

The CCC has developed process to document site visits. Prior to awarding bond funds, the CCC review will include site visits, as appropriate, for CCC and LCC natural resource conservation projects and LCC acquisitions, and most or all LCC real estate development projects.

- Documenting basic elements, to be determined by CCC, in the project files.

As part of the desk reference manual update, the CCC is developing requirements for project file contents. These include project proposal packets submitted per the Proposition 84 Guidelines.

- Reviewing a grantee's initial financial viability to determine if available funds are reasonable for long-term monitoring. Inclusion of standard contract language in grant agreements regarding long-term maintenance and reporting requirements (e.g., periodic reports on the grantee's fiscal capacity to monitor and manage the project) may facilitate this effort.

The CCC currently collects annual independent audits from all LCCs. As part of the Proposition 84 application procedures, both the CCC's project sponsors and LCCs are required to submit signed land tenure/site control forms certifying that a public entity and/or LCC will maintain completed projects on a long term basis. In addition, the

department is currently reviewing practices used by other state agencies to review grantee financial viability, and will augment its review checklist and procedures as appropriate to verify grantee's financial viability. Per the Proposition 84 guidelines developed prior to the 2008 DOF audit, the CCC requires a detailed scope of work, budget, and long-term maintenance agreement.

Observation 2: Project Monitoring Efforts Need Improvement

Recommendations:

- Implement policy to establish adequate project file management. Documentation to be maintained could include, but is not limited to, contract amendments, approved annual reimbursement rates, and timekeeping records.

The CCC is developing project file requirements which will include grant agreements (contracts), amendments for LCC projects and timekeeping records, progress reports, project file checklists, project tracking spreadsheets for both LCC and CCC projects, and any other requirements outlined in the already-established Proposition 84 guidelines. Annual reimbursement rates will be included in the grant agreement and any amendments. The CCC reimbursement rate includes budgeted costs that are applied to actual hours worked.

- Develop project monitoring tools to ensure consistent application and adequate documentation.

The previously developed Proposition 84 guidelines require regular project reports from both CCC field staff (monthly) and LCC grantees (quarterly). The CCC has developed a site visit process that includes a checklist of deliverables obtained from project applications and progress reports.

- Establish a review process for payment requests to ensure invoices are checked for reasonableness and accuracy.

As part of the desk references, the CCC has developed a payment request checklist and payment approval form for Prop. 12 and 40; this form will be updated for Proposition 84.

- Work with the LCCs to recover \$67,289 in questioned costs.

The CCC is currently reviewing adequacy of documentation. Where either the LCC or CCC is unable to verify evidence of prior CCC approval or reasonableness of the request, the CCC will recover questioned costs from the LCCs.

Observation 3: Closeout and Post-Close Monitoring Processes Need Further Development

Recommendation:

Establish a process in which post-monitoring efforts are identified, documented, and assigned to a responsible party. It should address that site visits and other project close-out processes are performed prior to issuance of final project payment.

Close out site visits and/or other project close out processes will be required before final retention payments will be issued to LCCs and before CCC bond funding will be charged to CCC projects (i.e., receipt and review of final reports and other supporting documentation, receipt of photos).

Observation 4: Project Tracking in Place Is Inadequate

Recommendation:

Reassess the current project tracking mechanisms and procedures to ensure that all bond funded projects are adequately captured and accurately reported.

The CCC has researched bond funded project tracking systems at the California Natural Resources Agency and the Department of Parks and Recreation's OGALS (Office of Grants and Legal Services) and will be developing tracking systems for both CCC and LCC projects as part of the Department's Proposition 84 bond fund administration.

All CCC Proposition 40 projects have been reported on the Natural Resources Agency Web site as required by Public Resources Code Section 5096.686. All LCC projects will also be updated. It should be noted that the Web site includes only point-in-time project approval listings, rather than actual project expenditures on a real-time basis.

Thank you for the opportunity to respond to the current audit of California Conservation Corps' Propositions 12 and 40 Bond Funds. If you have questions regarding our response, please direct them to Erin Healy, Chief, Administrative Services Division at (916) 341-3135.

Sincerely,

Original signed by:

David N. Muraki
Director

EVALUATION OF RESPONSE

We have reviewed the California Conservation Corps' (CCC) response to the draft report and acknowledge its willingness to implement the recommendations and take corrective action, and its commitment to effectively manage the bond funds. Although Proposition 84 guidelines were not used as criteria for our audit purposes, we commend the CCC's efforts to develop administration desktop procedures and to enhance the existing Proposition 84 guidelines.

As stated in our report, our audit objectives were to determine whether bond funds were awarded and expended in compliance with applicable legal requirements and established criteria, and to determine if the CCC had adequate monitoring processes. Our current work focused primarily on CCC's program monitoring efforts and its project awards and expenditures. When possible, work of other auditors was relied on to avoid duplication.

Regarding CCC's response to *Observation 1: Pre-Award and Award Processes are Insufficient*, we provide the following comments:

- **Review of LCC Direct and Indirect Cost Plans.** Although CCC guidelines existed at the time of our audit, an adequate review of supporting documentation related to the cost plans was not performed to ensure reasonableness and validity. We recognize CCC's efforts to enhance its review of project applications with the implementation of Proposition 84.
- **Documenting Basic Elements in the Project Files.** Although CCC currently collects annual independent audit reports from the LCCs, it was not clear that those reports were considered during the project application approval process.