



Transmitted via e-mail

June 17, 2014

Mr. Charlton H. Bonham, Director  
California Department of Fish and Wildlife  
1416 Ninth Street, 12<sup>th</sup> Floor  
Sacramento, CA 95814

Dear Mr. Bonham:

**Final Report—University of the Pacific, Proposition 84 Grant Audit**

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of the University of the Pacific's (University) grant E0883006, issued by the California Department of Fish and Wildlife.

The enclosed report is for your information and use. The University's response to the report observation and our evaluation of the response are incorporated into this final report. This report will be placed on our website.

We appreciate the assistance and cooperation of the University. If you have any questions regarding this report, please contact Diana Antony, Manager, or Lisa Negri, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

Richard R. Sierra, CPA  
Chief, Office of State Audits and Evaluations

Enclosure

cc: Mr. Gabe Tiffany, Acting Deputy Director, California Department of Fish and Wildlife  
Ms. Carol Atkins, Staff Environmental Scientist, California Department of Fish and Wildlife  
Mr. Patrick Kemp, Assistant Secretary for Administration and Finance, California Natural Resources Agency  
Ms. Julie Alvis, Deputy Assistant Secretary, California Natural Resources Agency  
Mr. Bryan Cash, Deputy Assistant Secretary, California Natural Resources Agency  
Dr. Maria Pallavicini, Provost, University of the Pacific  
Mr. Kenneth Mullen, Vice President for Business and Finance, University of the Pacific  
Dr. William T. Stringfellow, Director, Ecological Engineering Research Program, University of the Pacific

# AUDIT REPORT

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## University of the Pacific Proposition 84 Bond Program Grant Agreement E0883006



San Joaquin River  
Source: [www.eerp.org](http://www.eerp.org)

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

## **MEMBERS OF THE TEAM**

Diana Antony, CPA  
Manager

Lisa Negri  
Supervisor

Staff  
Randy Enriquez

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

You can contact our office at:

Department of Finance  
Office of State Audits and Evaluations  
915 L Street, 6<sup>th</sup> Floor  
Sacramento, CA 95814  
(916) 322-2985

# BACKGROUND, SCOPE AND METHODOLOGY

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## BACKGROUND

California voters approved the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006 (Proposition 84). The \$5.4 billion of bond proceeds finance a variety of natural resource programs.

University of the Pacific (University), Ecological Engineering Research Program (EERP), is the lead scientific agency on several water quality and ecosystem restoration projects focused on understanding and improving water quality in the San Joaquin River.<sup>1</sup>

The University's EERP received a \$2.99 million Proposition 84 grant from the Department of Fish and Wildlife (DFW) to collect and analyze data on the sources of nutrients, phytoplankton, and oxygen-consuming materials in the San Joaquin River estuary to support the development of an estuary mode. The project's goal is to provide modeling tools, scientific data, and other information to support management actions that will be taken by the Central Valley Regional Water Quality Control Board and stakeholders to resolve the low dissolved oxygen problems in the San Joaquin River estuary.

## SCOPE

In accordance with the Department of Finance's bond oversight responsibilities, we audited grant E0883006 for the period June 1, 2009 through December 31, 2012.<sup>2</sup>

The audit objectives were to determine whether the University's grant expenditures claimed were in compliance with applicable laws, regulations, and grant requirements; and to determine whether the grant deliverables were completed as required. We did not assess the efficiency or effectiveness of program operations.

The University's management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements. DFW and the Natural Resources Agency are responsible for the state-level administration of the bond program.

## METHODOLOGY

To determine whether grant expenditures were in compliance with applicable laws, regulations, and the grant requirements; and if the grant deliverables were completed, we performed the following procedures:

- Interviewed key personnel to obtain an understanding of the grant-related internal controls.

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<sup>1</sup> Source: [www.eerp.org](http://www.eerp.org).

<sup>2</sup> An interim audit was conducted since the grant term ended June 30, 2013 and fieldwork was performed prior to the grant end date.

- Examined the grant files, the grant agreement, and applicable policies and procedures.
- Reviewed the University's accounting records, contracts, vendor invoices, and payment requests.
- Selected a sample of claimed expenditures and determined whether they were allowable, grant-related, incurred within the grant period, supported by accounting records, and properly recorded.
- Evaluated whether other revenue sources were used to reimburse expenditures claimed for reimbursement under the grant agreement.
- Evaluated whether a sample of interim grant deliverables were met by reviewing supporting documentation.

We conducted this audit in accordance with generally accepted government performance auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

The results of the audit are based on our review of documentation, other information made available to us, and interviews with staff directly responsible for administering grant funds.

Except as noted below, the grant expenditures claimed complied with the grant agreement requirements. Because the project was active at the time of our site visit, not all deliverables were completed; however, the University has completed interim deliverables in accordance with the grant agreement. The Schedule of Claimed and Questioned Amounts is presented in Table 1.

**Table 1: Schedule of Claimed and Questioned Amounts**

<b>Grant Agreement E0883006</b>		
<b>Category</b>	<b>Claimed<sup>1</sup></b>	<b>Questioned</b>
Personal Services	\$ 1,548,795	\$ 162,107
Operating Expense	145,632	
Operating Expense Overhead	31,366	31,366
Subcontractor	380,081	
Overhead	38,009	38,009
<b>Total Project Expenditures</b>	<b>\$ 2,143,883</b>	<b>\$ 231,482</b>

**Observation 1: Unsupported Expenditures Claimed for Reimbursement**

The University claimed and was reimbursed for unsupported facilities and administrative fees and overhead as follows:

- Facilities and Administration (F&A)—The University claimed \$162,107 in unsupported personal services costs. Specifically, personal services claimed included a 36.3 percent F&A fee in addition to the federally approved 21.7 percent indirect cost rate and 29.8 percent fringe benefit rate. We questioned the entire F&A fee because the University was unable to support the basis for the additional fee.

Based on our review, the F&A cost pool included costs not incurred such as estimated severance pay and bridge time. No severance costs were incurred because none of the employees who worked on the grant have been laid off. Additionally, bridge time was defined by the University as estimated hours worked by employees in-between funded projects; however, no actual bridge time costs were incurred. Further, time spent on projects unrelated to the grant project should not be paid with grant funds. The F&A cost base also included lab gasses, office supplies, computer software, and storage costs. The grant agreement specifically includes these costs as expenditures that should be charged directly to the project

<sup>1</sup> This is an interim audit; the University has claimed \$2,143,883 as of December 31, 2012.

under the operating expense category. Lastly, the fee is not consistently applied to other grants or contracts. The University stated the F&A fee was calculated specifically for this grant and is not a fee charged to other projects.

- Operating Expense Overhead—We question \$31,366 of unsupported operating expense overhead costs. The University claimed a 21.7 percent overhead rate for all operating expenses including supplies, travel, and per diem. The grant agreement did not include a budget line item for operating expense overhead and the University could not provide documentation to support the charges.
- Subcontractor Overhead—We question \$38,009 of unsupported subcontractor overhead costs. The University claimed a 10 percent overhead rate for all subcontractor costs. Although the grant budget allowed 10 percent overhead on subcontractor expenditures, the University could not provide documentation to support the charges.

Grant Agreement E0883006, Exhibit B, section 1A states the grantee will be compensated for actual expenditures incurred in accordance with the rates specified in the agreement.

**Recommendations:**

- A. Remit \$231,482 to DFW for unsupported expenditures. DFW will determine the final disposition of the questioned costs.
- B. Ensure all claimed expenditures are adequately supported and appropriate documentation is maintained.



May 15, 2014

Mr. Richard R. Sierra, Chief  
Office of State Audits and Evaluations  
California Department of Finance  
915 L Street  
Sacramento, CA 95814-3706

Dear Mr. Sierra:

We have reviewed the findings and recommendations of the University of the Pacific, Proposition 84 Grant Audit. We appreciate the thoroughness of the audit and understand the findings. We disagree with some of the details in the recommendations, and are submitting the enclosed responses to the recommendations of each finding.

**Recommendation A:**

Remit \$231,482 to DFW for unsupported expenditures. DFW will determine the final disposition of the questioned costs.

**Management Response**

We agree, in principle, with the auditor's findings in reference to the F&A fee and Operating Expense Overhead; however, we note a total of \$41,224.82 of actual expenses for Sick and Vacation time for researchers should be an allowable cost to the grant. While this amount was claimed in the F&A fee, we assert that this amount should have been chargeable to the grant and request that it be deemed allowable, and thus deducted from the requested remittance amount of \$231,482. We have attached the support for the actual expenses for Sick and Vacation time for researchers we assert should be allowable.

We further assert that the Subcontractor Overhead rate of 10% is a reasonable and customary charge for administering a grant of this type. To substantiate these expenses of \$38,009 we have attached an analysis of salary rate and hours for personnel administering the subcontractors for this grant with expenses that exceed the 10% overhead rate. We request that these expenses be deemed allowable and deducted from the requested remittance amount of \$231,482.

Kenneth M. Mullen, MBA

Vice President for  
Business and Finance

*West Memorial  
Finance Center*

3601 Pacific Avenue

Stockton, CA 95211

Tel 209.946.2345

Fax 209.946.2203



**Recommendation B:**

Ensure all claimed expenditures are adequately supported and appropriate documentation is maintained.

**Management Response**

We agree with the auditor's recommendation and have an improved system in place to ensure all expenditures are adequately supported with appropriate documentation retained.

We hope the above responses meet with the Department's approval. If there are any questions, please contact Ken Mullen at (209) 946-2345 or [kmullen@pacific.edu](mailto:kmullen@pacific.edu).

Original signed by:

Kenneth M. Mullen  
Vice President for Business & Finance

## EVALUATION OF RESPONSE

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We reviewed the University of the Pacific's (University) May 15, 2014 response to the draft audit report. While the University agreed with the report observation, the University requested a \$79,233.82 deduction in questioned costs and provided additional information. The additional information is omitted herein for brevity and consisted of a list of leave time for grant-funded employees and salary rates and hours for various employees associated with contract management.

We reviewed the additional information and acknowledge the University's willingness to implement the audit recommendations. In evaluating the University's response, we provide the following comments:

The University states the facilities and administrative rate includes sick and vacation time for researchers and should be an allowable cost to the grant. However, other than a list of employees' leave time, no other supporting documentation was provided. The University also states the 10 percent subcontractor overhead rate is reasonable. However, the University is already charging the grant a 21.7 percent overhead rate, which exceeds the 10 percent cap noted in the grant agreement. The University did not provide documentation differentiating these costs (including mailroom processing and accounts payable) from the costs included in the 21.7 percent federally-approved overhead rate. The observation and recommendation remain unchanged.