



Transmitted via e-mail

May 11, 2015

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

Dear Mr. Muraki:

Final Report—San Gabriel Valley Conservation Corps, Proposition 84 Grant Audits

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of the San Gabriel Valley Conservation Corps' (SGVCC) grants 1213-0910 and 1213-0912 issued by the California Conservation Corps.

SGVCC's response to the report observations 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 SGVCC. If you have any questions regarding this report, please contact Diana Antony, Manager, or Mindy Patterson, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

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

Enclosure

cc: Ms. Erin Healy, Chief of Programs and Operations Division, California Conservation Corps
Ms. Dana Brazelton, Manager, Special Projects Unit, California Conservation Corps
Ms. Maria Berumen, Chief, Administrative Services Division, California Conservation Corps
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
Mr. Daniel Oaxaca, Executive Director, San Gabriel Valley Conservation Corps
Mr. Gary Lawson, Board Chair, Board of Directors, San Gabriel Valley Conservation Corps
Mr. Anthony Bozanic, Certified Public Accountant, PDM Certified Public Accountants

San Gabriel Valley Conservation Corps
Proposition 84 Bond Program
Grant Agreements 1213-0910 and 1213-0912



Peck Park, El Monte

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

MEMBERS OF THE TEAM

Diana Antony, CPA
Manager

Mindy Patterson
Supervisor

Staff
MaryAnn Reamer
Kathleen Wong

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, 6th Floor
Sacramento, CA 95814
(916) 322-2985

BACKGROUND, SCOPE AND METHODOLOGY

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.

San Gabriel Valley Conservation Corps (SGVCC) is a non-profit organization located in El Monte, California. Its mission is to help disadvantaged youths in the San Gabriel Valley by providing academic, vocational, and leadership development. This is done through several intensive work programs that provide valuable services to improve communities and the natural environment.

SGVCC was awarded the following Proposition 84 grants from the California Conservation Corps (CCC):

- **Peck Park Project** (Grant 1213-0910)—\$220,000 to reduce erosion and restore the local habitat and watershed in Peck Park.
- **Lambert Park Project** (Grant 1213-0912)—\$972,308 to design and construct watershed gardens through plantings and swales in Lambert Park.

SCOPE

In accordance with the Department of Finance’s bond oversight responsibilities, we audited the following grants:

<u>Grant Agreement</u>	<u>Audit Period</u>
1213-0910	December 10, 2012 through July 31, 2013 ¹
1213-0912	February 5, 2013 through May 31, 2014 ¹

The audit objectives were to determine whether SGVCC’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.

SGVCC management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements. CCC and the California Natural Resources Agency are responsible for the state-level administration of the bond program.

¹ An interim audit was conducted as the grant had not been closed out at the time of our site visit in January 2015.

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:

- Examined the grant files, the grant agreements, and applicable policies and procedures.
- Reviewed SGVCC's accounting records, vendor invoices, and bank statements.
- 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 agreements.
- Verified project existence by conducting site visits. We could not conclude on final project deliverables because both projects are pending final reports and project close-out procedures.

In conducting our audits, we obtained an understanding of SGVCC's internal controls, including any information systems controls that we considered significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal control that were identified during our audits and determined to be significant within the context of our audit objectives are included in this report.

We conducted these audits in accordance with generally accepted government performance auditing standards. Those standards require that we plan and perform the audits 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 audits 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 by San Gabriel Valley Conservation Corps (SGVCC) complied with the grant requirements. Both grants are pending final reports and completion of the final project close-out process by the California Conservation Corps (CCC). Therefore, a determination of whether the grant deliverables were completed as specified in the grant agreements could not be made. The Schedules of Claimed and Questioned Amounts are presented below.

Schedules of Claimed and Questioned Amounts

Peck Park Grant Agreement 1213-0910			
Task	Claimed¹	Costs Disallowed by CCC²	Additional Questioned Costs
Direct Project Management	\$ 8,612	\$ 2,025	\$ 0
Direct Project Personnel & Consultants	123,162	25,706	17,186
Direct Operating Expenses & Equipment	31,487	0	0
Indirect: Support Staff & Functional Expenses	28,695	0	0
Total Grant Funds	\$ 191,956	\$ 27,731	\$ 17,186

Lambert Park Grant Agreement 1213-0912			
Task	Claimed³	Costs Disallowed by CCC²	Additional Questioned Costs
Direct Project Management	\$ 78,600	\$ 0	\$ 0
Direct Project Personnel	313,321	18,961	9,673
Direct Operating Expenses & Equipment	114,873	3,099	0
Indirect: Support Staff & Functional Expenses	110,558	15,512	0
Total Grant Funds	\$ 617,352	\$ 37,572	\$ 9,673

¹ CCC awarded \$220,000 and SGVCC claimed \$191,956 as of July 31, 2013.

² As noted in Observation 1, CCC performed an internal review of all reimbursement claims submitted by SGVCC, resulting in disallowed costs. During our audit, we reviewed and agreed with the disallowed costs.

³ CCC awarded \$972,308 and SGVCC claimed \$617,352 as of May 31, 2014.

Observation 1: Significant Grant Management and Fiscal Control Weaknesses Exist

During our audits, we identified significant fiscal control weaknesses which resulted in repeat audit observations and questioned costs as noted in Observation's 2, 3, and 4 below.

Specifically, SGVCC's fiscal control weaknesses included:

- Lack of corrective actions taken to address prior audit recommendations.
- Noncompliance with grant agreement provisions.
- Noncompliance with SGVCC's internal accounting policies and procedures.
- Lack of reimbursement claim reviews prior to submittal.

Most concerning is the repetitive audit findings shown in Table 1, and SGVCC's lack of corrective actions.

In March 2012, the California Department of Resources Recycling and Recovery (CalRecycle) issued an audit report with several grant management findings, including over \$2 million in questioned grant costs.⁴

In 2014, CCC performed an in-depth review of all the reimbursement claims submitted by SGVCC for the Peck Park and Lambert Park grants. CCC's review identified the same types of findings as CalRecycle and disallowed claimed costs totaling \$65,303. We noted the disallowed costs in the Schedule of Claimed and Questioned Amounts above.

Lastly, during our audit of the Peck Park and Lambert Park grants in January 2015, we also identified similar audit findings and questioned costs in addition to those identified by CCC, totaling \$26,859. We had expected to observe implemented corrective actions during our 2015 audit since the Peck Park and the Lambert Park grants were awarded in December 2012 and February 2013, respectively, almost a year after CalRecycle's March 2012 audit.

Table 1: Summary of Repeat Audit Findings

Audit and Review Findings	2012 CalRecycle Audit	2014 CCC Review	2015 Finance Audit
Disallowed Payroll Costs	✓	✓	✓
Disallowed Direct & Indirect Costs	✓	✓	
Disallowed Capital Costs	✓	✓	
No Evidence of Competitive Bids	✓		✓
Inadequate Internal Controls and Recordkeeping	✓	✓	✓

SGVCC has a fiduciary responsibility to establish strong grant management fiscal controls, including implementing corrective actions on a timely basis. Failure to correct identified weaknesses increases the risk that bond grant funds will not be expended as intended, and may jeopardize SGVCC's future funding opportunities.

⁴ CalRecycle, Final Audit Report, Local Community Conservation Corps Funding Program, March 2012.

Recommendations:

- A. Implement fiscal controls to ensure grant projects are in compliance with Proposition 84 guidelines and internal policies and procedures.
- B. Develop a formal corrective action plan (CAP) to address all audit recommendations and CCC internal review recommendations. The CAP should describe the corrective action taken or the planned corrective actions along with estimated dates for completion.
- C. Provide training and ongoing guidance to staff directly responsible for administering bond funds and those responsible for preparing and reviewing the reimbursement claims.

Observation 2: Questioned Payroll Costs of \$26,859

SGVCC claimed and was reimbursed \$26,859 in unsupported payroll costs (\$17,186 and \$9,673 for the Peck Park and Lambert Park grants, respectively). Specifically, SGVCC claimed personnel costs for two SGVCC supervisors billed as corps members. SGVCC employees/supervisors should not be billed as corps members because their labor costs are built into the CCC pre-approved corps member hourly rate. CCC's Proposition 84 Grant Guidelines, section 3, specifically states the hourly rates already include staff responsible for corps member supervision and training, such as crew supervisors. These staff hours are not to be included as a separate line item.

CCC's 2014 internal claim review found similar payroll discrepancies and disallowed \$19,514 and \$18,961 for the Peck Park and Lambert Park grants, respectively. These amounts and other CCC-disallowed costs will be resolved by SGVCC and CCC.

Recommendations:

- A. Remit \$26,859 for the questioned Peck Park and Lambert Park payroll costs. CCC will make the final determination regarding collection of the questioned costs.
- B. Develop appropriate claim preparation and review policies and procedures that ensure claimed costs are allowable, grant-related, incurred within the grant period, supported by accounting records, and properly recorded. The grant agreement provisions should be used as a guide in developing such policies and procedures.

Observation 3: Lack of Competitive Bidding

SGVCC entered into contracts for both grants ranging from \$24,000 to \$162,000 without competitive bidding. Grant Agreement, section C, requires a formal three-bid process to be used for procuring contractors, materials, and/or supplies of \$5,000 or more. Additionally, SGVCC's internal Accounting Policies and Procedures Manual also requires solicitation of quotes from vendors and consultants over \$5,000. Without competitive bidding, SGVCC cannot provide assurance that bond funds are administered fairly and cost-effectively in the public's best interest.

CalRecycle's 2012 audit found SGVCC could not provide evidence of competitive bidding. SGVCC's response to the audit finding specifically stated that "internal controls have been established to ensure the competitive bid process is followed going forward."

Recommendation:

Ensure compliance with all applicable contracting requirements in accordance with the grant agreements and retain documentation of competitive bidding.

Observation 4: Noncompliance with Quarterly Grant Reports

SGVCC did not comply with the grant agreement's reporting requirements. Each grant's guidelines require submittal of written reports, a project work accomplishment report, and/or photographs on a quarterly basis. No reports have been issued for either grant.

Grant Agreement, section F, states "Grantee shall submit written reports, a Project Work Accomplishments Report, and/or photographs on a quarterly basis as required by the grant guidelines." Additionally, SGVCC's internal Accounting Policies and Procedures Manual states "Grants and Contracts Manager and the Director of Finance will carefully review each award to ensure that SGVCC will be in compliance with all financial provisions."

Recommendation:

For future grants, timely prepare and submit quarterly project reports as required.



April 14, 2015

Mindy Patterson
Supervisor
State of California
Department of Finance
915 L Street
Sacramento, California 95814-3706

Re: San Gabriel Valley Conservation Corps
Audit Report Corrective Action Response
and required response to letter dated March 13, 2015

Dear Ms. Mindy Patterson,

We have received the Draft Report – San Gabriel Valley Conservation Corps, Proposition 84 Grant Audits dated March 13, 2015 requesting a response to the audit reports and its observations.

We have taken these audit observations seriously and we are in the process of making significant changes within our organization in order to help assure that all prior audit findings will not be repeated while preventing any additional compliance issues in the future.

Observation 1: Significant Grant Management and Fiscal Control Weaknesses Exist

During our audits, we identified significant fiscal control weaknesses which resulted in repeat audit observations and questioned costs as noted in Observation's 2, 3, and 4 below.

Specifically, SGVCC's fiscal control weaknesses included:

- Lack of corrective actions taken to address prior audit recommendations.
- Noncompliance with grant agreement provisions.
- Noncompliance with SGVCC's internal accounting policies and procedures.
- Lack of reimbursement claim reviews prior to submittal.

We agree that for the California Conservation Corps Proposition 84 Grant Agreements 1213-0910 and 1213-0912 there were several incompliances with the grant provisions as noted as well as noncompliances with the SGVCC's internal policy and procedure manual.

However, we believe that all costs included in the \$191,956 claimed costs for the Peck Park Grant Agreement 1213-0910 as well as the costs included in the \$617,352 claimed costs for the Lambert Park Grant Agreement 1213-0912 were reasonable and necessary to perform the project and supported with proper documentation.



The disallowance of \$27,731 for the Peck Park Grant Agreement 1213-0910 and the disallowance of \$37,572, costs on the Lambert Park Grant Agreement 1213-0912 were due to non-compliances with grant agreement provisions. These disallowed costs had supporting documentation for cost reimbursement and were considered necessary and reasonable by our management in completing the specific projects.

We do not agree with the comment emphasizing SGVCC's the "lack of corrective actions" resulting from the prior audits including the March 2012 CalRECYCLE audit. Currently, SGVCC maintains all supporting documentation that is properly approved prior to being paid and prior to be claimed as a reimbursement on the grant. All timesheets for work claimed to the CCC Prop 84 grants are approved by the CCC Prop 84 program manager and the payroll checks were signed by an approved officer of SGVCC and or board member. The March 2012 CalRECYCLE audit findings resulted from missing or lost supporting documentation. The maintenance of proper supporting documentation and record keeping for SGVCC has improved significantly since the aforementioned March 2012 CalRECYCLE audit findings.

We agree with your observation that the SGVCC had the following issues:

- Noncompliance with grant agreement provisions.
- Noncompliance with SGVCC's internal accounting policies and procedures.
- Lack of (documented) reimbursement claim reviews prior to submittal (for reimbursement).

In order to help ensure future compliance the grant agreement provisions and the SGVCC's internal accounting policies and procedures the SGVCC has hired an outside professional service firm specializing in accounting and grant compliance for nonprofit organizations. This professional service firm was hired by SGVCC as of April 6, 2015 is Missionwell and they are located in Pasadena, California and will working on site for SGVCC.

SGVCC believes that this Missionwell will help SGVCC comply with all specific Proposition 84 guidelines and internal control policies and procedures.

Also, Missionwell will help SGVCC develop a form corrective action plan (CAP) to address all audit recommendations and CCC internal review recommendations.

In addition, this specialized professional service firm will be able to provide training and ongoing guidance to the staff directly responsible for preparing and reviewing reimbursement claims.

Observation 2: Questioned Payroll Costs of \$26,859

SGVCC claimed and was reimbursed \$26,859 in unsupported payroll costs (\$17,186 and \$9,673 for the Peck Park and Lambert Park grants, respectively). Specifically, SGVCC claimed personnel costs for two SGVCC supervisors billed as corps members. SGVCC employees/supervisors should not be billed as corps members because their labor costs are built into the CCC pre-approved corps member hourly rate. CCC's Proposition 84 Grant Guidelines, section 3, specifically states the hourly rates already include staff responsible for corps member supervision and training, such as crew supervisors. These staff hours are not to be included as a separate line items.



SGVCC Response

We are in agreement that we utilized two supervisors as corps members on the Peck Park and Lambert Park. We do not believe however, that these should be considered to be disallowed costs as both the Peck Park and Lambert park job benefited from the supervisor's direct labor acting as corps members. These costs were supported by timesheets approved by the program manager and in the opinion of SGVCC were necessary and reasonable in order to complete the project. We plan to resolve these project beneficial costs directly with the CCC as recommended in the audit finding.

In the future, we plan to adhere strictly to the labor charge compliance rules as provided in the CCC Proposition 84 Grant Guidelines, section 3, specifically stating the hourly rates already include staff responsible for corps member supervision and training, such as crew supervisors.

Observation 3: Lack of Competitive Bidding

SGVCC entered into contracts for both grants ranging from \$24,000 to \$162,000 without competitive bidding. Grant Agreement, section C, requires a formal three-bid process to be used for procuring contractors, materials, and/or supplies of \$5,000 or more. Additionally, SGVCC's internal Accounting Policies and Procedures Manual also requires solicitation of quotes from vendors and consultants over \$5,000. Without competitive bidding, SGVCC cannot provide assurance that bond funds are administered fairly and cost-effectively in the public's best interest.

SGVCC Response

We are in agreement that we have failed to document proof of three competitive bids before the contract was entered into under the Prop 84 grants. SGVCC plans to properly document three competitive bids in contracts files for agreements that are over \$5,000 with the new professional service accounting team hired in April, 2015, "Missionwell".

SGVCC was not in compliance with the competitive bidding requirement within the CCC Grant Agreement, section C, which requires a formal three bid process to be used for procuring contractors, materials, and/or supplies of \$5,000 or more. SGVCC does believe that they properly researched the pricing and received three undocumented quotes for all contracts entered into for \$5,000 or more on the CCC Proposition 84 contract. This is a result of SGVCC being aware of the CCC Grant agreement and because SGVCC has had liquidity issues for the past three years and therefore have been forced to attempt negotiate for the lowest possible price on all contracts that they entered into.



Observation 4: Noncompliance with Quarterly Grant Reports

SGVCC did not comply with the grant agreement's reporting requirements. Each grant's guidelines require submittal of written reports, a project work accomplishment report, and/or photographs on a quarterly basis. No reports have been issued for either grant.

Grant Agreement, section F, states "Grantee shall submit written reports, a Project Work Accomplishments Report, and/or photographs on a quarterly basis as required by the grant guidelines." Additionally, SGVCC's internal Accounting Policies and Procedures Manual states "Grants and Contracts Manager and the Director of Finance will carefully review each award to ensure that SGVCC will be in compliance with all financial provisions."

SGVCC Response

We are aware that the quarterly project reports were not submitted timely. This was due to our prior Director of Finance, Shannon Talbot, who resigned in March, 2015, not being able to devote the necessary time and resources to this project. As a result, in April, 2015, we have hired a professional service firm, Missionwell, specializing in nonprofit accounting and government grant compliance.

We humbly ask that you consider our response and our new accounting and grant management professional services firm, Missionwell, and their plans to ensure future compliance with the procedures and the resources. We appreciate your assistance.

Sincerely,

Original signed by:

Gary Lawson
Board Chair, San Gabriel Valley Conservation Corps

EVALUATION OF RESPONSE

The San Gabriel Valley Conservation Corps' (SGVCC) response to the draft report has been reviewed and incorporated into the final report. SGVCC disagreed with Observations 1 and 2. No additional documentation was provided by SGVCC. In evaluating SGVCC's response, we provide the following comments:

Observation 1: Significant Grant Management and Fiscal Control Weaknesses Exist

SGVCC partially disagreed with Observation 1. Specifically, SGVCC disagreed that there was a lack of corrective actions taken to address prior audit findings. However, SGVCC agreed with our observation that there were several instances where it did not comply with the grant agreement as well as internal policies and procedural manuals.

As noted in Table 1 in the *Results* section of the report, these noncompliance issues led to several repeat findings during this audit, including disallowed payroll costs, lack of evidence for competitive bids, and inadequate internal controls. We consider the repeat findings a direct result of the lack of corrective actions taken. The observation and recommendations remain unchanged.

Observation 2: Questioned Payroll Costs of \$26,859

SGVCC believes the claimed costs for the two supervisors are justified because the projects benefited from the supervisors acting as corps members. We do not question the benefits of having two project supervisors; however, allowances for supervisor's salaries, wages, taxes and benefits are included in the pre-established corps member hourly rates. Specifically, the supervisor's time is indirectly billed via the hourly rate and therefore cannot subsequently be billed as direct labor, as this would result in duplicate reimbursement of the supervisor's time. The observation and recommendations remain unchanged.