



Transmitted via e-mail

August 13, 2015

Mr. Samuel P. Schuchat, Executive Officer  
State Coastal Conservancy  
1330 Broadway, 13<sup>th</sup> Floor  
Oakland, CA 94612-2530

Dear Mr. Schuchat:

**Final Report—Bay Area Ridge Trail Council, Proposition 84 Grant Audit**

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of the Bay Area Ridge Trail Council's (Council) grant 09-074 issued by the State Coastal Conservancy.

The enclosed report is for your information and use. The Council'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 Council. If you have any questions regarding this report, please contact Diana Antony, Manager, or Mary Camacho, Supervisor, at (916) 322-2985.

Sincerely,

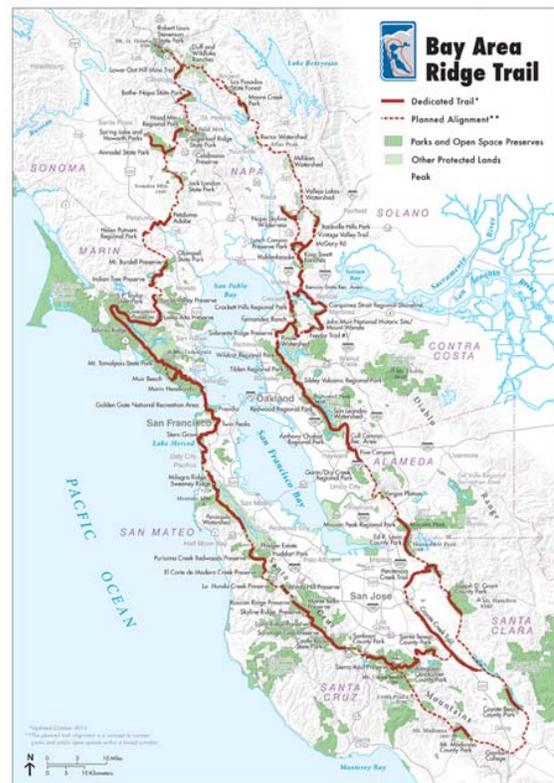
Original signed by:

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

Enclosure

cc: Ms. Mary Small, Deputy Executive Officer, State Coastal Conservancy  
Ms. Nadine Peterson, Deputy Executive Officer, State Coastal Conservancy  
Ms. Regine Serrano, Chief of Administrative Services, State Coastal Conservancy  
Mr. Matt Gerhart, Deputy Program Manager, State Coastal Conservancy  
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  
Ms. Janet McBride, Executive Director, Bay Area Ridge Trail Council

Bay Area Ridge Trail Council  
Proposition 84 Bond Program  
Grant Agreement 09-074



 **Bay Area Ridge Trail Council**  
Creating a spectacular ridgeline trail—  
thanks to our partners, supporters, and volunteers!

1987 General Assembly, Title 1  
San Francisco, CA 94133-9405  
Phone (415) 861-2315  
Email: info@bayridgetrail.org  
Website: BayRidgeTrail.org  
Follow us on Facebook: www.facebook.com/BayRidgeTrail

Regional Map of the Bay Area Ridge Trail  
Source: Bay Area Ridge Trail Council

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

## **MEMBERS OF THE TEAM**

Diana Antony, CPA  
Manager

Mary Camacho, CPA  
Supervisor

Staff  
Brian Palugod

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 resource programs. Proposition 84 added Division 43, Chapter 9, section 75060 (c), to the Public Resources Code authorizing the Legislature to appropriate up to \$108 million to the State Coastal Conservancy (Conservancy) for projects that include promoting access to and enjoyment of the coastal resources of the state.

The Conservancy awarded a \$1.2 million grant to the Bay Area Ridge Trail Council (Council) to conduct planning, studies, data collection, and resource evaluation to support future development and construction of the Bay Area Ridge Trail (ridge trail). The ridge trail is a planned multi-use trail for hikers, runners, cyclists, and equestrians along the ridgelines of nine counties overlooking San Francisco Bay with over 350 miles currently open for public use.

The Council is a non-profit organization whose mission is to create a continuous 550 mile ridge trail. The Council works in close partnership with agencies and local government, parks, land trusts, volunteers, and other stakeholders to plan, acquire, build, care for, and promote the trail. The Council consists of seven staff members and is overseen by a Board of Directors.

## **SCOPE**

In accordance with the Department of Finance's bond oversight responsibilities, we audited grant 09-074 for the period June 21, 2010 through June 30, 2014.<sup>1</sup>

The audit objectives were to determine whether the Council'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 Council's management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements. The Conservancy and the California Natural Resources Agency are responsible for the state-level administration of the bond program.

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<sup>1</sup> An interim audit was conducted since the grant term ends March 31, 2016.

## **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 agreement, and applicable laws, regulations, policies, and procedures.
- Selected a sample of claimed expenditures and determined whether they were allowable, grant-related, incurred within the grant period, adequately supported, and properly recorded.
- Reviewed the Council's accounting records, timesheets, payroll registers, and other relevant timekeeping documentation.
- Evaluated whether other revenue sources were used to reimburse expenditures claimed for reimbursement under the grant agreement.
- Evaluated whether a sample of grant deliverables, such as the annual accomplishment reports and progress reports, complied with the grant agreement by reviewing reports, narratives, trail maps, and other relevant documentation submitted by the Council.

In conducting our audit, we obtained an understanding of the Council'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 the conduct of our audit and determined to be significant within the context of our audit objectives are included in this report.

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.

Except as noted below, based on the interim audit procedures performed, the grant expenditures claimed complied with the grant agreement requirements. In addition, the grant deliverables that were available for review were completed as specified in the grant agreement. The Schedule of Claimed and Questioned Amounts is presented below.

**Schedule of Claimed and Questioned Amounts**

<b>Grant Agreement 09-074</b>		
<b>Category</b>	<b>Claimed<sup>2</sup></b>	<b>Questioned</b>
Staff Costs	\$ 881,022	\$ 24,870
Contractors	55,531	—
Travel	23,482	—
<b>Total Grant Funds</b>	<b>\$ 960,035</b>	<b>\$ 24,870</b>

**Observation 1: Unsupported Labor Costs and Weak Timekeeping Controls**

The Bay Area Ridge Trail Council (Council) could not support the claimed benefits rate and its timekeeping policies and procedures need improvement. Specifically:

- Unsupported Other Benefit Costs:* The Council claimed a portion of its fringe benefits using budgeted amounts instead of actual benefits paid. As noted in the text box, the Council’s fringe benefits consist of two components: health care and other benefits. The Council was able to substantiate the claimed health care costs; however, the Council could not substantiate the claimed other benefits costs.

**Fringe Benefits**

**Health Care** = health, dental, and vision.

**Other Benefits** = retirement, payroll taxes and workers compensation.

Source: Bay Area Ridge Trail Council

Specifically, the Council used 2006 *budgeted* amounts to calculate its other benefits rate of 15.7 percent, which was up to 29.2 percent higher than the actual rate paid. The Council’s annual profit and loss financial statements for 2006, 2007, and 2013 indicate the actual rates ranged from 11.1 percent to 11.8 percent. Applying the highest rate of 11.8 percent to the Council’s original billing rate methodology results in questioned “other benefits” costs of \$24,870.

<sup>2</sup> The Conservancy awarded \$1.2 million and the Council claimed \$960,035 as of June 30, 2014.

- *Weak Timekeeping Controls:* The Council's timekeeping process was inconsistent between employees. In most cases, timesheets did not account for 100 percent of employees' time during the pay period and timesheets were not signed by the employee or a reviewer indicating proper approval. We reviewed a sample of employees' calendars and accomplishment reports to assess the reasonableness of grant-related activities recorded on the timesheets and traced timesheet hours to hours claimed for reimbursement. Subsequent to our audit fieldwork, the Council revised its timesheets to include tracking 100 percent of employees' daily hours by project and also required reviewer signatures.

Developing and maintaining an appropriate and comprehensive timekeeping system is critical to grant management and compliance. Additionally, Grant Agreement 09-074, Audits/Accounting Records section, requires the grantee to maintain adequate supporting records in a manner that permits tracing from the request for disbursement to the accounting records and then to the supporting documentation. It specifically requires the grantee to maintain time and effort (timesheet) reports. The agreement also states in the Cost and Disbursement section that the State Coastal Conservancy (Conservancy) will only reimburse for costs incurred.

**Recommendations:**

- A. Remit \$24,870 to the Conservancy for unsupported claimed benefit expenditures. The Conservancy will make the final determination regarding collection of the questioned costs.
- B. Ensure a clear audit trail is maintained for all claimed expenditures. The audit trail should facilitate the tracing of expenditures claimed on the Conservancy reimbursement claims to the accounting records and supporting source documents. Revise and update the benefit rates as necessary to reflect actual costs incurred.<sup>3</sup>
- C. Continue implementing timekeeping procedures to support staff costs claimed. Timesheets should account for 100 percent of an employee's time during each payroll period, separately account for hours charged to bond projects, and signed by the employee and a reviewer.

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<sup>3</sup> To provide further guidance, the Conservancy issued a memo in October 2013. This memo requires grantees to ensure all claimed costs are justified and documented appropriately, such as salary rates equal to compensation actually provided to employees.





Bay Area  
Ridge  
Trail  
Council

July 7, 2015

Mr. Richard Sierra, Chief Office of State Audits and Evaluations  
California Department of Finance  
915 L Street  
Sacramento, CA 95814  
*Transmitted via email*

Dear Mr. Sierra,

Thank you for providing the Bay Area Ridge Trail Council (BARTC) with a draft audit report on Grant Agreement 09-074.

Based on prior conversations with the auditors and observations and recommendations, BARTC has taken the following actions:

1. Timesheet policies and procedures have been revised to ensure that all time recorded on payroll documents can be tied directly to billed time claimed in grant reimbursement requests.
2. Employee and reviewer signatures are now recorded on all timesheets.
3. All direct charges to grant funds are aligned with the BARTC chart of accounts to provide an audit trail for all claimed non-salary expenses.
4. We have thoroughly reviewed and comprehensively updated all billing rates and will establish new rates with the Coastal Conservancy, and in future will update rates at least annually. Additional discussion is provided below regarding questioned benefit costs.

#### *Response to Questioned Benefit Costs*

The draft audit report questions the benefit rate of 15.7% used to create the billing rates in 2006.

Staff billing rates were established at the outset of the grant and had not been updated since. Printed guidelines instruct that rates must be documented and should be "reasonable and justifiable". Over time, overall costs did not change significantly, apart from health care costs. Since the Council never billed all the hours on eligible activities that could have been billed (based on the grant budget), the sense was that if billing rates were revised, the rates would increase and the result would be that fewer eligible hours could be billed.

As mentioned above, the State audit review triggered a thorough analysis and recalculation of staff billing



rates, using current guidelines and actual costs and hours for 2014. A spreadsheet for this analysis is provided as a separate pdf. We traced all actuals for components identified on P. 20 of the State Natural Resources Agency Bond Accountability and Audits manual.

As detailed in the separate background analysis, in 2014, the actual benefits paid for the 4 affected employees ranged from a low of 12.8% to a high of 22.8%. In aggregate, the rate of benefits compared to salaries for the 4 employees was 17.7%. The spreadsheet applies actual individual fringe costs to create updated hourly billing rates, which are very close to the rates used throughout the grant period. Based on this additional documentation, we respectfully request that Department reconsider the questioned costs of \$24,870.

On behalf of the Bay Area Ridge Trail Council, we wish to thank the auditors for all the time spent to review our records, processes and documentation, as reflected in the draft audit report and thank you in advance for your review of this response and additional billing rate documentation.

Sincerely,

Original signed by

Janet McBride, Executive Director



## EVALUATION OF RESPONSE

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The Bay Area Ridge Trail Council's (Council) response to the draft report has been reviewed and incorporated into the final report. The attachment to the response has been removed for brevity and consisted of a spreadsheet analysis. We acknowledge receipt and review of this spreadsheet. In evaluating the Council's response, we provide the following comments:

### **Observation 1: Unsupported Labor Costs and Weak Timekeeping Controls**

The Council partially disagreed with the audit observation. In its response, the Council stated it has taken certain actions to improve its timekeeping, chart of accounts, and billing rate process. However, the Council would like us to reconsider the \$24,870 in questioned costs. The Council stated it recalculated its fringe benefit rate at 17.7 percent using 2014 actual costs. However, as discussed in the observation, the questioned cost only includes "other benefits" which consists of retirement, payroll taxes, and workers' compensation costs. Therefore, excluding the health benefit costs from the Council's recalculated rate of 17.7 percent results in an "other benefit" rate of 10.1 percent, which is lower than the 11.8 percent used in the audit report. Using the 10.1 percent rate would have the effect of increasing the questioned costs above the \$24,870 noted in the report. For audit purposes, we retained the 11.8 percent rate as a valid estimate, which is to the Council's advantage.

Based on the Council's response, we have clarified some of the verbiage in the observation but did not change the recommendation to recover \$24,870 from the Council.