



Transmitted via e-mail

June 26, 2014

Mr. John Laird, Secretary
California Natural Resources Agency
1416 Ninth Street, Suite 1311
Sacramento, CA 95814

Dear Mr. Laird:

Final Report—City of Merced, Proposition 40 Grant Audits

The Department of Finance, Office of State Audits and Evaluations, has completed its audits of the City of Merced's (City) grants 09-C4-20 and CCHER423, issued by the California Cultural and Historical Endowment.

The enclosed report is for your information and use. Because there were no audit observations requiring a response, we are issuing the report as final. This report will be placed on our website.

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

Sincerely,

Original signed by:

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

Enclosure

cc: 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. Mimi Morris, Executive Officer, California Cultural and Historical Endowment
Mr. John Bramble, City Manager, City of Merced
Mr. Frank Quintero, Director of Economic Development, Economic Development Department, City of Merced
Ms. Elaine Post, Development Manager, Economic Development Department, City of Merced
Ms. Deborah Richardson, Accountant I, City of Merced

City of Merced
Proposition 40 Bond Program
Grant Agreements 09-C4-20 and CCHER423



Merced Theatre
Source: www.mercedtheatre.org

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

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

You can contact our office at:

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(916) 322-2985

BACKGROUND, SCOPE METHODOLOGY AND RESULTS

BACKGROUND

California voters approved the California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002 (Proposition 40) for \$2.6 billion. The bond proceeds finance a variety of natural resource and cultural preservation programs.

The Merced Theatre, located in the City of Merced (City), was designed in the style of Spanish Colonial Revival in 1931. The theatre's 100 foot high tower displaying the City's name in neon lights is the most recognized landmark in Merced. In 1979, the theatre property was converted into a four-plex movie theater. Previous funding from the California Cultural and Historical Endowment (CCHE) was used to restore the theatre back to a single auditorium. CCHE awarded the City the following Proposition 40 grants to complete the renovation of the Merced Theatre:

- **Grant 09-C4-20**—\$1,935,000 to assist in the restoration of the Merced Theatre auditorium and lobby.
- **Grant CCHER423**—\$400,000 to complete the restoration of the Merced Theatre house and lobby, specifically heating, ventilating, air conditioning, lighting, power and communications elements.

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> |
|------------------------|--|
| 09-C4-20 | July 24, 2008 through February 28, 2012 |
| CCHER423 | February 10, 2010 through March 31, 2012 |

The audit objectives were to determine whether the City'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 City's management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements. CCHE and the California 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 as required, we performed the following procedures:

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

- Examined the grant files, the grant agreements, and applicable policies and procedures.
- Reviewed the City’s accounting records, vendor invoices, and bank statements.
- Selected a sample of claimed expenditures to determine if costs were allowable, grant-related, incurred within the grant periods, supported by accounting records, and properly recorded.
- Performed procedures to determine if other revenue sources were used to reimburse expenditures already reimbursed with grant funds.
- Evaluated whether a sample of grant deliverables required by the grant agreements were met by reviewing supporting documentation and conducting a site visit to verify project existence.

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.

RESULTS

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.

Based on the procedures performed, the grant expenditures claimed were in compliance with the requirements of the grant agreements, and grant deliverables were completed as required. The Schedules of Claimed Amounts are presented in below.

Schedules of Claimed Amounts

| Grant Agreement 09-C4-20 | |
|-----------------------------------|---------------------|
| Task | Claimed |
| Construction—Shell | \$ 900,000 |
| Construction—HVAC | 550,000 |
| Construction—Electrical | 335,000 |
| Construction—Plumbing | 150,000 |
| Total Grant Funds | 1,935,000 |
| | |
| Match Funds | 1,935,000 |
| Total Project Expenditures | \$ 3,870,000 |

| Grant Agreement CCHER423 | |
|--|---------------------|
| Task | Claimed |
| Completion of HVAC System | \$ 200,000 |
| Completion of Lighting, Power and Communications | 200,000 |
| Total Grant Funds | 400,000 |
| | |
| Match Funds | 721,479 |
| Total Project Expenditures | \$ 1,121,479 |