



Transmitted via e-mail

March 5, 2013

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

Dear Mr. Schuchat:

**Final Report—Coastwalk, Inc., Proposition 12 and 84 Grant Audit**

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of Coastwalk, Inc.'s (Coastwalk) grant 08-084 for the period March 25, 2009 through January 31, 2012

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

Sincerely,

Originally signed by:

David Botelho, 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. 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. Una Glass, Executive Director, Coastwalk, Inc.

# AUDIT REPORT

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## Coastwalk, Inc. Proposition 12 and 84 Bond Program Grant Agreement 08-084



Monterey Segment of Coastal Trail

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

**MEMBERS OF THE TEAM**

Diana Antony, CPA  
Manager

Lisa Negri  
Supervisor

Staff  
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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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# BACKGROUND, SCOPE AND METHODOLOGY

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## **BACKGROUND**

California voters approved the Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000 (Proposition 12), and the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006 (Proposition 84) for \$2.1 billion and \$5.4 billion, respectively. The bond proceeds finance a variety of resource programs.

Coastwalk, Inc., (Coastwalk) received a \$690,000 Proposition 12 and 84 grant from the California State Coastal Conservancy (Conservancy) to install signage on 300 miles of existing and new segments of the California Coastal Trail, map the location of all signs posted between 2007 and 2011, update California Coastal Trail Maps, provide information about the trail to the public, and maintain the website throughout the term of the grant.

## **SCOPE**

In accordance with the Department of Finance's bond oversight responsibilities, we audited grant 08-084 for the period March 25, 2009 through January 31, 2012.<sup>1</sup>

The audit objectives were to determine whether Coastwalk'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.

Coastwalk's management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements. The State Coastal Conservancy 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 agreement, and applicable policies and procedures.
- Reviewed the grantee's accounting records, timesheets, and bank statements.

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<sup>1</sup> An interim audit was conducted as the grant term ends December 31, 2012.

- Selected a sample of expenditures to determine if costs were allowable, grant-related, incurred within the grant period, 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.
- Conducted a site visit to verify project existence.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings 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 were in compliance with the requirements of the grant agreement and grant deliverables were completed as required. The Schedule of Claimed and Questioned Amounts is presented in Table 1.

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

Grant Agreement 08-084		
Task	Claimed <sup>2</sup>	Questioned
Signage	\$495,431	\$135,858
Mapping	12,964	0
Management & Administration	20,947	7,015
Overhead Fee	79,551	21,581
Total Expenditures	\$608,893	\$164,454

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

Coastwalk claimed labor costs and overhead fees that were unsupported by source documentation as follows:

- Coastwalk’s billed labor rates exceeded the actual salary and benefit costs by \$142,873 (\$135,858 + \$7,015). Labor costs claimed are not supported by payroll records.
- Coastwalk claimed \$21,581 in overhead fees based on a percentage of claimed direct project costs instead of actual costs incurred. In addition, Coastwalk does not have an allocation plan or methodology to demonstrate how overhead costs are reasonably and equitably distributed to bond projects.

The grant agreement requires the grantee to maintain financial accounts, documents, and records relating to this agreement. The records shall include evidence sufficient to properly reflect the amount, receipt, deposit and disbursement of all funds related to the project.

**Recommendations:**

- Remit \$164,454 to the Conservancy for the unsupported costs claimed. The Conservancy will make the final determination on the appropriate method to recover the questioned costs.
- All claimed costs, including labor and overhead fees, should be based on actual costs incurred.
- Develop and implement a documented cost allocation methodology to equitably distribute indirect costs to bond programs and projects.

<sup>2</sup> The grant amount is \$690,000; however, the grantee only claimed \$608,893 through January 31, 2012.

# RESPONSES

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December 11, 2012

Mr. David Botelho  
Chief, Office of State Audits and Evaluations  
915 L Street  
Sacramento, CA 95814

Regarding: Draft Report - Coastwalk, Inc., Proposition 12 and 84 Grant Audit

Dear Mr. Botelho,

Thank you for the opportunity to respond to the Department of Finance Draft Audit Report transmitted to us on November 9, 2012..

Attached please find a Memo summarizing our response to the report which also includes several spreadsheets pertinent to our response.

Sincerely,



Una J. M. Glass  
Executive Director



## MEMO

December 11, 2012

### Response to California Department of Finance Audit of Grant to Coastwalk California from the State Coastal Conservancy - Grant # 08-084

Coastwalk California respectfully but strenuously disagrees with the findings in the draft audit report for the reasons documented below.

1. Coastwalk billed as agreed with the State Coastal Conservancy.

The core of the DOF's questions regarding Coastwalk's billings are Coastwalk's hourly billing rates which were as shown below.

Executive Director	\$50 per hour
All other staff	\$40 per hour

Coastwalk's initial written proposal to the SCC, which was transmitted to the SCC on August 22, 2008, proposed an hourly billing rate of \$40 per hour for Coastwalk staff and \$50 per hour for the time of the Executive Director. It also proposes an overhead rate of 15% to be applied on top of billed expenses including the labor billed at the aforementioned rates. These rates were expressed in the workplan approved by SCC under our grant agreement with SCC. Coastwalk's monthly billings to the SCC have clearly shown these hourly rates and application of 15% overhead to the billing subtotal, from the onset of the grant. Coastwalk was unaware of any requirements that billing rates not include both direct program personnel costs **plus** allocated costs of Coastwalk personnel performing general and administrative services under the grant and necessary to support the grant. It was also Coastwalk's understanding that the additional 15% overhead was for our indirect non-labor general and administrative costs i.e. the general overhead of being in business.

In our experience labor billing rates that include both direct program labor as well as general and administrative labor costs plus an additional overhead fee are common practice among small nonprofits. This is the first we have ever been told that this methodology is problematic. DOFs Field Auditor asserted that billing rates must only include the actual cost of direct program employee compensation but he did not cite any specific State regulations or policies that would run contrary to the agreed terms of our grant contract with SCC.

To be completely frank, Coastwalk and SCC agreed on the hourly rates of \$40 and \$50 in order to include all actual labor costs, for both direct program and indirect general and administrative time,

that Coastwalk incurred in delivering the SCC program, using its direct program staff timesheets as the basis for the calculation. Prior to that agreed-upon hourly rate, Coastwalk had been operating the signage and mapping program under an earlier grant at a loss, which was unsustainable.

2. The DOF draft audit report, in rejecting entirely Coastwalk's entitlement to the 15% overhead amount, states: "Coastwalk does not have an allocation plan or methodology to demonstrate how overhead costs are reasonably and equitably distributed to bond projects." The DOF did not ask Coastwalk for a cost allocation schedule, plan or methodology. If asked, Coastwalk would have supplied one. Coastwalk did ask, in an email prior to the audit, what documentation was needed (See Exhibit D) and received a reply that did not mention a cost allocation schedule. We are supplying a cost allocation analysis with this memo and we ask that the final audit report be modified to reflect that Coastwalk has justified its overhead costs completely.
3. As shown in Coastwalk's attached Cost Analysis Spreadsheets, Exhibits A, B and C, Coastwalk's expenses have exceeded the amount billed. Coastwalk's cost allocation methodology is based on the ratio of personnel hours spent on the SCC Signage Grant Program versus other Coastwalk Programs, which results in an allocation of 79% over the whole grant period. Coastwalk's employee timesheets clearly document personnel hours expended on SCC Grant 08-084 versus other non SCC programs. These timesheets were reviewed by the DOF's field auditor, and to our knowledge no deficiencies were found.

Exhibit B - Labor Analysis, summarizes the 31 month audit period hourly data from time sheets and shows SCC Signage Grant hours by employee, total hours worked and, hours allocated to other Coastwalk programs. From this summary we have derived a percentage of personnel time spent on the SCC Grant versus other programs. This percentage is then applied to General and Administrative (G&A) labor costs to derive the dollar amount that is the SCC Grant program's share of G&A labor expense. Additionally, in Exhibit C - this percentage is applied to General Business expenses (occupancy, internet etc) to determine the SCC Grant Program's share of non-labor G&A Business Expenses. Exhibits B and C are summarized in Exhibit A, which shows that Coastwalk has incurred more expenses than it has billed to the Conservancy.

4. Exhibit C shows the Expense side of four years of Income/Expense Statements for the 31 month audit period. The 2009 column shows June through December and the 2012 column, January only. These columns tie to our expense totals in our General Ledger and 990 Tax Returns. The expense categories summarized as G&A Business Expenses are highlighted and summarized in green. We have made a careful study of all business expense categories to determine those fairly allocable to the SCC grant program as the dominant proportion of our work output to benefit the public. These green categories come to a grand total shown at the bottom of the page as G&A Business Expense total. This excludes labor costs which are accounted for in Exhibit B. The Direct Program costs accepted by the DOF and billed as Travel Expenses, Contractor and Materials & Equipment are shown in the first category labeled as Direct Program Expenses in Exhibit C. This total ties to Coastwalk's billings for these three categories.

5. Unlike many grants funded by California Propositions 12 and 84, Coastwalk's grant primarily funded labor intensive activity even though the activity resulted in a form of "bricks and mortar" installation. The purpose of the grant was to install signage, however, the act of installing this signage required hundreds of hours of field work, development of thousands of pages of land use planning documents, hundreds of hours seeking signage installation approvals from over 85 local jurisdictions and then subsequent approvals of each document from the California Coastal Commission. The result of installing the signage is that State and Local government have land use documentation constituting agreement on the Coastal Trail's route. Hundreds of miles have been added to the Coastal Trail because of our work. This is a goal set by the legislature.

When the bulk of a grant is expended on labor it is inevitable that the ratio of general and administrative business costs to direct program labor costs will be significantly higher than for a grant where a significant portion is expended on capital expenses such as land acquisition. This higher ratio is required in order to get the work done.

Review of government cost accounting circulars and other documents show that exceptions to overhead ratios are deemed appropriate when "reasonable" particularly when applied to very small organizations. Coastwalk can demonstrate that more than half of its personnel activity was spent directly working on the Grant 80-084 program. It can show that its overall expenses necessary to performing the work stipulated in the grant, and supplying a business venue in which to perform that work, are much more than just its direct program labor costs and reimbursable receipts.

In reviewing other Audit Reports on the DOF web site we did not find an audit of another non-profit organization as small as Coastwalk. We realize that small nonprofits should be expected to adhere to high standards and maintain accurate records to document their expenditures. However, we ask that the DOF consider that overhead rates set for large public agencies may not apply to or be feasible for small nonprofits.

The relative labor versus overhead costs of a very small nonprofit are significantly different than those of a large organization. This should be taken into account in evaluating the reasonableness of overall business costs charged to a grant.

If we could not realize SCC grant support for our overhead -- and 15% is actually not enough to cover the SCC grant's share of our general and administrative expense -- we would have to shut our doors and discontinue the signage and mapping work that is so essential to the existence of the California Coastal Trail. We simply cannot operate at a loss and the SCC grant agreement did not require us to do so.

Coastwalk's expenses are far from exorbitant and its personnel are not highly paid. Additionally, Coastwalk has saved money in travel expenses by camping and sleeping on friends' floors rather than staying in hotels and used volunteers to help with the work when appropriate as well as numerous other cost saving measures.

Coastwalk could not possibly have performed the work specified in the grant over the 31 month audit period for \$386,000 as is stipulated in the Audit Report if it were paid only for program staff time and other direct program costs, with nothing for unallocated general and administrative labor or for general business overhead.

It seems very unreasonable to recommend that Coastwalk remit approximately \$222,000 to the Coastal Conservancy and to cause Coastwalk to reduce its ongoing grant invoices to recover only direct program costs, despite the literal terms of its grant agreement with SCC. This arbitrary and thoughtless action deprives Coastwalk of sufficient funds to function as a nonprofit enterprise devoted almost 80% to the SCC grant-funded signage and mapping program, which is critical to making the Coastal Trail a reality.

Coastwalk believes that it has delivered value for the money expended. No nonprofit can afford to deliver services without compensation for a reasonable share of its general and administrative labor and business expenses. Coastwalk believes that it has demonstrated that its charges were appropriate.

Exhibit A

**Coastwalk California**

**Cost Analysis - SCC Grant 08-084**

Costs associated with SCC Grant 08-084

for time period covered by DOF audit - June 09 - Jan 12

**Labor and Expenses Agreed to by the DoF**

**Actual personnel costs**

Actual cost of labor billed - hours billed is based on time cards which stipulate hours attributed to grant versus non grant hours - at the hourly rate calculated by DOF

346,484

**Other costs billed**

Contractor/Consultants - total from Coastwalk invoices

12,964

Travel - total from Coastwalk invoices

18,752

Material/equipment/services - total from Coastwalk invoices

8,270

TOTAL - other costs billed and unquestioned by DOF

39,985

**From DOF draft Audit Reprt**

Billed	Questioned	Unquestioned
608,893	222,424	386,469

This is the amount DOF agrees with >>>>

Total

386,469

**Additional Costs Incurred by Coastwalk**

**General and Administrative Labor**

See Exhibit B - Labor Analysis

129,107

These actual indirect labor expenses were intended to be covered by the \$40 and \$50 rates applied to direct program staff hours, as contractually agreed with SCC. These actual labor expenses cover most of the \$142,873 questioned by DoF.

**General and Administrative Business Expenses (Overhead)**

See Exhibit C - G&A Business Expense Analysis

113,143

These actual expenses exceeded the 15% overhead amount invoiced to SCC as contractually agreed (\$79,511) but disallowed by DoF.

Additional costs incurred by Coastwalk

Total

242,250

**Total Costs Incurred by Coastwalk**

Total Costs 628,719

Billed 608,893

Actual costs **NOT** billed to SCC Grant =

Discrepancy

(19,826)

# Exhibit B

## Coastwalk California

### Direct Program Labor Cost Analysis - Audit Period June 2009 - January 2012

This is a summary of personnel time sheets - this establishes a ratio of personnel hours engaged in SCC Grant direct program activities as a proportion of total direct program personnel hours, including non-SCC organization programs. All time sheets show direct SCC Grant program time versus non-SCC activities. Hours for non-SCC activities were allocated to programs based on job function and calendar of special events. Time sheets were sampled and reviewed by DOF field auditor. General and Administrative hours (G&A), which were not allocated to one of three specific programs, are shown in the green headed columns.

Coastwalk programs are

**1 SCC Signage Grant**

**2 Walks - annual Coastwalk educational camping trips**

**3 Other - Coastal Cleanup Day, advocacy work, minor special events and miscellaneous**

Coastwalk's "Walks" program and Coastal Cleanup Day are primarily staffed by volunteers. Coastwalk's primary role in these activities is volunteer management and promotion. Most SCC Signage Grant activity is staffed by paid personnel.

	2009					2010					2011					2012					All Years				
	Program hours					Program hours					Program hours					Program hours					Program hours				
	Total hours worked	Hours billed to SCC	Walks	other - ccd Adv	unallocated G&A hours	Total hours worked	Hours billed to SCC	Walks	other - ccd Adv	unallocated G&A hours	Total hours worked	Hours billed to SCC	Walks	other - ccd Adv	unallocated G&A hours	Total hours worked	Hours billed to SCC	Walks	other - ccd Adv	unallocated G&A hours	Total hours worked	Hours billed to SCC	Walks	other - ccd Adv	unallocated G&A hours
UG - Exec Dir	1248	939	20	66	223	2101	1325	40	116	620	2072	1173	225	120	554	176	97	25	8	46	5597	3534	310	310	1443
RF	1237	1208	0	0	29	2128	1860	0	0	268	1392	1025.5	0	0	366.5	0	0	0	0	0	4757	4093.5	0	0	663.5
JS	464.25	97	0	0	367.25	736.25	85.75	0	0	650.5	424.25	71.25	0	0	353	22.5	3.25	0	0	19.25	1647.25	257.25	0	0	1390
SGS	294	0	0	0	294	301	0	0	0	301	0	0	0	0	0	0	0	0	0	0	595	0	0	0	595
KB	0	0	0	0	0	1072	269.75	0	0	802.25	261.5	118	0	0	143.5	0	0	0	0	0	1333.5	387.75	0	0	945.75
CH	674.25	26.75	582.75	64.75	0	980.75	0	882	98.75	0	360	0	324	36	0	0	0	0	0	0	2015	26.75	1788.75	199.5	2015
LR	87.5	0	0	0	87.5	101	0	0	0	101	24.5	0	0	0	24.5	0	0	0	0	0	213	0	0	0	213
NG	135	135	0	0	0	62	0	0	0	62	0	0	0	0	0	0	0	0	0	0	197	135	0	0	135
HFS	0	0	0	0	0	1042	613	70	20	339	1908	1319	215	70	304	176	115	40	0	21	3126	2047	325	90	2462
PW	0	0	0	0	0	327	327	0	0	0	416	416	0	0	0	61	61	0	0	0	804	804	0	0	804
SPC	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
AO	29	29	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	29	29	0	0	29
JS	195	15	0	0	180	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	195	15	0	0	15
MB	0	0	0	0	0	0	0	0	0	0	23	23	0	0	0	0	0	0	0	0	23	23	0	0	23
DL	0	0	0	0	0	0	0	0	0	0	21	21	0	0	0	0	0	0	0	0	21	21	0	0	21
JSY	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
AK	0	0	0	0	0	0	0	0	0	0	47	0	0	0	47	0	0	0	0	0	47	0	0	0	47
<b>Total</b>	<b>4364</b>	<b>2449.75</b>	<b>602.75</b>	<b>130.75</b>	<b>1180.75</b>	<b>8851</b>	<b>4480.5</b>	<b>992</b>	<b>234.75</b>	<b>3143.75</b>	<b>6949.25</b>	<b>4166.75</b>	<b>764</b>	<b>226</b>	<b>1792.5</b>	<b>435.5</b>	<b>276.25</b>	<b>65</b>	<b>8</b>	<b>86.25</b>	<b>20599.75</b>	<b>11373.25</b>	<b>2423.75</b>	<b>599.5</b>	<b>14396.5</b>

Grand total all personnel hours for audit period **20,600**

### All Years - labor hours

### All Years - labor costs

	Total Hours Worked	Total SCC Hours Billed	Total Walks Program Hours	Total Other Program Hours	Total G&A (un-allocated) Hours	labor cost	Cost - Total				
							Cost - Total Hours Worked	Cost - Total SCC Hours Billed	Cost - Total Walks Program Hours	Cost - Total Other Program Hours	
UG - Exec Dir	5597	3534	310	310	1443	\$ 36,19	\$ 202,555	\$ 127,895	\$ 11,219	\$ 11,219	\$ 52,222
RF	4757	4093.5	0	0	663.5	\$ 30,09	\$ 143,138	\$ 123,173	\$ -	\$ -	\$ 19,965
JS	1647.25	257.25	0	0	1390	\$ 24,15	\$ 39,781	\$ 6,213	\$ -	\$ -	\$ 33,569
SGS	595	0	0	0	595	\$ 21,96	\$ 13,066	\$ -	\$ -	\$ -	\$ 13,066
KB	1333.5	387.75	0	0	945.75	\$ 16,94	\$ 22,589	\$ 6,568	\$ -	\$ -	\$ 16,021
CH	2015	26.75	1788.75	199.5	0	\$ 21,96	\$ 44,249	\$ 587	\$ 39,281	\$ 4,381	\$ -
LR	213	0	0	0	213	\$ 24,15	\$ 5,144	\$ -	\$ -	\$ -	\$ 5,144
NG	197	135	0	0	62	\$ 21,96	\$ 4,326	\$ 2,965	\$ -	\$ -	\$ 1,362
HFS	3126	2047	325	90	664	\$ 26,59	\$ 83,120	\$ 54,430	\$ 8,642	\$ 2,393	\$ 17,656
PW	804	804	0	0	0	\$ 21,96	\$ 17,656	\$ -	\$ -	\$ -	\$ -
SPC	0	0	0	0	0	\$ 16,94	\$ -	\$ -	\$ -	\$ -	\$ -
AO	29	29	0	0	0	\$ 21,96	\$ 637	\$ 637	\$ -	\$ -	\$ -
JS	195	15	0	0	180	\$ 21,96	\$ 4,282	\$ 329	\$ -	\$ -	\$ 3,953
MB	23	23	0	0	0	\$ 16,94	\$ 390	\$ 390	\$ -	\$ -	\$ -
DL	21	21	0	0	0	\$ 21,96	\$ 461	\$ 461	\$ -	\$ -	\$ -
JSY	0	0	0	0	0	\$ 10,00	\$ -	\$ -	\$ -	\$ -	\$ -
AK	47	0	0	0	47	\$ 10,00	\$ 470	\$ -	\$ -	\$ -	\$ 470
<b>Total</b>	<b>20599.75</b>	<b>11373.25</b>	<b>2423.75</b>	<b>599.5</b>	<b>6203.25</b>		<b>\$ 581,866</b>	<b>\$ 341,305</b>	<b>\$ 59,142</b>	<b>\$ 17,993</b>	<b>\$ 163,427</b>
											<b>14396.5</b>

These are the total number of hours, and resulting labor costs, which are not allocated to one of three specific programs and are therefore General and Administrative hours costs.

### SCC program activity as a proportion of all program activity

This takes total direct program hours and determines their relative percentage of total hours spent on program activities.

Programs	Percent	Hours
SCC Grant	79%	11373.25
Walks	17%	2423.75
Other	4%	599.5
ttl allocated	100%	14,396.5

The percentage of Coastwalk's program related personnel time directly spent on the SCC Signage Grant is: **79%**

### Cost of G&A Labor by Program

This calculates each program's share of G&A labor expense based on the ratios shown above

Programs	Percent	Cost
SCC Grant	79%	\$ 129,107
Walks	17%	\$ 27,514
Other	4%	\$ 6,805
	100%	\$ 163,427

The SCC Grant's share of G&A labor expense is **\$ 129,107**

There is a discrepancy in total labor costs between Coastwalk's General Ledger and this analysis. Coastwalk's General Ledger totals are shown on the attached page titled "G&A Business Expense Analysis". We believe this may be from an error in labor rate calculations related to health care benefits. The discrepancy amount is approximately one half percent of total personnel costs.

Exhibit C

**Coastwalk California - Audit Period June 2009 - January 2012**

**G & A Business Expense Analysis (Overhead)**

G & A Business Expenses (unallocated) are shown in green.

Note 3

	2,009		2,010		2011		2012		Total all years
Direct Program Costs	detail	category total	detail	category total	detail	category total	detail	category total	
SCC Grant Reimbursable Expenses (non-labor)	11,074		15,346		12,727		838		39,985.00
All other programs' direct expenses	22,399		36,091		29,431		120		88,041.22
<b>TOTAL - direct non personnel program expenses</b>		<b>33,473</b>		<b>51,437</b>		<b>42,158</b>		<b>958</b>	<b>128,026.22</b>
<b>Business Expenses</b>									<b>51,115.37</b>
81150 - Bank Fees General	250.86		406.81		434.04		30.00		1,121.71
81200 - Books, Sub+D3scriptions, References	30.00						25.00		55.00
81250 - Equipment Expense-Tools/OfficeE			135.00						135.00
81300 - Equipment Maintenance	25.00		267.58		267.72				560.30
81350 - Equipment Rental			325.36		6,604.24		28.27		6,957.87
81500 - Insurance	2,930.78		6,414.85		5,786.44		1,092.94		16,225.01
81550 - Interest & Late Fees	2,220.26		4,829.77				435.82		7,485.85
81600 - Licenses & Permits	75.00				95.00				170.00
81650 - Dues & Subscriptions	(29.05)		475.00		342.95				788.90
81700 - Office Supplies	1,352.38		2,013.98		957.57				4,323.93
81750 - Office Supply Printing	666.68		1,109.01						1,775.69
81800 - Organizational/Corporate Exps			75.00						75.00
81850 - Postage, Shipping & Delivery	628.15		917.86		515.10		65.99		2,127.10
81900 - Printing & Copying	4.11		624.81		26.09				655.01
82200 - Depreciation	1,197.00	9,351.17	2,961.00	20,556.03	4,501.00	19,530.15		1,678.02	8,659.00
<b>Events</b>									<b>33,511.24</b>
83100 - Events Exp-Location					854.00				854.00
83161 - Events Exp-Catering, Food, Etc.	605.82		1,420.49		3,000.03				5,026.34
83163 - Events Exp-Publicity	422.19				61.60				483.79
83170 - Event Expense - Other			265.71		932.64				1,198.35
84100 - Outreach	665.00		4,416.01		3,399.50		675.00		9,155.51
84300 - Newsletter			2,106.96						2,106.96
84400 - Printing/MailBrochures/Catalogs			2,700.08		3,123.25		1,345.45		7,168.78
84500 - Signs & Banners			251.28		85.22				336.50
84600 - Conference/Seminar/Presentation	257.31		1,500.00		1,500.00				3,257.31
84700 - Outreach Misc.			2,292.00		180.00				2,472.00
85100 - Fundraising Expense			72.27						72.27
85200 - Direct Mail-Mail House			164.92						164.92
85300 - Direct Mail-Postage			329.41						329.41
85400 - Direct Mail-Printing, Etc		1,950.32	885.10	16,404.23		13,136.24		2,020.45	885.10
<b>Occupancy</b>									<b>62,938.47</b>
86100 - Rent	11,880.20		21,600.00		20,600.00		1,600.00		55,680.20
86300 - Utilities	888.59		2,443.72		2,535.58		254.19		6,122.08
86400 - Decor/Moving/Misc Building	103.29	12,872.08	1,032.90	25,076.62		23,135.58		1,854.19	1,136.19
<b>Personnel Expenses &amp; Contracted Services</b>									<b>584,916.32</b>
TOTAL PERSONNEL EXPENSE (see labor analysis)	113,738.57		233,105.69		208,769.74		13,169.42		568,783.42
87200 - Staff Training & Development	383.45								383.45
87400 - Contract Serv-Accounting	121.00		521.00		400.00				1,042.00
87450 - Contract Serv/Communic & PR			200.00						200.00
87500 - Contract Serv/Fundraising					780.00				780.00
87600 - Contract Serv/IT, Web	1,200.00		660.00		10,417.45		50.00		12,327.45
87750 - Contract Serv/Other Services		115,443.02	1,400.00	235,886.69		220,367.19		13,219.42	1,400.00
<b>IT/Web/Technology</b>									<b>16,668.93</b>
88100 - DSL	672.25		1,011.85		1,144.76		98.90		2,927.76
88200 - IT Equipment Expense	34.65		39.92						74.57
88300 - Software Expense	1,228.78		1,630.02		698.48				3,557.28
88350 - Telephone	2,075.18		1,841.39		2,015.83		185.52		6,117.92
88400 - Web Services	1,782.60	5,793.46	436.35	4,959.53	1,399.45	5,258.52	373.00	657.42	3,991.40
<b>Travel (non SCC)</b>									<b>3,093.20</b>
89100 - Mileage	126.62		93.58		730.23				950.43
89300 - Meals & Food	10.38		24.00		107.98				142.36
89400 - Lodging			332.64		734.46				1,067.10
89500 - Airfare/Trains/Cabs, Etc.	11.00		9.00		13.00				33.00
89600 - Car Rental			149.50						149.50
92400 - Volunteer Misc. Expense	350.16	498.16	212.80	821.52	187.85	1,773.52			750.81
<b>TOTAL EXPENSE</b>									<b>880,269.75</b>
Total Expense for Year - (ties to EOY Financials) >>>>>		179,380.92		355,141.81		325,359.30		20,387.72	880,269.75
<b>TOTAL - Unallocated G&amp;A Business Expenses</b>	<b>29,088.90</b>		<b>51,755.51</b>		<b>58,200.51</b>		<b>4,173.64</b>		<b>143,218.56</b>

**Note 1** - Direct Program Costs include direct NON labor expenses. For the SCC Signage program this includes the three billing categories (1) contractors (2) Travel & (3) Materials, Equipment etc. Receipts were submitted to the SCC for all billings in these categories. These amounts are included in the Tasks "Signage" and "Mapping" in the Audit report. Other, NON SCC programs (such as the Walks program) direct expenses include food, camping permits, transportation etc.

**Note 2** - The areas shaded in green are General and Administrative overhead costs not directly related to a single program.

**Note 3** - The Note 2 label above points to the grand total for the category "Business Expenses" shown in the blue bar. Each category's total is shown in a blue bar.

Grand Total of unallocated General & Administrative Business Expense overhead costs for 31 month audit period. This does NOT include any labor costs

G&A Business Expense overhead total	143,218.56
X Program Personnel activity ratio (shown on "Labor Analysis" page)	79%
Equals G&A non labor expense allocated to the SCC Signage program as overhead shown on the "Summary Costs Analysis" page	\$ 113,142.81



December 11, 2012

Mr. David Botelho  
Department of Finance  
Office of State Audits and Evaluations  
915 L Street  
Sacramento CA, 95814-3707

Re: Draft Report - Coastwalk, Inc., Proposition 12 and 84 Grant Audit

Dear Mr. Botelho:

The State Coastal Conservancy ("Conservancy") has reviewed the Department of Finance, Office of State Audits and Evaluations' audit report of Coastwalk, Inc.'s ("Coastwalk") grant agreement #08-084 for the period of March 25, 2009 through January 31, 2012 and submits the following comments:

- Coastwalk satisfactorily completed the project as described in the grant agreement using billing rates that were negotiated and agreed to by the Conservancy in the project budget.
- In our view Coastwalk's total billing for labor reasonably represent the actual labor costs necessary for the organization to provide the needed and agreed upon services.
- The Conservancy will require a full financial audit of Coastwalk.
- The Conservancy will undertake additional evaluation and modification of its internal budget and billing policies as needed for non-profit grantees.

Notwithstanding the forgoing, the Conservancy acknowledges that Coastwalk is a small not-for-profit grantee and does not have the ability to allocate various indirect and overhead expenses over a wide range of grants as many larger grantees may. The work performed by Coastwalk with the Conservancy's grant funds represented close to 80 percent of Coastwalk's program work and over 50 percent of its total personnel hours during the four-year period that was audited.

1330 Broadway, 13th Floor  
Oakland, California 94612-2512  
510-286-1015 Fax: 510-286-0470



Small not-for-profit partners like Coastwalk are essential to the success of implementing the Conservancy's coastal access program in general, and in particular to meeting the legislative mandates pertaining to the Coastal Trail. Development of the Coastal Trail, in turn, is a key coastal access mandate for the Conservancy.

In conclusion, we believe that Coastwalk provided the state with essential services at very reasonable rates and that repayment of grant funds is not warranted and will likely jeopardize future program delivery.

If you have any questions, please contact me at 510-286-1015.

Sincerely,



Sam Schuchat  
Executive Officer  
State Coastal Conservancy

## EVALUATION OF RESPONSES

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We reviewed Coastwalk, Inc.'s (Coastwalk) response to our draft report and provide the following comments:

Coastwalk claims their labor rate includes allocated general and administrative costs necessary to support the grant. However, the grant agreement already includes a line item for Management and Administration and Coastwalk claimed the full \$20,947 budgeted under this category. Additionally, the grant allowed a 15 percent overhead fee and Coastwalk claimed the full \$79,551 budgeted in this category. As a result, Coastwalk exceeded the general and administrative line item and the overhead fee rate. Further, including additional general and administrative costs in the hourly labor rate does not allow for transparency. For example, by including additional administrative costs in their labor rates Coastwalk's actual overhead rate is 36.5 percent ( $\$222,424 / \$608,893$ ) which is significantly higher than the grant allows.

Coastwalk also provided spreadsheets that appear to support an indirect cost allocation methodology. Although the documentation was not provided during the audit, the methodology appears reasonable. We have adjusted the audit report to reflect a 15 percent overhead fee as follows:

Direct Costs Claimed	\$529,342
Less: Questioned Costs	<u>(142,873)</u>
Direct Costs Allowed	386,469
15 Percent Overhead	<u>15%</u>
Allowed Overhead:	57,970
Less: Claimed Overhead	<u>(79,551)</u>
Questioned Overhead:	<u>\$21,581</u>

Lastly, no information was provided to link the claimed labor rates of \$50 and \$40 to the indirect cost allocation methodology. As a result, no further adjustments were made to the report.