DEPARTMENT OF FINANCE

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Transmitted via e-mail

August 21, 2013

Mr. Thomas Howard, Executive Director
State Water Resources Control Board
P.O. Box 100
Sacramento, CA 95812-0100

Dear Mr. Howard:

Final Report—Plumas Corporation Proposition 13, 40, and 50 Grant Audit

The Department of Finance, Office of State Audits and Evaluations, has completed its audits of Plumas Corporation's grants 04-116-555-1, 06-174-555-1, and 09-326-555-2.

The enclosed report is for your information and use. The draft report was issued June 25, 2013, and Plumas Corporation's response to the draft report required further analysis. As a result of our analysis, changes were made to Observation 1 as explained in the Evaluation of Response. This report will be placed on our website.

We appreciate the assistance and cooperation of the Plumas Corporation. If you have any questions regarding this report, please contact Frances Parmelee, Manager, at (916) 322-2985.

Sincerely,

Original signed by:

David Botelho, CPA
Chief, Office of State Audits and Evaluations

Enclosure

cc: Ms. Leslie Laudon, Manager, Division of Finance and Public Assistance, State Water Resources Control Board
Ms. Christine Gordon, Operations Manager, State Water Resources Control Board
Ms. Jennifer Taylor, Budget Officer, State Water Resources Control Board
Mr. Patrick Kemp, Assistant Secretary for Administration and Finance, California Natural Resources Agency
Mr. Bryan Cash, Deputy Assistant Secretary, California Natural Resources Agency
Ms. Julie Alvis, Deputy Assistant Secretary, California Natural Resources Agency
Mr. John Kolb, Board Chairman, Plumas Corporation
Mr. Jim Wilcox, Interim Administrative Coordinator, Plumas Corporation

Audit Report

Plumas Corporation
Proposition 13, 40 and 50 Bond Programs
Grant Agreements 04-116-555-1, 06-174-555-1 and 09-326-555-2

Plumas Corporation Project # 09-326-550 Red Clover Poco Restoration Project

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

123940190/191

June 2013

MEMBERS OF THE TEAM

Frances Parmelee
Manager

Rich Hebert
Supervisor

Staff
Kweku Atta-Mensah

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

You can contact our office at:

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Office of State Audits and Evaluations
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(916) 322-2985

BACKGROUND, SCOPE AND METHODOLOGY

BACKGROUND

California voters approved the following bond acts to finance a variety of resource programs:

- Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act of 2000 (Proposition 13) for $1.97 billion.
- California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002 (Proposition 40) for $2.6 billion.
- Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002 (Proposition 50) for $3.44 billion.

The State Water Resources Control Board (State Water Board) awarded Plumas Corporation grants to (1) restore the floodplain function of approximately three miles of Red Clover Creek, (2) implement channel/floodplain restoration on four tributaries to the Upper Middle Fork Feather River, and (3) to restore the groundwater storage function of the floodplain and to prevent the Red Clover Creek system from further down-cutting.

SCOPE

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

Grant Agreement	Audit Period	Award
04-116-555-1	September 1, 2004 through March 31, 2008	$1,101,000
06-174-555-1	October 31, 2006 through September 30, 2009	$1,068,000
09-326-555-2	June 30, 2010 through March 31, 2012	$1,169,650[1]

The audit objectives were to determine whether Plumas Corporation'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.

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

[1] For grant agreement 09-326-555-2, we conducted an interim audit since the contract was extended to March 31, 2013. The project was completed by March 31, 2013 but the State Water Board has not issued a certificate of completion and the final reimbursement request has not yet been approved.

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, grant agreements, and applicable policies and procedures.
- Reviewed a sample of grant 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.
- Performed site visits 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.

RESULTS

The results of the audit are based on our review of documentation, other information made available to us, and interviews with staff 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. We noted a compliance observation as described below. The Schedules of Claimed Amounts are presented in Table 1.

Table 1: Schedules of Claimed Amounts

Grant Agreement 04-116-555-1	
Category	**Claimed**
Personnel Services	$ 233,384
Operating Expenses	8,650
Travel Expenses	12,264
Professional and Consulting Services	80,607
Construction	745,911
Indirect Cost	20,184
Total Expenditures	$1,101,000
Matching Funds Requirement	$ 194,201

Grant Agreement 06-174-555-1	
Category	**Claimed**
Personnel Services	$221,610
Operating Expenses	222,726
Professional and Consulting Services	22,778
Construction	462,309
Total Expenditures	$929,423
Matching Funds Requirement	$688,552

Grant Agreement 09-326-555-2	
Category	**Claimed**
Personnel Services	$ 183,271
Operating Expenses	6,401
Professional and Consulting Services	3,498
Construction	841,605
Total Expenditures	$1,034,775
Matching Funds Requirement	$ 385,079

Observation 1: Accountability Over Matching Funds Needs Improvement

For grant agreement 09-326-555-2, Plumas Corporation did not record any matching funds in its accounting records, resulting in inadequate accountability. Not properly accounting for matching funds increases the risk that the project's goals will not be achieved.

The grant agreement, Exhibit C, Item 29 (a-e), stipulates that the grantee agrees to (1) establish separate accounts which will adequately and accurately depict all amounts received and expended on this project, including grant funds received under this agreement, and (2) establish such accounts and maintain such records as may be necessary for the state to fulfill federal reporting requirements, including any and all reporting requirements under federal tax statutes or regulations.

Recommendation:

Plumas Corporation should ensure matching funds are properly documented and recorded in the Corporation's accounting records to improve accountability.

PLUMAS Corporation

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July 9, 2013

California Department of Finance
ATTN: Mr. David Botelho, CPA
Chief, Office of State Audits & Evaluations
915 L Street
Sacramento, CA 95814-3706

Re: **Response to Draft Report – Plumas Corporation, Propositions 13, 40, and 50 Grant Audit**

Dear Mr. Botelho:

This letter is in response to the draft audit report of Plumas Corporation's grant agreements 04-116-555-1, 06-174-555-1, and 09-326-555-2 received on June 25, 2013. The report stated one finding on the accountability of matching funds for Grant Agreement 09-326-555-2. The $51,000 of claimed matching funds that did not have adequate supporting documentation is clarified here with additional information and backup documentation.

The claimed matching funds that are in question were for rock material that was provided from two U.S. Forest Service quarries. The grant agreement identifies $159,810 in matching contributions from the U.S. Forest Service for rock material. The majority of this rock ($150,000) was used for the pond and plug grade control structure and for the road improvements completed as part of the project. The $150,000 claimed in donated rock material was used on the project; however, documentation of the amount of rock taken from the two Forest Service quarries was lacking and the value of the rock miscalculated.

The first discrepancy between what was claimed and what documentation was in the file was due to not having adequate records for the rock that was used for the road component of the project, nor reporting the rock that was donated and used for the construction repairs completed in 2011. Records recently obtained from Plumas County Public Works Department (see enclosed backup documentation) show that 2,646 tons of rock (or 1,556 cubic yards) was taken from the Forest Service Coldwater pit between Sept. 22-30, 2010 and was used for sub-base to complete the project road improvements. The value of this rock (calculated at $15/yd^3) is $23,340. This rock required no prior processing, hence lower value.

Second, the rock documentation that was provided for the grade control structure was miscalculated. The project manager had a tally of 165 loads of rock being delivered. When providing the information to the auditor, it was calculated that each load was 20 cubic yards, for a total of 3,300 yd^3. This was based on the assumption that the rock was being delivered by highway-legal dump trucks, which carry approximately 20 yd^3 of material. However, the rock was transported from the USFS Crocker Mtn. pit to the project site with 6-wheel-drive, off-road haul trucks which carry 30 yd^3 of material. So there was a total of 4,950 cubic yards of material delivered and used on the project's grade control structure versus the 3,300 yd^3 initially reported. The value of this material was calculated at $30/ton, totaling $148,500. This rock required significant blasting and pit preparation costs provided by USFS, hence the higher value.

Third, an additional 1000 cubic yards of rock from the Forest Service Crocker Mtn. pit was provided for the 2011 construction repairs (see enclosed backup documentation). Using the same value of $30/$yd^3$, the total matching contribution for the repair rock was $30,000.

In conclusion, a total value of $201,840 in rock material was contributed to the project from the U.S. Forest Service (see enclosed backup documentation). This exceeds the $150,000 initially claimed and questioned in the audit report, and covers the $51,000 discrepancy observed due to lack of adequate supporting documentation.

If you have further questions regarding this response, please contact Gia Martynn, Watershed Coordinator at (530)283-3739.

Sincerely,

"original signed by"

John Kolb, Chairperson
Board Director, Plumas Corporation

Enclosures (2)

cc: Ken Coulter, State Water Resources Control Board
Kweku Atta-Mensah, CA Department of Finance
Jim Wilcox, Plumas Corporation

EVALUATION OF RESPONSE

We reviewed Plumas Corporation's response to our draft audit report and provide the following comments. Attachments referenced in the response were omitted for brevity.

Plumas Corporation agrees with our observation that the documentation and recording of the claimed matching funds were lacking and submitted additional documentation with its response. Based on our review of the additional documents, we deleted the questioned match amount of $51,000 from Observation 1. However, our observation and recommendation pertaining to the recording of matching funds remain unchanged.