



Transmitted via e-mail

July 20, 2016

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

Mr. Ken Pimlott, Director
California Department of Forestry and Fire Protection
P.O. Box 944246
Sacramento, CA 94244-2460

Dear Mr. Laird and Mr. Pimlott:

Final Report—North East Trees, Propositions 50 and 84 Grant Audits

The Department of Finance, Office of State Audits and Evaluations, has completed its audits of the following North East Trees (NET) grants awarded by the California Natural Resources Agency (Resources) and the California Department of Forestry and Fire Protection (CAL FIRE):

<u>Grantor</u>	<u>Agreement Number</u>	<u>Award Amount</u>
Resources	R81744-0	\$1,100,000
Resources	U59108-0	\$250,000
Resources	U59211-0	\$250,000
CAL FIRE	8CA10941	\$250,000
CAL FIRE	8CA11914	\$100,000
CAL FIRE	8CA12937	\$150,000

The enclosed report is for your information and use. NET's response to the report findings 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 NET. 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:

Jennifer Whitaker, Chief
Office of State Audits and Evaluations

Enclosure

cc: On following page

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. Janet Barentson, Chief Deputy Director, California Department of Forestry and Fire Protection
Ms. Windy Bouldin, Chief of Program Accountability, Information Security Officer and Privacy Program Coordinator, California Department of Forestry and Fire Protection
Mr. Robert Nakahiro President, Board of Directors, North East Trees
Mr. Mark Kenyon, Executive Director, North East Trees
Ms. Simran Sikand, Development Coordinator, North East Trees

North East Trees
Proposition 50 and 84 Bond Programs
Grant Agreements R81744-0, U59108-0, U59211-0,
8CA10941, 8CA11914, and 8CA12937



Glendale Narrows Riverwalk Project in Glendale, CA

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

MEMBERS OF THE TEAM

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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

BACKGROUND

California voters approved the Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002 (Proposition 50), and the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006 (Proposition 84) for \$3.4 billion and \$5.4 billion, respectively. The bond proceeds finance a variety of natural resource programs.

The California Natural Resources Agency (Resources) and the California Department of Forestry and Fire Protection (CAL FIRE) awarded six grants to North East Trees (NET) as noted below. NET is a community-based, grassroots, environmental non-profit organization located in Los Angeles, California. NET's mission is to restore nature's services in resource-challenged communities, through a collaborative resource development, implementation, and stewardship process.¹

Grantor	Grant	Amount	Title/Purpose
Resources	R81744-0	\$1,100,000	Glendale Narrows Riverwalk Project. Create a half-mile multi-use trail along the Los Angeles River with fencing along the river side of the trail, interpretive signs, trail amenities, decorative wrought iron gates at each park entry, some irrigation and landscaping. (Proposition 50)
Resources	U59108-0	\$250,000	Culver City Community Green Space Plan. Facilitate, manage, and develop a plan that identifies existing public space in Culver City for conversion to passive recreation by utilizing a large community outreach and education component. (Proposition 84)
Resources	U59211-0	\$250,000	Baldwin Hills La Brea Greenbelt Plan. Develop a plan that evaluates regional access issues, local connections from surrounding neighborhoods, and park-to-park connections. (Proposition 84)
CAL FIRE	8CA10941	\$250,000	Storm Water Capture with Vegetation. Demonstrate urban storm water rain gardens as "green solutions" through stakeholder development, community outreach, and site identification, design, construction, and monitoring. (Proposition 84)
CAL FIRE	8CA11914	\$100,000	The Housing Authority of the City of Los Angeles (HACLA) Greening. Plant 600 shade trees across 13 HACLA sites and to educate residents and maintenance staff about benefits of and proper care for trees. (Proposition 84)
CAL FIRE	8CA12937	\$150,000	Ascot Hills Green Infrastructure. Demonstrate how natural systems can be used in a dense, urban, built environment to improve water quality, air quality, manage storm water, conserve energy and enhance aesthetics. (Proposition 84)

SCOPE

In accordance with the Department of Finance's bond oversight responsibilities, we audited the six grants as described on the following page:

¹ Source: www.northeasttrees.org

Grant Agreement**Audit Period²**

R81744-0	January 1, 2008 through January 31, 2013
U59108-0	January 1, 2011 through December 31, 2013
U59211-0	January 1, 2014 through June 30, 2014
8CA10941	May 23, 2011 through March 30, 2013
8CA11914	May 31, 2012 through March 30, 2014
8CA12937	May 9, 2013 through August 31, 2014

The audit objectives were to determine whether the grantee'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 the grantee's program operations.

NET management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements. CAL FIRE and Resources are responsible for the state-level administration of the bond programs.

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, grant agreements, program guidelines, and applicable policies and procedures.
- Interviewed key personnel at NET, Resources, and CAL FIRE.
- Reviewed the grantee's accounting records, timesheets, payroll documentation, subcontractor and vendor invoices, and cancelled checks.
- 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.
- Evaluated whether a sample of grant deliverables were met by reviewing final and interim completion reports and other supporting documentation, and conducting site visits to verify existence of the work performed.

In conducting our audits, we obtained an understanding of NET'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 performance audits in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audits 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.

² Interim audits were conducted on grants U59211-0 and 8CA12937. Audit fieldwork was conducted prior to the grant term end dates of May 1, 2016, and March 30, 2015, respectively.

Except as noted below, the grant expenditures claimed complied with the requirements of the grant agreements. Additionally, the grant deliverables were completed as specified in the grant agreements for the four completed projects. Grants U59211-0 and 8CA12937 were still active at the time of audit fieldwork in March 2015; therefore, a determination of whether the deliverables were completed could not be made. The Schedules of Claimed and Questioned Amounts are presented below.

Schedule of Claimed and Questioned Amounts

Glendale Narrows Riverwalk Project Resources Grant R81744-0		
Task	Claimed	Questioned ¹
Project Management	\$ 126,185	
Technical Analysis	8,000	
Design Development	34,598	
Construction Documents	34,430	
General Construction	301,636	
Trail/Pathway Construction	151,870	
Equestrian Staging Area	87,193	
Drainage Catchment Retrofit	39,962	
Security Infrastructure	40,163	
Parking Lot	55,886	
Interpretive/Information Exhibits/Kiosks	14,105	
Site Amenities	80,534	
Landscaping and Irrigation Installation	125,377	↓
Total Grant Funds	\$1,099,939	\$198,882

¹ For reporting purposes, questioned labor costs are shown as a total because labor costs were claimed in each task.

Culver City Community Green Space Plan Resources Grant U59108-0		
Task	Claimed	Questioned^{1,2}
Project Management	\$ 31,964	
Development of Green Space Advisory Panel	5,717	
Establishment of Public Participation and Data Collection of Frameworks	22,995	
Neighborhood Inventory	11,427	
Creation of Survey	9,703	
Conducting Survey	21,827	
Survey Analysis	9,577	
Two Community Meetings	27,510	
Analyze Input	11,736	
Creation of Opportunities and Constraints Matrix	9,949	
Identification of 5 best parks/open spaces for passive recreation	10,152	
Concept Designs- Development and Presentation	34,410	
Draft Vision Plan for Passive Recreation	26,642	
Final Vision Plan for Passive Recreation	16,391	↓
Total Grant Funds	\$250,000	\$101,367

Baldwin Hills La Brea Greenbelt Plan Resources Grant U59211-0		
Task	Claimed³	Questioned^{1,2}
Establish Technical Advisory Committee	\$ 7,327	
Establish Framework for Public Participation	9,322	
Establish Framework for Data Collection	11,384	
Neighborhood Inventory of Access Points and Connectivity	14,122	
Project Management	5,707	↓
Total Grant Funds	\$47,862	\$22,636

Storm Water Capture with Vegetation CAL FIRE Grant 8CA10941		
Task	Claimed	Questioned
Materials/Supplies	\$ 34,049	\$ 0
General (Includes Contractors)	4,258	0
Labor	199,438	86,242
Administration/Overhead	12,253	0
Total Grant Funds	\$249,998	\$ 86,242
Match Funds ²	0	83,000
Total Project Expenditures	\$249,998	\$171,482

² Grants 8CA10941 and 8CA11914 had an \$83,000 and \$50,000 match requirement, respectively. NET did not claim match and did not have records to support match expenditures.

³ Resources awarded \$250,000 and the grantee claimed \$47,862 through June 30, 2014.

HACLA Greening CAL FIRE Grant 8CA11914		
Task	Claimed	Questioned
Materials/Supplies	\$ 36,481	\$ 0
Labor	61,049	18,743
Administration/Overhead	2,470	0
Total Grant Funds	\$100,000	\$18,743
Match Funds ²	0	25,000
Total Project Expenditures	\$100,000	\$43,743

Ascot Hills Green Infrastructure CAL FIRE Grant 8CA12937		
Task	Claimed ⁴	Questioned
Planting and Garden Construction	\$ 98,037	\$37,246
Administration	4,416	0
Total Grant Funds	\$102,453	\$37,246

Finding 1: Unsupported Labor Costs

NET was unable to support claimed labor costs totaling \$322,885 and \$142,231, for the Resources and CAL FIRE grants, respectively. Specifically, although NET was able to support the claimed wage rates and payroll taxes, NET was unable to support the claimed fringe benefits.

NET's employee billing rates fluctuated for all grants during the same time period. The billing rates included fringe benefits that ranged from 20 to 123 percent with no documentation or methodology on how the rates were developed. For example, as shown below, the billing rate for Employee A ranged from \$39.73 to \$68.70, or 18 to 104 percent.

	Actual Rate*	Claimed Rates					
		Resources Grants			CAL FIRE Grants		
		R81744-0	U59108-0	U59211-0	8CA10941	8CA11914	8CA12937
Employee A	\$33.65	\$39.73	\$58.19	\$68.70	\$53.20	\$40.74	\$52.97

* Includes supported wage rate and payroll taxes.

NET acknowledged they did not have policies and procedures to develop employee billing rates and were inconsistent in applying billing rates across the six grants.

CAL FIRE and Resources grant guidelines state eligible personnel costs include grantee's prevailing wage or salary scales, and may include fringe benefit costs such as vacations, sick leave, Social Security contributions, etc., that are customarily charged to the recipient's various projects.

Additionally, Article 5 of the CAL FIRE grant agreements and section C of the Resources grant agreements state grant funds will be paid up to the actual project costs. Further, the Financial Records section of the grant agreements state that "Grantee shall maintain satisfactory financial accounts, documents, and records for the Project for three years after the final payment."

⁴ CAL FIRE awarded \$150,000 and the grantee claimed \$102,453 through August 31, 2014.

Recommendations:

- A. Remit \$322,885 and \$142,231 to Resources and CAL FIRE, respectively, for the unsupported expenditures.
- B. Develop and document policies and procedures to calculate employee billing rates and consistently apply these rates across all grants.
- C. Ensure costs claimed for reimbursement are supported by accounting records and adhere to the terms of the grant agreements.

Finding 2: Match Requirement Not Met

NET did not report any match funding during the grant terms even though the budgets required \$83,000 and \$25,000⁵ for CAL FIRE grants 8CA10941 and 8CA11914, respectively. Additionally, NET was unable to provide accounting records to support the required match during our site visit. When asked why NET did not maintain support for the match, NET stated that they were unaware of the match requirements.

Grant agreements for 8CA10941 and 8CA11914 specifically state the non-state matching dollar amount of \$83,000 and \$50,000. Additionally, CAL FIRE's Urban & Community Forestry Grant Program Procedural Guide includes a 25 percent match component and requires the grantee to maintain an accounting system that accurately reflects fiscal transactions, including match funds. Without supporting documentation, NET cannot provide assurance that the match expenditures were met and were grant-related, allowable, incurred within the grant period, and properly recorded.

Recommendation:

- A. Ensure match expenditures are claimed and are adequately supported as required by the grant guidelines. CAL FIRE will determine the final disposition of the unmet match requirement.

⁵ NET was required to provide \$50,000 in monitoring, replacement, and maintenance of the planted trees for a period of two years for grant 8CA11914. At the time of audit fieldwork, one year had lapsed; therefore, one year of monitoring and maintenance is questioned (50 percent of \$50,000).



North East Trees

Bringing Nature Back

June 17, 2016

Via E-Mail

Cheryl L. McCormick, CPA
Assistant Chief, Office of State Audits and Evaluations
California Department of Finance
Office of State Audits and Evaluations
915 L Street
Sacramento, CA 95814-3706

Re: Response to Draft Report – North East Trees, Propositions 50 and 84 Grant Audits

Dear Ms. McCormick:

We are responding to the Draft Audit Report (“Draft Report”) for grants R81744-0, U59108-0, U59211-0, 8CA10941, 8CA11914, 8CA12937 (“Grants”) by the California Department of Finance, Office of State Audits and Evaluations (“OSAE”). This letter addresses the Draft Report’s observations and recommendations and demonstrates that North East Trees’ grant expenditures on labor costs fully comply with all laws, regulations, and requirements that apply to the Grant. This letter also addresses the finding regarding the reporting of the match requirement on the CalFire grants.

North East Trees is a grass roots 501(c)3 nonprofit organization. Our mission is to restore Nature’s services in resource-challenged communities through a collaborative resource development, implementation, and stewardship process. Our goals are

- to bring nature back into our highly urbanized environment
- increase and enhance open green space
- enhance our urban forest
- clean our air and water
- increase community involvement and awareness about our environmental challenges
- involve and train local at-risk youth providing them with skills and a path to higher education and jobs in the green industry

Since 1989, North East Trees along with the involvement of thousands of volunteers, community members, government agencies, and school students has planted and continues to nurture over 100,000 trees, build parks, trails and green the urban environment to make it safer and healthier for people and the habitat, especially in the disadvantaged communities of Los Angeles.

570 W. Ave. 26, Suite 200, Los Angeles, CA 90065 Phone: (323)441-8634 Fax: (323)441-8618

North East Trees is a 501c-3 non-profit: “Restoring Nature’s Services in Resource Challenged Communities”

In pursuit of our mission, North East Trees regularly applies for and receives grants from the State to engage local at-risk youth in urban greening projects such as the ones you recently audited.

The objectives of OSAE's audit were to "determine whether North East Trees' grant expenditures claimed were in compliance with applicable laws, regulations, and grant requirements, and to determine whether the grant deliverables were completed as required."

OSAE staff spent four days on-site during its audit, and North East Trees provided OSAE auditors with access to all requested supporting documentation for all six grants during that time. As explained below, North East Trees' expenditures under the Grants not only fully complied with the terms of the Grant Agreements and all applicable laws and regulations, but also were essential to achieving the Grant's objectives.

After the on-site visit, the OSAE auditors requested additional supporting documentation on NET's fringe benefit calculations – specifically on our Workers' Compensation Insurance. NET informed the auditor that this would take one to two weeks to provide as the documents for the six grants were by that time filed in our archives (the six grants span a timeframe of 2008 to 2014). We were informed that the audit schedule could not accommodate the time we needed and that we would be able to do so later in the process. In November 2015, we were asked to provide only the direct labor and tax portions of our labor rates. We were specifically told that the remaining parts, including fringe benefits, were not to be provided at that time but that rather we would have a chance to respond once OSAE issued the draft report (see Exhibit 1).

Finding 1: Unsupported Labor Costs

In the Draft Report, OSAE incorrectly concludes that North East Trees was unable to support claimed labor costs totaling \$322,885 and \$142,231 for the Resources and CAL FIRE grants respectively. The method OSAE used to arrive at these figures is flawed. The calculations only include direct labor rate and employer paid taxes as we were requested to provide by the OSAE auditor (please see exhibits 1,2, 3 and 4 showing OSAE request to NET, and information spreadsheets NET sent back to OSAE for grant 8CA11914 (as an example) to comply with their request). These calculations do not include any eligible costs that as per grant guidelines "may include fringe benefit costs such as vacations, sick leave, etc., that are customarily charged to the recipient's various projects."

If we include in the fringe benefit and other eligible costs into the labor rate calculation along with the direct labor rate and employer paid taxes, the OSAE calculations would have looked materially different – please see exhibits 5, 6 and 7 to illustrate this – we continue to use the example of grant 8CA11914. Note, that the benefit calculations included in these exhibits use actual costs for the grant period, the original billing rates were developed at the contract time using historical data and NET's best estimate of these various costs into the future periods for each of the grants.

As exhibits 5, 6, and 7, clearly show once all the allowable eligible costs have been added to the calculations, the \$18,743 that is being questioned is completely absorbed by the additional eligible costs. In fact, using NET's actual costs would have allowed NET to bill an additional \$3,910.

It is the same case for all of the other 5 grants that are being questioned. They do not include any of the eligible allowable employee paid benefits in the calculations.

The draft reports states, “NET acknowledges they did not have policies and procedures to develop employee billing rates and were inconsistent in applying billing rates across the six grants.” NET makes no such acknowledgement. Rather, what NET attempted to communicate to OSAE staff was that while NET has common and consistent policies and procedures for developing billing rates, the specific rates change from one grant to another based on the specifics of each grant, its guidelines, and eligible costs, including fringe benefits. NET’s policy is to implement its billing rates individually per the terms and conditions of each agreement with guidance from the State Department of Finance and Federal OMB guidelines and circulars.

Finally, in the Draft Report OSAE states, “NET’s employee billing rates fluctuate for all grants during the same time period.” This statement is inaccurate. The fluctuations observed by the audit are completely explained by the practical differences between the grant agreements, what are considered eligible expenses under each agreement, and fluctuations in NET’s actual costs. For example, the fluctuation in the rates for Employee A, detailed in the report, is explained largely by the fact that Employee A had an hourly direct pay rate of \$25.00 in 2008 and 2009, \$26.00 in 2010 and 2011, \$28.00 in 2012 and 2013, and \$33.65 in 2014 and further explained by the differences in actual and eligible costs amongst the grants for the period spanning 2008 to 2014.

Finding 2: Match Requirement Not Met

The draft report states, “NET did not report any match funding during the grant terms...”, this statement is inaccurate. The match provided by NET for both CalFire grants in question consisted of volunteer hours from members of the local communities working directly on each of the grant projects, and City of Los Angeles employees, who also provided direct services (i.e. Engineering, maintenance, and other professional services). The required match amounts were \$83,000 and \$25,000 respectively. Our accounting records document the actual matches for the two grants were \$122,677 and \$106,346 respectively.

The draft report states, “NET was unable to provide accounting records to support the required match during our site visit. When asked why NET did not maintain support for the match, NET stated that they were unaware of the match requirement.” These statements are inaccurate. NET observed to OSAE staff that the grant agreements are silent as to any specific requirements related to how to record and account for in-kind matches. Nonetheless, NET keeps such records and provided them to OSAE for inspection as part of the audit; however, the form and format were, apparently, not what OSAE staff expected. The records consist of sign-in sheets, meeting minutes, generated work product (e.g. engineering reports), and other documentation taken at the time the match was provided. OSAE staff felt it was beyond their capability to process and audit the volume and nature of the records kept by NET.

Additionally, CalFire has reviewed the detailed records for the in-kind matches of these projects on a number of occasions including during the project closeout process, and in all cases concluded that NET had more than met our obligations under the agreements.

Finally, we would like to observe that providing a record more suitable for the audit process might run counter to the larger goals of projects such as those advocated by NET. All of our projects are within and created for the benefit of underserved and disadvantaged communities. So for example, it is often the case that volunteers from these communities will not provide personal information, such as a sign-in sheet might require. As a result, the requirements for documenting and recording this type of match needs to be flexible enough so as not to create yet another barrier to these communities to become active participants in projects such as those being audited here.

Conclusion

North East Trees appreciates OSAE's diligence in ensuring that the State's bond funds are properly administered and believes that this letter and its exhibits should resolve any questions OSAE has about the costs that NET claimed under the six grants.

Accordingly, NET respectfully requests that:

With respect to Finding 1:

- A. OSAE revise its audit report to remove the recommendation that NET remit \$322,885 and \$142,231 to Resources and CalFire.
- B. NET will review its policies and procedures and make any appropriate changes.
- C. NET believes its policies, procedures, and records adhere to the grant agreement and guidelines.

With respect to Finding 2:

- A. NET will work with CalFire to review and document further the in-kind match services claimed for the two grants.

Thank you for your attention to this matter, and please do not hesitate to contact me if you have any questions.

Sincerely,

original signed by

Mark Kenyon
Executive Director

EVALUATION OF RESPONSE

The North East Tree's (NET) response to the draft report has been reviewed and incorporated into the final report. The attachment referenced in NET's response has been omitted herein for brevity. In evaluating NET's response, we provide the following comments:

Finding 1: Unsupported Labor Costs

NET disagrees with the questioned fringe benefit costs and states that, per grant guidelines, fringe benefits are eligible. We agree the costs are eligible; however, NET did not provide documentation to support the claimed fringe benefits. Documentation was requested a total of eight times during and after our fieldwork, which included eight days on site.

In addition, NET states billing rates fluctuated due to different wage rates. However, as noted in the report, billing rates fluctuated primarily due to NET's fringe benefit rates that ranged from 20 to 123 percent. We also note that employee wage rates remained relatively the same during the audit period. Because NET has not provided documentation to support fringe benefits, the finding and recommendation will remain unchanged.

Finding 2: Match Requirement Not Met

NET disagrees with the questioned match and states they provided support for volunteer hours and City of Los Angeles employees. Specifically, the support for volunteer hours included inconsistent sign-in sheets with no evidence of location of work. The support for the City employees included an email from the City summarizing hours spent monitoring the site. No timesheets, proof of travel, or other evidence were provided to corroborate the hours claimed in the City's email. Because NET did not provide documentation to support the match, the finding and recommendation will remain unchanged.