



December 16, 2008

Mr. David F. McNeill, Executive Officer
Baldwin Hills Conservancy
3578 C Eastern Drive
Culver City, CA 90232

Dear Mr. McNeill:

Final Report—Audit of Baldwin Hills Conservancy's Proposition 40 Bond Funds

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of the Baldwin Hills Conservancy's (Conservancy) Proposition 40 bond funds for the period ending June 30, 2007.

Our draft report was issued on November 7, 2008. The conservancy agreed with the Audit observations and its response has been incorporated into this report. In accordance with Finance's policy of increased transparency, this report will be placed on our website.

We appreciate the Conservancy's assistance and cooperation during the audit. If you have any questions regarding this report, please contact Frances Parmelee, Manager, or Jennifer Arbis, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

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

Enclosure

cc: Mr. Manuel Lopez, Deputy Director, California Department of Parks and Recreation
Ms. Dorothy Kroll, Manager, Accounting Services, California Department of Parks and Recreation
Mr. Patrick Kemp, Assistant Secretary, Resources Agency
Mr. Bryan Cash, Deputy Assistant Secretary, Resources Agency
Ms. Julie Alvis, Deputy Assistant Secretary, Resources Agency

AN AUDIT OF BOND FUNDS

Baldwin Hills Conservancy Proposition 40



Source: "*Kenneth Hahn State Recreation Area*" Courtesy of the Baldwin Hills Conservancy

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

MEMBERS OF THE AUDIT TEAM

Frances Parmelee, CPA
Manager

Jennifer Arbis
Supervisor

Staff

Michael Bratman
Andrea Corona
Issa Ndiaye
Edwina Troupe

This report is 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
300 Capitol Mall, Suite 801
Sacramento, CA 95814
(916) 322-2985

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EXECUTIVE SUMMARY

In response to Department of Finance's (Finance) bond oversight responsibilities, we audited the Baldwin Hills Conservancy's (Conservancy) funding under Proposition 40 as of June 30, 2007. The primary objectives of this audit were to determine whether bond funds were awarded and expended in compliance with applicable legal requirements and established criteria, and to determine if the Conservancy had adequate project monitoring processes.

The Conservancy awarded and expended funds in compliance with applicable legal requirements. However, the Conservancy's weak pre-awarding processes and inability to demonstrate adequate monitoring of project status and fiscal activities limits proper oversight over bond funded projects. While the Conservancy has established a *Procedural Guide for Local Grant Projects Funded by California Clean Water, Air, Safe Neighborhoods and Coastal Protection Bond Act of 2002* (Guide), the requirements are not consistently followed. As a result, the Conservancy experienced difficulties in demonstrating whether projects and applicants met established criteria prior to being awarded. With inaccurate cost estimates and project cost budgets lacking detail, it was difficult for the Conservancy to determine eligibility of project costs and adequately monitor the fiscal activities throughout the grant agreement terms. We recommend formally documenting in the Guide all grant application requirements and the evaluation process of potential grant recipients. To facilitate fiscal monitoring over bond projects, we also recommend properly evaluating grant agreement budgets, terms, and conditions prior to awarding the grant in conjunction with developing a payment request form that would allow tracking of advance payments and expenditures by budget category. A verification of need prior to advancing bond funds would also ensure adequate oversight.

For land acquisitions, the Conservancy lacks adequate monitoring policies and procedures to protect the state's long-term interest in bond funded property. Although post-monitoring terms have been incorporated into the grant agreements, the Conservancy could not demonstrate its efforts to ensure the land was being used for its intended purpose. We recommend the development of monitoring policies and procedures for land acquisitions. Independent verifications of land conditions should continue being performed and documented. We also recommend developing procedures to ensure applicants possess the financial ability to perform long-term monitoring.

The Conservancy's fiscal and administrative controls over bond funds would be strengthened if the Conservancy develops a plan to address the observations and recommendations noted in this report.

BACKGROUND, SCOPE, AND METHODOLOGY

Background

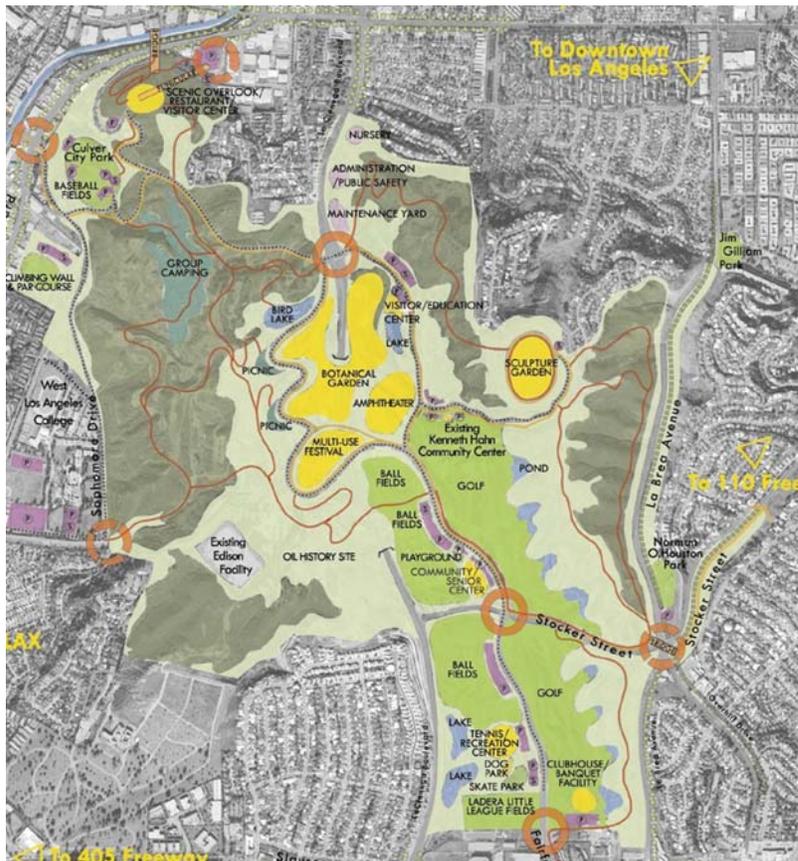
The California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002 (Proposition 40) was passed on the March 2002 ballot and authorized the sale of bonds to finance a variety of resource programs. Administered by a number of state departments, agencies, boards, and conservancies, the bond proceeds support a broad range of programs that protect, preserve, and improve California's water and air quality, open space, public parks, wildlife habitats, and historical and cultural resources. Bond proceeds are expended

directly by the administering departments on various capital outlay projects, and are also disbursed to federal, state, local, and non-profit entities in the form of grants, contracts, and loans.

Baldwin Hills Conservancy

The Baldwin Hills are located in the southwest area of Los Angeles County and cover over two square miles (1400 acres), including 450 acres of protected parkland and 950 acres of active oil operations expected to continue as long as oil production is economically feasible. The Baldwin Hills Conservancy (Conservancy) was established to acquire and direct the management of public lands within the Baldwin Hills area of Los Angeles County. In anticipation that the land in Baldwin Hills will become available for park acquisition and development over time, the *Baldwin Hills Park Master Plan: One Big Park Vision* (see Figure 1) was developed to set forth a comprehensive vision for improvement and restoration of these lands and provide the guidelines for the Conservancy to expand on the acquisition and development efforts

Figure 1: One Big Park Vision



Source: Baldwin Hills Conservancy

initiated by the County of Los Angeles and the California Department of Parks and Recreation.

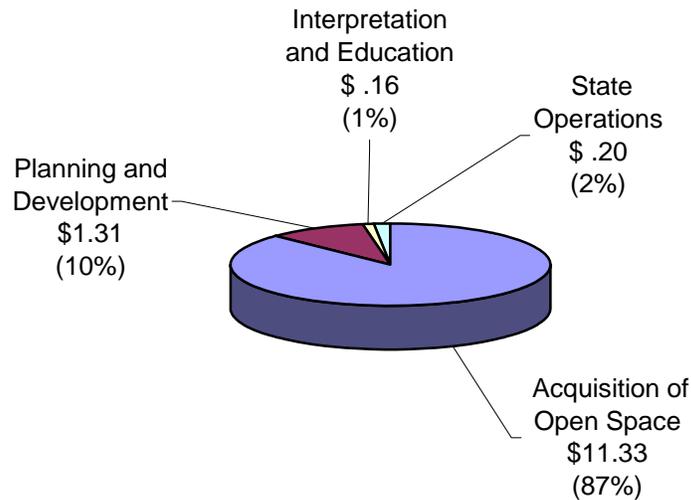
The Conservancy administers programs to acquire open space and manage public lands within the Baldwin Hills area, and to provide recreation, restoration, and protection of wildlife habitat for the public's enjoyment and education. The Conservancy received \$40 million in Proposition 40 bond funds to support its open space programs; as of June 30, 2007, \$12.9 million was expended. In November 2006, voters approved an additional bond measure, the Safe Drinking Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006 (Proposition 84). This will provide the Conservancy with an additional \$10 million in bond funds; however, as of June 30, 2007, no Proposition 84 funds had been expended.

The Conservancy's statutory mandates have been grouped into three core program areas:

- Acquisition of open space
- Planning and development
- Interpretation and education

See Figure 2 for details regarding the expenditure of proposition funds by the core program areas with the inclusion of administration.

Figure 2: Proposition 40 Expenditures by Core Program Areas as of June 30, 2007 (in millions)



Source: Baldwin Hills Conservancy's financial statements for fiscal years 2002-03 to 2006-07

SCOPE

The audit was conducted to determine whether bond funds were awarded and expended in compliance with applicable legal requirements and established criteria, and to determine if the Conservancy had adequate project monitoring processes in place.

The audit did not include an assessment of the bond authorization, issuance, and sale processes, or an examination of the efficiency or effectiveness of program operations.

Further, no assessment for the reasonableness of the land acquisition costs or the conservation value of the land acquired or projects completed was performed.

METHODOLOGY

To assess whether the Conservancy awarded and expended bond funds in compliance with applicable legal requirements and established criteria, we reviewed the Conservancy's strategic plan and master plan, key legal provisions and established awarding criteria, and written grant management policies and procedures. We also interviewed executive management and key staff responsible for administering the bond funds. In addition, the Conservancy's bond project tracking database was reviewed to assess the completeness and reliability of the project data. Based on our review, we determined the data to be sufficiently reliable for audit purposes. Using the database, we judgmentally selected and examined 12 out of 27 (44 percent) of the Conservancy's bond projects awarded as of June 30, 2007.

To determine whether the Conservancy had adequate project monitoring processes, we reviewed the Conservancy's Proposition 40 policies and procedures for project awarding, monitoring, disbursement of expenditures, and project close-out. Using the sample noted above, we reviewed the project files and interviewed the Conservancy's management and staff to gain a better understanding of the project monitoring process. Project files reviewed included documents such as land appraisals at fair market value, preliminary title reports, pro forma title insurance policies, escrow instructions, and escrow closing statements. We also reviewed fiscal records related to the project monitoring processes.

Two grantees—Urban Education Partnership and North East Trees—were visited to determine whether they complied with grant agreement requirements. Specifically, interviews with key staff were conducted, and documentation and project deliverables were reviewed.

Recommendations were developed based on our review of documentation made available to us and interviews with the staff directly responsible for administering bond funds. This review was conducted during the period February 2008 through October 2008.

The audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. In connection with this audit, there are certain disclosures required by *Government Auditing Standards*. The Department of Finance (Finance) is not independent of the Conservancy, as both are part of the State of California's Executive Branch. As required by various statutes within the California Government Code, Finance performs certain management and accounting functions. These activities impair independence. However, sufficient safeguards exist for readers of this report to rely on the information contained herein.

The Baldwin Hills Conservancy (Conservancy) awarded and expended funds in compliance with applicable legal requirements. The Conservancy also deserves credit for developing a *Procedural Guide for Local Grant Projects Funded by California Clean Water, Air, Safe Neighborhoods and Coastal Protection Bond Act of 2002* (Guide). However, the following observations were identified:

Observation 1: Project Oversight Needs Improvement

The Conservancy’s processes over specific areas require further development and enhancement. Based on our audit, the Conservancy inconsistently applies the Guide, insufficiently reviews grant agreements prior to execution, inadequately monitors project status, and lacks fiscal monitoring processes.

Inconsistent Application of the Guide’s Requirements

With the Conservancy’s current pre-awarding practices, it is not clear when the Guide is applied. Of the 12 projects reviewed, 6 projects (50 percent) had incomplete application packages. Specifically, application packages did not include proposals which the Conservancy uses as a baseline to evaluate whether the applicant met established criteria outlined in the Guide. As a result, the Conservancy could not demonstrate to us whether projects and applicants met established criteria prior to awarding grants. See Figure 3 for a list of a few grant proposal requirements established by the Conservancy for use as a baseline for evaluation.

For example, one grantee was selected to acquire three land parcels but was not required to submit any proposals. Although it was obvious the proposed land was within the Baldwin Hills area, it was not evident the Conservancy considered the grantee’s expertise in the proposed program area or the grantee’s readiness to proceed with the project, as required in the Guide. Without a proposal, there is neither a basis to determine whether the grantee met all the required criteria nor documentation to support the Conservancy’s recommendation to the Conservancy Board for final project approval.

Figure 3: Sample of Grant Proposal Requirements (Standard Requirements and Additional Considerations)

- Promotion of the Conservancy’s statutory programs and purposes
- Consistency with the Baldwin Hills Park Master Plan
- Consistency with purpose of the funding source
- Demonstrated expertise in the proposed program area
- Readiness (ability of the grantee and others to start and finish the project in a timely manner)
- Cooperation (extent to which the public, nonprofit groups, landowners, and others will participate in the project)

Source: Procedural Guide for Local Grant Projects Funded by California Clean Water, Air, Safe Neighborhoods and Coastal Protection Bond Act of 2002

When the issue of incomplete documentation was brought to the Conservancy's attention, the Conservancy stated a different set of standard requirements existed that did not require the submission of a proposal (see Figure 4). However, we noted this set of standard requirements was not formally documented, and thus could not be verified to have been in effect for proposals awarded as of June 30, 2007. Moreover, the project files did not provide a clear indication which of the two contrasting standard requirements was followed by the Conservancy when evaluating the application package. Inconsistent application of requirements weakens the Conservancy's ability to properly evaluate the qualification of projects and applicants.

**Figure 4: Sample of Direct Grant Standards Requirements
(No project proposals required)**

- Concepts initiated by the Board
- Project opportunities identified based on Standard Requirements
- Staff conducts preliminary research
- Staff prepares recommendation for Board review
- Project approved by Board resolution
- Staff negotiates contract
- Contract executed by Executive Officer

Source: Baldwin Hills Conservancy's Executive Officer, July 11, 2008.

We commend the Conservancy for taking immediate action when we brought this issue to its attention. Memorandums to the project files were prepared in an effort to indicate how requirements were met by the applicant.

Inadequate Review of Grant Agreements Prior To Execution

The Conservancy does not review grant agreements for adequate detail before executing grants. We observed inaccurate cost estimates and project cost budgets that lacked detail. This makes it difficult for the Conservancy to determine eligibility of project costs and to adequately monitor the fiscal activities throughout the grant agreement terms.

During a site visit to one of the Conservancy's grantees, we identified the grantee charged the Conservancy an unreasonable salary and benefits rate. Specifically, the amount reimbursed to the grantee included salary and benefits costs plus the following rates compounded:

- 10 percent administrative rate
- 25 percent burden rate¹
- 33 percent industry benchmark rate

For example, an employee with a salary and benefits rate of \$40 an hour would charge the grant a billing rate of \$74. The Guide is silent on how much a grantee should charge for these costs; however, if the Conservancy had reviewed the grantee's proposed cost estimates prior to awarding the grant, the review may have revealed the high rate and negotiations with the grantee could have occurred.

Without a proper review of cost estimates prior to grant execution, we question how the Conservancy can ensure project cost budgets within the grant agreements are detailed enough to facilitate the review of project cost eligibility. In 3 of 12 grant agreements

¹ This rate accounts for vacation time, sick leave, training days, and holiday pay.

reviewed (25 percent), we noted cost budgets lacked detail—a recurring audit finding² that has not yet been resolved. Specifically, grant agreements with a budget line item for contingencies, which could be as much as 20 percent of the agreement amount, did not explicitly detail the definition. As a result, there is no basis to determine if contingency costs claimed are valid project-related costs. Prior to grant execution, the Conservancy should review project cost budgets and grant terms and conditions for adequate detail to facilitate the review of project progress and project cost eligibility.

Inadequate Monitoring of Project Status

To monitor the status of projects, the Conservancy relies on constant communication with grantees, site visits, and progress reports; however, the project files did not evidence active communication or site visits. Moreover, while submission of progress reports is required under the planning grant agreement terms, the Conservancy has not been adequately monitoring the submission of these reports.

For 2 of the 12 grants reviewed (17 percent), multiple progress reports were dated and submitted to the Conservancy on the same day. In fact, one grantee submitted four progress reports all on the same day and several months after the contract had expired. More than 90 days after grant expiration date, the grantee was still seeking payment for work performed which is disallowed under the grant agreement terms. As for the other grantee, four progress reports were also dated the same day and signed by a person that was not employed during the work period the progress reports were prepared for. Thus, we question how the Conservancy determines if the work has actually been performed and is progressing as planned without enforcing the timely submission of progress reports and performing an adequate review of the reports.

Lack of Fiscal Monitoring During the Grant Term

Because of the Conservancy's inadequate pre-awarding process and its inability to demonstrate adequate monitoring of project progress, the need for fiscal monitoring of grant expenditures by the Conservancy is imperative. Doing so would ensure the Conservancy reimburses the grantees only for valid, eligible, and project-related costs. However, the Conservancy does not adequately track expenditures.

This is due in part because of a poorly designed payment request form incorporated into the grant agreements that instructs the grantee to report current claimed costs in aggregate. It was not designed to track expenditures by budget category nor does it allow for tracking of advanced payments. As a result, the Conservancy approves reimbursement requests without ensuring that the amount requested is eligible under specific expenditure budget categories.

Moreover, the Conservancy continues to advance bond funds to grantees without justification of the immediate cash need—a prior audit finding that has not yet been resolved. For example, we noted 100 percent of the grant amount was advanced to one grantee but the Conservancy could not demonstrate the grantee's immediate cash need prior to advancing the funds. Advance payment by the Conservancy should only be made when necessary. By advancing the grant amount, especially when the Conservancy does

² Source: Finance's Management Letter dated February 2005 regarding the audit of the Conservancy's Proposition 40 Bond Funds.

not adequately monitor the submission of progress reports, the Conservancy hampers its own abilities to fiscally monitor the projects and ensure the successful project completion.

Recommendations

- Formally document all applicable standard requirements and the project/applicant evaluation process by incorporating them into the Guide, and continue to document evaluation efforts to ensure the basis of sound decisions made.
- Strengthen controls over the pre-award process by ensuring consistent application of the standard requirements and performance of a review prior to executing grant agreements. A checklist may be employed.
- Require detailed expenditure budgets and enforce terms and conditions of the grant agreements to implement an adequate system of internal control over project oversight.
- Develop a payment request form that allows tracking of advance payments and expenditures by budget category to facilitate effective fiscal monitoring over projects.
- Perform a verification of need prior to advancing bond funds.

Observation 2: Efforts to Monitor Land Acquisitions are Minimal

The Conservancy could not demonstrate active monitoring of bond-funded land acquisitions to protect the state's long-term interest in open space land conservation. Once land has been acquired, continuous monitoring is vital to ensure the land is well maintained for its intended use as specified in the grant agreement. The Conservancy has taken initial steps to ensure lands within the Baldwin Hills area are maintained to provide recreation, restoration, and protection of wildlife habitat. For example, the Conservancy, via a grant agreement, requires the grantee to use, manage, operate, and maintain the land in a manner consistent with the purpose of the acquisition. The grant agreement also includes a clause allowing the Conservancy recourse for grantee noncompliance with terms and conditions.

Although the grant agreement articulates the grantee's monitoring responsibilities and the Conservancy's right of recourse in non-compliance situations, the Conservancy does not require grantees to provide monitoring-type deliverables, such as an annual report that includes, but is not limited to, the condition of the land, identification of questionable uses or potential violations of the land, and corrective actions taken if a violation had occurred. While the Conservancy states there are efforts of active monitoring, poor file management made it difficult for us to verify the Conservancy's performance of independent verifications of land conditions.

Additionally, the Conservancy lacks policies and procedures for evaluating a grantee's fiscal capacity; thus, the Conservancy does not review or require the grantee to report on their financial ability to perform long-term monitoring. The long-term financial stability of a grantee can signify the grantee's ability to provide ongoing monitoring of these properties

and provides assurance to California's citizens that their long-term investment is maintained and protected. According to the Land Trust Alliance's *Land Trust Standards and Practices*³, a land trust should manage its finances and assets in a responsible and accountable way by ensuring that a secure and lasting source of dedicated funds is sufficient to cover the cost of stewarding land over the long term.

With over \$14.09 million awarded for land acquisition as of June 2007 and with the passage of Proposition 84 in November 2006 providing the Conservancy with an additional \$10 million, the Conservancy may face a higher risk of violations such as construction of prohibited or unauthorized structures, dumping of waste or debris, and prohibited surface alteration.

Because of the length of time between the land purchase and the implementation of the *One Big Park Vision*, it is vital the Conservancy take a proactive role in ensuring long-term monitoring over bond-funded land acquisitions for the accountability and transparency of bond fund usage. With proper ongoing monitoring in place, prompt corrective actions can be taken and costly expenses, such as enforcement and legal costs, may be avoided.

Recommendations

- Require future grant agreements to include provisions about monitoring-type deliverables from the grantee, such as annual reports on the condition of the land or periodic reports on the grantee's fiscal capacity to monitor and manage the land. As part of the pre-award process, an initial financial plan of available funds may be employed.
- Formally develop monitoring policies and procedures for land acquisitions. Continue performing independent verifications of land conditions or other types of monitoring efforts, and document such activities to substantiate accountability and transparency.

³ While the *Land Trust Standards and Practices* (revised 2004) are designed primarily for non-profit, tax-exempt land trusts, they also provide important guidance for any organization or government agency that holds land for the benefit of the public.

Baldwin Hills Conservancy

3578-C Eastham Drive • Culver City, CA 90232
Ph: (310) 558-5593
Fx: (310) 558-5598
www.bhc.ca.gov

November 25, 2008

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

Re: Management Letter – Audit of Baldwin Hills Conservancy's Proposition 40 Bond Funds

Dear Mr. Botelho:

This letter is in response to your letter of November 7, 2008 regarding the audit of the Conservancy's California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002 (Proposition 40) expenditures for the fiscal year ending June 30, 2007.

Per your correspondence, OSAE has completed its audit and determined the Conservancy awarded and expended Proposition 40 bond funds in compliance with applicable legal requirements. The Conservancy appreciates this conclusion.

As a relatively small state agency, the Conservancy has worked very hard to ensure Proposition 40 funds are used in accordance with the statutory provisions authorized by the bond act. The development of the BHC Prop 40 Procedural Guide (Guide) has provided an opportunity for objective review of our existing systems and constructive recommendations for strengthening the Conservancy's Proposition 40 program. The Conservancy plans to address OSAE's recommendations as follows:

Observation 1 Project Oversight Needs Improvement

Sub-Item A: *Inconsistent Application of the Guide's Requirements*

Response: A number of grant application packages submitted to the Conservancy did not require documents called for in the proposal-based grant solicitation process. The application packages OSAE referenced as incomplete were not proposal-based, but were direct grants developed through the joint efforts of Conservancy staff, committees and potential grantees. For direct grants, the standard requirements can be met without a written proposal by the grantee. In the example cited by OSAE, an acquisition opportunity was identified pursuant to the Board's land conservation program. An Ad Hoc Committee comprised of the Executive Officer, Board representatives with real estate expertise, and potential grantees was convened. Through the Committee's deliberations and staff's preliminary research, each of the established criteria stated in the Guide was satisfied and a recommendation was made to the Governing Board.

Action: As noted in the management letter, the Conservancy took immediate action to document how the Standard Requirements were met for the direct grants. The Conservancy will also develop an acquisition-specific template or checklist to be used by staff and the Committee for acquisition Grants.

The Conservancy recognizes the need to clearly distinguish the availability and methodology for each type of Grant offered. The Conservancy will revise the Guide to clearly outline separate procedures for the specific Grants the Conservancy administers: Direct, Proposal-Based and Inter-Agency.

Sub-Item B: *Inadequate Review of Agreements Prior to Execution*

Response: Some Grant agreements have been executed without line item detail in the project budgets. In these agreements, cost estimates were generally grouped together either based on percentages of the budget, project tasks and or deliverables. Under the current system, staff reviews the overall project budget and its assigned costs prior to execution of an agreement. During the term of the agreement, staff works with Grantees to document a more detailed breakdown of budget line items when critical milestones are met and cost estimates are further substantiated by the Grantee's subcontractors and or consultants. In the event cost estimates are found to be inaccurate, corrective measures are taken.

With respect to the Grantee cited in the management letter, the Conservancy had been seeking an updated budget with more line item detail prior to the audit. At the time of the agreement's execution in 2007, the Grantee provided a budget with project cost estimates for consideration. The budget's hourly billing rate for project managers, designers, administrators, and support staff were deemed competitive and consistent with current design and development industry rates. An itemized breakdown of the Grantee's hourly billing rate was not disclosed to the Conservancy until OSAE conducted a field visit to the Grantee in 2008. Subsequently, staff held numerous meetings with the Grantee in efforts to further itemize the budget. Over time, eligible costs for vacation, sick leave, and holiday pay were better defined, and when applicable, indirect and overhead costs contained in the billing rate were re-assigned to specific line items in the budget. Pursuant to recommendations from OSAE, the Grantee's industry benchmark rate was eliminated and administrative costs were brought into compliance with the terms of the agreement.

Action: The Conservancy will revise the Guide to require Grantees to complete a standard Line-Item Budget template for each Grant project for review by staff prior to the execution of an Agreement. The template will detail proposed expenditures, contingencies, labor rates, benefits, direct and indirect costs in a manner sufficient for the Conservancy to conduct regular review and monitoring of project cost eligibility and progress.

Sub-Item C: *Inadequate Monitoring of Project Status*

Response: The Conservancy maintains monthly communication with all Grantees regarding project status and regularly updates its Governing Board with progress reports from the Executive Officer. Correspondence from staff regarding such communications and updates was not documented in the project files for review.

Over the past two years, the Conservancy has experienced some difficulty collecting quarterly progress reports from the two Grantees referenced in the management letter. In one instance, payment requests and reports were not received consistently due to a sustained absence in the Grantee's administrative and accounting department. Once the Conservancy did receive the reports and payment requests, eligible reimbursements were made to the Grantee exclusively for work completed prior to the expiration of the grant period. Upon project close out, a Certification of Project Completion Form was signed by the Grantee stating there were no outstanding payments due from the Conservancy.

In each of the above situations, project performance progressed uninterrupted and project deliverables were satisfied through regular communication between the Grantee and Conservancy staff.

Action: The Conservancy will document communication and updates regarding project status in the Grantee files. Moreover, the Conservancy will fortify language in future Grant agreements to communicate fund disbursements may be withheld in the event Quarterly Reports are not received on a timely and consistent basis. Standard quarterly communications to Grantees will also state the Conservancy reserves the right to withhold payment in the absence of Quarterly Report submittals.

Sub-Item D: *Lack of Fiscal Monitoring During Grant Term*

Response: Fiscal monitoring is conducted by the Conservancy to ensure funds are expended within the project's aggregate budget under terms of the agreement. Payment requests are reviewed by staff and the Executive Officer along with supporting receipts and invoices. Reimbursement amounts are logged against the project account and processed for payment once approved. The Conservancy's current monitoring system does not include the detail that would allow for line item tracking of budget expenditures or fund advances. Guide revisions proposed in the pre-award process will establish the budget line item detail needed to strengthen fiscal monitoring of expenditure categories.

The Conservancy continues to maintain discretionary provisions for advancement of funds in its agreements in order to address circumstances in which a Grantee's subcontractor payment terms are significantly shorter than the Conservancy's ability to facilitate reimbursement payments. In the two

advance request situations, support documentation for proposed expenditures along with preliminary invoices was submitted to the Conservancy for consideration. These requests were processed and placed in the Grantee's file to justify advance request amounts. A written narrative justifying the immediate cash need did not accompany these submittals. In each case, the circumstances justifying the need were communicated verbally by the Grantee. During the OSAE field audit, the Conservancy took immediate action to further document the Grantee's need for advance funds. Staff requested and received written narratives explaining the Grantee's immediate cash need along with additional supporting information, i.e. billing cycles and subcontractor agreements to include in the file. The Conservancy has since implemented a system for withholding a minimum of 10% of grant funds from advance payment requests to encourage successful project completion.

Action: For improved tracking of payment requests, the Conservancy will develop a supplement to the Payment Request Form to track line-item and budget category expenditures. It will also include a line to reflect future 10% withholdings. The revised Guide will stipulate the supplemental Payment Request Form will be required for advances, reimbursements and final payment.

The Conservancy will develop a Verification of Need Form for bond fund advances. Advance requests will not be considered without submission of the standard form by the Grantee. The form will require a written narrative of the circumstances and the potential impacts to the project if the funds are not made available in a timely manner. The Conservancy will maintain its policy of requiring documentation of proposed expenditures and preliminary invoices to justify advance request amounts.

Observation 2 Efforts to Monitor Land Acquisitions are Minimal

Response: To date, only local government agencies with ready access to extensive operations and maintenance staff have received bond funds from the Conservancy for land acquisition projects. These public partnerships are consistent with the Conservancy's adopted land acquisition work program and have allowed the Conservancy to leverage bond funds with government agencies that have a successful track record of owning and maintaining existing land interests within the Conservancy territory. The fiscal capacity of these partner agencies has not been formally assessed; however, each of the agencies is represented on the Conservancy's Governing Board and has been transparent regarding their ongoing capacity to maintain the long-term investment of newly acquired public lands. Additionally, due to the proximity of Grantee acquired lands to their existing public facilities, visual inspections take

place regularly and any required maintenance is addressed on a timely basis by the acquiring agency. As noted by OSAE, the existing agreements with these agencies do articulate the responsibilities and recourse for non-compliance with the terms of the acquisition. The Conservancy recognizes a more formalized system of measuring Grantee capacity and documenting verification of property

monitoring activities would reduce risk of violations and better protect new and existing acquisition partnerships.

Action: The Conservancy will revise the Guide to require a Grantee to demonstrate their capacity to secure a lasting source of dedicated funds sufficient for long-term management of land proposed for acquisition prior to execution of an agreement. This could be in the form of copies of operations and maintenance (O & M) budgets from the last two (2) budget years, and or a Five to Ten Year Plan to be submitted with the Grant Application.

The terms of the land acquisition agreements will be revised to require bi-annual reports from the Grantee. These reports will include updates on the condition and current usage of the acquired land, as well as any expenditures related to maintenance.

The Conservancy will develop an in-house system and schedule for documenting independent verifications of land conditions and use.

The Conservancy looks forward to implementing the above actions with diligence. We thank the OSAE staff for its work and we embrace the opportunity to fortify our internal fiscal and administrative controls for the bond funded projects.

Sincerely,

Original signed by:

David McNeill
Executive Officer

Cc: Bryan Cash, Deputy Assistant Secretary, Resources Agency
Julie Avis, Deputy Assistant Secretary, Resources Agency
Manual Lopez, Deputy Director, California Department of Parks and Recreation
Dorothy Kroll, Manager, Accounting Services, California Department of Parks and Recreation