



April 22, 2009

Mr. Russell K. Henly, Assistant Deputy Director  
California Department of Forestry and  
Fire Protection  
P.O. Box 944246  
Sacramento, CA 94244-2460

Dear Mr. Henly:

**Final Audit Report—High Sierra Resource Conservation and Development Council, Inc.,  
Proposition 40 Grant Agreements**

The Department of Finance, Office of State Audits and Evaluations (Finance), has completed its grant audits of the High Sierra Resource Conservation and Development Council, Inc. (HSRC&D) for the following Proposition 40 grant agreements:

<u>Grant Agreement</u>	<u>Audit Period</u>
8CA04573	June 1, 2005 to December 31, 2007
8CA04577	June 1, 2005 to December 31, 2006
8CA04590	June 1, 2005 to December 31, 2006

The enclosed report is for your information and use. In accordance with Finance's policy of increased transparency, the final report will be placed on our website. We appreciate the assistance and cooperation of the HSRC&D. If you have any questions regarding this report, please contact Frances Parmelee, Manager, or Jennifer Whitaker, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

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

Enclosure

cc: On following page

cc: Ms. Kay Joy Barge, Project Coordinator, High Sierra Resource Conservation and Development Council, Inc.  
Ms. Mary Ann Powell, Administrative Assistant, High Sierra Resource Conservation and Development Council, Inc.  
Mr. Robb Forsberg, Manager, Fiscal Administration and Coordination Section, California Department of Forestry and Fire Protection  
Mr. Patrick Kemp, Assistant Secretary, California Natural Resources Agency  
Mr. Bryan Cash, Deputy Assistant Secretary, California Natural Resources Agency  
Ms. Julie Alvis, Deputy Assistant Secretary, California Natural Resources Agency

# A GRANT AUDIT

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## High Sierra Resource Conservation and Development Council, Inc.

### Proposition 40 Grant Agreements 8CA04573, 8CA04577, and 8CA04590



Source: Residential Chipping Program Courtesy of High Sierra Resource Conservation and Development Council, Inc.

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

## **MEMBERS OF THE TEAM**

Frances Parmelee, CPA  
Manager

Jennifer Whitaker  
Supervisor

Staff  
Bryan Nguyen

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

On the March 2002 ballot, the California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002 (Proposition 40) was passed for \$2.6 billion. These bond proceeds provide funding for clean air, clean water, clean beaches, and healthy natural ecosystems that can support both human communities and the state's native fish and wildlife. Proposition 40 also provides funding for the protection, restoration, and interpretation of the diverse cultural influences and extraordinary human achievements that have contributed to the unique development of California.

The California Department of Forestry and Fire Protection (CAL FIRE) received Proposition 40 funds for watershed protection through the community assistance fuel reduction grant program (program). The goal of the program is to reduce catastrophic wildfire risk thereby improving water quality and protecting wildlife habitat. Grant funds were available to nonprofit and government entities located in 15 central Sierra counties (Plumas, Butte, Nevada, Yuba, Placer, Amador, El Dorado, Tuolumne, Calaveras, Madera, Mariposa, Alpine, Fresno, Kings, and Tulare).

The High Sierra Resource Conservation and Development Council, Inc., (HSRC&D) was formed in 1975 at the request of the boards of supervisors of Sierra, Nevada, Placer, and El Dorado Counties; the directors of the Sierra Valley, Nevada County, Placer County, El Dorado County and Georgetown Divide Resource Conservation Districts; and the members of the Sierra Planning Organization. In 1996, HSRC&D added Yuba County and the Yuba County Resource Conservation District. The Resource Conservation and Development program is administered by the United States Department of Agriculture, Natural Resources Conservation Service, which provides a coordinator to work with sponsors to plan activities and projects. The mission of the HSRC&D is to provide assistance to communities to strengthen the local economy, conserve natural resources, and provide a safe and secure quality of life.

The HSRC&D received grants from CAL FIRE for (1) the Middlebrook Shaded Fuel Break project to create a contiguous fuel break near and along the canyon, (2) the Yuba County Roadway Fuel Plan to clear 5.5 miles of county roads, and (3) the opportunity to provide residential brush chipping within Yuba County.

## SCOPE

In response to the Department of Finance's (Finance) bond oversight responsibilities, Finance conducted a grant audit of the following Proposition 40 grants:

<u>Grant Agreement</u>	<u>Audit Period</u>	<u>Awarded</u>
8CA04573	June 1, 2005 to December 31, 2007	\$58,500
8CA04577	June 1, 2005 to December 31, 2006	\$72,000
8CA04590	June 1, 2005 to December 31, 2006	\$69,000

The audit's objective was to determine whether the HSRC&D's grant revenue and expenditures were in compliance with applicable laws, regulations, and grant requirements.

The HSRC&D management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements as well as evaluating the efficiency and effectiveness of the program. The CAL FIRE along with the California Natural Resources Agency is responsible for evaluating any future sale of bond funded assets. We did not assess the efficiency or effectiveness of program operations.

## **METHODOLOGY**

To determine whether grant revenue and expenditures were in compliance with applicable laws, regulations, and the grant requirements, we performed the following procedures:

- Interviewed key personnel to obtain an understanding of the grant-related internal controls.
- Examined the grant agreements, the grant amendments, applicable policies and procedures, and the grant files maintained by CAL FIRE.
- Reviewed the HSRC&D's accounting records, vendor invoices, pay warrants, and bank statements.
- 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.

The results of the audit are based upon our review of documentation and other information made available to us and interviews with the staff directly responsible for administering bond funds. The audit was conducted October 2008 through March 2009.

This audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our observations and recommendations based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our observations and recommendations based on our audit objectives.

Based on the audit procedures performed, the High Sierra Resource Conservation and Development Council's (HSRC&D) grant revenue and expenditures were in compliance with applicable laws, regulations, and the grant requirements for grant agreements 8CA04573 and 8CA04577. However, we questioned amounts for grant agreement 8CA04590. The claimed, audited, and questioned amounts are presented in Table 1.

**Table 1: Schedules of Claimed, Audited, and Questioned Amounts**

<b>Grant Agreement 8CA04573</b>			
<b>For the Period June 1, 2005 to December 31, 2007</b>			
<b>Category</b>	<b>Claimed</b>	<b>Audited</b>	<b>Questioned</b>
General Administration	\$ 6,000	\$ 6,000	\$ 0
Contractual Services	52,500	52,500	0
<b>Total Expenditures</b>	<b>\$ 58,500</b>	<b>\$ 58,500</b>	<b>\$ 0</b>

<b>Grant Agreement 8CA04577</b>			
<b>For the Period June 1, 2005 to December 31, 2006</b>			
<b>Category</b>	<b>Claimed</b>	<b>Audited</b>	<b>Questioned</b>
General Administration	\$ 3,000	\$ 3,000	\$ 0
Contractual Services	69,000	69,000	0
<b>Total Expenditures</b>	<b>\$ 72,000</b>	<b>\$ 72,000</b>	<b>\$ 0</b>

<b>Grant Agreement 8CA04590</b>			
<b>For the Period June 1, 2005 to December 31, 2006</b>			
<b>Category</b>	<b>Claimed</b>	<b>Audited</b>	<b>Questioned</b>
General Administration	\$ 14,537	\$ 5,000	\$ 9,537
Contractual Services	50,570	50,570	0
<b>Total Expenditures</b>	<b>\$ 65,107</b>	<b>\$ 55,570</b>	<b>\$ 9,537</b>

The following observation was identified.

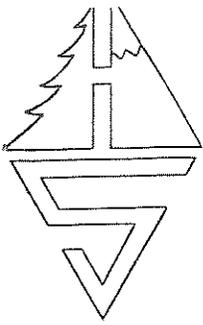
**General Administration Costs Exceeded Grant Budget**

For grant agreement 8CA04590, HSRC&D exceeded their general administration budget by \$9,537 or 190 percent. Specifically, both the chipping contractor and HSRC&D charged administration costs to the grant. The grant agreement only allowed \$5,000 for general administration. There was no evidence of a budget modification to shift funds between budget categories.

## **Recommendations**

- Ensure HSRC&D reviews contractor contracts and invoices so administration costs are in agreement with the grant budget.
- Monitor grant expenditures to avoid exceeding the grant budget.
- Ensure HSRC&D obtains budget modifications from CAL FIRE to shift funds between budget categories.
- Work collaboratively with HSRC&D to resolve questioned costs.





**HIGH SIERRA RESOURCE CONSERVATION & DEVELOPMENT AREA**

251 AUBURN RAVINE ROAD, SUITE 105, AUBURN, CALIFORNIA 95603

(530) 823-5687

April 8, 2009

David Botelho  
Chief, Office of State Audits and Evaluations  
915 L Street  
Sacramento, CA 95814-3706

Dear Mr. Botelho:

Thank you for the opportunity to review the *Draft Audit Report – High Sierra Resource Conservation and Development Council, Inc. Proposition 40 Grant Agreements*. We do not agree with the analysis for Grant Agreement 8CA04590. The following documentation will provide our analysis to show how the grant funds were spent as per our contract with CDF.

This is the work plan from the fully executed agreement between CDF and High Sierra Resource Conservation and Development Area received July 7, 2005.

**Work Plan**

	<u>Activity</u>		<u>Responsible</u>	<u>Grant funds</u>
Task 1	Develop project oversight plan	Month 1	HSRCD	\$3,000
Task 2	Develop Request for proposals	Month 1	HSRCD	\$3,000
Task 3	Sign contract with provider(s)	Month 2	HSRCD	\$2,000
Task 4	Prioritize areas of outreach in each Fire District	Month 2	Fire Districts	
Task 5	Homeowner outreach and education	Month 2-4	Subcontractor	\$10,000
Task 6	residential chipping, and program management	Month 2- 12	Subcontractor	\$49,000
Task 7	Compile final report fiscal and project Management	Month 1-12	HSRCD	
Total			HSRCD	<u>\$2,000</u> \$69,000

You will see that Task 5 is to contract for \$10,000 of Outreach and Education. Task 6 is to contract for \$49,000 worth of Chipping and Program Management. Tasks 1, 2, 3, 4, and 7 totaled \$10,000 for Grant Administration. The budget from the grant application shows \$64,000 for contracted work and \$5,000 for Personnel Charges. I am not sure why the work plan and the budget numbers do not match.

The budget categories from the Revised Budget dated July 21, 2006 show Project Administration for \$5,000 and Contract Implementation for \$64,000. On the attached spreadsheet we have broken the Contract Implementation down into the two tasks from the Work Plan, Chipping and Management, and Outreach and Education.

The methodology used for our analysis was to take each invoice that we sent to CDF and break it down, as per the categories outlined in the Work Plan Tasks, using the supporting documentation. Our analysis shows that we spent \$4,759.76 on Personnel Services and \$60,347.01 on Contract Implementation.

To break down the Contract Implementation into the two tasks, we spent \$49,336.27 on Chipping and Management and \$11,010.74 on Outreach and Education. For each of the two budget categories we were under our contract. If you look at the break down by Task, each Task was within 10% of the original budget amount which is allowable as stated on page 20 in *Procedural Guide for Community Assistance Grant Fuel Reduction Projects Funded by Proposition 40*.

What we did find is that when we invoiced CDF, we did not always correctly identify the proper budget category or task. This is the correction of the tasks that should have been invoiced:

Invoice 2005-01:

Contractual

Chipping & Mgt.	\$4830.00
Outreach and Education	\$3748.15

Invoice 2006-2

Contractual

Chipping & Mgt.	\$1035.00
Outreach and Education	\$ 506.91

Invoice 2006-4

Contractual

Chipping & Mgt.	\$4140.00
Outreach and Education	\$ 240.24

Administrative Costs	\$0
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Invoice 2006-9

Contractual

Chipping & Mgt. Oct	\$2760.00
Chipping & Mgt. Nov.	\$2760.00
Outreach and Education	\$2500.00

Invoice 2006-11

Contractual

Chipping & Mgt.	\$5521.27
Outreach and Education	\$4015.44

The supporting documentation for invoice 2006-11 from Dobbins/Oregon House shows "grant administration" which was an incorrect title for the task. We should have asked them to redo the invoice and use "project management" which was what our contract with them was for and which corresponds with the task in the Work Plan.

As you can see from our documentation, the grant funds were spent as per our contract with CDF. Unfortunately we did not put the correct terminology on the invoices to CDF. We have instituted new procedures to ensure that our invoices correctly reflect the items we are invoicing for as per our contracts. Based on these findings, we request that the report be corrected to show that expenditures weren't properly identified as opposed to improperly spent.

We would like to commend Jennifer Whitaker and Brian Nguyen for the professional manner in which they conducted the audit. Jennifer was very helpful in explaining processes and giving us suggestions on how we could improve our documentation. It was a very good learning experience for us which we have shared with others.

If you have any questions regarding our analysis, please contact Kay Joy Barge, Project Coordinator, at 530-823-5687 ext.5

Sincerely,

Original signed by:

William J. Bennett  
President

Attach

cc: Mr. Robb Forsberg, Manager, Fiscal Administration and Coordination Section,  
California Department of Forestry and Fire Protection  
Mr. Bryan Cash, Deputy Assistant Secretary, California Natural Resources Agency  
Ms. Julie Alvis, Deputy Assistant Secretary, California Natural Resources Agency

Prop 40 8CA4590 Analysis

HS Inv #	Inv Date	Inv Total	HS Admin	Chipping/Mgmt	Outreach/Edu	INV TOTALS
2005-01	11/15/2005	\$9,235.41	\$657.26	\$4,830.00	\$3,748.15	\$9,235.41
2006-02	1/17/2006	\$3,085.00	\$670.00	\$2,415.00		\$3,085.00
2006-03	3/8/2006	\$2,169.41	\$627.50	\$1,035.00	\$506.91	\$2,169.41
2006-04	7/21/2006	\$4,380.24		\$4,140.00	\$240.24	\$4,380.24
2006-05	8/22/2006	\$10,350.00		\$10,350.00		\$10,350.00
2006-06	9/22/2006	\$5,865.00		\$5,865.00		\$5,865.00
2006-07	9/29/2006	\$3,450.00		\$3,450.00		\$3,450.00
2006-08	11/2/2006	\$6,210.00		\$6,210.00		\$6,210.00
2006-09	2/5/2007	\$8,020.00		\$5,520.00	\$2,500.00	\$8,020.00
2006-10	12/15/2006	\$2,805.00	\$2,805.00			\$2,805.00
2006-11	3/16/2007	\$9,536.71		\$5,521.27	\$4,015.44	\$9,536.71

	<b>Actual</b>	\$65,106.77	\$4,759.76	\$49,336.27	\$11,010.74	\$65,106.77
	<b>Actual Totals</b>		<b>\$4,102.50</b>	<b>\$60,347.01</b>		
<b>Work Plan</b>	<b>Budget</b>	\$69,000.00	\$5,000.00	\$54,000.00	\$10,000.00	\$69,000.00
	<b>Under/Overbudget</b>	-\$3,893.23	-\$240.24	-\$4,663.73	\$1,010.74	-\$3,893.23

## EVALUATION OF RESPONSE

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The High Sierra Resource Conservation and Development Council's (HSRC&D) response to the draft report has been reviewed and incorporated into this final report. In evaluating HSRC&D's response, we provide the following comments:

### **Work Plan**

Our audit results were based on the revised grant budget dated July 21, 2006, which supersedes the work plan from the original grant application (July 7, 2005). Based on the revised grant budget, HSRC&D was allowed \$5,000 for Personnel and \$64,000 for Project Implementation (contracted work).

### **Reimbursement Requests**

We agree with HSRC&D that the reimbursement requests sent to CAL FIRE for payment should have been billed according to the work plan tasks and budget categories. Although HSRC&D's response contains corrections to the invoices submitted to CAL FIRE, our audit results were based on the invoices provided to CAL FIRE. Additional analysis would be required to determine if the corrected amounts were in compliance with applicable laws, regulations, and the grant requirements.

### **General Administration Costs Exceed Grant Budget**

We acknowledge the HSRC&D's request to correct the report to show the expenditures were not properly identified as opposed to improperly spent. However, our audit results were based on the documents provided during fieldwork. Those documents show the HSRC&D invoiced CAL FIRE for administration costs that exceeded their grant budget. The HSRC&D charged its own administration costs such as bookkeeping services and also billed the contractor's grant administration costs to CAL FIRE. The contractor's invoice provided as supporting documentation to us stated the services were for management and administration of the grant. Since the revised grant budget allows only \$5,000 for personnel costs (administration costs), our observation remains.

We recommend CAL FIRE and HSRC&D work collaboratively to resolve the issues identified above.