



December 22, 2009

Mr. Patrick Kemp, Assistant Secretary
California Natural Resources Agency
1416 Ninth Street, Suite 1311
Sacramento, CA 95814

Final Report—Sierra Coordinated Resources Management Council Grant Audit

The Department of Finance, Office of State Audits and Evaluations (Finance), has completed its audit of the Sierra Coordinated Resources Management Council's (Council) Proposition 40 Grant Agreement 8CA06503, for the period January 31, 2007 through March 31, 2009.

The enclosed report is for your information and use. The Council's response to the report finding is incorporated into this final report. The Council agreed with our observation and we appreciate its willingness to implement corrective actions. The observation in our report is intended to assist management in improving the effectiveness and efficiency of its operations.

In accordance with Finance's policy of increased transparency, this report will be placed on our website. Additionally, pursuant to Executive Order S-20-09, please post this report in its entirety to the Reporting Government Transparency website at <http://www.reportingtransparency.ca.gov/> within five working days of this transmittal.

We appreciate the assistance and cooperation of the Council. If you have any questions regarding this report, please contact Frances Parmelee, Manager, or Rich Hebert, 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: Mr. Al Hubbard, Chair, Sierra Coordinated Resources Management Council
Mr. Richard Gresham, Program Manager, Sierra Coordinated Resources Management Council
Ms. Kathryn Maloney, Program Administrator, Sierra Coordinated Resources Management Council
Mr. Russ Henly, Assistant Deputy Director, California Department of Forestry and Fire Protection
Mr. Robb Forsberg, Manager, Fiscal Administration & Coordination Section, 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

A GRANT AUDIT

Sierra Coordinated Resources Management Council
Proposition 40 Bond Program
Grant Agreement 8CA06503



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

MEMBERS OF THE TEAM

Frances Parmelee, CPA
Manager

Rich Hebert
Supervisor

Staff
Michael Bratman
Kenneth Rading

Final reports are 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

BACKGROUND, SCOPE, AND METHODOLOGY

BACKGROUND

In 2002, voters approved the California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act (Proposition 40) authorizing the sale of \$2.6 billion in general obligation bonds. 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 (CALFIRE) received Proposition 40 funds for watershed protection through the community assistance fuel reduction grant program (program). The program's goal is to reduce catastrophic wildfire risk, thereby improving water quality and protecting wildlife habitat. Grant funds were available to nonprofit and government entities in 15 counties (Plumas, Butte, Sierra, Nevada, Yuba, Placer, Amador, El Dorado, Tuolumne, Calaveras, Madera, Mariposa, Alpine, Fresno, and Tulare).

The Sierra Coordinated Resources Management Council (Council) is a joint powers authority representing 15 Resource Conservation Districts within the Sierras. The Council is headquartered at the Placer County Resource Conservation District in Auburn. The Council was awarded \$4,350,000 in Proposition 40 funds for the period January 31, 2007 through April 15, 2010.

The Council received Proposition 40 funding from CALFIRE through the existing state funded California Forest Improvement Program (CFIP). The CFIP is a cost share program aimed at improving the economic value and environmental quality of forestlands.

SCOPE

In accordance with the Department of Finance's (Finance) bond oversight responsibilities, Finance conducted an interim audit of the Council's Proposition 40 Grant Agreement 8CA06503 for the period January 31, 2007 through March 31, 2009.

The audit's objective was to determine whether the Council's grant revenues and expenditures were in compliance with applicable laws, regulations, and grant requirements. In order to design adequate procedures to evaluate fiscal compliance, we obtained an understanding of the relevant internal controls. We did not assess the efficiency or effectiveness of program operations.

The Council's 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. CALFIRE, along with the California Natural Resources Agency, are responsible for state-level administration of the bond programs.

METHODOLOGY

To determine whether grant revenues 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 files maintained by CALFIRE, the grant agreements, and applicable policies and procedures.
- Reviewed the Council'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.
- Verified grant revenues were properly recorded and the propriety of interest earnings.
- Performed procedures to determine if other revenue sources were used to reimburse expenditures already reimbursed with grant funds.
- Conducted site visits to verify existence of selected parcels subject to the program.

The results of the audit are based on our review of documentation, other information made available to us, and interviews with staff directly responsible for administering bond funds. The audit was conducted from April 2009 through July 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.

Except as noted below, the Council's expenditures were in compliance with applicable laws, regulations, and the grant requirements. Revenue earned on advanced funds was expended for eligible grant activities. While the audit did not result in questioned costs, one observation was identified as reported below. The Schedule of Claimed, Audited, and Questioned Amounts are presented in Table 1.

Table 1: Schedule of Claimed, Audited, and Questioned Amounts

Grant Agreement 8CA06503			
For the Period January 31, 2007 to March 31, 2009			
Category	Claimed	Audited	Questioned
Revenues:			
Prop 40 Funds Advanced by CALFIRE to the Council	\$4,000,000	\$4,000,000	\$ 0
Interest Earned on Advanced Funds	66,360	66,360	0
Program Reimbursements	55,011	55,011	0
Total Revenues	4,121,371	4,121,371	0
Expenditures:			
Grant Funds Disbursed to Landowners by the Council	2,280,018	2,280,018	0
Administrative Expenses incurred by the Council	80,587	80,587	0
Total Expenditures	2,360,605	2,360,605	0
Excess of Revenues over Expenditures	\$1,760,766	\$1,760,766	\$ 0

OBSERVATION 1: Insufficient Proof of Payment for Reimbursement of Claimed Costs

Neither CALFIRE nor the Council consistently requires landowner supporting documentation prior to authorizing and disbursing reimbursements for claimed costs. Specifically, CALFIRE Field Assistant Supervisors (FAS) review and authorize payments for landowners. Upon authorization, the FAS notify the Council to disburse reimbursement checks. However, landowners are not required to document actual costs incurred prior to disbursing the checks.

Without proof of actual costs by landowners (in the form of cancelled checks or information from bank statements), grant funds could be used for purposes not allowed by the program.

The Proposition 40 Procedures Manual, Appendix B, Part C (d), states: "Any payment request that is submitted without itemization will not be authorized. Copies of paid invoices or other records demonstrating proof of payment must accompany the payment request and support all charges. If the itemization or documentation is incomplete, inadequate, or inaccurate, the State will inform the Grantee and hold the payment request until all required information is received or corrected."

Recommendations: The FAS at the participating local CALFIRE units should require landowners to provide cancelled checks, bank statements, or other appropriate evidence for claimed costs prior to authorizing payment for fire suppression activities claimed under the program.

The Council should ensure it receives sufficient supporting documentation from the FAS prior to disbursing the reimbursement funds to the landowners.

COUNCIL'S RESPONSE



**SIERRA COORDINATED RESOURCES
MANAGEMENT COUNCIL**

*Amador Resource Conservation District – El Dorado County Resource Conservation District
Georgetown Divide Resource Conservation District – Nevada County Resource Conservation District
Placer County Resource Conservation District – Tahoe Resource Conservation District*

December 7, 2009

David Botelho, Chief
Office of State Audits and Evaluations
Department of Finance
300 Capitol Mall, Suite 801
Sacramento, CA 95814

RE: Draft Report - Sierra Coordinated Resources Management Council Grant
Audit

Dear Mr. Botelho,

Thank you for the opportunity to respond to Audit Report No. 093540146 SBR dated November 2008 pertaining to Sierra Coordinated Resources Management Council (SCRMC) Proposition 40 Bond Program, Agreement #8CA06503 for the period January 31, 2007 through March 31, 2009.

We appreciate the fact that the audit resulted in no questioned costs and will take the observation of insufficient proof of payment for reimbursement of claimed costs under serious consideration.

The Council has relied on the individual CalFire Forestry Assistance Specialists (FAS) and CalFire staff, the Council's partner in this effort, to review work completed on the ground and the invoices supporting that work for compliance with both the project budget and project description, as outlined in the agreement between the participating landowner and the Council, and their subsequent recommendation for payment before the Council makes reimbursement to the participating landowner.

While the Council's Landowner Participant Agreement is patterned after the CA Forest Improvement Program Agreement Form that does not contain language specifying that a cancelled check or bank statement must be provided by the participating landowner before cost share reimbursements are made, the Council will take the amendment of the Council's current Landowner Participation Agreement to include such language under serious consideration.

The Council wishes to stress the fact that on-the ground work has always been completed in compliance with both the project budget and description before any reimbursement payment has been made and that no landowner has been reimbursed for work not completed as per the Landowner Participation

Agreement and as evidenced by the Schedule of Claimed, Audited, and Questioned Amounts contained in this audit.

Please know the Council is committed to its fiduciary responsibility to disburse grant funding in the appropriate manner and want to thank your staff for the professional way in which they conducted their audit. We consider this review to be an opportunity to re-evaluate and refine our practices to best serve the California taxpayers in their efforts to provide for clean air, clean water, and healthy natural ecosystems for the inhabitants of this great state.

Sincerely,

Original signed by:

Al Hubbard, ~~Chair~~
Sierra Coordinated Resources Management Council

EVALUATION OF RESPONSE

Finance has reviewed the Council's response, dated December 7, 2009 to our draft audit report. Finance acknowledges the Council's serious consideration to change the language of the Landowner Participation Agreement. Such action would enhance the fiscal controls of the CFIP program, help ensure that funds are expended in accordance with the relevant provisions of Prop 40.