



February 5, 2009

Ms. Susan Rosenberg, Chair
Canopy Trees for Palo Alto
3921 East Bayshore Road
Palo Alto, CA 94303

Dear Ms. Rosenberg:

Final Report—Canopy Trees for Palo Alto Proposition 12 Fiscal Compliance Audit

The Department of Finance, Office of State Audits and Evaluations (Finance), has completed its fiscal compliance audit of the Canopy Trees for Palo Alto (Canopy) grant agreement 8CA05110 for the period April 12, 2006 through March 31, 2008.

The enclosed report is for your information and use. The Canopy's response to the report observations are incorporated into this final report. The Canopy agreed with our observations and we appreciate its willingness to implement corrective actions. The observations in our report are intended to assist management in improving the effectiveness and efficiency of its operations. The final determination and resolution of our observations will be made by the California Department of Forestry and Fire Protection and the California Natural Resources Agency.

In accordance with Finance's policy of increased transparency, this report will be placed on our website.

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

Sincerely,

Original signed by:

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

Enclosure

cc: Ms. Catherine Martineau, Executive Director, Canopy Trees for Palo Alto
Mr. Marty Deggeller, Vice Chair, Canopy Trees for Palo Alto
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 FISCAL COMPLIANCE AUDIT

Canopy Trees For Palo Alto Proposition 12 Grant Agreement 8CA05110



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

MEMBERS OF THE AUDIT TEAM

Frances Parmelee, CPA
Manager

Rick Cervantes, CPA
Supervisor

Staff

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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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Office of State Audits and Evaluations
300 Capitol Mall, Suite 801
Sacramento, CA 96814
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TABLE OF CONTENTS

Background, Scope, and Methodology.....	1
Results	3
Response.....	4

BACKGROUND, SCOPE, AND METHODOLOGY

BACKGROUND

On the March 2000 ballot, the Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Act of 2000 (Proposition 12) was passed for \$2.1 billion. These bond proceeds were to support programs to conserve natural resources, to acquire and improve state and local parks, and to preserve historical and cultural resources.

Thirteen state departments administer Proposition 12. Section 5096.310(u) of the Proposition 12 Bond Act allocates \$10 million to the California Department of Forestry and Fire Protection (CAL FIRE) for urban forestry programs for the purchase and planting of trees.

Canopy Trees for Palo Alto (Canopy) is a Palo Alto-based nonprofit advocate for the urban forest and works to educate, inspire, and engage the community as stewards of young and mature trees. Canopy's programs educate and involve the community. They are all designed to expand the number of trees in Palo Alto and to improve the chances that existing trees will stay healthy. Canopy received a grant from CAL FIRE to plant 635 trees in East Palo Alto.

SCOPE

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

<u>Grant Agreement</u>	<u>Audit Period</u>	<u>Awarded</u>
8CA05110	April 12, 2006 to March 31, 2008	\$ 142,333

The audit's objective was to determine whether the Canopy's grant revenues and expenditures were in compliance with applicable laws, regulations, and grant requirements.

The Canopy 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.

This report is intended for the information and use of the CAL FIRE, the Canopy, and the California Natural Resources Agency management and is not intended to be and should not be used by anyone other than the specified parties. However, this restriction is not intended to limit the distribution of this report, which is a matter of public record.

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 CAL FIRE, the grant agreements, and applicable policies and procedures.
- Reviewed the Canopy's accounting records, vendor invoices, pay warrants, and bank statements.
- Reviewed timesheets and the payroll system, both on-line and in Excel format.
- Selected a sample of expenditures, including labor costs, 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.
- Conducted a site visit to verify existence.

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 January 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 Canopy Trees for Palo Alto's (Canopy) grant revenues and expenditures were expended in compliance with applicable laws, regulations, and the grant requirements. For example, grant agreement 8CA05110 required Canopy to provide a cost sharing match rate of 50 percent in hard and soft match dollars. Canopy met the required match. The claimed, audited, and questioned amounts are presented in Table 1.

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

Grant Agreement 8CA05110 For the Period April 12, 2006 to March 31, 2008			
Category	Claimed	Audited	Questioned
Trees and Planting Material	\$ 129,033	\$ 129,033	\$ 0
Education and Signage	3,144	3,144	0
Administration and Overhead	10,156	10,156	0
Total Expenditures	\$ 142,333	\$ 142,333	\$ 0

Although no questioned costs were reported, the following observation was identified.

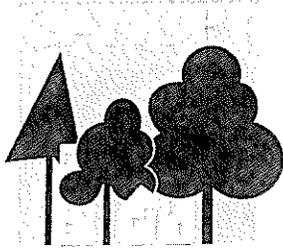
Inadequate Fiscal Controls Exist

Canopy's contract-related internal controls are inadequate. Without adequate contracting controls, the propriety and legality of contracts cannot be assured, and timely delivery of goods and services may be compromised. In addition, inadequate segregation of duties increases the risk of fraud and errors. Specifically:

- Written policies and procedures for awarding contracts do not exist.
- A contract was awarded to a Canopy board member. Canopy paid the board member \$12,083 from the grant funds for arborist work on the project. The contract was a verbal agreement and Canopy did not prepare a written contract. In addition, Canopy did not document its justification for contracting with a board member. We are uncertain whether there is an adequate arms length relationship between the board member and Canopy with respect to transactions related to the grant.
- The Executive Director performs numerous incompatible duties including receiving collections, depositing receipts, posting transactions to the general ledger, purchasing goods and services, signing checks, mailing payments, and reconciling bank statements.

Recommendations

- Document critical policies and procedures for awarding contracts.
- Ensure all contracts are documented, reviewed, and approved by all parties. The contract review process should include the identification of potential conflict of interests.
- The Board of Directors should review deposits, disbursements, and bank reconciliations to reduce risks, such as key-person dependency.



Staff

Catherine Martineau
Executive Director
Sharon Kelly
Program Director
Anwyn Hurxthal
Development Mgr.

Board of Directors

Susan Rosenberg
Chair
Marty Deggeller
Vice-Chair
James Cook
Treasurer
Roy C. Leggitt, III
Secretary
Faye Brown
Urban K. Cummings
Dave Muffly
Brooks Nelson
Forest Preston, III

Advisory Committee

Tony Carrasco
Anne Draeger
Herb Fong
Patricia Foster
Carroll Harrington
Joe Hirsch
Leannah Hunt
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Jeanne Kennedy
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Nancy Peterson
Carolyn Reller
Jane Stocklin
Lanie Wheeler
Lauren Bonar Swezey

CANOPY is a Palo Alto based nonprofit advocate for the urban forest and works to educate, inspire and engage the community as stewards of young and mature trees.

January 16, 2009

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

Dear Mr Botelho:

Re: Draft Audit Report – Canopy: Trees for Palo Alto Proposition 12 Grant Agreement

Thank you for your letter of 1/13/09 presenting the results of the compliance audit performed on Grant Agreement 8CA05110. We are appreciative of your comments as well as the very professional manner in which the audit itself was conducted.

The report identified three areas of concern as well as associated recommendations. The following addresses each area and identifies the corrective actions being undertaken by Canopy.

1. Written policies and procedures for awarding contracts do not exist.

Historically, Canopy has done virtually all of our work with volunteer labor and had no need to use contracted work. This grant agreement from the State of California was Canopy's first large scale project that required contracting out some of the effort. We recognize now that Canopy will likely have on-going work that may involve contract labor and are in the process of developing appropriate procedures specifying methods of awarding contracts.

The estimated completion date of these procedures is March 1, 2009.

2. A contract was awarded to a Canopy board member.

We understand the State's concern about the appearance of a potential conflict of interest. Please be assured that the reason for using the board member for the arborist work is that we felt he was the best qualified individual to do the job. He is an ISA Board

Certified Master Arborist, is published frequently in arboriculture journals, was closely involved in the preliminary work leading up to the grant proposal, contributed many volunteer hours to the project, and gave us a steeply discounted rate for the charged work. The procedures mentioned in section 1 above will address the possibility that such a situation may exist in the future and will establish the steps necessary to properly document such a relationship and to avoid any appearance of a conflict of interest.

3. The Executive Director performs numerous incompatible duties.

We agree that the Executive Director has had the responsibility for virtually all tasks associated with our accounting and banking activities. That is one of the shortcomings of a very small organization: Canopy has only 2.5 staff personnel. However, we have already implemented some steps to provide more oversight in the financial area. Six months ago we initiated a monthly review by a member of our Finance Committee. The member reviews bank statements against our QuickBooks records, reviews invoices and all disbursements, identifies any discrepancies, and reconciles the discrepancies with the Executive Director. We are also undertaking a review of our financial processes to determine what redistribution of tasks might be feasible and appropriate considering the size of the organization.

This review and task reassignment will also be completed by March 1, 2009.

Thank you again for your review comments. We are certain they will lead to Canopy becoming an even more effective, responsible, and efficient organization.

Sincerely,

Original signed by:

Susan Rosenberg, Chair