



Transmitted via e-mail

September 22, 2011

Mr. Mark Cowin, Director
Department of Water Resources
P.O. Box 942836, Room 1115-1
Sacramento, CA 94236-0001

Dear Mr. Cowin:

**Final Report—Mendocino County Resource Conservation District/Water Agency,
Proposition 50 Grant Audit**

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of the following Mendocino County Resource Conservation District (MCRCD) and Mendocino County Water Agency (MCWA) Proposition 50 grants:

<u>Grant Agreement</u>	<u>Grantee</u>	<u>Audit Period</u>	<u>Awarded</u>
4600004495	MCRCD	January 3, 2006 through January 30, 2011	\$264,748
4600004495	MCWA	January 3, 2006 through January 30, 2011	\$196,000

The enclosed report is for your information and use. The Department of Water Resources, MCWA, and MCRCD responses to the report observation and our evaluation of the responses are incorporated into this final report. The observation in our report is intended to assist management in improving the effectiveness and efficiency of its operations.

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 MCRCD and MCWA. If you have any questions regarding this report, please contact Susan Botkin, Manager, or Angie Williams, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by Richard Sierra for:

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

Enclosure

cc: On following page

cc: Ms. Katherine Kishaba, Deputy Director, Business Operations, Department of Water Resources
Ms. Gail Chong, Chief, Bond Accountability Office, Department of Water Resources
Ms. Perla Netto-Brown, Controller, Department of Water Resources
Ms. Tracie Billington, Chief, Financial Assistance Branch, Department of Water Resources
Mr. Jeffrey Ingles, Chief Auditor, Department of Water Resources
Ms. Sara Denzler, Chief, Riverine Ecosystem Section, Department of Water Resources
Mr. Craig Cross, Staff Environmental Scientist, Implementation Grants Section, Department of Water Resources
Ms. Mina Danieli, Environmental Scientist, Department of Water Resources
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
Ms. Janet Olave, Executive Director, Mendocino County Resource Conservation District
Ms. Carmel J. Angelo, Chief Executive Officer/Clerk of the Board, County of Mendocino
Ms. Kristi Furman, Deputy Chief Executive Officer, County of Mendocino
Mr. Ignacio Gonzalez, AICP, Planning and Building Services Director, County of Mendocino

AUDIT REPORT

Mendocino County Resource Conservation District Mendocino County Water Agency Proposition 50 Bond Program Grant Agreement 4600004495



Source: Russian River Watershed Grant Report 4600004495

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

MEMBERS OF THE TEAM

Susan Botkin, CGFM
Manager

Angie Williams
Supervisor

Staff
Alex Balandra

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
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TABLE OF CONTENTS

Background, Scope, and Methodology.....	1
Results.....	3
Responses.....	5
Evaluation of Responses	9

BACKGROUND, SCOPE, AND METHODOLOGY

BACKGROUND

In November 2002, California voters approved the Water Security, Clean Drinking Water, Coastal and Beach Protection Bond Act of 2002 (Proposition 50), which authorized the State of California to sell \$3.44 billion in general obligation bonds. The bond proceeds provide funds for grants and loans to assist in meeting safe drinking water standards; acquisition, restoration, protection, and development of river parkways; and coastal watershed and wetland protection.

The Department of Water Resources (DWR) is one of many state departments that administer Proposition 50 programs. The mission of DWR is to manage the water resources of California in cooperation with other agencies, and to protect, restore, and enhance natural and human environments.

Willits Soil Conservation District was formally organized on May 28, 1945, taking 146,700 acres in the central part of Mendocino County (County). In 1958, after several additions had made this District practically County-wide, its name was changed to Mendocino County Soil Conservation District, and in 1974 became Mendocino County Resource Conservation District (MCRCD). MCRCD now covers 84 percent of the 2,246,400 acres in the County.

(Source: www.mcrcd.org/about/)

For this grant project, MCRCD partnered with the Mendocino County Water Agency (MCWA). In October 2010 MCWA became a division within the Mendocino County Department of Planning and Building Services. Its mission is to protect and develop the water resources of Mendocino County and to ensure an adequate quantity and quality of water is available to meet present and future needs of the County. Mendocino Planning and Building Services may also provide, to the extent deemed feasible or economical, protection from the disposition of storm and floodwaters, sufficient to protect life and property.

(Source: www.co.mendocino.ca.us/water/)

MCRCD and MCWA received Proposition 50 funds from DWR for the purpose of developing a new Integrated Regional Water Management (IRWM) plan. The grantees separately applied and were awarded the grant. MCRCD and MCWA acknowledge and recognize that a combined and comprehensive IRWM planning effort would best meet the intent of Proposition 50 and agreed to the consolidation of their separate awards for the purpose of completing a single IRWM plan.

SCOPE

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

<u>Grant Agreement</u>	<u>Grantee</u>	<u>Audit Period</u>	<u>Awarded</u>
4600004495	MCRCD	January 3, 2006 through January 30, 2011	\$264,748
4600004495	MCWA	January 3, 2006 through January 30, 2011	\$196,000

The audit objectives were to determine whether MCRCD's and MCWA's grant 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. Finally, no assessment was performed on the reasonableness or the conservation value of the projects completed.

MCRCD and MCWA management are 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. DWR and the California Natural Resources Agency are responsible for state-level administration of the bond programs.

METHODOLOGY

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

- Interviewed key personnel.
- Obtained an understanding of the grant-related internal controls.
- Examined the grant files at MCRCD, MCWA, and DWR.
- Reviewed MCRCD's and MCWA's accounting records, vendor invoices, and consultant contracts.
- 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.
- Performed procedures to assess the monitoring and reporting practices of MCRCD and MCWA.
- Reviewed documentation provided for matching funds.

The results of the audit are based on our review of documentation, other information made available to us, and interviews with the staff directly responsible for administering bond funds. The audit was conducted from February 2011 through July 2011.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Except as noted below, Mendocino County Resource Conservation District's (MCRCD) and Mendocino County Water Agency's (MCWA) expenditures were in compliance with applicable laws, regulations, and the grant requirements. The Schedules of Claimed and Questioned Amounts are presented in Table 1.

Table 1: Schedules of Claimed and Questioned Amounts

Mendocino County Resource Conservation District Grant Agreement 460004495 For the Period January 3, 2006 through January 30, 2011			
Task	Category	Claimed	Questioned
2A	Baseline Watershed Assessment. In-kind grantee match provided by the United States Army Corps of Engineers	\$ 200,000	\$ 200,000
2A	Develop Russian River Watershed Plan Management Measures	54,614	0
2B	Develop a screening matrix and screen management measures	31,205	0
2C	Develop estimated cost/benefit analysis–Grant award	2,385	0
2C	Develop estimated cost/benefit analysis–Grantee match	6,400	0
2D	Complete the Russian River Watershed Management Plan–Grant Award	11,059	0
2D	Complete the Russian River Watershed Management Plan–Grantee Match	6,400	0
Admin.	Project Administration	23,335	0
	Total Expenditures	\$ 335,398*	\$ 200,000

* Claimed amount includes grantee match of \$200,000.

Mendocino County Water Agency Grant Agreement 4600004495 For the Period January 3, 2006 through January 30, 2011			
Task	Category	Claimed	Questioned
1	Establish Regional Watershed Management Group	\$ 0	\$ 0
2	Public Outreach and Stakeholder Involvement	10,261	0
3	Conduct Risk Assessment and Prepare Parlin Fork PCP/TCP Sampling Plan	14,200	0
4	Characterization of Road-Related Erosion Problems.	61,250	0
5	Prepare Near-Shore Currents and Littoral Drift Study Plan	12,000	0
6	Water Supply/Demand Analyses-Grant Award	3,920	0
6	Water Supply/Demand Analyses-Grantee Match	5,600	0
7	Prepare Invasive Plant Management Plan-Grant Award	23,100	0
7	Prepare Invasive Plant Management Plan-Grantee Match	8,720	0
8	Prepare Land Conservation Implementation Strategy for Permanent Protection of Watershed Values	0	0
9	Prepare Critical Coastal Action Plan	0	0
10	Prepare Noyo/Big River Integrated Coastal Water Management Plan (ICWMP) Document-Grantee Match	2,271	0
11	Project Administration-Grantee Match	8,698	0
	Total Expenditures	\$ 150,020*	\$ 0

* Claimed amount includes grantee match of \$10,969.

Observation 1: Unsupported Match and No Formal Contracts

MCRCD was unable to support the required in-kind match amount of \$200,000 provided by the United States Army Corps of Engineers (USACE). USACE and MCRCD were unable to provide any invoices, labor documentation, or any other evidence of costs incurred for this project. Although it appears USACE did provide the match deliverables for the project, we were unable to determine that the required in-kind services, totaling \$200,000, as stated in the grant agreement had been properly satisfied. Further, there was no formal contract between USACE and MCRCD. Without a formal contract, the risk to the state and potential for loss greatly increases.

Recommendation:

Ensure match expenditures are adequately supported and appropriate documentation is maintained as required by the grant agreement. In addition, to reduce risk there should be a formal contract with all subcontractors. DWR will determine the effect, if any, of the unsupported match.

MENDOCINO
COUNTY



RESOURCE
CONSERVATION
DISTRICT

August 18, 2011

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

Attn: Mr. David Botelho, CPA
Chief, Office of State Audits and Evaluations

Reference: Mendocino County Resource Conservation District / Mendocino County
Water Agency, Proposition 50 Grant Audit

Dear Mr. Botelho:

206 Mason Street
Suite F

Ukiah, CA 95482

(707) 462-3664

www.mcrcd.org

Thank you for the opportunity to respond to the above referenced audit. With regard to Observation 1: Unsupported Match and No Formal Contracts:

The Draft Russian River Watershed Management Plan is one component of a larger scope of work to develop a comprehensive watershed plan for the Russian River. As noted in Project Summary (attached), the larger project is being managed by the U.S. Army Corps of Engineers, and the Mendocino County Resource Conservation District is completing Task 2 of 6 tasks. The USACE was funded out of the Energy and Water Development

Appropriation Bill, 2003. See http://thomas.loc.gov/cgi-bin/cpquery/?&dbname=cp107&sid=cp107rK5up&refer=&n=sr220.107&item=&&sel=TOC_27035&

Grant Agreement #4600004495 states in Item 5, Grantees Costs: " ...Grantees shall provide evidence to the State that such funds have been expended in accordance with the cost share formula in order to qualify for State grant fund reimbursement." As noted in the agreement, USACE funded the Baseline Assessment which was an acceptable match to DWR. In the attached letter from the Department of the Army to Mr. Craig Cross, dated May 24, 2006, USACE confirmed its contribution to the project and consequently provided the Baseline Assessment, the deliverable for the match. The letter was accepted by DWR as meeting the requirements of the match and project funds were approved for disbursement. Based on DWR's acceptance of that documentation and the Baseline Assessment received as the deliverable, it is MCRCD's position that we satisfied the requirements of the grant.

In addition, it is MCRCD's standard practice to have contracts with all subcontractors on its projects. However, at no time was USACE a subcontractor to MCRCD. Exhibit A, the Project Work Plan (attached), under Task 1: Baseline Watershed Assessment, states that USACE is completing Task 1, and is not receiving any funds from this Prop 50 grant, thus no invoices would be generated.

Sincerely,

Original signed by:

Janet Olave, Executive Director

CC: DWR -- Tracie Billington, Bill Hoffman, Mina Danielli, Craig Cross



August 30, 2011

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

**Response to Draft Report Regarding Department of Finance Audit Findings of
Mendocino County Water Agency, Proposition 50 Grant Agreement 4600004495**

Dear Mr. Botelho:

Thank you for the opportunity to review and comment on the Draft Audit Report, dated July 2011. On behalf of the Mendocino County Water Agency (MCWA), it appears that the report findings are acceptable in that it has been determined that MCWA's expenditures were found to be in compliance with applicable laws, regulations and grant requirements.

However, I would note that relative to the Mendocino County Water Agency (MCWA), page 1, paragraph four under the Background section which states "*For this grant project, MCRCD partnered with the Mendocino County Water Agency (MCWA). MCWA was dissolved in October 2010 and is now Mendocino Planning and Building Services.*" Please note, that the MCWA was not dissolved, but is now a division within the Department of Planning and Building Services. Staffing levels were reduced in the Water Agency, but it continues to function under the direction of the Planning and Building Services Director.

Once again, I appreciate the opportunity to comment on the draft report. If you should have any questions, please do not hesitate to contact me at (707) 463-4281.

Sincerely,

Original signed by:

Ignacio Gonzalez, AICP
Planning and Building Services Director

cc: Carmel J. Angelo, County of Mendocino CEO
Janet Olave, MCRCD
MCWA File

DEPARTMENT OF WATER RESOURCES

1416 NINTH STREET, P.O. BOX 942836
SACRAMENTO, CA 94236-0001
(916) 653-5791



AUG 17 2011

Mr. David Botelho, CPA
Chief, Office of State Audits and Evaluations
California Department of Finance
Office of State Audits and Evaluations
915 L Street
Sacramento, California 95814-3706

Response to Draft Report Regarding Department of Finance Audit Findings of
Mendocino County Resource Conservation District and Mendocino County Water
Agency Proposition 50 Grant Agreement 4600004495

Dear Mr. Botelho:

The Department of Water Resources (DWR) files for the above-referenced project contains the attached letter (dated May 24, 2006) from the U.S. Army Corps of Engineers (USACE) which USACE provided as documentation of the expenditure of the \$200,000. USACE letter refers to the project by its formal title as in DWR's Grant Agreement and references DWR Grant Agreement number. The cost share match that USACE provided was vital to the formulation of this project, the Russian River Integrated Coastal Watershed Management Plan.

DWR accepted the USACE letter as adequate documentation to support the claim of matching funds and is confident that the \$200,000 was used in accordance with the terms of the Grant Agreement. We do not wish to pursue any further actions. It should be noted that DWR would not accept such a letter as sufficient documentation to support the cash reimbursement of grantee expenses.

If you have any questions, or need additional information, please call Craig Cross at (916) 651-9201 or ccross@water.ca.gov.

Sincerely,

Original signed by:

Tracie L. Billington, P.E.
Chief, Financial Assistance Branch
Division of Integrated Regional Water Management

Attachment

cc: (See attached list.)

EVALUATION OF RESPONSES

The Department of Finance (Finance) reviewed the Mendocino County Resource Conservation District's (MCRCD) response, dated August 18, 2011, Mendocino County Planning and Building Services Department's response, dated August 30, 2011, and Department of Water Resources' (DWR) response, dated August 17, 2011 to our draft audit report. Attachments referenced in the responses have been omitted in the interest of brevity. For Observation 1, we provide the following comments:

Observation 1: Unsupported Match and No Formal Contracts

Finance reviewed the three responses and the additional documentation provided by DWR and MCRCD. A letter from the U.S. Army Corps of Engineers is not sufficient evidence that expenditures were actually incurred (i.e. expenditure reports, payroll records). In the absence of this supporting evidence we are unable to determine MCRCD met its match requirement in whole or by task.

Regarding contracts, preferred internal controls require a formal agreement with project partners and subcontractors.

Section 5, Grantee Costs, of contract 4600004495 states: Grantee shall provide evidence to the state that such funds have been expended in accordance with the cost share formula and by task in order to qualify for state grant reimbursement.

Because MCRCD provided no additional information in its response to support in-kind match expenditures, our observation and recommendation remain unchanged. DWR reviewed the issue and indicated they do not wish to pursue any further actions.