



DEPARTMENT OF
FINANCE

ARNOLD SCHWARZENEGGER, GOVERNOR

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November 21, 2008

Mr. Roger Palomino, Executive Director
Fresno County Economic Opportunities Commission
1920 Mariposa Mall
Fresno, CA 93721

Dear Mr. Palomino:

**Final Audit Report—Fresno County Economic Opportunities Commission and Fresno
Local Conservation Corps, California Conservation Corps Grant Agreements
05-5310-0864 and 06-5310-1010**

The Department of Finance, Office of State Audits and Evaluations (Finance), has completed its fiscal compliance audit of the Fresno County Economic Opportunities Commission (FEOC) and Fresno Local Conservation Corps (FLCC).

The enclosed report is for your information and use. The FEOC/FLCC's response to our observations and our evaluation of the response are incorporated into this final report. 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 FEOC and FLCC. If you have any questions, please contact Frances Parmelee, Manager, or Sherry Ma, 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. David Muraki, Director, California Conservation Corps
Mr. Paul McLain-Lugowski, Director, Fresno Local Conservation Corps
Mr. Salam Nalia, Associate Executive Director, Fresno County Economic Opportunities
Commission
Mr. Brad Duncan, Chief, Program Development and Support Division, California
Conservation Corps
Ms. Kris Escarda, Policy Development Manager, California Conservation Corps
Ms. Erin Healy, Chief, Administrative Services Division, California Conservation Corps
Ms. Ali Mansfield, General Counsel, California Conservation Corps
Mr. Patrick Kemp, Assistant Secretary, Resources Agency
Mr. Bryan Cash, Deputy Assistant Secretary, Resources Agency
Ms. Julie Alvis, Deputy Assistant Secretary, Resources Agency

A FISCAL COMPLIANCE AUDIT

Fresno County Economic Opportunities Commission Fresno Local Conservation Corps Proposition 12 and 40 Bond Programs

Grant Agreements
05-5310-0864 and 06-5310-1010



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

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This final report is available on our website at <http://www.dof.ca.gov>

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TABLE OF CONTENTS

Executive Summary	1
Background, Scope, and Methodology.....	2
Results.....	6
Response.....	11
Evaluation of Response.....	15

EXECUTIVE SUMMARY

In response to the Department of Finance's (Finance) bond oversight responsibilities, we performed a fiscal compliance audit of the following grants provided to the Fresno County Economic Opportunities Commission (FEOC) and the Fresno Local Conservation Corps (FLCC):

- Grant agreement 05-5310-0864 funded by the California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002 (Proposition 40). The grant totaled \$1,287,797 and was for the period July 1, 2004 through December 14, 2007.
- Grant agreement 06-5310-1010 funded by the Safe Neighborhood Parks, Clean Water, Clean Air and Coastal Protection Act of 2000 (Proposition 12). The grant totaled \$659,049 and was for the period December 15, 2005 through June 30, 2008.

Both grants were to be used for expenditures, including corpsmember labor costs incurred, in the construction of the Neighborhood Youth Center located in Fresno. In addition, the Proposition 12 grant was restricted to the recreation center within the Neighborhood Youth Center. The California Conservation Corps (CCC) is the grantor of the bond funds.

The audit's objective was to determine whether FEOC/FLCC complied with applicable laws, regulations, and grant requirements. The audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

The results of the audit are as follows:

- The scope of the Proposition 40 grant stated the funds would be used to train up to 32 corpsmembers in construction trades; however, \$803,977 of grant funds were used for contractor expenditures rather than corpsmember labor expenditures. In addition, the FEOC/FLCC did not obtain the CCC's approval to significantly change the grant's scope.
- Invoices submitted for reimbursement for the Proposition 12 grant did not support that work was performed or materials were delivered to the recreation center. Questioned costs total \$31,811.
- Ineligible fringe benefit expenditures of \$10,400 were claimed for the Proposition 12 grant.
- The allocation methodology for indirect labor costs is based on estimates and cannot be tested for reasonableness or accuracy. In addition, the allocation method was not consistently followed. Questioned costs for the Proposition 12 grant total \$2,290.
- The FEOC/FLCC's use of project codes is inadequate to track daily activities or locations for corpsmembers and other staff.

The FEOC/FLCC should work collaboratively with the CCC to address the observations and recommendations noted in this report.

BACKGROUND, SCOPE, AND METHODOLOGY

BACKGROUND

On the March 2000 and 2002 ballots, the Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Act of 2000 (Proposition 12) and the California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002 (Proposition 40) were passed for \$2.1 billion and \$2.6 billion, respectively. 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. Up to 18 state departments administer Propositions 12 and 40 funds. Section 5096.310(s) of the Proposition 12 Bond Act allocates \$12.5 million to the California Conservation Corps (CCC) for grants to certified local community conservation corps programs to complete capital outlay and resource conservation projects. Section 5096.650(e) (2) of the Proposition 40 Bond Act allocates \$15 million for grants to local conservation corps for acquisition and development of facilities to support local conservation corps programs.

California Conservation Corps

Created in 1976, the CCC is a department within the Resources Agency. The CCC's mission is to engage young men and women in meaningful work, public service, and educational activities to assist them in becoming responsible citizens while protecting and enhancing California's environment, human resources, and communities. The CCC hires men and women between the ages of 18 and 25 for a year of natural resource work such as landscaping, trail building, and tree planting. The corpsmembers provided logistical support at fire camps and evacuation centers during the recent California wildfires. During their year with CCC, corpsmembers receive on the job and classroom training. In addition, corpsmembers can also receive instruction from adult education centers or the Muir Charter School to earn their high school diplomas or a general education diploma.

Fresno County Economic Opportunities Commission

The Fresno County Economic Opportunities Commission (FEOC) is a non-profit organization governed by a 24-member board of commissioners. The FEOC, founded in 1965, is one of the largest nonprofit community action agencies in the United States. Its vision is "to humanely focus all available resources to empower low-income families and individuals working toward the skills, knowledge, and motivation for self-sufficiency¹."

The FEOC employs over 1,300 full-time and part-time staff to offer multiple services to the public such as education, health, energy, transit and food services, community services, youth and senior services, and employment and training services. The FEOC's annual budget of approximately \$80 million is generated from a variety of sources including federal, state, and local government funds, private donations, and fee for service programs.

¹ Source: <http://www.fresnoeoc.org>

Fresno Local Conservation Corps

The Fresno Local Conservation Corps (FLCC) is an employment and training program within the FEOC. Started in 1993, "it provides young adults, ages 18 through 24, with employment, training and education to become productive and contributing members of our community²." Corpsmembers gain a variety of skills through on-the-job training. In addition, all corpsmembers are concurrently enrolled in either high school course work or community college classes to further their education. Up to 200 corpsmembers may be employed at any one time working on construction, ground maintenance, or recycling programs.

Neighborhood Youth Center

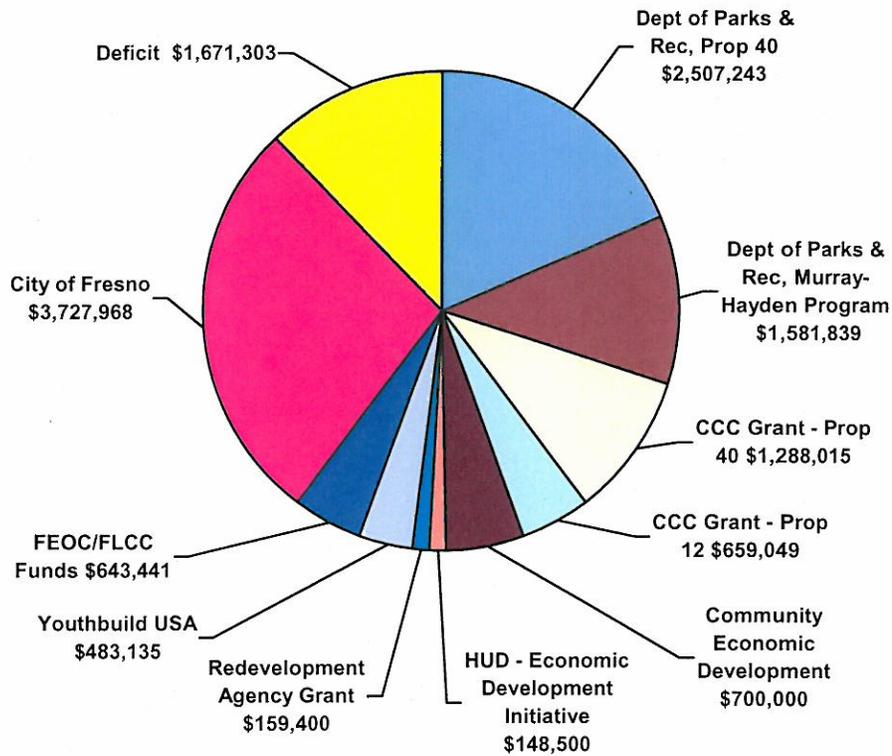
The Neighborhood Youth Center (NYC) is located in southwest Fresno on land that has been vacant for over 35 years. The community surrounding the NYC is ethnically diverse with a poverty rate higher than the national average. Currently, there is less than an acre of park and open space per 1,000 residents in this area.

The NYC will eventually consist of four buildings: (1) FEOC/FLCC administrative and education offices that include a health center and childcare facilities, (2) a public recreational facility and park, (3) a Head Start facility, and (4) a vocational training facility. Academic services, vocational training, and physical fitness will be available to the wider west Fresno community. The NYC will be accessible to the public during peak activity periods, including weekends. The public recreational site will be open daily to the public, and used for after school programs, community sports leagues, and physical training for FEOC/FLCC corpsmembers. As of the date of this audit, the administrative/education building and the recreational facility were near completion.

Funding for the NYC comes from a variety of sources that include state and federal grants, matching funds provided by FEOC/FLCC, and the potential sale of the recreation center to the City of Fresno. The total project budget is \$13,569,891.

² Source: <http://www.fresnoeoc.org/programs/flcc.html>

Figure 1: Neighborhood Youth Center Funding Sources



Source: FEOC/FLCC's project budget dated July 18, 2008³

SCOPE

The Department of Finance, Office of State Audits and Evaluations (Finance), conducted a fiscal compliance audit of the following grants:

<u>Grant Agreement</u>	<u>Funding Source</u>	<u>Audit Period</u>	<u>Awarded</u>
05-5310-0564	Proposition 40	07/01/04 – 12/14/07	\$ 1,287,797
06-5310-1010	Proposition 12	12/15/05 – 06/30/08	\$ 659,049

The audit's objectives were to determine whether FEOC/FLCC's grant revenues and expenditures were in compliance with applicable laws, regulations, and grant requirements, and if FEOC/FLCC complied with the grant agreement terms in providing job skills, education, and life skills training to corpsmembers.

FEOC/FLCC 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 construction program. The CCC along with the Resources Agency is responsible for evaluating any future sale of bond funded assets.

³ The City of Fresno funds represent the potential sale of the recreation center by the FLCC to the City of Fresno. No commitment has been made by either FLCC or the City of Fresno. Also, CCC Proposition 40 total includes \$218 in interest earned on the grant funds.

We did not assess the efficiency or effectiveness of program operations, the NYC, or the construction activities funded with the grant proceeds. In addition, we did not assess the potential sale of the recreation center.

METHODOLOGY

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

- Visited the NYC site.
- Interviewed key personnel to obtain an understanding of the grant-related internal controls.
- Examined the grant files maintained by CCC, the grant agreements, and applicable policies and procedures. See Figure 2 for a sample of the grant agreement requirements.
- Reviewed FEOC/FLCC 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. Of the \$1.947 million expended, \$651,070 (34 percent) was tested.
- Performed procedures to determine if other revenue sources were used to reimburse expenditures already reimbursed with grant funds.
- Examined corpsmember case files to determine whether corpsmembers had appropriate access to educational services in compliance with grant requirements.

Figure 2: Sample of Grant Agreement Requirements

Proposition 12 Grant Agreement 06-5310-1010

- Funds used exclusively for the public recreation center and park which is part of the Neighborhood Youth Center.
- 8 corpsmembers to be hired under the direction of a skilled FLCC supervisor.
- Educational classes offered to corpsmembers.

Proposition 40 Grant Agreement 05-5310-0864

- Acquire and develop a new Neighborhood Youth Center.
- Skill training for up to 32 corpsmembers in the construction trades.

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 August 2008 through October 2008.

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.

The Department of Finance, Office of State Audits and Evaluations, completed an audit of grant agreements 05-5310-0864 and 06-5310-1010, funded by Proposition 40 and Proposition 12, respectively. The audit results below are based on the audit procedures performed.

Observation 1: Project Scope Change Occurred Without CCC's Approval

Funds from the Proposition 40 grant were not used to pay corpsmember labor expenditures. The grant application, which was incorporated into the grant agreement scope, for the Proposition 40 funds stated the development of the Neighborhood Youth Center would offer significant skills training for the corpsmembers. Up to 32 corpsmembers would be trained in construction skills such as tool use, landscape design, interior wall construction, cabinet installation and other valuable building trade knowledge.

Fresno County Economic Opportunities Commission (FEOC) and Fresno Local Conservation Corps (FLCC) management stated a determination was made in which the project required a level of expertise outside those skills corpsmembers could provide; therefore, the FEOC/FLCC enlisted the aide of a general contractor to perform the work. The majority of the Proposition 40 funds were used to reimburse construction contractor expenditures with the remaining funds used for staff member labor costs and indirect costs. There is no evidence the California Conservation Corps (CCC) was aware of the scope change or approved it. Should the FEOC/FLCC have abided by the original scope, approximately \$803,977⁴ would have been incurred in corpsmember expenditures rather than contractor expenditures. Although contractor expenditures were not expended in compliance with the established criteria, they were incurred, valid, and properly supported.

Table 1: Schedule of Claimed Costs for Proposition 40

**Grant Agreement 05-5310-0864
For the Period July 1, 2004 through December 14, 2007**

<u>Categories</u>	<u>Claimed Cost</u>
Direct Labor	\$ 32,367
Contractor Expenditures	974,153
Building Materials	41,285
Other Expenditures	228,463
Indirect - Personnel	<u>11,747</u>
Total	<u>\$ 1,288,015</u> ⁵

⁴ Amount derived from estimating 32 corpsmembers for 52 weeks with an entry-level construction position beginning at \$10 per hour, as noted in FLCC's project proposal, and associated FICA tax (7.65 percent) and workers compensation (calculated average of 13.14 percent from FLCC's fiscal year 2005-06 thru 2007-08 project budgets).

⁵ Total claimed of \$1,288,015 equals grant amount of \$1,287,797 plus \$218 interest earned.

Exhibit B, Section 6 of the grant agreement states funds allocated in the grant agreement shall be used exclusively for the purpose intended as outlined in the project application. Exhibit E, Additional Provisions, Item Number 4 states that grantees wishing to change the project scope of an approved project shall submit the proposed changes in writing to the CCC for approval.

Recommendation

Submit changes in the grant scope to the CCC for review and approval prior to implementation. Communicate with CCC, who will make the final determination regarding the resolution of this observation.

Observation 2: Questioned Costs Identified Due to Non-Compliance with Various Requirements

The FEOC/FLCC's grant expenditures were not always in compliance with applicable laws, regulations, and grant requirements. At times, the FEOC/FLCC also did not comply with the grant agreement terms in providing job skills, education, and life skills training to corpsmembers. Table 2 summarizes our questioned costs specific to the following deficiencies:

- Ineligible fringe benefit expenditures were claimed.
- Invoices do not validate recreation center work performed.
- Indirect cost allocation methodology is inadequate and not consistently followed.

Table 2: Schedule of Claimed and Questioned Costs for Proposition 12

**Grant Agreement 06-5310-1010
For the Period December 15, 2005 to June 30, 2008**

<u>Categories</u>	<u>Claimed Cost</u>	<u>Questioned Cost</u>
Labor:		
Corpsmembers	\$ 214,317	\$ 967
Direct Staff	259,604	9,433
Consulting Services	24,750	24,750
Equipment	1,792	-
Building Materials	59,492	6,571
Other Expenditures	6,453	490
Indirect:		
Personnel Costs	52,919	2,290
Administrative Costs	38,793	-
Audit Costs	929	-
Total	<u>\$ 659,049</u>	<u>\$ 44,501</u>

Ineligible Fringe Benefit Expenditures Claimed

A total of \$10,400 in fringe benefit costs should not have been allowed for the Proposition 12 grant. Corpmember life insurance premiums totaling \$967 and direct staff vacation earned totaling \$9,433 were claimed as eligible expenditures. However, the project budgets for fiscal years 2006-07 and 2007-08 did not include corpmember life insurance premiums as allowable charges. In addition, none of the project budgets included vacation earned as an eligible expenditure.

Invoices Do Not Validate Recreation Center Work Performed

Invoices submitted by vendors or contractors and paid with Proposition 12 bond funds do not include documentation that supports expenditures incurred were used for the recreation center. Specifically, 74 percent (11 out of 15) of the invoices selected for review did not contain evidence that services performed or materials delivered were for the recreation center. Of the 15 invoices tested, 7 related to two contracts. One contract was for work performed on the NYC with no mention of the recreation center. The other contract identified three potential locations for work to be performed—the NYC project, the Housing Authority District V project, and the Calwa Parks and Recreation project—with no reference to the recreation center. The invoices from this contractor did not include a description of the project location or the address where work was performed.

Public Resources Code Section 5096.301 states the purpose of the bond is to respond to recreational and open space needs by investing in neighborhood and state parks. In March 2004, CCC informed FEOC/FLCC of Proposition 12 fund limitations in which the funds may be used to construct a playground and/or gymnasium but could not be used to construct FEOC/FLCC's own facilities, and such acknowledgements were included in the grant proposal.

Without vendor documentation that work was performed or materials were delivered for the construction of the recreation center, there is a risk that Proposition 12 funds were used to pay for the administrative building's construction expenditures. As a result, we question \$24,750⁶ of consulting services, \$6,571 of building materials, and \$490 of other expenditures.

Indirect Cost Allocation Methodology is Inadequate and Not Consistently Followed

The basis of allocating indirect costs is derived from estimates of administrative and office staff time spent on each project; however, those estimates are not revised based on actual data. Therefore, the reasonableness or accuracy of the estimates cannot be validated.

In addition, the approved allocation methodology is not consistently followed. Specifically, 40 percent (8 out of 20) of indirect labor expenditures reviewed for the Proposition 40 grant did not match the approved allocation percentages. These 8 expenditures totaling \$2,290 are reported as questioned costs.

⁶ Seventy-four percent of the population for this category was tested and none of the invoices had evidence to support work performed for the recreation center. Therefore, the entire claimed amount is questioned.

Recommendations

- Ensure vendor contracts and invoices include proper documentation to determine location of work performed.
- Review all claimed expenditures for eligibility prior to submission for reimbursement.
- Develop, implement, and consistently use a reasonable and verifiable basis for allocating indirect costs. The allocation percentages should be revised as necessary based on actual data. Because of the over 60 active FEOC/FLCC project codes, it would not be feasible for administrative staff such as the director, the office manager, or case managers to track actual hours spent per project. Instead, an allocation basis such as a percentage of revenues per project or corpsmember labor hours per project may be employed.
- Remit questioned costs of \$44,501 to the CCC. CCC will make the final determination regarding resolution of the questioned costs, and whether any amounts should be returned to the state or offset against other eligible expenditures.

Observation 3: Current Process is Inadequate to Validate Activities or Locations

The FEOC/FLCC's project codes—which are linked to a particular revenue source—track labor hours, but do not identify a specific task or location. The Proposition 12 grant agreement and proposal specifically restricted work performed to the recreation center. Furthermore, both grant agreements state corpsmembers shall receive training in valuable construction skills. See Figure 2 for more details about the grant agreement requirements.

Project codes identify the source of funding for the multiple programs administered by FEOC/FLCC. Labor hours are totaled on the timesheet and a supervisor writes in the appropriate project code next to the total. A manager then reviews and signs the timesheet. Based on our analysis, the following weaknesses exist with the current process:

- The timesheets alone do not validate whether corpsmembers or other direct staff worked a particular location, performed a specific task, or obtained on-the-job training. There is a risk that Proposition 12 bond funds were expended on the administrative building rather than the recreation center.
- The review process needs improvement. An assumption is made that supervisors understand the various requirements or restrictions related to each revenue source and have the knowledge to determine which source is valid. In addition, at the end of the pay period while reviewing timesheets, managers must recall in detail what each corpsmember or direct staff member's tasks were and where tasks were performed since this information is not documented on the timesheet.
- Because the review process is weak, the potential for mistakes and errors is increased. A review of 56 corpsmember timesheets revealed 11 percent had the project codes changed. An additional three timesheets reported a project code that was linked to another revenue source, but was later adjusted. Also, not all direct staff track hours by project code on their timesheets. Specifically, 64 percent (9 out of 14) of direct staff

timesheets paid from Proposition 12 funds did not track hours per project code. Of the 9 timesheets, the labor costs for 5 timesheets were initially charged to another revenue source and later changed through an accounting adjustment. The Proposition 40 grant had far fewer labor expenditures in which 100 percent tested (3 out of 3) did not track hours per project code.

Without a system that can identify what and where work is performed, there is a risk labor costs are not reimbursed by the appropriate revenue source and bond funds are not expended as intended by the CCC. In addition, the FEOC/FLCC may not have complied with applicable grant agreement requirements.

Recommendation

Ensure adequate systems are in place in order to comply with future grant agreement requirements. A potential practice, which is utilized by CCC, is the implementation of daily assignment sheets to capture where corpsmembers work and what activities were performed. The assignment sheets are completed by the supervisors and do not require any knowledge of revenue sources and their restrictions.

RESPONSE

In the interest of brevity, attachments referenced in the response have been omitted.



Moses Stites
Chairperson

Roger Palomino
Executive Director

November 10, 2008

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

RE: Grant Agreements 05-5310-0864 and 06-5310-1010

Dear Mr. Botelho:

We have carefully reviewed the draft audit report provided by your department concerning the above-referenced grants. We appreciated the cooperation, professionalism, and thoroughness of your staff during this audit process. Following is our response to the observations outlined in the Draft Audit Report.

Observation 1: Project Scope Change Occurred Without CCC's Approval

Although corpsmembers and their associated hours spent in the construction of the Neighborhood Youth Center (NYC) were not charged to Grant Agreement 05-5310-0864, corpsmembers have and continue to be assigned daily to the NYC construction site. Many more than the 32 we anticipated training on the site through this grant have had the outstanding opportunity to be trained in various trades through their work at the NYC.

As we explained during the audit, EOC fully intended to deploy corpsmembers under Grant Agreement 05-5310-0864 to the NYC. However, several reasons caused us to reconsider this plan.

1. A review of the work by the project architects, general contractor, EOC administrators, and LCC field administrators determined the work was simply too complex, and went beyond the capacity of the Local Conservation Corps and its workforce. There were attempts at metal stud framing; some of that work had to be torn out and redone.

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2. The NYC project has been funded through a number of grants many issued simultaneously for construction of the NYC. Several of these grants were exclusively for corpsmember labor. LCC spent down corpsmember hours in these grants first, including 06-5310-1010. But due to the reasonable decision described under #1 above, there was simply not enough suitable work for corpsmembers to complete under Grant Agreement 05-5310-0864.

We regret our oversight in not advising the CCC of our need for a Scope Change and agree to work with the CCC to resolve this observation to their satisfaction. It should be noted that at no time did we reduce our corpsmember enrollment due to the absence in assigning corpsmembers to the NYC project under Grant Agreement 05-5310-0864.

Observation 2: Questioned Costs Identified Due to Non-Compliance with Various Requirements

Fringe benefit costs of \$10,400 were questioned since they were not delineated in the budget. We concede that although they are normal expenses the \$967 paid in fringe benefits for life insurance provided for our corpsmembers was not budgeted and will not be disputed.

The disallowance of \$9,433 paid in vacation benefits should be removed. Vacation benefits are charged to an expense account separate from the account used to record all other wages paid. These benefits are an allowable cost to federal grants and they represent a liability to the Agency until they are used by the employee. When vacation hours are used by our employees, the program is not charged an expense for the cost of these hours; rather, the agency liability is reduced. Although vacation benefits were not listed in the budget, they are not fundamentally different from sick, holiday, bereavement or other types of pay made in the normal course of business.

Regarding the issue of invoices not specifically showing work done on the NYC Recreation Complex - at the time this project began, contractors were asked to submit bids to build the Neighborhood Youth Center (NYC), not just a building within the project. This was the recommendation of the construction management firm hired for the job. They reasoned that separating the buildings within a phase would likely mark up costs, whereas bidding several buildings within a phase would result in cost efficiencies. Initially, cost segregation by building was not requested and invoices received did not consistently identify the actual building. Subsequently, we were able to segregate the costs on the basis of 1) Invoices that readily identified the building the invoice pertained to, 2) Invoice-by-invoice separation estimated by the contractor that constructed both buildings, and 3) The professional opinion of our architects SIM, that were involved in the project from the beginning.

Proposition 12 funds (Grant Agreement 06-5310-1010) totaling \$659,049 are the only funds received by any source that are restricted to the NYC Recreation Complex. The cost of the

Recreation Complex, as determined by our architects and contractor, exceeds \$5 million, far more than the amount of this grant.

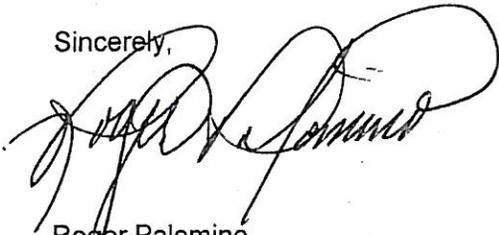
An assertion was made that the cost allocation methodology used to distribute payroll for LCC management is inadequate. We will consider the benefits and efficiencies of the recommendations made. Throughout EOC's history we have always endeavored to provide high quality services, both programmatically and administratively. Our selection of changes to methods and procedures will be based on their ability to satisfy auditors from various funding sources and work within our existing payroll and general ledger systems.

Observation 3: Current Process is Inadequately to Validate Activities or Locations

We appreciate your recommendation to implement daily assignment sheets to assure that corpmember hours are assigned to the appropriate cost center and location of the project within said cost center. Please see the attached copies of original corpmember timesheets; your recommendation has been implemented.

Again, thank you for your interest in this project and for the helpful recommendations offered. Should you require any further information or clarification you may contact either Salam Nalia (salam.nalia@fresnoeoc.org) or LCC Director, Paul McLain (paul.mclain-lugowski@fresnoeoc.org)

Sincerely,

A handwritten signature in black ink, appearing to read 'Roger Palomino', written over a white background.

Roger Palomino
Executive Director

c.c. Mr. David Muraki, Director California Conservation Corps
Salam Nalia, Associate Executive Director
Paul McLain-Lugowski, LCC Director

EVALUATION OF RESPONSE

The Fresno Economic Opportunities Commission (FEOC) and Fresno Local Conservation Corps (FLCC) provided a written response to our draft report. We appreciate their general concurrence with our observations and recommendations. For the comments requiring a response, we provide the following response.

Observation 2: Questioned Costs Identified Due to Non-Compliance with Various Requirements

The response acknowledged reimbursements claimed for certain expenditures—corpsmember life insurance and direct staff vacation earned—were not included in the project budgets submitted to California Conservation Corps (CCC). However, in the case of vacation earned, the FEOC/FLCC states these expenditures represent an allowable cost per federal guidelines and a valid liability to the agency. We do not dispute the expenditures may be allowable under federal grant guidelines. However, because they were not included in the project budgets, CCC did not have an opportunity to determine whether the costs were reasonable and/or allowable per CCC's grant guidelines. Therefore, we continue to report the costs as ineligible. CCC will make the final determination on whether these costs should be remitted.

In addition, the FEOC/FLCC stated certain contracts were bid for the entire Neighborhood Youth Center (NYC) to achieve cost efficiencies. In cases where the invoices did not support the work performed on a particular building, costs were assigned to each building based on the contractor's estimate or the opinion of the NYC architect. Documentation of these alternative allocation methods were not provided to us. Therefore, we stand by our observation that the invoices did not validate that work was performed on the recreation center and that questioned costs should be remitted.

Observation 3: Current Process is Inadequate to Validate Activities or Locations

The response indicated the FEOC/FLCC has implemented changes based upon our recommendations. We commend the efforts made by FEOC/FLCC and trust further developments will continue. Our cursory review of revised documents indicate the FEOC/FLCC has taken efforts to address part of the observation by documenting the location where the FLCC staff worked as well as identifying their corpsmembers. However, the documentation submitted lacks the identification of corpsmember activities. Further information or additional documentation is needed to validate activities conducted by corpsmembers.