



Transmitted via e-mail

December 9, 2011

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

Dear Mr. Cowin:

**Final Report—Ojai Unified School District and Ojai Valley Land Conservancy,
Proposition 13 Grant Audit**

The Department of Finance, Office of State Audits and Evaluations (Finance), has completed its audit of the Ojai Unified School District's (District) and Ojai Valley Land Conservancy's (Conservancy) Proposition 13 grant agreement 4600002968 for the period February 28, 2002 through February 27, 2010.

The enclosed report is for your information and use. Responses to the report observations are incorporated into this final report. The responses indicate agreement with our observations and willingness to implement corrective actions. The observations in our report are intended to assist management in improving its program. This report will be placed on our website.

We appreciate the auditee's and grantor's assistance and cooperation with our audit. If you have any questions regarding this report, please contact Frances Parmelee, Manager, or Evelyn Suess, 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. Gary Bardini, Deputy Director, Integrated Water Management, California
Department of Water Resources
Ms. Katherine Kishaba, Deputy Director, Business Operations, California Department of
Water Resources
Mr. David Martasian, Chief, Floodway Corridor Section, California Department of Water
Resources
Ms. Tracie Billington, Chief, Financial Assistance Branch, California Department of
Water Resources
Ms. Gail Chong, Deputy Assistant DWR Executive, Bond Accountability, California
Department of Water Resources
Mr. Earl Nelson, Program Manager, Flood Protection Corridor Program Division,
California Department of Water Resources
Mr. Vincent Heim, Environmental Support and Grant Manager, California Department of
Water Resources
Mr. Jeffrey Ingles, Chief Auditor, California Department of Water Resources
Mr. Patrick Kemp, Assistant Secretary for Administration and Finance, California
Natural Resources Agency
Mr. Bryan Cash, Deputy Assistant Secretary, California Natural Resources Agency
Ms. Julie Alvis, Deputy Assistant Secretary, California Natural Resources Agency
Dr. Henry Bangser, Superintendent, Ojai Unified School District
Ms. Danielle Pusatere, Assistant Superintendent of Business and Administrative
Services, Ojai Unified School District
Ms. Andrea Pendleton, Executive Assistant, Business Services, Ojai Unified School
District
Mr. Greg Gamble, Executive Director, Ojai Valley Land Conservancy
Mr. Brian Stark, Conservation Director, Ojai Valley Land Conservancy

AUDIT REPORT

Ojai Valley Land Conservancy And Ojai Unified School District Proposition 13 Bond Program Grant Agreement 4600002968



Photo: Ojai Meadows Preserve

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

MEMBERS OF THE TEAM

Frances Parmelee, CPA
Manager

Evelyn Suess
Supervisor

Staff
Jason Craft

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

BACKGROUND

In March 2000, California voters approved the Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Bond Act (Proposition 13), which authorized the State of California to sell \$1.97 billion in general obligation bonds. The bond proceeds provide funds for safe drinking water, water quality, flood protection, and water reliability programs. Proposition 13 also provides funding for the protection, restoration, and interpretation of California's diverse cultural influences.

The California Department of Water Resources (DWR) is one of many state departments that administer Proposition 13 programs and award funds in the form of grants. One of DWR's programs—the Flood Protection Corridor Program—funds primarily nonstructural flood management solutions through direct expenditures and grants to local public agencies and nonprofit organizations. Funding under this program is intended to be used for acquisition, restoration, enhancement, and protection of real property while preserving sustainable agriculture and enhancing wildlife habitat in and near flood corridors throughout the state¹.

DWR awarded the Ojai Unified School District (District) and the Ojai Valley Land Conservancy (Conservancy) a \$2.15 million grant to acquire interests in real property for flood water conveyance and transitory storage purposes, restore adjacent wetlands, and modify the site to assist in preserving and enhancing the wildlife value of the real property. The agreement was subsequently amended to remove the real property acquisition and reduce the grant amount to \$2.04 million.

<u>Grant Agreement</u>	<u>Grant Period</u> ²	<u>Award</u>
4600002968	February 28, 2002 through February 27, 2010	\$ 2,043,688

SCOPE

In accordance with the Department of Finance, Office of State Audits and Evaluations' (Finance) bond oversight responsibilities, Finance conducted a performance audit of the grant. The audit objectives were to determine whether the District and Conservancy's grant expenditures claimed were in compliance with applicable laws, regulations, and grant requirements; and to determine whether the grant deliverables were completed as required. In order to design adequate procedures to conduct our audit, we obtained an understanding of the relevant internal controls. We did not assess the efficiency or effectiveness of program operations. Further, no assessment was performed on the reasonableness of the conservation value of projects completed.

¹ Excerpt from the California Department of Water Resources website: www.water.ca.gov

² This audit's grant period reflects the period covered in previous interim audit (issued July 2005).

Both the District and the Conservancy's management are responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements. DWR is responsible for the state-level administration of the grant program.

METHODOLOGY

To determine whether grant expenditures were in compliance with applicable laws, regulations, and the grant requirements, and if the grant deliverables were completed as required, we performed the following procedures:

- Reviewed applicable bond act and other legal provisions and regulations.
- Interviewed key personnel to obtain an understanding of the grant-related internal controls.
- Examined the grant files, the grant agreement, and applicable policies and procedures.
- Reviewed the accounting records, vendor invoices, 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.
- Conducted a site visit to verify existence.
- Evaluated whether a sample of grant deliverables required by the grant agreement were met.

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 grant funds. The audit was conducted from April 2011 through October 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Except as noted below, the Ojai Unified School District (District) and Ojai Valley Land Conservancy (Conservancy) were in compliance with the requirements of the grant agreement. The Schedule of Claimed and Questioned Amounts is presented in Table 1.

Table 1: Schedule of Claimed and Questioned Amounts³

Grant Agreement 4600002968 For the Period February 28, 2002 through February 27, 2010		
Category	Claimed	Questioned
Task 1: Land	\$ 388	\$ 0
Task 2: Development of Master Plan	264,300	0
Task 3: Permits	79,000	0
Task 4: Grading	196,000	0
Task 5: Storm Drain	266,000	0
Task 6: Utility Restoration	125,000	0
Task 7: Landscape Restoration	141,000	0
Task 8: Wetland Restoration	468,000	0
Task 9: Monitoring and Maintenance	140,000 ⁴	70,332
Task 10: Administration	364,000	2,890
Total Expenditures	\$ 2,043,688	\$ 73,222

Observation 1: Maintenance Endowment Fund Not Considered an Eligible Expenditure

With the intent to acquire land, the original grant agreement awarded \$120,000 to fund maintenance of the acquired property (as a component of Task 9). In December 2009, the grant agreement was amended to remove the acquisition as a task because DWR and the Conservancy determined drainage improvements—which were funded by the grant—alleviated a pre-existing flooding problem. However, the corresponding maintenance endowment fund was not removed from the amended grant agreement. Because the land acquisition did not occur, the Conservancy received \$70,332 for an ineligible use of bond funds. These funds are currently being held in the Conservancy’s general checking account.

Grant agreement 4600002968 was awarded pursuant to Water Code section 79037, allowing DWR to grant funds for flood control projects for acquisition, restoration, enhancement, and protection of real property for the purposes of flood control protection, agricultural land preservation, and wildlife habitat protection. However, Water Code section 79044(a) specifically states a local public agency or nonprofit organization, in expending grant funds to acquire an

³ This schedule includes the results of our July 2005 interim audit, which resulted in no questioned amounts. In addition, the grant agreement’s effective start date was February 27, 2003; however, DWR authorized the project on February 28, 2002 and the grantees were allowed to claim expenditures back to that date.

⁴ The amount consists of monitoring and maintenance endowment in the amounts of \$20,000 and \$120,000, respectively.

interest in any particular parcel of land, may use the funds to establish a trust fund (up to 20 percent of the funds paid for the acquisition), and interest earned from the trust fund shall be used only to maintain the land acquired. Since no land was acquired, the establishment of a trust fund is not considered an eligible use of bond funds.

Recommendations:

DWR should obtain an independent legal opinion, such as the Attorney General's opinion, to determine propriety of bond funds used for these purposes. In addition, the Conservancy should remit to DWR \$70,332 in total questioned costs, including interest. However, DWR will determine the final disposition of the questioned costs and whether amounts should be returned to the state or offset against other costs.

Observation 2: The Conservancy's Lack of Accounting Controls Resulted in Questioned Costs

The Conservancy did not properly account for its grant expenditures resulting in questioned costs of \$2,890 in salaries and wages. The Conservancy has procedures for tracking hours worked by grant and/or project. However, the reimbursement request information was obtained directly from timesheets which were not reconciled to its accounting system. As a result, the Conservancy erroneously claimed more than the actual time worked on the grant.

Without accurate and complete records of grant costs, the Conservancy cannot ensure claimed costs are grant-related, supported, and allowable. The grant agreement states the grantee shall keep complete and accurate records of all receipts, disbursements, and interest earned on expenditures of grant funds.

Recommendations:

DWR will determine the final disposition of the \$2,890 in total questioned costs and whether amounts should be returned to the state or offset against other costs. In addition, the Conservancy should develop and implement new procedures to ensure claimed expenditures are grant-related and properly supported.

RESPONSES



Ojai Unified School District

414 East Ojai Avenue, P.O. Box 878, Ojai, CA 93024
(805) 640-4300 • Fax (805) 640-4419 • www.ojai.k12.ca.us

October 25, 2011

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

Dear Mr. Botelho:

The Ojai Unified School District is very pleased to provide a written response to the audit of the Proposition 13 grant agreement #4600002968. The District was found in full compliance with the fiscal requirements of the grant contract. There were no audit findings or issues during the interim audit report, dated July 18, 2005, and subsequently with the final audit in 2011.

We are pleased to have had the opportunity to receive the grant funds for the Ojai Wetlands restoration and flood control project. In addition, it was a pleasure partnering with the Ojai Land Conservancy to preserve and enhance the wildlife habitat in the meadow next to our high school.

Sincerely,

Original signed by:

Henry S. Bangser
Superintendent

C: Mr. Greg Gamble, Executive Director, Ojai Land Conservancy

Administration

Henry Bangser, Ph.D., Superintendent
Dannielle Pusatere, Assistant Superintendent, Business and Administrative Services

Board of Education

Rikki Horne, President
Pauline Mercado, Ph.D., Vice President
Linda Taylor, Clerk
Kathi Smith, Member
Thayne Whipple, Member



Protecting your views, trails, water and wildlife.

October 26, 2011

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

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Staff

Greg Gamble
Executive Director

Rick Bisaccia

Darcy Gamble

Marti Reid

Brian Stark

Tax ID#77-0169682

Re: Audit of Proposition 13 grant agreement #4600002968

Dear Mr. Botelho,

Thank you for the opportunity to respond to the Draft Audit Report for the above-mentioned project. We found the audit process to be appropriate and your staff was considerate and efficient. On behalf of the Ojai Valley Land Conservancy (OVLC), I offer the following comments that address the audit process and results.

With respect to the audit process description, it states on page 2, under Methodology, that the audit team "interviewed staff directly responsible for administering the grant funds". We would like to clarify that the individuals interviewed are those currently charged with administering grant funds at the OVLC. The individuals that managed these specific grant funds for the OVLC are no longer with the organization and were not available for interviews. In some cases, current staff was not intimately familiar with the methods used by prior staff in the administration of these grant funds. We did our best to assist the audit team in determining how funds were administered during the time period of the grant, as these methods were not the same as those currently in place.

Regarding the findings in the results section, we offer the following comments.

Observation 1: Maintenance Endowment Fund Not Considered and Eligible Expenditure. Our understanding of these funds has been that they were for the purpose of long-term stewardship of the restoration project. This understanding was based on conversations with prior staff managing the grant and with grant administrators at the Department of Water Resources. Specifically, Contract Amendment #2, signed on December 14, 2009, Table 2 "Ojai Flood Mitigation and Wetlands Restoration; Budget of Project Tasks", Task #9: Monitoring and Maintenance, provides a description of budget items from the original 2003 contract in comparison with the Amendment #2 budget. This document specifically lists these funds as a maintenance endowment that passed from the original contract into the amended contract. It can be assumed, therefore, that the mutual understanding of the OVLC and DWR was that these funds were re-allocated for a project maintenance endowment.

This was the justification for invoicing and accepting these funds. Despite the contract language, if the State has determined that these funds were not an eligible expense, then the OVLC will defer to the state in this finding and will take appropriate action based on the determinations and subsequent request of the Department of Water Resources. The funds are intact at the OVLC and available for repayment if necessary.

Observation #2: The Conservancy's Lack of Accounting Controls Resulted in Questioned Costs. The OVLC discussed financial controls with the audit team, and it was mutually understood that past financial controls may not have been sufficient to ensure that errors would be discovered. The OVLC provided to the audit team a written description of our current financial controls and it was our understanding that the audit team found these controls to be appropriate. It should be noted as well that the amount questioned, \$2,890, was the result of a single error of number transcription. Errors, therefore, were not systematic during the grant period. The amount in question is not disputed by the OVLC, and we will take appropriate action regarding this item as directed by the DWR.

Thank you again for the opportunity to provide comments to the Draft Audit Report. The OVLC respects the State's efforts to ensure financial responsibility in the granting processes and has developed appropriate safeguards for future grants. If you have any questions regarding this letter, please contact me so I may provide timely answers.

Sincerely,

Original signed by:

Brian B. Stark
Conservation Operations Director

Memorandum

Date: November 9, 2011

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

From: Department of Water Resources

Subject: Response to Draft Report – Ojai Unified School District and Ojai Valley Land Conservancy Proposition 13 Grant Audit

This is in response to your letter of October 24, 2011, transmitting the above-mentioned audit report that includes recommendations for resolving the two observations related to expenditures that were found to be out of compliance with the terms of the grant funding agreement.

Observation 1 concerned a maintenance endowment fund that was not considered by the auditors to be an eligible expenditure because planned land acquisition was amended out of the project scope of work, while the associated maintenance endowment fund was kept as part of the project. The audit report recommends that the Department of Water Resources (DWR) obtain an independent legal opinion, such as an Attorney General's opinion, to determine the propriety of using bond funds for these purposes. Additionally, the report recommends that either (1) the grantee (Ojai Valley Land Conservancy (OVLC)) remit to DWR \$70,332 in questioned costs, including interest; or (2) the amount should be offset against other costs. The recommendation further states the final disposition of the questioned costs is to be determined by DWR.

DWR's response to this recommendation is to commit to pursue alternative 2 above, which is to offset these funds against other costs that are allowable under the terms of the funding agreement and meet the intent of the Flood Protection Corridor Grant Program. DWR has discussed this approach with Brian Stark, Conservation Operations Director for OLVC, and Mr. Stark indicated that OLVC would be agreeable to this approach. Mr. Stark indicated that OLVC will submit a request to DWR to amend the funding agreement to expand the scope of work to add additional habitat restoration work that costs \$120,000. Once the funding agreement has been amended, OLVC will use the \$70,332 currently in their bank account to pay for this additional work, and will at the appropriate time submit an invoice for the \$49,668 currently being withheld as retention by DWR, subject to appropriate 10 percent retention to ensure success of the additional restoration work.

Since the funds would thereby be transferred to an eligible cost, DWR does not believe it has any need to seek an independent legal opinion as to the propriety of using the funds for a maintenance endowment, since there would no longer be a maintenance endowment provided by DWR for this project. DWR will, however, require assurances from the grantee that the habitat improvements made with public funds will be maintained for the improvements' useful life using other resources available to the grantee.

Observation 2 from the Department of Finance (DOF) audit report concerned \$2,890 paid for salaries and wages without records justifying the expenditure. The OLVC has recognized that the expenditure resulted from an accounting error. In accordance with the recommendation of the DOF audit report, OLVC has agreed to deduct the amount from a future invoice, so the amount to be paid by DWR will be reduced by an equivalent amount to offset and correct the error. Additionally, OVLC has stated it has instituted more effective accounting controls to prevent errors of this type in the future.

Please also note that while the Ojai Unified School District was a participant in this grant agreement at the onset, the School District's portion of the work was completed and the District's participation ended with a funding agreement amendment in 2006. Since the School District had no involvement with either of the two audit observations requiring corrective action, it might be best to address future correspondence only to the active participants in the funding agreement.

These responses should fulfill the recommendations of the DOF draft audit report. If you need additional information or wish to discuss DWR's plans to implement these recommendations, please contact Earl Nelson, Program Manager, Flood Protection Corridor Program, at (916) 574-1244.

Original signed by:

Gary B. Bardini
Deputy Director

cc: Greg Gamble, Executive Director
Ojai Valley Land Conservancy
Post Office Box 1092
Ojai, California 93024

Henry Bangser, Superintendent
Ojai Unified School District
414 East Ojai Avenue
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