

CALIFORNIA STATE PARKS

Audit Report

DEPARTMENT OF PARKS AND RECREATION LEGISLATIVE GRANT PROGRAM

July 1, 2000, through June 30, 2004



STEVE WESTLY
California State Controller

March 2005



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California State Controller

March 9, 2005

Ruth Coleman, Director
Department of Parks and Recreation
P.O. Box 942896
Sacramento, CA 94296

Dear Ms. Coleman:

Enclosed is a report summarizing the results of our audits of 20 grantees that received funding under the Department of Parks and Recreation (California State Parks) legislative grant program. We selected these 20 grantees from a listing of 96 grantees with projects that had not been completed at the time we issued our risk assessment survey report on September 13, 2004. We limited the scope of our audit to active grants, with the understanding that your department's Office of Audits would audit the projects that have already been completed.

Our audits questioned \$1.11 million of the \$14.26 million awarded to the 20 grantees (see Schedule B). As the administering agency, California State Parks should determine whether any of the questioned funds should ultimately be disallowed.

In addition, based on our audits, we believe there are serious control deficiencies in the State's system and processes for awarding and managing grants funded by the General Fund. We believe these deficiencies merit special attention.

The State Controller's Office is sponsoring legislation (AB 725 – Canciamilla) to strengthen controls in the State's grant-making process. We welcome suggestions and input from your department and other state departments that are involved in administering state grant funds.

Should you have any questions, please contact Jeffrey Brownfield, Chief, Division of Audits, at (916) 324-1696.

Sincerely,

VINCENT P. BROWN
Chief Operating Officer

VPB:kmm

cc: (see page 2)

cc: The Honorable Nicole Parra, Chair
 Joint Legislative Audit Committee
The Honorable Joe Canciamilla, Member
 California State Assembly
Mike Chrisman, Secretary for Resources
Tom Campbell, Director
 Department of Finance
Elaine Howle, State Auditor
Elizabeth Hill, Legislative Analyst

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Audit Report

Background

In September 2004, the State Controller's Office (SCO) issued a report of the results of a risk assessment survey of the Department of Parks and Recreation (California State Parks) legislative grant program. The survey was conducted to identify and select grants for more in-depth audits. Shortly after we began our survey, the chief of the California State Parks' Office of Audits notified our office that California State Parks had decided to redirect audit staff to immediately proceed to audit all legislative grants where the projects had been fully completed. Therefore, to avoid duplication of audit efforts, the SCO decided to focus its audit resources on the projects that were ongoing.

In addition, in the September 2004 survey report, we observed that, of the \$75.8 million and \$26.3 million in grant funds appropriated during FY 2000-01 and FY 2001-02, \$12.2 million (16%) and \$3.3 million (12.5%), respectively, had not yet been disbursed from the State Treasury. We also noted that, under California State Parks' interpretation that funds are to be encumbered when the department enters into a contract with a grantee to operate a project, the unspent funds should have reverted to the General Fund, because of the legal requirement that encumbered funds be spent within two years.

Subsequent to the release of our September 2004 report, we shared with California State Parks an opinion issued by the Attorney General's Office in 1969, which concluded that a valid encumbrance occurs only when the grantee actually incurs a legal obligation against the contract. Thereafter, we reviewed when funds had been encumbered or spent by each of the grantees, to determine the amount of unspent funds that should revert to the General Fund for failing to meet the prescribed timeframe.

Our encumbrance review found that, of a total of \$33.3 million in grant funds awarded under 98 grants during FY 2000-01 and FY 2001-02, the grantees failed to encumber \$12 million within the prescribed timeframe. Based on the 1969 Attorney General's opinion, the \$12 million would have reverted to the General Fund. However, in a legal opinion dated January 5, 2005, the Attorney General's Office opined that funds must be encumbered within three years from the date they become available. The Attorney General's Office also opined that, assuming that the money is properly encumbered within the three-year period of availability, a department has a total of five years from the date the appropriation is effective to liquidate the appropriation. As a result of the legal opinion, we discontinued the encumbrance review project. However, we have incorporated some of the information gathered during the encumbrance review into this report.

In addition, it should be noted that, because of limitations specified in the funding statutes, grants awarded under the 2000-01 Budget Act are available for a maximum of five years, while grants awarded under the 2001-02 Budget Act are available for only four years. Therefore, any

portion of the \$12 million in unencumbered funds disclosed during our review would revert to the General Fund if it were not spent by June 30, 2005.

Scope, and Methodology

From a list of 96 grantees with projects that had not been completed at the time we issued our survey report on September 13, 2004, we selected 20 grantees for audit. Schedule A of this report provides a listing of the 20 grantees and the amount of the grants that were audited. Grants were selected for audit based on the size of the grant, the amount of documentation available, and the quantity and quality of oversight, as reflected in the project files.

For each of the 20 grantees selected for audit, we performed the following procedures:

- Obtained and reviewed the documentation contained in California State Parks' project files for the grant.
- Interviewed the grantee officials to gain an understanding of the purpose and scope of the grant project.
- Evaluated the grantee's system of internal controls, to assess the adequacy of controls over the use of grant funds and to safeguard grant assets.
- Reviewed the grantee's documentation, to ensure that grant expenditures were necessary, reasonable, and supported by adequate documentation.

Conclusion

Of the \$14.26 million in grant funds awarded to the 20 grantees under audit, we question \$1,113,924 in expenditures made by the grantees. Schedule B provides a summary of the questioned expenditures. We questioned the expenditures primarily because:

- They were not consistent with the purpose of the grant, as specified in the statute.
- Grantees did not provide adequate documentation to support the legitimacy of grant expenditures.

As the administering state agency, California State Parks is responsible for determining whether these expenditures should ultimately be disallowed. For each of the grantees selected for audit, we have prepared a separate report, which is included in this report as Attachment 1.

Additional Observations

Pre-grant scrutiny was inadequate.

Based on the findings of the audit reports, as well as information gathered during the encumbrance review and the review of California State Parks' project files, we made the following observations.

1. In some instances, funds were appropriated to specific organizations or projects without detailed information as to what the money was to be used for.

Under normal conditions, before funds are appropriated, the organization applying for grant funds should develop a proposal that should, at a minimum, provide information concerning:

- The purpose and scope of the grant project.
- The qualifications of the grant applicant to operate the project.
- The estimated total costs of the project.
- Funding sources available to complete the project.
- How grant funds are to be used.
- The milestone for completing the project.

The above information should then be considered during the deliberative process in determining the relative merits of the various proposals before funding decisions are reached. However, during our encumbrance review and audit of selected grants, we found little evidence that relevant grant information had been obtained and considered before the grant funds were appropriated. Given the vagueness in the funding language and the lack of guidance in the Budget Act, California State Parks essentially functioned as a facilitator for the grantees to spend the grant funds within the broad parameters of the funding language.

For some of the grants, it was unclear what the organization intended to do with the money.

In reviewing the grant expenditures, we found that final decisions concerning how grant expenditures were to be spent did not occur until several years after the funds had been appropriated. Therefore, when the funds were appropriated, it was unclear what the organizations intended to do with the grant funds. Following are examples.

- The 2000-01 Budget Act appropriated \$125,000 to San Mateo County for the "Sanchez Adobe site." In the project application, submitted on May 10, 2001, the county proposed to use the money for partial seismic strengthening and roof replacement. More than three years, later, on September 13, 2004, the county submitted another application, proposing to revise the project scope to preparation of a master plan for the adobe. The county apparently had other state funds available for seismic strengthening and roof

replacement, raising the question of what the funds were originally intended for.

- The 2001-02 Budget Act appropriated \$175,000 for the “Children’s Discovery Museum of San Jose.” In its grant application, which was submitted to California State Parks on December 28, 2001, the grantee stated that the money was to be used to “design and construct a 10,000 square foot wing on the eastern side of its facility to house expanded environmental programs. . . .” However, in the grant agreement that was executed between California State Parks and the grantee on March 4, 2002, the stated purpose of the project was “California Discovery Museum of San Jose.” Therefore, despite the process of having the grantee submit an application to define the purpose of the project, California State Parks used the vague language in the funding status for the grant agreement. The grantee eventually used all of the grant funds to pay for the salaries of its executive director, director of development, and administrative manager.

The lack of consistency in the funding statutes concerning the purpose and the legislative intent of grants can cause disparity among the grantees.

In our September 2004 survey report, we noted that it is virtually impossible to establish proper accountability over use of grant funds, because the purpose and the legislative intent of some of the grants is unclear. It would appear that, in many cases, the grants lack specificity because neither the Legislature nor the prospective grantees knew what the grant funds were to be used for before the funds were appropriated. By not providing any specificity, the grantee has the flexibility of using the grant funds in any manner it chooses. However, when a prospective grantee knew what it intended to do with the grant funds and, through the Legislature, provided more specificity in the funding statute, it was held to a higher standard of accountability. Following are examples.

- The 2000-01 Budget Act appropriated \$1,040,000 to the City of La Palma to “construct new community center.” On October 17, 2003, the city manager wrote California State Parks, stating that the city had determined that it would not be viable to proceed with the construction of a new community center and requesting that the project scope be changed to “community center improvements” through the Budget Act. California State Parks rejected the request and the \$1,040,000 will revert to the General Fund. However, had the city not known how it intended to spend the funds, and had the words “community center” appeared in the Budget Act, the city could have administratively changed the project scope and used the grant funds for any community center-related activities. In the aforementioned grant to the County of San Mateo for “Sanchez Adobe site,” the county was able to change the project scope because the project description was vague in the funding statute.

- For some of the grants with more specificity in the funding statute, we reviewed expenditures and questioned those that appear to be inconsistent with the purpose and intent of the grants. For example, in our audit of the Martinez Police Action League, which received a \$98,500 grant to “purchase a computer and a van,” we reviewed expenditures and questioned all that were unrelated to computer and van purchases. We could not do the same for the grants that were vague and lacked specificity.

Some grant funds were spent on projects that provided little tangible value or benefit.

With some projects, there was little clarity as to what the grant funds were to be used for, what the projects intended to do, and what the final product should be. As a result, these projects appear to provide little tangible value or benefit. Following are examples.

- The 2001-02 Budget Act appropriated \$246,500 to the Colour Me Freedom Foundation to establish a Martin Luther King/Cesar Chavez Museum at Crenshaw High School in Los Angeles. After receiving \$221,625 from the State in the form of advance payments, the grantee could provide documentation that supported only \$67,361, which was used to purchase a portable building to house the museum. Since a ribbon-cutting ceremony that was held in July 2001, the portable building has been used by the high school for storage. As we made a site visit in September 2004, the grantee purportedly set up the museum by placing some artifacts in the portable building. However, the building has no utilities and is not accessible to students or the public. In our opinion, which is shared by Crenshaw High School officials, the artifacts in the portable building have, at best, very limited education value.
- The City of Redlands received a total of \$5.2 million from four state grants (two General Fund grants and two bond fund grants) for the development and construction of a multi-purpose sports complex and a local park facility on city-owned property. Later, the city dropped the sports complex project, because it was determined that it would not be feasible to proceed due to possible adverse environmental impact on the San Bernardino kangaroo rat. The city advised us that it is planning to use the remaining grant funds to develop a soccer complex. In the meantime, the city has spent approximately \$1.7 million in grant funds for the planning and design phases of the sports complex. Of the \$1.7 million, \$700,000 was paid to Big League Dreams for consulting services (\$400,000) and licensing fees (\$300,000). The licensing fees allow the city to use the Big League Dreams’ name and logo for the sports complex. Even though the sports complex will not be built, at least within the foreseeable future, Big League Dreams retains the \$700,000.
- The 2000-01 Budget Act appropriated \$98,500 to Homeboy Industries to pay for a portion of the acquisition costs of a piece of land and to construct a new bakery to employ at-risk gang-impacted youths. The land was acquired in December 2000, but no

bakery had been built as of December 2004. Moreover, it is unclear as to when, if ever, the bakery will be built. If the land is later sold, Homeboy Industries can use the proceeds from the sale in any manner it chooses.

Some grantees lacked adequate fiscal controls.

2. ***Grant funds could easily have been misappropriated, because some grantees, especially those that are nonprofit entities, do not have any fiscal controls to ensure that grant funds were spent for legitimate purposes.***

In a document entitled *Procedural Guide for Local Grant Projects Funded by Legislative Grants from Various Sources*, California State Parks specifies that “the grantee shall maintain an accounting system that accurately reflects fiscal transactions, with the necessary controls and safeguards. This system shall provide a good audit trail, including original source documents such as receipts, progress payments, invoices, time cards, etc.” However, we found that many of the grantees did not have adequate internal controls and procedures in place to ensure that grant funds are spent for legitimate purposes and in accordance with program guideline. This problem is prominent among the nonprofit entities (rather than local governmental entities), because some of the nonprofit entities do not have sufficient resources to provide the necessary checks and balances and/or they lack the fiscal sophistication and expertise to properly administer the grants. The following problems were noted.

There is a lack of separation of duties.

We found that it is a fairly common practice among the nonprofit entities for one person to handle all of the financial transactions and duties related to the receipt and disbursement of grant funds as well as to make decisions regarding how grant funds are spent. For example, in the previously noted case of the Colour Me Freedom Foundation, which received \$221,625 in grant funds in the form of advance payments, the executive director received the grant funds, made deposits, prepared checks, signed checks by himself, and was supposed to prepare the bank reconciliation. He was also solely responsible for deciding how to spend the grant funds. In such an environment, one individual can easily misappropriate grant funds, which we believe did occur in the case of the Colour Me Freedom Foundation, because the executive director issued many checks to himself, apparently for personal purposes.

Some grantees do not understand what constitutes adequate documentation to support the legitimacy of project expenditures.

We found that, although some grantees may have incurred legitimate grant expenditures, they did not maintain adequate documentation to demonstrate that such was the case. As a result, we had to identify these expenditures as questionable costs for review and resolution by California State Parks. For example, American Legion Post 397 received a grant of \$14,775 for “Hall Renovation.” The grantee received an advance of \$13,298 and supposedly used the grant funds for re-roofing and to repair and resurface flooring. We found that

checks totaling \$7,859.09 had been written payable to “cash.” While the grantee was able to produce some invoices/receipts from private vendors such as Home Depot, these documents could not be traced to the cancelled checks or bank statements and there was no explanation as to the nature of any of the purchases. Some of the receipts are illegible due to fading and tearing. Based on these records, which are fragmented and incomplete, we have no means of ascertaining that all grant funds were spent for legitimate purposes.

Some grantees do not possess sufficient knowledge or expertise to properly administer grant funds.

We found that some of the grantees, perhaps because they are relatively small in size, do not possess sufficient knowledge to properly administer grant funds. For example, the grant agreement between California State Parks and the grantees stipulates that the “grantee shall use a generally accepted accounting system.” Based on our professional judgment, some of the grantees do not have any idea as to what constitutes a generally accepted accounting system. Following are other examples.

- When auditors requested documentation from the Colour Me Freedom Foundation to support expenditures for a museum that was never completed, the executive director of the foundation asked why this was necessary, since the grant agreement specified a museum and there is a physical resemblance of a museum at the site. He apparently did not understand the need for proper accountability for projects funded by public funds.
- American Legion Post 804 received a grant of \$49,250 for “building purchase and floor and wall renovation.” According to the documents requesting advance payment of 90% of the grant funds, the grantee was supposed to use \$20,000 of the grant funds to acquire title from four individuals who own the building and \$13,542 for a mortgage owed by the four individuals. The remaining grant funds were to be used for repairs. Supposedly based on a verbal contract with the four individual owners of the building, the grantee paid off the \$13,542 mortgage owed by the four individuals and used the grant funds to repair the building. However, as of the completion date of our audit fieldwork for this grant, the grantee could not reach agreement with the four individuals to acquire title of the building for \$20,000. If the grantee is ultimately unable to acquire the building from the four individuals, the grant funds were, in essence, used for the personal benefit of four individuals instead of for the American Legion post.
- The Martinez Police Activities League received a \$98,500 grant pursuant to the 2000-01 Budget Act to “purchase a computer and van.” The grantee used \$1,500 of the grant funds to install cabinets at the Martinez Police Department in exchange for storage containers, which were not even placed in the building where the Martinez Police Activities League is located.

Some grantees do not have any formal policies or procedures governing their procurement activities.

We found that some grantees do not have any written policies or procedures to establish parameters for acquiring goods or services. Therefore, decisions concerning what to buy, from whom to buy, and how much should the goods or products cost rest solely with the subjective judgment of a few individuals (often only one) within the organization. Coupled with the fact that there is little or no separation of duties at many of the organizations, grant funds could easily have been misappropriated. In the previously cited examples of the Colour Me Freedom Foundation, American Legion Post 804, and the Martinez Police Activities League, none of the entities had formal procurement policies or procedures.

Some grant funds were often commingled with others.

The California State Parks' procedural guide stipulates that the grantees' systems "shall also provide accounting data so the total cost of each individual project can be readily determined." We found that most of the grantees with multiple funding sources typically commingle their expenditures instead of segregating such expenditures by specific grant. While there is no prohibition against commingling of funds, this practice represents an internal control weakness, because the grantees could avoid accountability and allocate or reallocate expenditures to grants, sometimes several years after the fact. For example, the Western Center Community Foundation, which received a total of more than \$30 million in state grants from various sources, periodically "reallocates" its expenditures among the various funding sources to suit its needs, such as to avoid having to return funds for failing to spend them within the prescribed timeframe. In addition, in reviewing its expenditures, we noted that the foundation engaged in "fundraising" activities, which is normally a questionable expenditure for public funds. The foundation has other funding sources, such as private donations, that could be used for such activities. However, since all of the foundation's expenditures were commingled, the funding source for such activities was not readily apparent. In any event, when funds were commingled, many of the grantees could not comply with California State Parks' requirement of readily determining the total cost of each individual project.

Some grantees have not taken adequate measures to avoid, at least in appearance, a conflict of interest.

When using public funds, the grantees should take measures to ensure that any actions taken are free from a possible conflict of interest. However, we found the following circumstances, which, at least in appearance, raised questions about a possible conflict of interest.

- From 1998 through 2001, the Western Center Community Foundation (WCCF) received a total of approximately \$30.3 million in state grants to construct the Western Center for Archeology museum. According to WCCF's records, out of \$2.28

million in total expenditures incurred from late 1998 through November 2004, it paid the University of California at Riverside (UCR) \$586,384, supposedly for ten research projects during 2000 and 2001. The Chancellor of UCR was a founding board member and served on the WCCF board until November 1, 2002, when he became a director emeritus. Further review of WCCF's records shows that, on July 1, 1999, WCCF entered into a contract with UCR for \$430,062 to complete ten research projects. Given the remote location of WCCF, there may have been a legitimate business need for WCCF to contract with UCR for needed research work. However, WCCF paid UCR \$586,384, which is \$146,532 above the contract amount, without requesting a contract amendment to show why the additional funds were necessary and that the increase in funding had been properly approved by responsible officials. Moreover, according to current officials at WCCF, despite the fact that the amount spent significantly exceeded the contract amount, UCR did not complete all of the ten projects and some projects may not have been initiated at all, raising questions as to whether such research was necessary in the first place. The current officials of WCCF do not have up-to-date information on the status of the ten projects, because the completed work is stored at UCR and is available to WCCF if and when it is needed.

- Under the research contract, WCCF reimbursed UCR for salaries, stipends, and benefits for staff members, including a UCR professor who was the project leader and the "Principal Investigative Professor." However, in addition to the amount invoiced and paid to UCR, WCCF separately made another \$40,742 in payments to the professor, who invoiced WCCF using UCR letterhead. According to the professor's invoices, the services were for furtherance of development of WCCF. The WCCF staff could not locate any contract between WCCF and the professor describing the service to be performed or the terms and conditions for payment. On some WCCF letterhead, the professor is listed as a staff member of WCCF. The professor also attended most board meetings and apparently participated in decisions or discussions concerning the grantee's contracting practices.
- The WCCF board contracted with one of its members to serve as its chief financial officer. Although the contract supposedly expired in February 2004, the grantee continued to make payments to this individual. Moreover, while the contract specified that the chief financial officer would be paid \$65,000 per year, payable in equal installments, for working a minimum of 15 hours per week, that person has been paid \$7,500 per month, or \$90,000 per year. Moreover, the grantee has no documentation that the individual worked at least 15 hours per week. WCCF paid a total of \$217,917 to this individual (\$45,417 in FY 2002, \$90,000 in FY 2003, and \$82,500 in FY 2004). It should be noted that WCCF's bylaws stipulate that "the directors shall serve without compensation except that they shall be allowed and paid their actual and necessary expenses incurred in attending the meetings of the Board."

- Breed Street Shul Project, Inc., received a grant of \$492,500 for seismic reinforcement, roof replacement, and other infrastructure needs of the Breed Street Shul, a historic site listed in the National Register of Historic Places. The grantee received millions of dollars in grant funds from other federal and state funding sources. Yet, one individual (the vice president) has control over all financial transactions relating to receipt and disbursement of all grant funds, including receiving incoming checks, making deposits, preparing checks, signing checks (only one signature is required), and performing the monthly reconciliation. The same individual also owns an architectural firm, which, according to the grantee's records, provided approximately \$60,000 in services to Breed Street Shul. According to an attorney representing Breed Street Shul, who is also a board member, the services were performed pursuant to a verbal contract between Breed Street Shul and the architectural firm owned by the vice president.

Greater state oversight was needed.

3. The State should have provided greater oversight, especially over those grantees that posed a higher risk.

For the grantees that pose a higher risk, there is a greater need for state oversight, to ensure proper accountability over the use of grant funds. Factors that place grantees into the high-risk category include, but are not limited to, high dollar value, weak internal controls, and lack of program knowledge or expertise. During our review, we noted the following conditions.

Very few interim site visits were conducted to ensure that the projects were proceeding as intended and funds were being properly spent.

The grant agreement between California State Parks and its grantees stipulates, "Grantee shall permit periodic site visits by the State to determine if development work is in accordance with the approved Project Scope including a final inspection upon Project completion." In reviewing the project files maintained by California State Parks, we did not find any evidence of interim field visits by the project officers for 19 of the 20 grantees that we audited until after we announced our review in August 2004 (interim field visits were performed for the City of Yucaipa). The 20 grantees were selected for audit because they were considered high risk, based on the risk factors listed above.

Since August 2004, the California State Parks staff did perform site visits of most of the 20 grantees that we selected for audit. Because the 20 projects were all funded during FY 2000-01 or FY 2001-02, it would have been two to three years before there were any field visits by the California State Parks staff. Since many of the grantees had already received 90% of the grant funds in the form of advances, some of the funds could have been misappropriated without the department's knowledge. Had periodic site visits been made, California State Parks may have learned of the following situations.

- The portable building that was supposed to house the Martin Luther King/Cesar Chavez Museum was used solely as a storage site. Since its placement at Crenshaw High School, the building has had no utilities and has been inaccessible to the students or the public.
- As noted previously, the Martinez Police Activities League received \$98,500 in grant funds to purchase computers and a van for its youth center. The youth center shut down indefinitely after the equipment was purchased, because the only individual responsible for the youth center operation had other personal commitments. Two laptop computers purchased with grant funds have been kept at the homes of two individuals, one of whom is no longer involved with the program. The van has been stored at the city police department and was so infrequently used that some individuals had to drive it occasionally to recharge the battery. California State Parks apparently had questions about the status of the project in August 2003, because its project file contains the notation, “it is possible that there is no PAL activity right now.” Had a site visit been made, California State Parks would have been aware of this situation and possibly could have intervened to ensure that equipment purchased with state funds was put to better use, even though program funds had already been spent. However, California State Parks did not find out about the situation until nine months later, in May 2004, when a staff member called the grantee and was told that the project contact has been out on leave and that the project was expected to be fully operational by July 2004. The project was still inactive when we made our visit in November 2004, and we were later informed that the youth center was being reopened in January 2005. We made a follow-up inquiry in March 2005 and, according to the grantee, the youth center is now “somewhat” open.

There is no requirement for the grantees to submit periodic progress reports.

Even though the grantees may have received up to 90% of grant funds in the form of advances, they were not required to submit periodic reports on the progress and status of the projects. Periodic progress reporting is a necessary and useful management tool to monitor and track the status of projects. Because of limited staff resources, it may not have been feasible for California State Parks to conduct interim site visits of all grant projects. However, had the department required the grantees to submit periodic progress reports, reviewed the progress reports, and proactively conducted site visits on an as-needed basis, some of the conditions noted in this report might have been prevented.

Unneeded grant funds did not promptly revert to the General Fund.

Santa Barbara Zoological Gardens received a grant of \$329,975 under the 2000-01 Budget Act for an “animals contact yard and outreach program.” The grantee discontinued the outreach program in February 2003 after incurring \$85,055 in expenses for the program. The grantee also decided that it would not be feasible to proceed with the animals contact yard. According to the executive director, he repeatedly told the California State Parks staff that the project had been cancelled and that the grantee would not be requesting any more grant funds. However, the California State Parks staff insisted that the grant remain open until June 30, 2005. The unneeded grant funds could have been redirected to meet other public needs.

Payments based on documentation clearly indicate that expenditures had been incurred prior to execution of the grant agreement.

Vista Del Mar received a \$197,000 grant under the 2000-01 Budget Act to partially fund the construction of a community treatment center to serve seriously mentally ill children and adolescents. The grant agreement was executed on September 17, 2001, and California State Parks paid the grantee \$177,300 in the form of an advance on October 27, 2001. As support for its expenditures, Vista Del Mar submitted documentation of \$353,329 in expenditures that were clearly marked as incurred and paid from December 30, 1998, through December 30, 1999. It was not until October 2004, after we initiated our audit, that California State Parks contacted the grantee by e-mail to request documentation to support its expenditures. The e-mail message also requested documentation that, according to California State Parks’ procedures, should have been required prior to disbursement of any state funds. The required documents included a cost estimate, articles of incorporation, authorizing resolution, and a California Environmental Quality Act (CEQA) compliance form. According to the grantee, a California State Parks project officer left a voicemail message on October 7, 2004, stating that the remaining grant money, which is supposed to be available until June 30, 2005, would be rescinded if the grantee did not provide the requested documents by the close of business the same day.

There is a lack of coordination between state agencies providing grant funding for the same project.

As noted previously, the Western Center Community Foundation (WCCF) received a total of \$30.3 million for construction of a museum. Of the \$30.3 million, \$27.8 million was appropriated under the California State Parks’ budget, funded either through the General Fund or bond proceeds, from FY 1998-99 through FY 2002-03. In addition, through the 2001-02 Budget Act, the Legislature appropriated another \$2.5 million to WCCF for the same project under the budget of the California Arts Council.

We could not find any evidence of coordination between the two state agencies regarding the release of grant funds. Shortly after the Budget Act was enacted, the California Arts Council on November 14, 2001, paid the entire \$2.5 million to WCCF, even though WCCF had sufficient funds to meet its ongoing needs. According to its records, as of June 30, 2001, WCCF had received a total of \$1,284,595 from California State Parks in the form of advances and had incurred \$822,092 in total expenditures. Then, despite the fact that WCCF incurred only \$561,462 in expenditures during FY 2002-03, California State Parks issued another advance payment of \$1.5 million to WCCF in April 2003. Three years later, in November 2004, of the \$2.5 million WCCF had received from the California Arts Council in November 2001, it still had a balance of \$2,339,288. Clearly, WCCF received much more in grant funds than was justified by its immediate cash needs.

Recommendations

Due to its budget deficits, the State funded only one legislative grant project during FY 2002-03 and none for FYs 2003-04 and 2004-05. However, should the State decide to embark on such a program in the future, the following actions are recommended.

1. A formal process should be developed to review and evaluate requests by legislative members for specific grants. As part of the process, the prospective grantee should be required to provide, at a minimum, information regarding the nature and purpose of the grant, the total cost of the project, all available funding sources to complete the project, timelines, milestones, and other pertinent information. Any grant funded should contain enough specificity to enable a clear understanding as to legislative intent, the specific purpose of the grant, and how grant funds are to be used.
2. The Administration should convene a task force to develop guidelines and procedures to promote uniform and consistent administration of grant funds and operations among the agencies and departments within the executive branch of state government. The guidelines and procedures should, at a minimum, include:
 - Procurement policies and procedures
 - Internal control requirements
 - Program policies, guidelines, and procedures
 - Payment processes and procedures, including the documentation requirement for each type of payment request.
 - Periodic project status or progress reports
 - Project monitoring

- Project audits
 - Allowable costs vs. unallowable costs
3. Given the significant amount of state funding (in excess of \$30 million) involved at the Western Community Center Foundation (WCCF) and the apparent conflict of interest, we recommend that California State Parks closely monitor the activities of WCCF through the completion of the project, to ensure that public funds are properly spent.

**Schedule A—
State Controller’s Office
Grants Selected for Full-Scale Audits**

Agency Name	Grant Number	Project Amount
City of Yucaipa – 2 grants (\$2,265,500, \$1,970,000)	GF-36-025/21	\$ 4,235,500
City of Redlands – 2 grants (\$1,970,000, \$738,750)	GF-36-019/28	2,708,750
Western Center Community Foundation	GF-33-015	2,216,250
Mission Trails Regional Park	GF-37-069	985,000
Fremont Seismic Retrofit	GF-01-007	985,000
Breed Street Shul Project, Inc.	GF-19-126	492,500
Slavonic Cultural Center	GF-38-026	394,400
Santa Barbara Zoological Gardens	GF-42-006	329,975
Eagle Rock Community PR Inc.	GF-19-083	295,500
Barrio Action Group	GF-19-093	246,250
Colour Me Freedom Foundation	GF-19-155	246,250
PF Bresee Foundation	GF-19-139	246,250
Vista Del Mar Child & Family Services	GF-19-098	197,000
Children's Discovery Museum	GF-43-015	172,375
Boys & Girls Club of San Pedro	GF-19-150	123,125
City of Anaheim Pearson Park	GF-30-027	123,125
Homeboy Industries	GF-19-094	98,500
Martinez Pal	GF-07-005	98,500
American Legion Post 804	GF-19-151	49,250
American Legion Post 397	GF-19-152	14,775
Total		<u>\$ 14,258,275</u>

Schedule B— State Controller's Office Summary of Questioned Costs

Agency Name	Grant Number	Grant Amount	Questionable Amounts	Reason Questioned	Report Reference
City of Yucaipa - 2 grants (\$2,265,500, \$1,970,000)	GF-36-025/21	\$ 4,235,500	\$ 14,740	Inadequate supporting documentation	1-1
City of Redlands - 2 grants (\$1,970,000, \$738,750)	GF-36-019/28	2,708,750	—	None noted	1-2
Western Center Community Foundation	GF-33-015	2,216,250	606,805	Inadequate supporting documentation	1-3
Mission Trails Regional Park	GF-37-069	985,000	—	None noted	1-4
Fremont Seismic Retrofit	GF-01-007	985,000	—	None noted	1-5
Breed Street Shul Project, Inc.	GF-19-126	492,500	60,334	Inadequate supporting documentation, and expenditure not consistent with purpose of grant	1-6
Slavonic Cultural Center	GF-38-026	394,400	11,545	Expenditures not consistent with purpose of grant, and improper use of insurance proceeds to pay off mortgage instead of offsetting related program expenditures	1-7
Santa Barbara Zoological Gardens	GF-42-006	329,975	—	None noted	1-8
Eagle Rock Community PR Inc.	GF-19-083	295,500	—	None noted	1-9
Barrio Action Group	GF-19-093	246,250	221,625	Expenditures not consistent with purpose of grant	1-10
Colour Me Freedom Foundation	GF-19-155	246,250	154,264	Inadequate supporting documentation	1-11
PF Bresee Foundation	GF-19-139	246,250	—	None noted	1-12
Vista Del Mar Child & Family Services	GF-19-098	197,000	—	None noted	1-13
Children's Discovery Museum	GF-43-015	172,375	—	None noted	1-14
Boys & Girls Club of San Pedro	GF-19-150	123,125	—	None noted	1-15
City of Anaheim Pearson Park	GF-30-027	123,125	—	None noted	1-16
Homeboy Industries	GF-19-094	98,500	—	None noted	1-17
Martinez Pal	GF-07-005	98,500	12,473	Expenditures not consistent with the purpose of the grant, and inadequate supporting documentation	1-18
American Legion Post 804	GF-19-151	49,250	18,840	Expenditures not consistent with the purpose of the grant	1-19
American Legion Post 397	GF-19-152	14,775	13,298	Inadequate supporting documentation	1-20
Total		<u>\$ 14,258,275</u>	<u>\$ 1,113,924</u>		

**Attachment 1—
Audit Findings
by Grantee Agency**

CITY OF YUCAIPA**BACKGROUND**

Grant Number: GF-36-021 and 025

Date of Grant Award: August 09, 2000

Purpose of the Grant (Per 2000-01 Budget Act): City of Yucaipa: Community Center/Gym (both grants).

Project Description: Construction of a Community Center and Gymnasium for the City of Yucaipa.

Grant Amount: \$4,235,500 (\$2,265,500 and \$1,970,000)

Payment Amount: \$4,204,620. The grants have been fully disbursed as of October 27, 2004, our site visit date, with the exception of \$30,880. The total project cost exceeded the grant amounts; however, due to interest earned on the advances, \$30,880 of the grant will not be requested.

QUESTIONABLE COSTS

We questioned \$14,740 of in-house labor costs that were not sufficiently supported. The city did not maintain time logs detailing the time spent on the project and the activity performed during the hours claimed, as required by California State Parks' Procedural Guide for Local Grant Projects Funded by Legislative Grants From Various Sources, which was provided to the grantee upon the award of the general fund grant. The city was able to provide a spreadsheet after the fact, compiled from calendars of various staff members.

REPORTABLE CONDITIONS

We noted that the city's internal controls are weak. The city accounting unit consists of three employees, including the financial manager, whose duties include approval of expenditures, performance of various cash receipts and disbursement duties, and reconciliation. The financial manager has the ability to establish and delete vendor information in the accounting system, manipulate cash receipt, and disbursement transactions, make deposits, and process, produce, and sign city checks, all with minimum oversight. City officials explained that the city is fairly new, established in 1989, and does not have the budget of larger cities; thus, separation of duties is not easily accomplished.

CONCLUSION

We concluded that the City of Yucaipa maintained sufficient supporting documentation, with the exception of in-house labor costs. However, the city lacked adequate internal controls to help ensure that assets, including public grant funds, are properly safeguarded.

GRANTEE RESPONSE

An exit conference was held with the City of Yucaipa on February 10, 2005. The grantee informed us that, although the city is small and separation of duties is lacking, there are compensating oversight controls in place to ensure that assets are properly safeguarded.

CITY OF REDLANDS**BACKGROUND**

Grant Number: GF-36-019 and GF-36-028

Date of Grant Award: October 26, 2000

Purpose of the Grant (Per 2000-01 Budget Act): City of Redlands Sports Complex Development and Local Park Facility.

Project Description: This project includes the design and development of a major complex in the City of Redlands, to serve the current and future recreational needs of the community. The project includes facilities for adult and youth programs for softball, soccer, basketball, and other outdoor sporting and recreational activities.

Grant Amount: \$738,750 and \$1,970,000

Payment Amount: \$73,875 and \$683,767 (reimbursement) as of November 19, 2004, site visit date.

QUESTIONABLE COSTS

None Noted.

REPORTABLE CONDITIONS

The City of Redlands received \$5.2 million from four state grants (two General Fund grants and two Bond Fund grants) for the development and construction of a sports complex and a local park facility on 120 acres of city-owned property. Later, the city dropped the sports complex because it was determined that it would not be feasible to proceed due to a possible adverse environmental impact on the San Bernardino kangaroo rat. In the meantime, the city has spent approximately \$1.7 million, including \$700,000 that was paid to Big League Dreams for consulting services (\$400,000) and licensing fees (\$300,000). The licensing fees allow the city to use the Big League Dreams' name and logo for the sports complex. Even though the sports complex is no longer being built, at least within the foreseeable future, Big League Dreams retains the \$700,000. Typically, an environmental impact review is done during the first stages of construction on any site, far before the design phase and, certainly, before advertising and maintenance agreements are implemented.

Additionally, the city commingled the grants in one account and the expenditures for both of the projects were paid from the same account; the city did not identify the two projects using a separate fund for each project within the one account. Thus, it was not possible to determine which of the grant funds were used to pay for the various expenditures for the two projects.

Since our review, the City of Redlands has asked to use the remaining balance from the Local Park Facility Fund (GF-36-028), approximately \$1,782,000 (\$1,970,000-\$188,000), to acquire another property on which to build a local park facility. We understand the facility is to be used as a soccer complex and the city is communicating with California State Parks to determine if this is allowable.

CONCLUSION

We concluded that the City of Redlands maintains sufficient supporting documentation and has adequate internal controls in place that help to ensure that the public funds are properly safeguarded, although the grants should be maintained in a separate account and expenditures should be posted to the appropriate fund. Further, greater state oversight is needed to ensure the legality and propriety of grant expenditures.

GRANTEE RESPONSE

On February 17, 2005, we performed an exit conference with the City of Redlands senior civil engineer, director of the project. The following was the city's response regarding the reported concerns:

“The environmental study was nearly completed and showed that the project was environmentally feasible. The design went forward to meet a pending funding deadline and was based on good faith that the U.S. Fish and Wildlife Services (USFWS) would issue a biological opinion as promised within 135 days of issuing the formal consultation for a Section 7 for the project. Initial discussions with the USFWS led us to believe that we could easily mitigate with about 7 acres of onsite property. Conditions changed during the consultation and a biological opinion was never issued. In addition, funds for the local park were only spent on design fees for the soccer fields area.”

WESTERN CENTER COMMUNITY FOUNDATION

BACKGROUND

Grant Number:	GF-33-015
Date of Grant Award:	April 24, 2001
Purpose of the Grant (Per 2000-01 Budget Act):	Western Center for Archeology and Paleontology Construction.
Project Description	Construction of the Western Center for Archeology (per agreement between the grantee and California State Parks)
Grant Amount:	\$2,216,250
Payment Amount:	\$1,994,625 (reimbursement as of December 31, 2004)

QUESTIONABLE COSTS

We question a total of \$606,805, which consisted of the following expenditures: \$19,329 for computers purchased and held at a high school for an unrelated purpose; salary expenditures of \$109,121 for staff members at Mt. Jacinto College; \$129,571 to a University of Riverside (UCR) professor hired as the grantee's interim executive director; \$53,200 for yet another interim executive director; and \$40,742 for other staff support at UCR, due to inadequate support. Further, we question \$217,917 for payments to the chief financial officer of Western Center Community Foundation (WCCF) and a board member that lacked supporting documentation. Lastly, we question payment of \$36,925 to Applied Earthworks to inventory bones that were not owned or in the trust of WCCF; \$7,000 of this was paid directly to the owner of the bones to assist in the inventory process.

REPORTABLE CONDITIONS

The grantee has not taken adequate measures to avoid, at least in appearance, a conflict of interest. From 1998 through 2001, the WCCF received a total of approximately \$30.3 million in state grants to construct the Western Center for Archeology museum. According to WCCF's records, out of \$2.28 million in total expenditures incurred from late 1998 through November 2004, it paid UCR \$586,384, supposedly for 10 research projects, during 2000 and 2001. The chancellor of UCR was a founding board member and served on the WCCF board until November 1, 2002, when he became a director emeritus. Further review of WCCF's records shows that, on July 1, 1999, WCCF entered into a contract with UCR for \$430,062 to complete 10 research projects. Given the remote location of WCCF, there may have been a legitimate business need for WCCF to contract with UCR for needed research work. However, WCCF paid UCR \$586,384, which is \$146,532 above the contract amount, without requesting a contract amendment to show why the additional funds were necessary and that the increase in funding had been properly approved by responsible officials. Moreover, according to current officials of WCCF, despite the fact that the amount spent significantly exceeded the contract amount, UCR did not complete all of the 10 projects and some projects may not have been initiated at all, raising questions as to whether such research was necessary in the first place. The current officials of

WCCF do not have up-to-date information on the status of the 10 projects, because the completed work is stored at UCR and is available to WCCF if and when it is needed.

Under the research contract, WCCF reimbursed UCR for salaries, stipends, and benefits for staff members, including a UCR professor who was the project leader and the “Principal Investigative Professor.” However, in addition to the amount invoiced and paid to UCR, WCCF separately paid another \$40,742 to the professor, who invoiced WCCF using UCR letterhead. According to the professor’s invoices, the services were for furtherance of the development of WCCF. The WCCF staff could not locate any contract between WCCF and the professor describing the service to be performed or the terms and conditions for payment. Although the professor is not formally listed as a board member, we found some WCCF letterhead listing him as a staff member who attended almost every board meeting and played a major role in the decisions the board implemented.

The WCCF board contracted with one of its members to serve as its chief financial officer. Although a contract was executed, it showed that the contract had expired in February 2004; however, the grantee continued to make payments to this individual. Moreover, while the unsigned contract specified that the chief financial officer would be paid \$65,000 per year, payable in equal installments, for working a minimum of 15 hours per week, that person was paid \$7,500 per month, or \$90,000 per year. Moreover, the grantee has no documentation that the individual worked at least 15 hours per week. WCCF paid a total of \$217,917 to this individual (\$45,417 in FY 2002, \$90,000 in FY 2003, and \$82,500 in FY 2004). It should be noted that WCCF’s bylaws stipulate that “the directors shall serve without compensation except that they shall be allowed and paid their actual and necessary expenses incurred in attending the meetings of the Board.”

Further, we question the lack of coordination between state agencies providing grant funding for the same project. As noted previously, WCCF received a total of \$30.3 million for construction of a museum. Of the \$30.3 million, \$27.8 million was appropriated under the California State Parks’ budget, funded either through the General Fund or bond proceeds, from FY 1998-99 through FY 2002-03. In addition, through the 2001-02 Budget Act, the Legislature appropriated another \$2.5 million to WCCF for the same project under the budget of the California Arts Council.

We could not find any evidence of coordination between the two state agencies regarding the release of grant funds. Shortly after the Budget Act was enacted, the California Arts Council on November 14, 2001, paid the entire \$2.5 million to WCCF, even though WCCF had sufficient funds to meet its ongoing needs. According to its records, as of June 30, 2001, WCCF had received a total of \$1,284,595 from California State Parks in the form of advances and had incurred \$822,092 in total expenditures. Then, despite the fact that WCCF incurred only \$561,462 in expenditures during FY 2002-03, California State Parks issued another advance payment of \$1.5 million to WCCF in April 2003. Three years later, in November 2004, of the \$2.5 million WCCF had received from the California Arts Council in November 2001, it still had a balance of \$2,339,288. Clearly, WCCF received much more in grant funds than was justified by its immediate cash needs.

CONCLUSION

We concluded that, given the significant amount of state funding (in excess of \$30 million) involved at WCCF, and the apparent control deficiencies, California State Parks should closely monitor the activities of WCCF through the completion of the project, to ensure that public funds are properly spent.

GRANTEE RESPONSE

We held an exit conference on February 17, 2005, with the WCCF chief financial officer and a board member, who, in summary, stated that all of the expenditures questioned can be supported and were appropriately expended. They also said that some of the costs questioned were paid using public funds other than the California

State Parks grant funds and they had no restrictions; thus, we should not question such expenditures. Further, the officials stated that all contracts were properly implemented and other documents are available for review. Lastly, the officials informed us that there was “authorization by the Board of Directors on 2-1-02 to hire a Board member to manage the planning, design, and construction of the Western Center museum and to organize the business functions of the organization as the organization began to function as a business. Monthly time logs and summary of the time spent are available at the Western center offices. The WCCF Bylaws prohibit Board of Directors members for being paid for Board activities but do not prohibit hiring a board member to provide service as a staff member to the WCCF.”

MISSION TRAILS REGIONAL PARK

BACKGROUND

Grant Number: GF-37-069

Date of Grant Award: March 21, 2001

Purpose of the Grant (Per 2000/01 Budget Act): Mission Trails Regional Park Foundation: Mission Trails Regional Park – Equestrian and Ranger Station.

Project Description: Mission Trials Regional Park – Equestrian and Ranger Station (Per California State Parks).

Grant Amount: \$985,000

Payments to Date: \$886,500 (as of September 2004)

QUESTIONABLE COSTS

None

REPORTABLE CONDITIONS

None

CONCLUSION

We concluded that the grant funds have been expended according to their purpose. Mission Trails Regional Park maintains sufficient supporting documentation and has adequate controls in place to help ensure that the organization's assets, including public funds, are properly safeguarded.

GRANTEE RESPONSE

An exit conference was held with an official from Mission Trails Regional Park on March 1, 2005. The grantee responded as follows: "SCO's results were anticipated, we are pleased with the results of the review."

COMMITTEE FOR RESTORATION OF MISSION SAN JOSE
FREMONT SEISMIC RETROFIT AND REPAIRS

BACKGROUND

Grant Number: GF-01-007

Date of Grant Award: November 30, 2000

Purpose of the Grant (Per 2000/01 Budget Act): Committee for Restoration of Mission San Jose: Fremont Seismic Retrofit and Repairs.

Project Description: Fremont Seismic Retrofit and Repairs (Per California State Parks).

Grant Amount: \$985,000

Payments to Date: \$886,500 (as of November 2, 2004)

QUESTIONABLE COSTS

None

REPORTABLE CONDITIONS

None

CONCLUSION

We concluded that the grant funds have been expended according to their purpose. The Committee for Restoration of Mission San Jose Fremont Seismic Retrofit maintains sufficient supporting documentation and has adequate controls in place to help ensure that the organization's assets, including public funds, are properly safeguarded.

GRANTEE RESPONSE

An exit conference was held with officials of Fremont Seismic Retrofit on February 15, 2005. The grantee's response was as follows: "Our Board of Directors are very pleased with the results of the review."

BREED STREET SHUL

BACKGROUND

Grant Number: GF-19-126

Date of Grant Award: August 20, 2001

Purpose of the Grant (Per 2001-02 Budget Act): Breed Street Shul Project, Inc: Breed Street Shul

Project Description: Project includes seismic reinforcement, roof replacement, and other infrastructure needs to the Breed Street Shul, listed in the National Register of Historic Places and City of Los Angeles Historic Cultural Monument #359.

Grant Amount: \$492,500

Payment Amount: \$443,250 as of September 27, 2004, the date of our site review.

QUESTIONABLE COSTS

We question \$60,334 of the grant expenditures being reported by Breed Street Shul (BSS). Of the questioned costs, \$59,864 consists of labor costs for staff members of an architectural firm owned by the vice president of BSS. The cost are questionable because the hours claimed did not provide detail of the activity performed while working on the project, as required by the manual issued by the Department of Parks, entitled *Procedural Guide for Local Grant Projects Funded by Legislative Grants From Various Sources*.

Although time logs were provided, the logs did not identify the activity the staff members performed while working on the BSS project. The logs provided the employee names and the hours worked on BSS by day and week; however, no description of the type of worked performed was noted. Further, no written contract existed between the architectural firm and BSS. According to an attorney representing BSS, who is also a board member, the services were performed pursuant to a verbal contract between BSS and the architectural firm owned by the vice president of BSS.

Additionally, \$470 of costs incurred for parking tickets is being questioned because the costs are not within the intended purpose of the grant, per the statutes. Fines for violations of law are not considered an appropriate use of public funds.

REPORTABLE CONDITIONS

We found that the internal controls of BSS are weak and do not provide adequate safeguards over the use of public funds. BSS, which received a grant of \$492,500 from California State Parks in addition to millions of dollars in grant funds from other federal and state funding sources, has assigned one individual (the vice president) control over all financial transactions relating to receipt and disbursement of all grant funds, including receiving incoming checks,

making deposits, preparing checks, signing checks (only one signature is required), and performing the monthly reconciliation.

We noted that BSS has inadequate policies and procedures in place to ensure that proper procurement processes are being followed with regard to public funds. The same individual who controls the financial transactions also owns an architectural firm, which, according to the grantee's records, provided approximately \$60,000 in services to BSS (noted above as questionable costs), raising questions about a possible conflict of interest.

We noted that BSS commingled both state and federal grant funds within the same account rather than depositing them in separate interest-bearing accounts. In reviewing BSS records, we noted that BSS often commingled various funds with those of the Jewish Historical Society, a parent nonprofit organization. Additionally, the auditors noted that BSS used other public funds, both federal and state, as matching funds for other awarded grants. Although there is no prohibition against commingling of funds, such a practice represents further internal control deficiencies.

CONCLUSION

We concluded that BSS lacked adequate controls to help ensure that assets, including public grant funds, are properly safeguarded. We concluded that the grantee did not take adequate measures to avoid, at least in appearance, a conflict of interest. We concluded that BSS did not properly separate various grant funds into individual interest-bearing accounts and commingled other nonprofit funds with BSS funds. Additionally we concluded that BSS used other public funds for matching requirements, which may be prohibited by some grant guidelines. Lastly, we concluded that BSS did not have any formal policies or procedures governing its procurement activities.

GRANTEE RESPONSE

An exit conference was held with BSS officials on February 11, 2005. The grantee's response is as follows:

"BSS is pleased to note that the report of the SCO Auditors indicates no fraud, misappropriation of funds, or other intentional wrong-doing on the part of BSS. A number of months ago, immediately after BSS learned of the SCO auditors' concerns regarding its systems and procedures, BSS began actively working to address the matters ultimately raised in this report, specifically by: (1) entering into a written contract between BSS and Robert Chattel Architecture; (2) obtaining reimbursement of costs incurred for parking tickets (although such costs were not paid from the proceeds of any public grant); (3) strengthening internal controls and installing a separation of duties for this all-volunteer organization; (4) establishing different bank accounts for BSS to manage the separation of private sources of funds from public sources of funds; and (5) undertaking to confirm that any public money used as matching funds for a public grant are permitted to be used as such. Additional steps to ensure the proper safeguard of public grant funds and to avoid any appearance of a conflict of interest are under review and will be taken on an ongoing basis."

SLAVONIC CULTURAL CENTER

BACKGROUND

Grant Number: GF-38-026

Date of Grant Award: September 10, 2001

Purpose of the Grant (Per 2001-02 Budget Act): Slavonic Cultural Center building renovation

Project Description: Slavonic Cultural Center building renovation additions and interior improvements to cultural center.

Grant Amount: \$394,000

Payment Amount: \$212,653 (various advances and reimbursements) as of September 13, 2004, the date of our site visit.

QUESTIONABLE COSTS

We questioned \$11,545 of reported grant expenditures. Based on the scope of the grant, as specified in the funding statute, the grantee appears to have expended grant funds for items contrary to the intended purpose of the grant.

We found that the following expenditures were not within the scope or grant purpose:

- Economy Restaurant Fixtures, for forks, knives, and dishes (\$540), a serving cart (\$672), and kitchen fixtures (\$623);
- Kitchen range repair (\$813);
- S.S.F. Regurgitation to repair freezer (\$287) and refrigerator (\$1,860);
- Ismael Ramirez, for out-of-pocket expenses such as faxes, copies, and travel (\$250).

The questionable items total \$5,045. In addition, we questioned \$6,500 in roof expenditures for which the grantee received reimbursements from its insurance company. Instead of using the insurance proceeds to reduce grant expenditures, the grantee used the funds to reduce the mortgage held on the center.

REPORTABLE CONDITIONS

We found internal control weaknesses, including lack of separation of duties and proper safeguarding of assets. The organization is small, with no employees, and maintains its accounting records on a manual system. The president of the nonprofit handles the accounting with little to no oversight by the board. The president receives, records, and deposits incoming receipts (including public funds); prepares disbursements; and issues checks, without a second signature required for larger dollar amounts. Invoices are not stamped “paid” or “void” to

prevent duplicate payments. Additionally, the grantee did not follow the Public Contract Code regarding the procurement process for public funds; no formal or informal bidding processes were followed. The grantee awarded contracted work using handymen or word-of-mouth recommendations.

CONCLUSION

We concluded that the Slavonic Cultural Center expended \$11,545 of grant funds that was outside the scope of the grant as stated in the statute. We concluded that the grantee lacked adequate internal controls and proper safeguarding of assets. We concluded that a stronger presence of state oversight is needed to assist in ensuring that grant funds are spent appropriately and in accordance with the grant purpose, as stated in the grant statute.

GRANTEE RESPONSE

An exit conference was held with the president of Slavonic Cultural Center on February 11, 2005. The grantee responded by stating that he was unaware that the fixtures purchased were not within the intended purpose of the grant. Further, he stated that the first California State Parks project manager allowed the costs and told the grantee that such costs were considered part of building renovation. The grantee stated that there have been many project managers since. Additionally, the grantee stated that the portion of the roof for which insurance proceeds were received was not the portion that grant funds were used to repair; thus, from his understanding, an offset was not required. Lastly, the grantee stated that the organization is very small and separation of duties is not possible; however, the grantee stated that the center attempts to compensate for the lack of internal controls by having oversight controls in place, such as board review of expenditures. The grantee stated that California State Parks has recently disallowed some expenditures; however, the department has not preformed a site inspection since before the grant funds were first disbursed.

SANTA BARBARA ZOOLOGICAL GARDENS**BACKGROUND**

Grant Number: GF-42-006

Date of Grant Award: August 16, 2000

Purpose of the Grant (Per 2000-01 Budget Act): Santa Barbara Zoological Gardens animals contact yard and outreach program

Project Description

The creation of an animal contact yard at the Santa Barbara Zoological Gardens will help meet the Zoo's educational goals for the community. Exhibits that provide visitors with the opportunity to touch animals help stimulate a sense of wonder about all living things and create memorable learning experiences. These multi-sensory experiences ensure that everyone who participates will gain something.

The natural extension of the contact program on the Zoo grounds is a similar "contact" opportunity for tri-county audiences off the Zoo grounds – an outreach program using live animals. The "Zoomobile" will take selected education animals from the Zoo's collection to schools, hospitals, nursing homes and other special care facilities in order to share the wonder of wildlife.

Grant Amount: \$329,975

Payment Amount: \$85,055 (reimbursements) as of October 21,2004, the date of our site visit.

QUESTIONABLE COSTS

None Noted.

REPORTABLE CONDITIONS

Santa Barbara Zoological Gardens received a grant for an "animals contact yard and outreach program"; however, after a short period and expenditures of \$85,055, consisting mainly of the salaries of actors imitating animals, the program was discontinued. The grantee also decided that it would not be feasible to proceed with the animal contact yard. According to the executive director, he repeatedly told the California State Parks staff that the project had been cancelled and that the remaining funds of \$244,920 would not be requested. However, according to the director, California State Parks' project manager insisted that the grant remain open until June 30, 2005, the expiration date of the funds. The unneeded grant funds could have been redirected to meet other public needs.

Additionally, the grantee did not offset revenues received from schools and other events during the life of the program. The grantee has agreed to review the revenue received from the program and offset the related costs accordingly.

CONCLUSION

We concluded that Santa Barbara Zoological Gardens maintains sufficient supporting documentation and has adequate internal controls in place to help ensure that the organization's assets, including public funds, are properly safeguarded. However, California State Parks should review its policies on reverting unused grant money to the General Fund if it has been determined by the grantee that the project has been cancelled or that the purpose of the awarded grant has changed and is no longer within the scope of the grant, as provided in statute.

GRANTEE'S RESPONSE

An exit conference was held with officials of Santa Barbara Zoological Gardens on February 11, 2005. The grantee concurs with the reportable conditions and conclusion.

EAGLE ROCK COMM. PR INC.

BACKGROUND

Grant Number: GF-19-083

Date of Grant Award: September 8, 2000

Purpose of the Grant (Per 2000-01 Budget Act): City of Eagle Rock: Eagle Rock Community Revitalization

Project Description: The project consists of two elements – the Business Corridor Façade Program and the Business Corridor Parking/Circulation Analysis (per grant agreement between the grantee and California State Parks).

Grant Amount: \$295,500

Payment Amount: \$265,950 (reimbursement) as of January 4, 2005, site visit date.

QUESTIONABLE COSTS

None Noted.

REPORTABLE CONDITIONS

None Noted.

GRANTEE RESPONSE

Since there were no noted questionable costs or reportable conditions, the grantee did not respond.

BARRIO ACTION YOUTH AND FAMILY CENTER

BACKGROUND

Grant Number:	GF-19-093
Date of Grant Award:	August 9, 2000
Purpose of the Grant (Per 2000-01 Budget Act):	Barrio Action Youth and Family Center: refurbishment of the roof over the study hall and counseling center.
Project Description	Construction of a multi-purpose building (per grant agreement between the grantee and California State Parks).
Grant Amount:	\$246,250
Payment Amount:	\$221,625 (reimbursement) as of December 22, 2004, the date of the auditor's site visit.

QUESTIONABLE COSTS

We questioned \$221,625, the entire amount paid to the grantee, because the grant activities were inconsistent with the purpose of the grant as specified in the funding statute. According to the funding statute, the purpose of the grant was refurbishment of the roof over an existing study hall and counseling center. The grant agreement between the grantee and California State Parks stated that the funds were for the construction of a multi-purpose building. In actuality, the funds were used for preliminary expenditures, such as architectural fees and demolition costs. As of December 22, 2004, the date of the auditor's site inspection, the project site was a fenced-off empty lot. Whether such costs constitute valid construction costs is questionable, because no building had been built. The grantee is definitely not in accordance with the purpose of the grant as specified in the funding statute.

In reviewing documented discussions between the grantee and California State Parks, we noted that the grantee was aware of the inconsistency and had discussed seeking a legislative remedy to rectify the discrepancy. Reportedly, the grantee had contacted the legislative sponsor of the project to seek a change in the purpose of the project legislation. However, no formal action was pursued.

REPORTABLE CONDITIONS

None

CONCLUSION

We concluded that the Barrio Action Youth and Family Center maintains sufficient supporting documentation and has adequate internal controls in place to help ensure that the organization's assets, including public funds, are properly safeguarded. However, we concluded that, although the funds spent were adequately supported, they were not used according to the intended purpose per the grant statute.

GRANTEE RESPONSE

Upon completion of fieldwork, we performed an exit conference. The executive director of the Barrio Action Youth and Family Center concurred with the reportable condition; however, he informed us that, although the descriptions between budget act, contract, and actual costs are somewhat dissimilar, it is the same project. Furthermore, the grantee stated that the legislative sponsor of the project was fully aware of the issues and the matter was fully discussed with California State Parks.

COLOUR ME FREEDOM FOUNDATION

BACKGROUND

Grant Number: GF-98-155

Date of Grant Award: August 27, 2001

Purpose of the Grant (Per 2000-01 Budget Act): Colour Me Freedom Foundation: Martin Luther King Jr. Museum/Cesar E. Chavez Diversity Center

Project Description: Martin Luther King Jr. Museum/Cesar E. Chavez Diversity Center at Chenshaw High School in Los Angeles.

Grant Amount: \$246,250

Payment Amount: \$221,625 (advance) as of September 22, 2004, the date of our site visit.

QUESTIONABLE COSTS

Of the \$221,625 disbursed to the grantee in the form of advances, the grantee was able to provide support justifying \$67,361 in expenses. We questioned the remaining \$154,264 of the advanced amount, because the grantee was unable to provide adequate support. The grantee, after repeated requests, provided documents that we considered inadequate. Initially, the support provided consisted of several spreadsheets, by year, containing costs for various staff salaries, including the grantee himself. Additionally, the spreadsheets contained expenditures for computers, storage, rent, and various miscellaneous costs. We requested additional source documents, such as cancelled checks and invoices to support the spreadsheets provided by the grantee. However, after failing to meet several deadlines granted to the executive director of the Colour Me Freedom Foundation, the grantee was unable to provide additional support as requested. However, we were able to obtain documents from the grantee's bank, and the documents suggest that the grant funds have been spent for personal purposes.

REPORTABLE CONDITIONS

We found that the grantee had no controls in place, and the lack of separation of duties was apparent. The executive director had the ability to deposit, record, and disburse grant funds with no oversight, such as board approval. The grantee's accounting and reporting was fully handled and controlled by the executive director; there was no separation of duties or offsetting controls in place to ensure that assets were properly safeguarded.

Based on our review, we found there is a greater need for state oversight. California State Parks authorized three advance payments, totaling \$221,625, on March 7, May 9, and June 24, 2002. Despite the fact that 90% of the grant award had been disbursed in the form of advance payments, California State Parks made no site visit until after we made our visit on September 22, 2004, and found that the portable building supposedly to be used for the museum was being used as a storage site. As noted previously, documents obtained directly from the grantee's bank suggested that grant funds have been spent for personal purposes.

CONCLUSION

We concluded that the Colour Me Freedom Foundation was not able to support \$154,264 of grant funds. The grantee lacked adequate internal controls and proper safeguarding of assets. Additionally, we concluded that there was inadequate oversight from the administering state agency that disburses the grant funds. We concluded that a stronger presence of state oversight is needed to assist in ensuring that grant funds are spent appropriately and in accordance with the grant purpose, as stated in the grant statute. In light of the fact that some grants funds may have been misappropriated for personal use, we have referred this matter to law enforcement agencies for review and consideration of possible legal action.

GRANTEE RESPONSE

An exit conference was held on February 16, 2005. The executive director of the Colour Me Freedom Foundation stated that he believes that the documents he previously provided constitute adequate justification for the grant expenses.

P.F. BRESEE FOUNDATION**BACKGROUND**

Grant Number: GF-19-139

Date of Grant Award: August 22, 2001

Purpose of the Grant (Per 2001-02 Budget Act): P.F. Bresee Foundation: Creation of Bimini Park in Westlake Neighborhood near Downtown Los Angeles.

Project Description: Planned for an area of Los Angeles that has only 1/3 of an acre of green space for every 1,000 residents, Bimini Place to Juanita Avenue. The park includes grass, native plants, and broken concrete gathering space. There will be gates on each end of the park that will be opened each morning and locked overnight. The park will include demolition and removal of the city street (as approved by the City Council), grading, drainage, curb & gutter construction, bilswale development, irrigation, paving and landscape.

Grant Amount: \$246,250

Payment Amount: \$246,250 Grant has been fully disbursed as of October 19, 2004, the date of our site visit.

QUESTIONABLE COSTS

None Noted.

REPORTABLE CONDITIONS

The grantee's internal controls are weak. The grantee's accounting unit consists of one employee. The accounting director performs all of the accounting transactions, for both receipts and disbursement. We noted that no separation of duties exists. Additionally, the employee who performs all of the accounting transactions also performs the reconciliation. Because of the noted weakness, the grantee lacks adequate controls to safeguard public funds.

Additionally, on October 1, 2004, California State Parks contacted the grantee, requesting documents that its project manager noted were missing from the project files. We obtained copies of the faxed information, which included a request for five "Project Costs Summary" forms from past disbursements requests the grantee had submitted.

CONCLUSION

We concluded that the P.F. Bresee Foundation maintains sufficient supporting documentation; however, the grantee lacked adequate internal controls to help ensure that assets, including public funds, are properly safeguarded.

GRANTEE RESPONSE

An exit was held with the P.F. Bresee Foundation on February 11, 2005. The following response was provided by the grantee:

"Being a smaller organization, the accounting staff we have is sufficient for our purposes and we follow the recommendations of our independent auditors to make the best use of our accountant and management positions to provide oversight of our finances. We maintain thorough documentation and have an outside audit every year, including a single audit. We have not had any negative findings and strive to maintain a record of financial integrity as an organization, providing appropriate accountability to the agencies, foundations and individuals that give us financial support."

VISTA DEL MAR**BACKGROUND**

Grant Number: GF-98-098

Date of Grant Award: February 26, 2001

Purpose of the Grant (Per 2000-01 Budget Act): City of Los Angeles: Vista Del Mar

Project Description: Construction of a community treatment center to serve the seriously mentally ill children and adolescents.

Grant Amount: \$197,000.00

Payment Amount: \$177,300 (reimbursement) as of October 21, 2004, the date of our site visit.

QUESTIONABLE COSTS

None Noted.

REPORTABLE CONDITIONS

On August 11, 2004, California State Parks contacted the grantee, requesting a re-submittal of the Cost Summary form. According to the California State Parks' project manager, the form originally submitted included costs incurred before the awarded grant period. A review of the original Cost Summary form disclosed that the costs reported on the form were clearly marked as incurred between December 30, 1998, and December 30, 1999. The grant appropriation did not become available until July 1, 2000, and the grant agreement with California State Parks was not executed until September 17, 2001.

We obtained an e-mail, dated October 7, 2004, from California State Parks to the grantee, requesting additional documentation to justify grant expenditures. The e-mail requested, in addition to an updated Costs Summary form, with current-period costs, five additional items that, according to California State Parks' procedures, should have been provided before any disbursement of grant funds. However, California State Parks did not request these documents until more than three years after 90% of the grant funds had been disbursed. The additional items are as follows:

1. California Environmental Quality Act (CEQA) compliance form (directing the grantee to meet with the city or county to qualify for a possible Notice of Exemption suggesting this to be the quickest route to obtain CEQA compliance);
2. Cost Estimate (break-down of costs that were/or will be paid by the grant);
3. Articles of Incorporations (the e-mail requested all non-profit incorporation documents);
4. Authorizing Resolution (California State Parks directed the grantee to see page 17 of the procedural guide);

5. A copy of the construction contract. (The project was over \$5 million; thus, a construction contract, including a bid process per the Public Contract Code, should have been required prior to the grant funds being awarded, since this project was already in progress when the grant was awarded.)

Additionally, the grantee stated that it had not heard from California State Parks for years, until after we had contacted it for a project review. The grantee provided us with a timeline of events regarding the awarded grant. It was noted by the grantee that, on September 8, 2004, the California State Parks' project manager made the request because the original costs submitted for reimbursement were not within the grant period. Thus, California State Parks was requesting that the grantee submit an updated cost summary of expenditures within the grant period. The grantee noted that, on October 4th, the California State Parks' project manager called to request that the updated information be provided sooner rather than later. According to the grantee, on October 7th, the California State Parks' project manager left a voicemail, stating that the remaining grant money, which was available until June of 2005, would be rescinded if the grantee did not provide the requested documents by close of business that day.

CONCLUSION

We concluded that Vista Del Mar maintains sufficient supporting documentation and has adequate internal controls in place to help ensure that the organization's assets, including public funds, are properly safeguarded. However, greater state oversight is needed to ensure the legality and propriety of grant expenditures.

GRANTEE RESPONSE

An exit conference was held with officials of Vista Del Mar on February 11, 2005. The grantee concurs with the Reportable Conditions and the Conclusion.

CHILDREN'S DISCOVERY MUSEUM**BACKGROUND**

Grant Number: GF-43-015

Date Grant Award: March 4, 2002

Purpose of the Grant (Per 2001/02 Budget Act): Children's Discovery Museum of San Jose

Project Description: Children's Discovery Museum of San Jose (Per California StateParks).

Grant Amount: \$172,375

Payments to Date: \$172,375

QUESTIONABLE COSTS

None noted

REPORTABLE CONDITIONS

As with other grantees, the purpose of the grant was not clearly defined before the funds were appropriated. The 2001-02 Budget Act appropriated \$175,000 for the "Children Discovery Museum of San Jose." In its grant application, which was submitted to California State Parks on December 28, 2001, the grantee stated that the money was to be used to "design and construct a 10,000 square foot wing on the eastern side of its facility to house expanded environmental programs. . . ." However, in the grant agreement that was executed between California State Parks and the grantee on March 4, 2002, the stated purpose of the project was "California Discovery Museum of San Jose." Therefore, despite the process of having the grantee submit an application to define the purpose of the project, California State Parks used the vague language in the funding statute for the grant agreement. The grantee eventually used all of the grant funds to pay for the salaries of its executive director, director of development, and administrative manager. It is unclear as to what activities these individuals worked on, because the grantee did not maintain timesheets to document the funds spent. California State Parks' *Procedural Guide for Local Grant Projects Funded by Legislative Grants From Various Sources* requires that personnel "costs charged to the project must be computed on actual time spent on a project and supported by time and attendance records describing the work performed on the project."

CONCLUSION

Although internal controls appeared to be adequate, we noted weaknesses in the grantee's ability to properly record and track internal labor, as specified in California State Parks' guidelines.

GRANTEE RESPONSE

An exit conference was held with officials of the Children's Discovery Museum on February 28, 2005. An official from the museum thanked us for the information regarding noted concerns and had no further comments. In response to the grantee's inquiry, we provided information concerning grant time-keeping procedures for future consideration.

BOYS AND GIRLS CLUB OF SAN PEDRO**BACKGROUND**

Grant Number: GF-19-150

Date of Grant Award: March 20, 2002

Purpose of the Grant (Per 2000/01 Budget Act): San Pedro Boys & Girls Club: San Pedro Boys & Girls Club Satellite Clubhouse.

Project Description: Repair/Rehab of clubhouse facilities including roof work, HVAC system, new doors, additional cabinets, electrical upgrades, phone system, replacement flooring and two room expansion (Per California State Parks).

Grant Amount: \$123,125

Payments to Date: \$123,125 (fully reimbursed)

QUESTIONABLE COSTS

None

REPORTABLE CONDITIONS

None

CONCLUSION

We concluded that the grant funds have been expended according to their purpose. The Boys and Girls Club of San Pedro maintains sufficient supporting documentation and has adequate controls in place to help ensure that the organization's assets, including public funds, are properly safeguarded.

GRANTEE RESPONSE

We held an exit conference with officials of the Boys and Girls Club of San Pedro on February 24, 2005. The grantee concurred with our conclusion.

CITY OF ANAHEIM-PEARSON PARK PLAYGROUND**BACKGROUND**

Grant Number: GF-30-027

Date of Grant Award: February 16, 2001

Purpose of the Grant (Per 2000/01 Budget Act): City of Anaheim: Playground Equipment Replacement at Pearson Park

Project Description: Playground Equipment Replacement at Pearson Park (Per California State Parks).

Grant Amount: \$123,125

Payments to Date: \$110,813 (as of 10/6/04)

QUESTIONABLE COSTS

None

REPORTABLE CONDITIONS

None

CONCLUSION

We concluded that the grant funds have been expended according to their purpose. The City of Anaheim maintains sufficient supporting documentation and has adequate controls in place to help ensure that the organization's assets, including public funds, are properly safeguarded.

GRANTEE RESPONSE

An exit conference was held with officials of the City of Anaheim on February 15, 2005. The grantee responded as follows: "The results of the State's review is as expected. We are pleased with the results."

HOMEBOY INDUSTRIES**BACKGROUND**

Grant Number: GF-98-094

Date of Grant Award: October 10, 2000

Purpose of the Grant (Per 2000-01 Budget Act): Land acquisition and renovation

Project Description: Land acquisition and construction of a new Homeboy bakery that will be used to employ at-risk impacted youths.

Grant Amount: \$98,500

Payment Amount: \$98,500 (first and final request) on December 11, 2000.

QUESTIONABLE COSTS

None Noted.

REPORTABLE CONDITIONS

We found internal control weaknesses over cash receipts and cash disbursements. The grantee receives, in addition to grant funds, large amounts of donations on a daily basis; however, the same individual collects, deposits, and records incoming receipts, in addition to performing the monthly reconciliation. The grantee lacks adequate separation of duties and, therefore, assets may not be sufficiently safeguarded.

We noted concerns regarding the purpose of the grant to Homeboy Industries, i.e., to pay a portion of the acquisition costs of a piece of land and to construct a new bakery to employ at-risk gang-impacted youths. The land had been acquired in December 2000, but no bakery has been built as of November 11, 2004, the date we performed a site inspection. According to officials of Homeboy Industries, it is unclear as to when, if ever, a bakery will be built. The officials informed us that a consulting firm had been hired, using other public and private donations, in attempts to raise additional funding. The officials estimated that, if the fundraising attempts are successful, the bakery may be constructed within one or two years.

Homeboy Industries officials informed us that California State Parks had not been in contact with the grantee before we initiated our review. However, according to the grantee, shortly after we contacted Homeboy Industries regarding review of the grant funds, California State Parks scheduled a visit for September 7, 2004 and requested documents pertaining to the land acquisition. California State Parks provided the grantee with a checklist requesting the following documents:

1. Appraisal report
2. State of just compensation
3. Cancelled checks/warrants
4. Grant deed

5. Title insurance policies

The grantee informed the auditors that the requested documents had been sent to California State parks as of November 11, 2004.

CONCLUSION

We concluded that Homeboy Industries was able to provide sufficient support of the expended grant funds disbursed by California State Parks. However, we concluded that the grantee lacked adequate internal controls and proper safeguarding of assets. Additionally, we concluded that there was inadequate oversight from the administering state agency that disburses the grant funds, and we concluded that a stronger presence of state oversight is needed to ensure the legality and propriety of grant expenditures.

GRANTEE RESPONSE

An exit conference was held on February 11, 2005. In regard to the weaknesses in the internal controls regarding cash receipts and disbursements, the grantee stated:

“We have instituted a 3-fold separation of duties regarding our incoming receipts: All incoming mail is opened, reviewed and distributed by the Executive Director or the Director of Operations. All incoming cash receipts are then forwarded to the Director of Development for recording purposes. The receipts are then forwarded to the Finance Assistant for recording into the general ledger and deposited into the bank and the ledger account is reconciled by the Finance Director and reviewed by the CFO.”

In regard to the acquisition of land in December 2000 but the failure to build a bakery as of November 11, 2004, the grantee stated:

“It is true that the bakery project has taken much more time than anticipated. We have recently strengthened our Board of Directors with industry leaders that have taken control of the project and are spearheading the committees to assist in the completion of the new bakery. We currently have two board committees that focus on the project, a ‘Alameda Project Committee’ which handles the development of the project and the ‘Bakery Committee’ which handles the capital campaign. We are in the final review stages with the architecture (Nestor + Gaffney) on the building designs and are awaiting final approval from the city of Los Angeles. We anticipate ground breaking by the end of the summer 2005 and the construction to be completed within 10 months thereafter.”

The grantee also stated:

“The ‘new’ Board of Directors recognized the need to strengthen the internal controls of Homeboy Industries and on September 14, 2004 hired a CFO to evaluate and strengthen the organization not only in its internal controls but in the organizational development and structuring. Since the arrival of the CFO policies and procedures have been put in place assuring safeguarding of the organization’s assets. There are now Finance and Audit Committees from the board, which serves as overseers of the organization’s finances. Although it is too early to tell the effectiveness of these measures it is my opinion that we are moving in the right direction and although our records are open to municipal and public review I believe that it would be premature to suggest an oversight initiative by the state be executed at this time.”

MARTINEZ POLICE ACTIVITIES LEAGUE

BACKGROUND

Grant Number: GF-07-005

Date Grant Award: September 29, 2001

Purpose of the Grant (Per 2000/01 Budget Act): Martinez Police Activities League: Purchase computer and a van

Project Description: Purchase computer and a van (Per California State Parks)

Grant Amount: \$98,500

Payments to Date: \$76,749 (advance) on October 16, 2000

QUESTIONABLE COSTS

We questioned \$12,473 in expenditures reimbursed by grant funds. Of the total amount questioned, \$9,353 was unsupported, and the grantee was unable to provide invoices or other supporting documents; and \$3,120 consisted of expenditures not intended for the grant purpose (\$1,020 to PAL employees for advances, \$1,500 for cabinets purchased for the Martinez Police in exchange for supplies, and \$600 for payment on a credit card where the grantee could not document the nature of the items charged).

REPORTABLE CONDITIONS

We noted the lack of consistency in the funding statutes concerning the purpose and the legislative intent of the grant and the disparity it can cause the grantee. We reviewed expenditures and questioned those that appear to be inconsistent with the purpose and intent of the grants. The Martinez Police Activities League, which received a grant of \$98,500 to “purchase a computer and a van,” had several questionable expenditures that were unrelated to computer and van purchases, as noted above.

We reviewed the California State Parks project manager’s diary and noted that the project manager was aware that the PAL program had not been in operation since September 2003 and remained closed even during our first site review.

Additionally, the project manager, according to project diaries, was aware that the van and computer equipment were not being utilized as intended. Once the van and computer equipment were purchased—by Fall 2001—the remaining grant funds of \$13,934 held by the grantee should have been returned to the State. As a result, the PAL program expended the remaining grant funds on items not within the intended purpose of the grant, such as daily operational costs, pool toys, credit card payments, training classes, and storage cabinets for the police department in exchange for storage containers that were never placed at the grantee’s site. Further, we noted that the grantee lacked separation of duties; we observed during our review that one individual handles all fiscal matters, with no additional oversight; she makes deposits, prepares and signs checks, and prepares the bank reconciliations. With such lack of controls, both within the grantee organization and on the part of the oversight agency, grant funds can easily be misappropriated.

CONCLUSION

We concluded that \$12,473 of the grantee's costs is questionable. Further, we noted that the grantee lacks adequate internal controls and proper separation of duties to help ensure that assets, including public funds, are properly safeguarded. Additionally, we concluded that greater state oversight from the administering agency is needed to ensure the propriety of grant expenditures.

GRANTEE RESPONSE

An exit conference was held with officials of the Martinez Police Activities League on February 22, 2004. The grantee's response is as follows: "We are glad to participate in the review. We welcome all suggestions and are willing to correct any mistakes we've made and move forward."

AMERICAN LEGION POST 804**BACKGROUND**

Grant Number:	GF-19-151
Date of Grant Award:	August 22, 2001
Purpose of the Grant (Per 2001-02 Budget Act):	American Legion Post 804: Building purchase and floor and wall renovation.
Project Description	Purchase building and install new flooring and walls (per grant agreement between the grantee and California State Parks).
Grant Amount:	\$49,250
Payment Amount:	\$44,325 (reimbursement) as of December 14, 2004, site visit date.

QUESTIONABLE COSTS

We questioned \$18,840 of grant costs because the expenditures were not used for the intended purpose of the grant. American Legion Post 804 (Post 804) received a grant, according to statute, for "Building purchase and floor and wall renovation." However, according to the documents we reviewed and information obtained from officials at Post 804, the grantee intended to pay \$20,000 of grant funds to four individuals (members of Post 804) who supposedly loaned Post 804 \$5,000 each to purchase the building from an outside party. In addition, \$13,542 of grant funds was intended to pay the balance of a note held against the deed. According to Post 804 officials, it had a verbal contract with the four individuals that they would transfer the title of the building to Post 804 once they were paid \$5,000 each. The remaining grant funds were to be used for repairs.

However, according to officials at Post 804, the four individuals had not yet been paid and the title remains with the four individuals because an agreement cannot be reached as to the settlement of today's value regarding the land and building. Additionally, as of December 2004, the note held against the deed by the original owner was notarized but never recorded. Meanwhile, in October 2003, Post 804 paid \$13,542 to the original owner. It is not clear whether the grantee will be able to acquire the building from the four individuals. If the grantee is unable to acquire the property from the four individuals, the grant funds were, in essence, for the personal benefit of four individuals rather than the intended purpose of the grant as stated per the grant statute. Similarly, the \$5,298 in grant funds used to repair the building would also benefit the four individuals rather than Post 804.

REPORTABLE CONDITIONS

We found that American Legion Post 804's controls are inadequate and do not ensure that public funds are properly safeguarded. Internal controls are practically non-existent in this organization.

CONCLUSION

We concluded that American Legion Post 804 expended \$18,840 of grant funds disbursed by California State Parks that was outside the scope of the grant, per the statute. Additionally, we concluded that the grantee provided inadequate support for expended grant funds, and it has no internal controls in place to ensure that assets, including public funds, are properly safeguarded.

We concluded that a stronger presence of state oversight is needed to assist in ensuring that grant funds are spend appropriately and in accordance with the intended purpose of the grant, per the grant statute.

GRANTEE RESPONSE

During the field audit and at the exit conference, an official of Post 804 stated that he was unaware of the importance of having to record legal documents in a timely manner. The official also stated that the grantee has little understanding of or background in accounting or internal control procedures. Additionally, the grantee confirmed that the payment to the four individuals was verbal and no payments have been made. The organization is currently in the process of locating the individual owners to negotiate the payment. The grantee also stated that, because of our audit, he has advised the officers of Post 804 to promptly finalize the property purchase.

AMERICAN LEGION POST #397 HALL RENOVATION**BACKGROUND**

Grant Number: GF-19-152

Date Grant Award: May 14, 2002

Purpose of the Grant (Per 2001/02 Budget Act): American Legion Post #397: Hall Renovation

Project Description: Building repair and renovation (Per California State Parks).

Grant Amount: \$14,775

Payments to Date: \$13,298 (as of December 2004)

QUESTIONABLE COSTS

We questioned \$13,298, the total amount advanced, because the grantee could not provide adequate support for expenditures. For example, checks were made payable to "Cash" and "American Legion" (\$7,859). Grantee officials were unable to provide any contracts for electrical, roofing, or plumbing work completed. Grantee officials informed us that most of the work was performed by retired veterans who were paid cash once the work was completed. No general ledgers were maintained and, although some receipts were provided from various vendors such as Home Depot, most were torn and/or faded and illegible, with no explanation as to the purpose of the purchase. The charges had been paid in cash; thus, we were unable to identify the expenditures through other methods of support, such as a bank statement or cancelled check.

REPORTABLE CONDITIONS

We determined that the grantee has no internal controls, such as proper separation of duties, proper accounting of funds, proper oversight such as a second signature required on checks, policies and procedures that prohibit checks written to "bearer" or "cash," and proper maintenance of a general ledger (manual or automated) that properly tracks expenditures and timely reconciliations to bank statements, to ensure that assets, including public funds, are properly safeguarded. Further, Post 397 does not appear to understand what constitutes adequate documentation to support the legitimacy of project expenditures.

CONCLUSION

We concluded that the grantee has no controls in place to help ensure that assets, including public funds, are properly safeguarded. Further, we concluded that there was inadequate oversight from the administering state agency that disburses the grant funds. We concluded that a stronger presence of state oversight is needed to ensure the legality and propriety of grant expenditures. We question \$13,298 of the grant funds disbursed to the grantee.

GRANTEE RESPONSE

An exit conference was held with officials of American Legion Post 397 on February 24, 2005. The grantee responded as follows: “ I am concerned how these results would affect the securing of additional grants. We recognize that we have made some accounting mistakes; we are retired veterans—not accountants—and have since revised some of our methods. We have done most of the work on the Hall Renovation ourselves to cut costs and are troubled that this has raised suspicions with the State.”

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