

# California State Auditor

B U R E A U O F S T A T E A U D I T S

## **Department of Parks and Recreation:**

*It Needs to Improve Its Monitoring  
of Local Grants and Better Justify Its  
Administrative Charges*



April 2005  
2004-138

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# CALIFORNIA STATE AUDITOR

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April 5, 2005

2004-138

The Governor of California  
President pro Tempore of the Senate  
Speaker of the Assembly  
State Capitol  
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As requested by the Joint Legislative Audit Committee, the Bureau of State Audits presents its audit report concerning the Department of Parks and Recreation's (Parks) administration of local grants.

This report concludes that although Parks' process for identifying eligible recipients and determining the amounts awarded was reasonable, it needs to improve its monitoring of local grants and better justify its administrative charges. Specifically, Parks principally relies on recipients certifying that they have complied with grant requirements and have expended grant funds for allowable purposes. Given this reliance, we expected Parks to periodically assess recipients' compliance with grant requirements. However, we found that Parks has not consistently followed its procedures for monitoring recipients' progress on projects and that such efforts are inconsistently documented. Further, Parks could not always demonstrate that the public benefited as intended from local grants. Specifically, Parks could not demonstrate that it always performed final inspections of completed grants or that it ensured specific project objectives were met during inspections that were performed. Also, the expected results from the use of General Fund grants are at times not specifically defined in legislation and are subject to interpretation by Parks, resulting in a lack of clear expectations as to what is to be accomplished with grant funds. Finally, our review found that Parks does not separately track its actual costs for administering local grants, creating the risk that bond funds have subsidized Parks' administrative efforts on General Fund grants.

Respectfully submitted,

ELAINE M. HOWLE  
State Auditor

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# SUMMARY

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## **Audit Highlights . . .**

*Our review of the Department of Parks and Recreation's (Parks) administration of local grants revealed the following:*

- Parks principally relies on certifications by recipients that they complied with grant requirements and expended grant funds for allowable purposes.*
  - Parks has not consistently followed its procedures for monitoring recipients' progress on projects, and such monitoring is inconsistently documented.*
  - Parks could not always demonstrate that specific project objectives for grants were met.*
  - The expected results from the use of General Fund grants are at times not specifically defined in legislation and are subject to Parks' interpretation.*
  - Parks does not separately track its actual costs of administering local grants, creating the risk that bond funds have subsidized the costs of administering General Fund grants.*
- 

## **RESULTS IN BRIEF**

The Department of Parks and Recreation (Parks) is charged with providing local grants to cities, counties, and other entities. Between July 1996 and mid-October 2004, its Office of Grants and Local Services (grants office) disbursed more than \$476 million to fund a variety of local grants for purposes that included acquiring land for community parks and building new facilities, such as swimming pools and baseball fields. With the passage of the Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000 (Proposition 12) and the California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002 (Proposition 40), California voters provided 68 percent of the total amount disbursed for these grants. The State's General Fund provided another 22 percent.

Although Parks' process for identifying eligible recipients and determining the amounts awarded was reasonable, it needs to improve its monitoring of local grants. The grants office principally relies on certifications by recipients that they comply with grant requirements and spent funds for allowable purposes. For example, the grants office requires each recipient to submit a resolution from its governing body certifying that it understands grant requirements. Once a recipient completes a project, the recipient must certify that it spent all grant funds as required. Parks' audits office reviews a sample of completed projects to ensure that costs claimed by recipients were allowable.

However, the grants office could strengthen its monitoring of recipients' progress on ongoing projects. Recipients are allowed either five or eight years to complete their projects, depending on the type of funding. Given its reliance on certifications by recipients and the potential length of time until projects are complete, we expected the grants office to periodically assess whether recipients are complying with grant requirements. The grants office has a policy of conducting annual reviews to verify project information and status. Additionally, staff at the grants office may contact recipients at other times to discuss the status of their projects. However, such reviews and discussions are not consistently conducted or documented. For example, it took the grants office more than two years to inquire about the status of one project for which a nonprofit organization received

more than \$220,000 in advance payments to build a museum at a school. It subsequently came to Parks' attention that the portable classroom that was to function as the museum had been used for storing items belonging to the school rather than its intended purpose.

In an attempt to strengthen its monitoring process, the grants office has recently made some improvements. For instance, effective December 2004, the grants office implemented a six-month reporting requirement that directs recipients to describe the work performed and disclose, among other items, the amount of funds spent to date. The grants office could further strengthen this control by requiring recipients to submit substantiating evidence, such as copies of developed plans or other evidence of project progress.

Once a recipient certifies that its project is complete, the grants office's general policy is to approve final payment after conducting a final inspection to assess whether the recipient successfully met all the project's objectives. Such a review involves ensuring that the recipient used the grant funds for the agreed purpose, such as building a new community pool or baseball field. However, our review of a sample of project files revealed that the grants office could not always demonstrate that it performed final inspections or that it ensured that specific project objectives were met during inspections that were performed. Without ensuring that recipients successfully met the objectives and without identifying what was actually acquired or developed with the funds, the grants office cannot demonstrate how the public benefited from these awards. As of January 2005 the grants office began requiring its staff to use a standardized form to ensure greater consistency when conducting final inspections and to provide documentation that project objectives were satisfied.

Sometimes the results expected from the use of grants are not specifically defined in legislation. For example, the Legislature appropriated many General Fund grants that only specified the recipient, project name, and amount of the award. In the absence of specific guidance on the use of the funds, the grants office may interpret what is to be accomplished. However, it does not always clearly establish in the grant contract what the scope of the project is to be and what type of deliverable it expects to see before it makes final payment. Given recent

concerns regarding the use of General Fund grants, Parks plans to ask for further statutory direction from the Legislature when the intent of the award is not clearly stated.

Propositions 12 and 40 require that the actual costs of administering bond fund programs be paid from the bond funds. However, our review of costs incurred by the grants office revealed that it does not separately track its actual costs of administering Proposition 12, Proposition 40, and General Fund grants. Rather, it uses a cost allocation methodology to record administrative costs for various funding sources. We question Parks' methodology because it does not periodically compare the results of its cost allocation process to its actual costs of administering these programs. As a result, one of the risks that exists is that bond funds may be subsidizing the grants office's administration of General Fund grants, since Parks' charges to these funds are capped at 1.5 percent and no such limit exists for bond funds.

## **RECOMMENDATIONS**

Parks should continue its efforts to more consistently monitor recipients' use of grant funds, including its recent efforts to implement a six-month reporting process. Parks should also strengthen this requirement by requiring recipients to submit evidence of project progress. Additionally, Parks should ensure that reviews and discussions with recipients regarding project status are consistently and sufficiently documented.

Parks should ensure that final inspections are conducted and sufficiently documented, ensuring that it demonstrates specific project objectives are met.

Parks should clearly document in its contracts its expectations as to what is to be accomplished with grant funds.

Further, should it choose to appropriate General Fund grants in the future, the Legislature should specifically define what is to be accomplished with the funds. In cases where Parks is unclear as to the expected results or deliverables from grant funds appropriated by the Legislature, Parks should continue with its new policy of seeking further statutory language clarifying the intended use of these funds.

Finally, to ensure that it is reasonably charging administrative costs to the appropriate funding sources, Parks should perform quarterly comparisons of its actual costs to the costs it recorded and adjust its methodology and recorded costs as necessary.

#### **AGENCY COMMENTS**

Parks agrees with our recommendations and outlines its approach for implementing them. ■

# INTRODUCTION

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## BACKGROUND

Operating under the guidance of the Resources Agency, the Department of Parks and Recreation (Parks) is responsible for preserving the State's biological diversity, protecting natural and cultural resources, and creating opportunities for high-quality outdoor recreation for the State's citizens. With about 3,000 positions and a support budget of nearly \$300 million for fiscal year 2004–05, Parks focuses its efforts on five core program areas: resource protection, education and interpretation, facilities, public safety, and recreation. Currently, Parks manages more than 270 park units within the state park system. Park units include recreation areas, state beaches, wildlife reserves, and historic homes, as well as various other types of natural and cultural heritage holdings. Parks is also charged with providing local assistance to cities, counties, and other entities in keeping with its mission.

## PARKS ADMINISTERS NUMEROUS LOCAL GRANTS FROM VARIOUS SOURCES

Between July 1996 and mid-October 2004, Parks' Office of Grants and Local Services (grants office) disbursed more than \$476 million in grants to local recipients. The State's voters provided 68 percent of the funding for these disbursements with the passage of the Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000 (Proposition 12) and the California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002 (Proposition 40). As shown in Table 1 on the following page, other funding sources provided money for grant disbursements as well, including the State's General Fund and other park-related funds, such as the Natural Resources Infrastructure Fund.

**TABLE 1**

**Amount of Local Assistance Disbursed by the Grants Office  
July 1996 Through Mid-October 2004**

<b>Funding Source</b>	<b>Description</b>	<b>Amount</b>
Proposition 12 Bond Fund	Provides funds for local parks and recreation projects as authorized by Proposition 12.	\$279,191,417
General Fund	Provides funds for local parks and recreation projects as designated by the Legislature in annual budget acts.	106,165,369
Proposition 40 Bond Fund	Provides funds for local parks and recreation projects as authorized by Proposition 40.	45,903,525
<b>Subtotal</b>		<b>431,260,311</b>
Federal Trust Fund	Provides funds, through the Land and Water Conservation Fund Program, for acquiring and developing outdoor recreation areas and facilities.	12,318,509
Natural Resources Infrastructure Fund	Provides funds for the purposes of preserving and protecting the natural and recreational resources of the State.	11,064,815
Habitat Conservation Fund	Provides funds for various purposes, such as the acquisition of lands for the protection of wetlands and for park purposes.	9,592,710
Recreational Trails Fund	Provides grants to local governments and nonprofit organizations to acquire and develop recreational trails.	5,481,944
Public Resources Account, Cigarette and Tobacco Products Surtax Fund	Provides funds to enhance state and local park and recreation resources.	4,290,791
Other	Includes grants from the Environmental License Plate Fund, 1988 Bond Act, Delta Recreation Fund, and Proposition 13.	2,630,111
<b>Subtotal</b>		<b>45,378,880</b>
<b>Total</b>		<b>\$476,639,191</b>

Source: Department of Parks and Recreation's grants management system.

Proposition 12 and Proposition 40 bond funds provide Parks with a total of \$1.8 billion for local grant programs. As of mid-October 2004 the grants office had disbursed to recipients \$325 million of the total \$1.8 billion. The primary reason for the difference is that not all Proposition 12 and Proposition 40 funds have been appropriated by the Legislature, awarded by the grants office, and disbursed to recipients. Additionally, the bond acts

require Parks to use bond funds for its actual costs of administering the funded programs. With the passage of a bond act, the State's electorate approve the sale of bonds for specific purposes, and the proceeds are deposited into special state funds. The Legislature then annually appropriates amounts to Parks, authorizing it to use the money to award local grants. Recipients can request payments from their awards until their projects are complete. For example, the Legislature appropriated \$78.4 million for local grants for Proposition 40 in the fiscal year 2004–05 budget act; however, in accordance with its established deadlines, the grants office was accepting grant applications for some of these funds in December 2004, approximately two months after we obtained our data from the grants office.

### **Propositions 12 and 40 Provide Significant Funding for State and Local Park-Related Projects**

Overall, the passage of Propositions 12 and 40 resulted in significant additional funding for park-related local grants. For example, the passage of Proposition 12 in March 2000 gave Parks the responsibility of administering \$845.5 million in local grants.<sup>1</sup> Before the passage of Proposition 12, Parks' grants office reportedly had administered a total of \$1.4 billion in local grants over its then 35-year life. Parks was given more work in March 2002 when California voters approved Proposition 40, which led to Parks being responsible for an additional \$960 million in local grants.

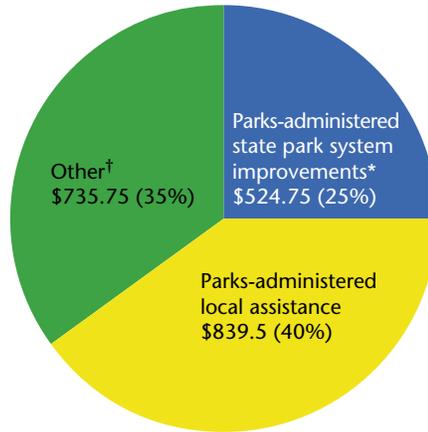
Responding to the recreational and open-space needs of a growing population and expanding urban communities, Proposition 12 was enacted to renew the State's stewardship of natural resources by investing, through the issuance of \$2.1 billion in general obligation bonds, in a number of state and local park improvements. To manage program implementation, Proposition 12 funding was allocated to 13 state agencies for support, local assistance, and capital outlay, such as state park improvements. Figure 1 on the following page shows a breakdown of the funding amounts allocated by Proposition 12.

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<sup>1</sup> As shown in Figure 1, \$839.5 million was designated as local assistance under Proposition 12. However, according to Parks' staff, an additional \$6 million from funds designated for state park improvements went toward local assistance as well.

**FIGURE 1**

**Uses of Proposition 12 Funding  
(Dollars in Millions)**



Note: The amounts shown include administrative costs. The bond act requires that actual administrative costs be paid from the bond funds.

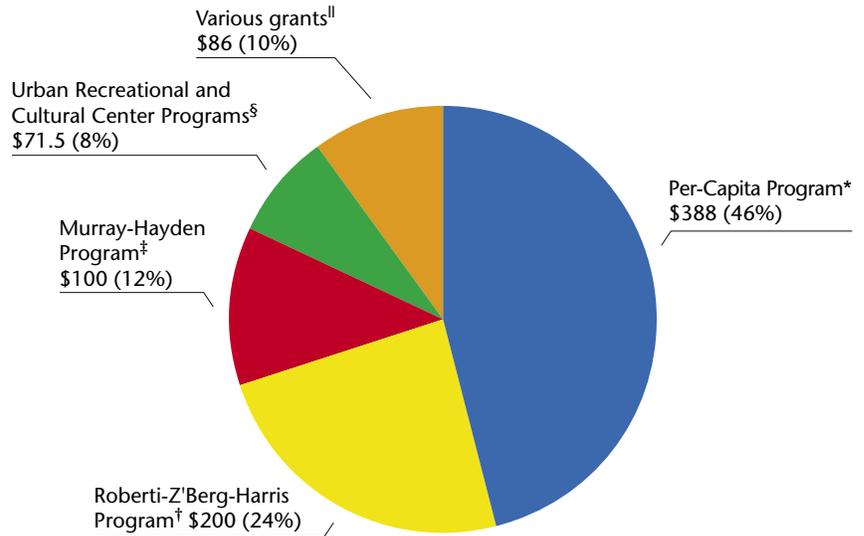
\* Primarily consists of capital outlay, but also includes \$6 million for the restoration of state beaches and paleontological, archaeological, and historical resource sites that the Department of Parks and Recreation (Parks) considers to be local assistance.

† Includes \$370.4 million for various conservancies, including the State Coastal Conservancy, and the California Conservation Corps. Remainder consists of funding to various state agencies and boards, and for various purposes, such as public wetlands, watersheds, river parkway projects, riparian projects, and resource conservation.

Proposition 12 provides Parks with \$1.36 billion, or 65 percent, of the total \$2.1 billion in bond funds; \$839.5 million is for local assistance, and an additional \$524.75 million is primarily for capital outlay projects that improve the state park system and its facilities. Parks uses the total funding it receives from Proposition 12 to cover the costs for local grants and state park improvements, as well as Parks' administrative costs. Figure 2 shows how the local assistance funding is to be allocated to various programs.

**FIGURE 2**

**Department of Parks and Recreation's  
Local Assistance Programs Supported by Proposition 12  
(Dollars in Millions)**



Note: The amounts shown include administrative costs. The bond act requires that actual administrative costs be paid from the bond funds.

\* Projects that include the acquisition and development of recreational lands and facilities for cities, counties, and eligible districts on the basis of population.

† High-priority projects that satisfy the most urgent park and recreation needs in heavily populated and economically disadvantaged areas.

‡ Capital projects, including parks and youth centers, in areas that lack park space or adequate facilities and that have significant poverty and unemployment, as well as a shortage of youth services. Includes a transfer of \$4.8 million in funding to the California Department of Youth Authority for grants to be administered by that agency.

§ Projects for zoos, museums, aquariums, cultural centers, marine sanctuaries, and urban centers and education.

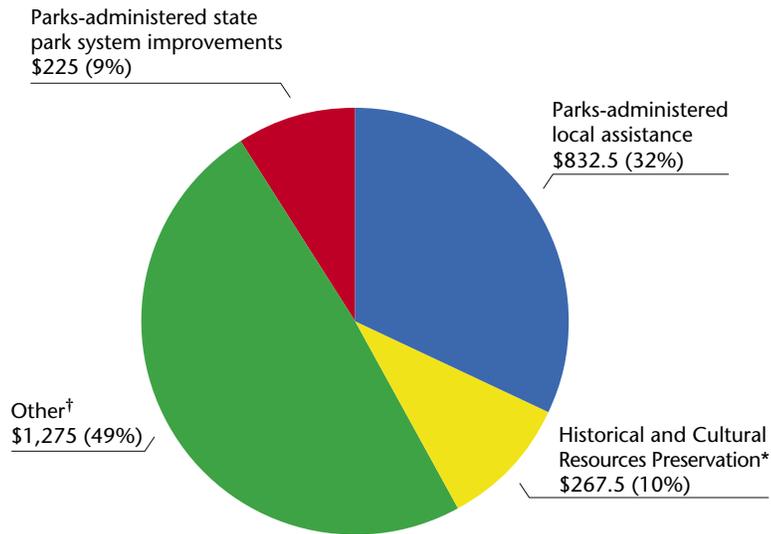
‖ Includes grants for nonmotorized trails, soccer/baseball facilities, and riparian/aquatic habitat improvement. Also includes grants to local agencies that administer state park system units, as well as \$6 million from the \$524.75 million in improvements to the state park system that are administered by the Department of Parks and Recreation shown in Figure 1.

The bond act allocates \$388 million to Parks for a per-capita grant program and \$200 million for a grant program under the Roberti-Z'Berg-Harris Urban Open-Space and Recreational Program Act (Roberti-Z'Berg-Harris program). In accordance with statutes governing the Roberti-Z'Berg-Harris program, Parks allocated 83 percent of the \$200 million, or \$166 million, to a

population-based component of the program. As a result, the population-based grant programs from Proposition 12 total \$554 million. Per-capita grants under Proposition 12 provide funding to cities, counties, and other entities based on their populations to meet the urgent need for safe, open, and accessible local parks and recreational facilities. Among other things, recipients are to use the per-capita grants to rehabilitate existing park facilities or develop new facilities that promote positive alternatives for youth. Under Proposition 12, block grants from the Roberti-Z'berg-Harris program also provide funding to cities, counties, and other entities based on population; however, the focus of this program is more specific. Recipients are to spend these funds on high-priority projects that satisfy their most urgent park needs and focus on heavily populated and economically disadvantaged areas.

**FIGURE 3**

**Uses of Proposition 40 Funding  
(Dollars in Millions)**



Note: The amounts shown include administrative costs. The bond act requires that actual administrative costs be paid from the bond funds.

\* Bond act did not designate an administering agency for these funds. Subsequently, it was determined that the Department of Parks and Recreation (Parks) would administer \$132.5 million of that total: \$127.5 million for opportunity grants and certain specified grants and \$5 million for the development of the California State Indian Museum. It was also determined that the remaining funding was to be spent by the California State Library.

† Includes land, air, and water conservation programs administered by other state agencies, boards, conservancies, and the California Conservation Corps. Programs administered by conservancies and the California Conservation Corps account for \$465 million of the \$1.275 billion.

On March 5, 2002, California voters approved Proposition 40. This bond act provides \$2.6 billion for the acquisition, development, restoration, interpretation, and preservation of park, coastal, agricultural land, air, and historical resources. Like Proposition 12, Proposition 40 provides funding to various entities for a variety of purposes. Figure 3 shows a breakdown of the intended uses of Proposition 40 funds.

As the figure shows, Proposition 40 designated \$832.5 million for local assistance and an additional \$127.5 million in funding for the preservation of historical and cultural resources that was subsequently determined to be Parks' responsibility. Proposition 40 requires that funds be allocated to various programs, such as \$372.5 million for a per-capita program and \$200 million for the Roberti-Z'berg-Harris program. As with Proposition 12, Parks uses the total funding it receives from Proposition 40 to cover the costs of local grants and state park improvements, as well as Parks' administrative costs. Figure 4 on the following page shows how Proposition 40 funds have supported various local assistance programs.

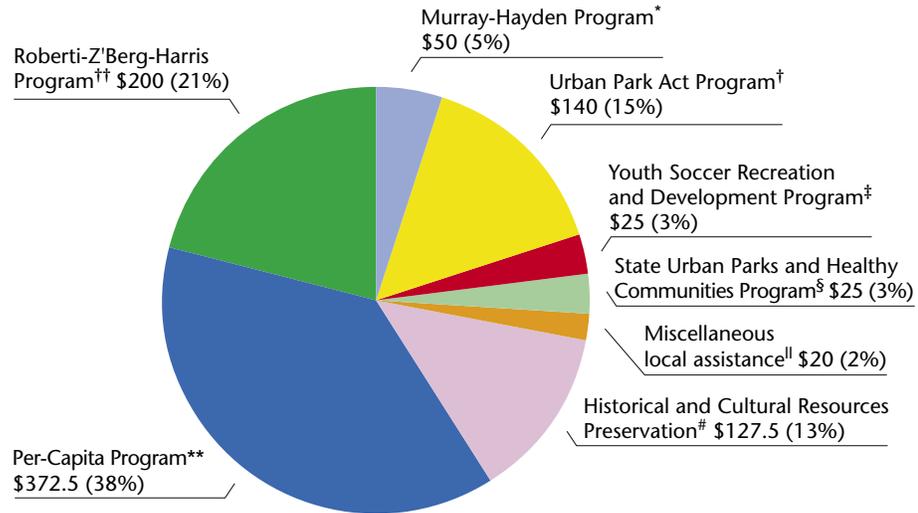
### **The Legislature Appropriated General Funds for Specified Grants**

Between July 1996 and mid-October 2004, the grants office disbursed more than \$106 million in General Fund grants to various recipients, accounting for 22 percent of the total amount disbursed. The Legislature appropriated the majority of these funds between fiscal years 1998–99 and 2000–01 when the State was in a stronger financial position. The budget acts for those fiscal years specified the recipients to receive funding, the amount of the funding, and at times, how recipients were to use the funding.

These grants went to local recipients for a variety of projects such as building ball fields and community pools and upgrading existing community parks. The intended scope of each project was sometimes only expressed in general terms. For example, in the fiscal year 2000–01 budget act the Legislature appropriated \$200,000 for the North Tahoe Youth Center and \$250,000 for the Napa Boys and Girls Club. However, the budget act did not provide any additional information on how the two groups were to spend the money. The grants office administers General Fund grants and works with recipients in these circumstances to identify potential uses for grant funds.

**FIGURE 4**

**Department of Parks and Recreation's  
Local Assistance Programs Supported by Proposition 40  
(Dollars in Millions)**



Note: The amounts shown reflect the \$832.5 million local assistance shown in Figure 3 on page 10, as well as the \$127.5 million in historical and cultural resources preservation funding in Figure 3 subsequently determined to be the Department of Parks and Recreation's responsibility. Additionally, the amounts include administrative costs. The bond act requires that actual administrative costs be paid from the bond funds.

- \* Capital projects, including parks and youth centers, in areas that lack park space or adequate facilities and that have significant poverty and unemployment, as well as a shortage of youth services.
- † Projects that include the acquisition or development of property for new urban parks, recreational facilities, or multipurpose facilities in neighborhoods least served by park and recreation providers.
- ‡ Projects to foster the development of new youth soccer, baseball, softball, and basketball recreation opportunities in the State.
- § Projects for the acquisition and development of properties for activities that require athletic fields, courts, gymnasiums, or other recreational facilities or venues for youth soccer, baseball, football, basketball, tennis, or swimming.
- || Designated for specific recipients in the bond act.
- # Projects for the acquisition, development, preservation, or interpretation of buildings, structures, sites, places, or artifacts that preserve and demonstrate culturally significant aspects of California history. Also, \$37.5 million is for specified historical and cultural projects.
- \*\* Projects that include the acquisition and development of recreational lands and facilities for cities, counties, and eligible districts on the basis of population.
- †† High-priority projects that satisfy the most urgent park and recreation needs in heavily populated and economically disadvantaged areas.

As the State's fiscal position worsened, the prevalence of General Fund grants diminished. For example, in fiscal year 2003–04, the Legislature appropriated none.

## **THE GRANTS OFFICE ADMINISTERS MOST OF PARKS' LOCAL GRANTS**

The grants office administers most local assistance funding provided to Parks under Propositions 12 and 40. The mission of the grants office includes developing programs, administering funds, and offering technical assistance to recipients. Although not its most visible role, the grants office develops the policies and procedures that recipients are to follow when using local grant funds. The grants office developed 18 procedure manuals to document the unique requirements of each local assistance program outlined under Propositions 12 and 40. These manuals provide recipients with administrative information, such as how to apply for a grant, request grant payment, and determine eligible project costs. The procedure manuals also discuss Parks' expectations regarding the quality of and retention period for accounting records and inform recipients of the possibility of a state audit of their expenditures.

Once the procedure manuals were created, the grants office began awarding funds. Project officers in the grants office play a critical role in Parks' efforts to monitor the awards. The 24 project officers serve as the contact between Parks and the recipients. In this capacity project officers perform a variety of functions, such as responding to recipients' questions about award requirements, processing payment requests, and inspecting project sites to ensure that recipients meet grant objectives. Project officers also maintain Parks' files on a given project and endeavor to ensure that all necessary documentation is obtained before the grants office disburses the funds.

## **SCOPE AND METHODOLOGY**

The Joint Legislative Audit Committee (audit committee) requested that the Bureau of State Audits review Parks' process for administering local grants. Specifically, the audit committee asked us to assess whether Parks' oversight activities ensure that recipients are fulfilling the terms of their grants and spending the funds only on allowable purposes. We were also asked to review and evaluate Parks' policies and procedures for awarding and disbursing grant funds for local assistance, including its

process for determining eligibility and the amounts awarded to recipients. The audit committee also asked us to determine how Parks defines administrative activities and related expenses, identifying the amounts charged to bond and other funds for administrative expenses. Our audit was also to include a review of the amounts recipients charged for administrative expenses, comparing the expenditures of local governments with those of nonprofit organizations.

We initially obtained an understanding of the amounts and funding sources of grants that the grants office disbursed between July 1996 and mid-October 2004 by using its grant management system. We determined that the data produced by the grants office's system and presented in this audit report are sufficiently reliable by obtaining an understanding of the system and testing the data as needed. To determine whether Parks' oversight activities ensure that recipients are fulfilling grant requirements, we identified the applicable requirements for each program under Propositions 12 and 40, as well as General Fund grants. We limited our review to local grants funded by those three sources because they provide funding for 90 percent of the disbursements made for Parks' local grants. In reviewing grant requirements we identified Parks' key monitoring activities and assessed the level of supporting documentation it requires from recipients. We also interviewed key Parks' staff who administer local grants. These individuals included the chief of the grants office, who retired in December 2004, and the chief of Parks' audits office.

To understand Parks' monitoring efforts in practice, we reviewed the files for 29 completed projects. Our review also included an assessment of whether project officers performed final inspections to ensure that project objectives were met before Parks issued final payments. However, this assessment applied just to the 23 development projects, which are the only projects that require final inspections. We also visited six recipients to determine whether they complied with Parks' grant requirements. When selecting the six recipients, we considered those that had received their grants from either the General Fund, Proposition 12, or Proposition 40; we visited both local governments and nonprofit organizations.

To understand Parks' efforts to ensure that grant funds are spent only on allowable costs, we obtained and reviewed the procedure manuals the grants office developed to define allowable project costs. Further, we obtained and reviewed

policy documents and training materials to understand the extent to which the grants office attempts to ensure that recipients spend funds on allowable costs. We also obtained records and audit reports from Parks' audits office to understand the extent of its fiscal review of grant expenditures following project completion.

To determine Parks' process for awarding funds, we reviewed the sections of the bond acts relevant to local assistance, examined procedure manuals, interviewed Parks' staff, and gathered documentation. To ascertain Parks' method of establishing deadlines for completing projects funded by the grants it administers, we reviewed relevant procedure manuals and interviewed staff. We identified projects exceeding the completion deadlines and determined what actions Parks took when recipients exceeded the deadlines.

We were also asked to determine how Parks defines planning in relation to planning grants and to identify the sources of funds used for such grants. Parks states that it uses this classification if the primary function of the grant is for the purpose of plans or studies and that it is not commonly used. As of early February 2005 Parks' records show that since fiscal year 1996–97, Parks disbursed \$1.35 million for 10 planning grants. Five of the 10 grants had disbursements totaling \$921,000, which were paid from the General Fund, with the remainder paid from several sources, including \$228,500 from the Natural Resources Infrastructure Fund. In Chapter 1 we discuss one of the General Fund projects Parks classifies as planning—a \$492,500 grant to the San Francisco Neighbors Association.

To determine how Parks defines administrative activities and related expenses, we reviewed its administrative cost plans. We determined the amount of administrative costs Parks planned to charge to each of the bond acts, Propositions 12 and 40, over an 11-year period. Further, we identified the amount of funds it actually charged for administrative purposes based on its accounting records. We also identified the amount of administrative costs Parks charged to the General Fund for the years in which the Legislature appropriated those grants. We determined that the records supporting the administrative costs were sufficiently reliable for the purposes of our analysis by first obtaining an understanding of how the information was compiled and then testing it as necessary.

To attempt to determine the amount of administrative costs charged by local recipients to bond grants, we surveyed recipients for 100 grants with projects that were either completed or listed as being in a final status. When selecting recipients to survey, we included nonprofit and local government recipients, as well as those that received their grants from either the General Fund, Proposition 12, or Proposition 40. Among our requests to recipients was disclosing the amount of their grant funding that went toward nonconstruction costs. We used this category because the bond acts do not address administrative cost requirements for recipients. Instead, Parks generally permits recipients to charge only direct costs involved with the project and limits nonconstruction costs, such as the costs for permits and project planning, to no more than 25 percent of the grant award for Propositions 12 and 40. Finally, we were asked to identify the amounts spent at the local level on planning from grant funds. We do not provide specific planning cost information in the audit report because Parks considers those costs as components of nonconstruction costs. ■

# CHAPTER 1

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## ***The Department of Parks and Recreation's Monitoring of Local Grants Needs Improvement***

### CHAPTER SUMMARY

Ongoing monitoring of local grants by the Department of Parks and Recreation (Parks) principally relies on recipients self-certifying their compliance with grant requirements. Before disbursing funds, Parks' Office of Grants and Local Services (grants office) requires each recipient to certify that it understands grant requirements. A project can last up to five or eight years, depending on the type of funding. After the recipient completes the project, the grants office again requires the recipient to certify that it spent all grant funds on allowable costs. Parks' audits office reviews a sample of completed projects to ensure that costs claimed were in fact allowable.

Our review of selected project files disclosed that the grants office performed limited ongoing monitoring of projects in certain instances and inconsistently documented its efforts. If it had a more consistent monitoring process, perhaps the grants office would have identified sooner the questionable practices of a recipient who received more than \$220,000 to build a museum. Further, for certain projects we reviewed, the grants office could not demonstrate that it consistently conducted final inspections of completed projects to ensure that specific project objectives were fully met.

In an attempt to strengthen its monitoring process, the grants office has made some recent improvements, such as establishing a new requirement for recipients to report on the status of their projects every six months. However, further improvements can be made. Finally, we noted that most recipients have not yet reached the end of their project completion periods.

## ONGOING MONITORING EFFORTS PRINCIPALLY FOCUS ON HAVING RECIPIENTS SELF-CERTIFY COMPLIANCE WITH GRANT REQUIREMENTS

The grants office begins its process of ensuring a recipient's understanding of the grant's conditions when the prospective recipient first applies for funding. The grants office requires the applying entity to submit a resolution from the entity's governing body, such as a city council or a board of directors in the case of a nonprofit organization, authorizing the applicant to apply for grant funding. The governing body certifies that the applicant has sufficient funds to operate and maintain the project and understands the grant requirements. The grants office has developed procedure manuals, one for each grant program, to explain application and administration requirements. Each manual also includes important information pertaining to allowable costs and payment request procedures, along with examples of the required resolution and payment request forms. Once it receives the resolution and the application is approved, the grants office executes a contract with the recipient. The contract specifies the performance period for the project and the total amount of the grant.

The grants office's policy is to require additional documentation, besides the resolution and contract, before it disburses funds. This additional documentation provides more specific information

regarding the project's scope and location (see the text box). Project officers from the grants office use the cost estimates, site plans, and other documents to understand and document the project.

### Documentation Recipient Must Provide to Receive Grant Funds

- Recipient resolution
- Executed grant contract
- Evidence of environmental compliance
- Evidence of land tenure (if applicable)
- Cost estimates
- Site plan describing facility improvements
- Topographical and project location maps
- Required permits

The grants office allows recipients to receive advance payments, generally up to 80 percent or 90 percent of their grant awards. Because many grant awards are \$100,000 or more, these advances can be significant. To request an advance, the recipient submits a payment request form along with evidence of imminent costs. An example of acceptable evidence is a copy of an issued construction contract showing that work will begin soon, or written notification from the recipient stating that existing staff will work on the project and are ready to go to work. According to Parks, beginning in September 2003 the amounts

actually advanced to recipients for development projects are limited to the amounts needed in the near future based on contractor payment schedules. The purpose of this requirement is

to ensure that advances are not made in excess of the recipient's immediate or near-term needs. When the recipient intends to acquire property with the grant award—for a community park, for example—the grants office requires enough information to directly deposit the advance into an escrow account.

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*The grants office does not require evidence of actual costs, such as invoices or canceled checks, but rather relies on the audits office to evaluate whether costs are legitimate.*

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Instead of advances, a recipient can request payment to reimburse costs it has already incurred. The grants office places the same limits on reimbursements as it does on advances. However, the recipient must submit a cost summary form supporting its reimbursement requests. The cost summary form lists the date, amount, and purpose of each cost already incurred and the check or warrant number of each listed payment. It is important to note that the grants office does not require evidence of actual costs, such as invoices or canceled checks, but rather relies on the audits office to evaluate whether the costs are legitimate should it choose to audit the grant after the project is complete. To ensure that recipients avoid accounting issues that could result in their reporting ineligible costs, the grants office in the fall of 2004 established a policy that all recipients of competitive grants—those awarded on the basis of the merit of the recipients' applications and their level of need—that have not previously completed projects with the grants office are required to attend regional training workshops. The grants office held the first of these workshops for recipients of two competitive grant programs in December 2004.

Once the project is complete, the grants office requires the recipient to submit a project completion package. This package contains a project certification form and additional cost summaries. When completing the project certification form, the recipient lists the specific facilities developed or land acquired during the project, reports additional funding sources and amounts other than the grant award, and certifies that all grant funds were spent on the project. As with reimbursements, the cost summary form is a report of actual costs incurred. When the grants office has this information, its policy is to conduct a final inspection of the project. Through this inspection the grants office seeks assurance that the recipient can receive the final payment because it has met all the project objectives. According to its policy, once the grants office has completed the final inspection, it disburses the remaining funds to the recipient. In its procedure manuals the grants office mentions the possibility of a subsequent audit by Parks' auditors.

Parks' audits office is responsible for conducting fiscal reviews of a sample of completed grants, ensuring that the costs claimed by recipients are allowable according to grant requirements. To fulfill this responsibility, the audits office reviews the supporting documentation behind the project costs claimed by recipients. For example, the chief of the audits office (audits chief) stated that if a recipient claims project costs associated with a contract, staff at the audits office evaluate the eligibility of specific payments under that contract to ensure that the purposes of those payments fall within the eligible scope of the grant. When reviewing the supporting documentation, the audits office makes adjustments for any unallowable costs it identifies, such as claimed labor costs without adequate support or costs that are outside the grant's scope. Once it has determined the amount of eligible project costs, the audits office compares that amount to the amount of grant funds already disbursed. Ultimately, the audits office issues a report to the grants office for each grant with reportable issues, recommending that the recipient submit refunds to the State to cover any disbursed grant funds that were not supported by eligible costs.

When selecting grants for review, the audits chief indicated that his methodology has been to cover a high percentage of the overall grant funds issued while keeping within a 25 percent audit coverage of all completed grants. As of November 1, 2004, the audits office had selected for review approximately 320 completed grants funded by the Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000 (Proposition 12) and six completed grants funded by the California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002 (Proposition 40). The value of the selected grants at that time constituted approximately 79 percent and 68 percent of the value of all completed projects funded by Propositions 12 and 40, respectively. As of November 1, 2004, the audits office had issued audit reports for 169 Proposition 12 grants and 12 General Fund grants. Given the recent concerns regarding the use of General Fund grants, which we discuss later, the audits office instituted a practice of selecting for review all General Fund grants to nonprofit recipients effective April 2004. As of November 1, 2004, the audits office had identified about \$998,200 in funds owed to the State, of which roughly \$951,400 pertained to completed General Fund grants.

***Parks' deputy director clarified that Parks' procedures and processes were deliberately set up to require a recipient to self-certify that all costs are accurate and directly related to the project's scope.***

Parks' deputy director clarified that Parks' procedures and processes were deliberately set up to require a recipient to self-certify that all costs are accurate and directly related to the

project's scope. According to the deputy director, the recipient makes this certification knowing that records must support all claims and that the project is subject to audit for at least three years from the date of final payment of grant funds.

Nevertheless, there are inherent risks in having an ongoing monitoring process that principally relies on recipients self-certifying project information. First, the information recipients submit could be inaccurate or incomplete. In fact, our visits to six recipients found that some recipients had inaccurately reported to Parks the amounts of other funds used on their projects or the total costs of the projects, thus preventing the grants office from having a clear understanding of the grants' relationships to their respective projects.

Further, the grants office may not be aware of conditions that might cause it to take additional measures to ensure that grant funds are spent appropriately. For example, one foundation we visited received grants of \$1.97 million through the General Fund and \$600,000 through Proposition 40. The foundation entered into a contract with another nonprofit organization (nonprofit contractor) to act as the primary contractor to construct a memorial garden and visitor's center (memorial). According to foundation management, the nonprofit contractor, after concluding that it did not have the expertise necessary to complete such a project, and believing that the entity owning the land (owner) did, entered into an agreement with the owner designating the owner as project manager. A year later the owner entered into an agreement with a firm to oversee and construct the memorial. Payments under the grant flowed through each of these entities, potentially adding to the risk and complexity of the project. Yet the grants office's files indicated that while the project was ongoing, the grants office was only aware of the initial contract between the foundation and the nonprofit contractor. In this instance the foundation was able to substantiate the \$600,000 Proposition 40 grant we tested during our site visit, and according to foundation management, neither the nonprofit contractor nor the owner charged an administrative fee. However, our concern is that similar situations could arise and the grants office would be unaware of projects for which there is an increased possibility of a misuse of grant funds.

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*Payments under one grant we reviewed flowed through each of three entities, potentially adding to the risk and complexity of the project.*

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## THE GRANTS OFFICE COULD STRENGTHEN ITS ONGOING MONITORING OF RECIPIENTS

The grants office has not consistently followed its procedures for monitoring recipients' progress on projects. As a result, it has not been in a strong position to identify recipients who are not complying with grant requirements. According to its database, the grants office disbursed \$215 million as advance payments between July 1996 and mid-October 2004. As discussed previously, in the past it has disbursed up to 80 percent or 90 percent of an award as an advance payment. Given the significant amount of funds advanced and the fact that recipients are allowed as much as five or eight years to complete their projects, depending on the type of funding, we expected the grants office to periodically assess recipients' compliance with grant requirements. However, its monitoring at times is limited, and its efforts are inconsistently documented.

When we asked how the grants office monitors a recipient's compliance with grant requirements during the project completion period, the acting chief of the grants office stated that project officers have historically conducted annual agency reviews. These reviews provide an update of recipients' projects based on information presented by the recipients, generally over the telephone. The grants office's operations manual establishes the policies and procedures that project officers must follow when administering local grants. The manual describes the intent of the annual agency review as a method to assist recipients in completing their projects and requires project officers to contact every recipient with a current project at least once in every 12-month period to review the project; verify the accuracy of project amounts, scope, and payments; and update the recipient's information in the grants office's database. The operations manual stresses that project officers should place emphasis on providing recipients assistance in moving projects through the various milestones to completion. The annual agency review is not intended to focus on any particular project but rather is to be a discussion with the recipient of all its current projects.

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*For the seven projects for which an annual agency review was referenced in the project files, it was generally unclear exactly what information project officers gathered from the recipients.*

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Of the 29 files we reviewed for completed projects, 14 of the projects had proceeded longer than one year from the initial disbursement of funds and thus should have had at least one annual agency review. Although we saw evidence in the files of some verbal communications between project officers and recipients, annual agency reviews were mentioned in recipients' files for only seven of the 14 projects while they were in process. Further, for the seven projects for which an annual agency

review was referenced, it was generally unclear exactly what information project officers gathered from the recipients during the reviews. For example, in some instances the files gave no indication of the information obtained or the specific projects discussed during the annual agency reviews. According to a grants office manager, the absence of documentation does not mean there was no contact between the grants office and the recipients, because project officers may have contacted recipients and not recorded the contacts if there were no problems. However, the grants office's guidance that it provides to project officers states that all project-related discussions held with recipients should be noted in the project files. Further, discussions with recipients are of limited value if they are not documented, because the grants office cannot effectively use the information as a basis for future monitoring.

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***For 12 of 18 projects, the files indicated that the grants office went more than 10 months without discussing the status of the projects with the recipients.***

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Parks' deputy director asserts that, in addition to annual agency reviews, project officers maintain continual contact with recipients, obtaining up-to-date information on the status of projects. However, our review of project files revealed a lack of consistent interaction between the grants office and recipients in many instances. To assess the extent of project interaction maintained by the grants office, we examined the files for 18 of the 29 projects that took longer than six months to complete after funds had initially been disbursed to the grant recipients. For 12 projects, the files indicated that the grants office went more than 10 months without discussing the status of the projects with the recipients. For two of the 12 projects, the grants office went longer than two years without obtaining updates. We identified some instances when project officers noted that they had contacted recipients about annual agency reviews of the 12 projects during those time periods; however, there were no indications in the files that the project officers had specifically discussed the projects. Further, the project files did not reference any new information or knowledge obtained from contacts with recipients.

Inconsistent monitoring appears to have contributed to Parks' being unaware of apparent problems that have recently been publicized regarding one grant that went to a nonprofit organization. In the fiscal year 2001–02 budget act, the Legislature appropriated \$250,000 in General Fund money to the Colour Me Freedom Foundation (foundation) for the construction of a museum dedicated to two civil rights leaders. Under the provisions of the budget act, Parks charged administrative costs equal to 1.5 percent of the grant award, or \$3,750, leaving

\$246,250 to be disbursed to the foundation. The foundation and the grants office entered into a contract in March 2002. By June 2002, 90 percent of the entire grant amount, or \$221,625, had been disbursed as advance payments. According to the file, the grants office did not contact the foundation to get an update on the project's status for more than two years, long after 90 percent of the grant funds were disbursed. In August 2004 a project officer noted in the file that he called the foundation to get an update on the project. According to the file, the foundation indicated that the project was complete but that the public did not have access to the site because of the school at which the museum is located. Further, it appears from the file that the portable classroom the museum was housed in lacked electricity. It subsequently came to Parks' attention that the portable classroom was being used to store items belonging to the school and not its intended purpose as a museum. In March 2005 the State Controller's Office issued an audit report that discusses the grant. The report states that the State Controller's Office referred the matter to law enforcement agencies for review and consideration of possible legal action because it believes that some grant funds may have been misappropriated for personal use.

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***In December 2004 the grants office implemented a new policy requiring recipients to report the status of their projects every six months.***

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Recognizing its need to better track recipients' progress, in December 2004 the grants office implemented a new policy requiring recipients to report the status of their projects every six months. Once the new status report forms are mailed to recipients, the grants office expects a response within 30 days. The status report form requires recipients to briefly describe the work completed on various aspects of projects. For example, recipients must describe their work on preconstruction and preacquisition activities, such as planning and complying with environmental protection requirements, as well as work completed on actual construction or land acquisitions. The form also requires recipients to disclose the funds spent to date on these kinds of work, summarize total grant funds spent to date, and estimate the completion dates of their projects.

Although the new reporting requirement is a step in the right direction, its value could be further strengthened. The status report form, as it currently is worded, is essentially nothing more than another self-certification by grant recipients. To ensure that the information is accurate, the grants office should require recipients to submit supporting documentation. For example, if a six-month status report states that the recipient obtained plans, permits, and architectural drawings with grant funds, the grants office could request evidence of the reported

project progress. Further, the grants office should modify the status report form to request information describing any significant project developments and potential obstacles to completion. This type of information could make the grants office more aware of potentially high-risk projects that require more monitoring, such as the memorial project with multiple contractors described earlier.

## **THE GRANTS OFFICE CANNOT ALWAYS DEMONSTRATE THAT THE PUBLIC BENEFITED FROM ITS LOCAL GRANTS AS INTENDED**

Because it uses a monitoring process that relies heavily on recipients self-certifying their appropriate use of grant funds, it is important that the grants office conduct thorough final inspections of projects to ensure that the public benefited as intended from the grants. However, our review of a sample of project files revealed that project officers could not always demonstrate that they performed final inspections or that they ensured specific project objectives were met during inspections they did perform. Further, the intended public benefit derived from local grants were sometimes unclear, which could lead to concerns or misunderstandings regarding how funds were actually spent. For example, appropriations for many General Fund grants only specified the recipients, project names, and amounts but did not provide guidance on how the money was to be spent. In certain cases we noted that the grants office interpreted the intended scope of the project.

### **The Grants Office Does Not Always Conduct Final Inspections of Completed Projects**

From the files we reviewed for 23 completed projects, we noted four instances of project officers not demonstrating that they performed final inspections. We reviewed files for 29 projects, of which six were primarily for property acquisitions and required the recipients to submit evidence that they did acquire the properties. The remaining 23 were development projects, which generally require final inspections to verify project completion before the grants office makes final payments. The grants office indicated it waived the requirements in two cases, while it stated the remaining two were inspected but not documented.

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*For four of 23 development projects we reviewed, project officers could not demonstrate that they performed final inspections.*

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The chief of the grants office, who retired in December 2004 (former chief), stated that he allowed his supervisors and managers to waive the requirement for a final inspection under

unusual circumstances, such as a small dollar amount and when photographs are available to document the work. The grants office's rationale that conducting final inspections when awards are relatively small is reasonable and adequately explains why one of the grants we reviewed was not inspected. The \$4,000 grant was for the construction of an interpretive sign that allows park visitors to compare the wingspans of birds to their own arms. The recipient photographed the sign and sent it to the project officer as evidence of completion. It would appear that sending a project officer to personally view a sign or inspect a \$4,000 award is not an effective use of bond funds. However, Parks has not developed procedures outlining when it will waive final inspection requirements, potentially resulting in an inconsistent approach.

Such an inconsistent approach became apparent when we examined the other case in which the grants office indicated it waived a final inspection. In this case the award was \$500,000, raising doubt about the former chief's assertion that final inspections are waived only when the grant amount is low. The money was to be used to construct a gymnasium, youth center, and community room. The file listed the project as complete but contained no mention of a final inspection. When we asked the former chief why an inspection did not occur, he stated there was no need for other inspections in the area, so staff accepted photographs. Because of the significant amount of this grant, it would have been prudent to visit the site to ensure that the facilities mentioned in the contract were built as planned.

For two of the 23 projects we reviewed, staff at the grants office contended that the projects were visited but the final inspection was not documented. For example, the grants office paid a recipient in three installments the full amount of a \$985,000 grant that funded restoration work at a mission. The file indicated that the grants office considered the project complete but included no mention of a final inspection. Such a review is especially important given the substantial size of the award. The project officer who processed the final payment told us that he completed a final inspection in April 2001, before the grants office disbursed the final \$100,000. He told us that he was a new employee at the time and overlooked noting the inspection in the file. However, by not documenting in the project file that a final inspection was performed, or discussing what was actually acquired or developed through the expenditure of grant funds, the grants office is less able to demonstrate that it ensured the public benefited from the grant as intended.

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***By not documenting that a final inspection was performed, the grants office is less able to demonstrate that the public benefited from the grant as intended.***

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## **Final Inspections Do Not Always Demonstrate Whether the Public Benefited as Intended From the Grant**

Of the 19 project files that included documentation of final inspections, we noted four instances when project officers did not demonstrate that specific project objectives were met before considering the projects complete. When a file includes no indication that the scope of a grant—the construction of a gymnasium, community pool, or baseball field, for example—was actually satisfied, it is unclear whether the public benefited from the grant as intended. The grants office’s inconsistency in demonstrating that specific project objectives were met appears to stem from a lack of policies and procedures to clearly guide project officers in conducting and documenting final inspections.

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***Comprehensive policies are needed to help ensure that final inspections are conducted and documented in a consistent manner.***

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Ensuring that recipients completed their projects as intended is a fundamental part of administering local grants. The grants office’s policy on conducting and documenting final inspections lists some features to observe during the inspection, such as maintenance and public access; however, it generally does not address how project officers verify that specific objectives are met, nor does it address the extent of documentation required. Comprehensive policies are needed to help ensure that final inspections are conducted and documented in a consistent manner. Such policies might include developing a checklist or other standardized way of ensuring that project officers consistently assess whether project objectives are met. For example, when the Legislature appropriates money for a specific grant through the General Fund to build a community pool, weight room, and baseball field in a particular city, the project officer could use a checklist, among other methods, to demonstrate that the public benefits from each of the new facilities in that location.

The former chief maintained that the grants office conducted training sessions to guide project officers in conducting final inspections. To understand the former chief’s expectations regarding final inspections, we requested notes from a November 2004 training session. The notes state, “There needs to be detail in the final inspection, specific to the project scope as it is in the file records. Diary entries for final inspections need to clearly list that all items in the scope [of the project] were completed. Photos are helpful only if they are pictures of the specific things that were built, not just pictures of the park.” The notes also mentioned that project officers sometimes just write “great project.”

When asked for input on the comment that project officers sometimes just write “great project,” Parks’ deputy director maintained that the comment served as a very bad example of a documented final inspection and that such practices are not common. However, four of the 19 project files we reviewed with documentation of final inspections could not demonstrate that specific objectives were met. For example, for a grant to construct a restroom and maintenance facility, the project officer simply wrote that the project looked good, showed very high quality work, and was accessible, but the project officer did not describe what was built or whether the recipient met specific project objectives. Although in some instances the grants office was able to produce photographs of projects taken by project officers during their final inspections, the pictures themselves did not demonstrate that project officers had determined whether completed projects met specific objectives.

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*Apparently recognizing the need for greater consistency in conducting final inspections and the need to demonstrate that specific project objectives were met, the grants office recently developed formal procedures.*

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During our review, apparently recognizing the need for greater consistency in conducting final inspections and the need to demonstrate that specific project objectives were met, the grants office developed formal procedures. Effective January 2005 project officers must use a standardized form when conducting site visits. This new form directs project officers to list all project scope items completed and those not completed, assess whether the new facilities are in working order, describe any obvious hazards or barriers to access, indicate if the new facilities are currently open to the public, and document photographs of key scope items. According to the deputy director, every project officer must complete this new form with sufficient detail and place it in the project file as evidence of a final inspection.

### **The Expected Results From the Use of General Fund Grants Are Not Always Clear**

Sometimes the intended benefit of a General Fund local grant is not specifically defined in legislation and is subject to interpretation by the grants office. The resulting uncertainty, combined with a lack of a clear statement of what the recipient is expected to accomplish with the grant, can give rise to concerns or misunderstandings regarding how the recipient is to actually spend the funds.

Between July 1996 and mid-October 2004, the grants office disbursed more than \$106 million in local grants from the General Fund. However, sometimes the intended uses of these grant funds are not specifically defined. In fact, in our review of

the fiscal year 2000–01 budget act, we noted many instances of the Legislature appropriating General Fund grants with only the recipients’ names, grant amounts, and project names specified; the budget act provided no information on what was to be accomplished with the funds. In some cases the budget act only specified the recipients’ names and the amounts of the grants. For example, the Legislature appropriated \$250,000 for the Napa Boys and Girls Club and \$200,000 for the North Tahoe Youth Center; however, the budget act did not provide information regarding the intended use of these funds. These grants were in contrast to others where the intended use was more specific, such as the design and construction of a new irrigation system, turf, and security lights for a particular park in a city.

The grants office states that in the absence of clear guidance, it works with the recipient to clarify the project scope. However, the lack of specific legislative direction on the intended use of funds could allow the recipient to potentially submit multiple scope change requests, and the grants office may have little authority to deny the requests.

Sometimes when working with a recipient to identify a project’s scope, the grants office interprets what is to be accomplished by the award. However, the grants office states that the intent of legislation is not always clear. For example, the budget act might specify that the purpose of a General Fund grant is to complete construction of a new facility. Parks’ deputy director maintains that the legislative intent behind such a grant may not be as clear as it initially appears, questioning whether the Legislature intended the grant to result in a completed facility that would be open to the public or simply to help pay for construction. In such cases the grants office makes decisions as to when it considers a recipient has met its project objectives. However, the grants office does not always clearly establish at the beginning of the grant period what the scope of the project is to be and what type of deliverable it expects to see before it makes final payment.

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*The grants office does not always clearly establish at the beginning of the grant what type of deliverable it expects to see before it makes final payment.*

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An example of this issue is a General Fund grant awarded to a nonprofit organization. In the fiscal year 2000–01 budget act, the Legislature appropriated \$500,000 to the San Francisco Neighbors Association (association) for the construction of a neighborhood resource community center. Under the provisions of the budget act, Parks charged administrative costs equal to 1.5 percent of the amount appropriated for the award, or \$7,500, leaving \$492,500 to be disbursed to the association. The association submitted certain required documents, including a

contract signed by its authorized representative, in March 2001. However, in response to the grants office's requirement that it submit a resolution from its governing body authorizing it to apply for funding and certifying that it understands grant requirements, the association submitted a copy of the sample form included in the grants office's procedure manual. Although some information was typed in, such as the names of the project and the association, there was no indication that a governing body had prepared the resolution. Nevertheless, the grants office accepted the resolution and subsequently signed the contract. When we asked Parks' deputy director why the resolution was accepted, he stated that the staff member who approved the resolution has since left, and that such a resolution would not be approved today.

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*The budget act and the contract specified that a grant to the San Francisco Neighbors Association was for the construction of a community center.*

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Along with the contract and resolution, the association submitted a payment request for the entire \$492,500. To support these costs, it subsequently submitted an invoice from a consulting engineer for "project soft cost[s]" related to architectural plans and other items, including fees for permits, project management, and interior design. In April 2001 the grants office approved the full disbursement of the grant, based on the submitted invoice indicating costs on the project that exceeded the grant amount. Given that the budget act and the contract specified that the grant was for the construction of a community center, we asked Parks' deputy director why the grants office disbursed the full grant award before the center was built. In response the deputy director stated the following:

At the time of [this] project, the department took a broad interpretation of Legislators' grants to assist applicants in completing projects. It was common for the legislative language in the budget to be vague and nonrestrictive. . . . [T]he department has recognized planning and architectural drawings to be eligible costs as part of a development project unless specifically excluded or capped at a set amount in the project scope, procedural guide, or statute. . . . The department feels that it was clear to those administering the grant that the project was for "planning" only and not for the actual building. Since the cost of the building was expected to be in the range of \$5 million, it would not have been possible to complete the building with the funds in the grant. Therefore, the department agreed to let the grant funds be used to complete the "planning" portion of the project.

Parks' perspective is that the grant was really for construction planning rather than construction itself, based on communication between Parks and the association. In this communication the association explained that the grant amount alone would not cover construction. A project officer from the grants office wrote the following in this project's file:

[The recipient] says the plans and [specifications] are complete, and the architect will not turn them over until he is paid. Her legislator is particularly interested in seeing this grant paid immediately, per [a chief before the former chief of the grants office]. The plans and [specifications] (and environmental documents, engineering, and surveying) cost nearly \$500,000. The building will cost \$5 million. Their legislator expects to have that amount in the next budget for them. The property is city-owned, with an anticipated open-ended lease to the association. If the plans cost less than the \$492,500 grant amount, the [recipient] will specify additional costs already incurred when she applies.

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***Parks should have established a clear expectation of a deliverable for the \$492,500 grant.***

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Given Parks' interpretation that the scope was planning, it should have established a clear expectation of a deliverable for the \$492,500. In the contract Parks should have stipulated that the funds were for planning, clearly defining what was to be accomplished during the grant period and what was the intended deliverable. Instead, the contract only described the project as being for the "construction of the . . . center." Further, because the association submitted an invoice showing costs for architectural plans and various permits, Parks should have requested to see copies of those documents before disbursing the funds to assess whether the deliverables met its expectations. After we discussed this matter with the grants office, it informed us that for any future project for which the recipient is to use grant funds for planning only, it will perform a visual verification of the plans before making the final payment.

Recently, concerns have been publicized that the funds granted to the association were misallocated and not spent for their original purpose. Reportedly, the association's use of these funds has subsequently been under investigation.

During our visit to one recipient we noted another instance in which the grants office apparently interpreted the project scope of a General Fund grant and did not establish clear expectations at the beginning of the grant period as to what the recipient was

to accomplish with the funds. In legislation that amended the fiscal year 2000–01 budget act, the Legislature provided Parks with \$500,000 to award to a nonprofit organization. As in the previous example, after deducting a portion for administrative costs, Parks awarded \$492,500 to the recipient. According to the legislation, this grant was to be used to “complete construction” of a boys and girls club. Further, the signed grant contract stated only that the project description was “renovation and expansion for multipurpose use and complete construction” of the new facility. However, as with the prior example, the amount of the grant award did not cover the expected total costs of construction. The amount of the General Fund grant was only \$492,500 but, according to the grant application, the estimated total project cost was \$6.2 million. When later processing the recipient’s request for the \$492,500 in May 2001, the project officer closed the grant contract by noting that the actual cost of construction exceeded the dollar amount of the grant, and that the recipient submitted the required cost summary and project certification form. The project officer further noted at that time the recipient’s payment request covered the costs associated with the first phase of construction.

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***Parks should have stipulated in the contract that the grant to another nonprofit organization was for the first phase of construction, and the contract should have defined what was to be accomplished during the first phase.***

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Although the grants office’s interpretation that the grant it provided was only for a portion of the construction may be understandable because of the size of the \$492,500 grant award relative to the total project costs, it nevertheless should have established a clear expectation of a deliverable when the grant was awarded. It should have stipulated in the contract that the grant was for the first phase of construction, and the contract should have defined what was to be accomplished during the first phase. Further, the grants office should have conducted a final inspection to gain assurance that the first phase of construction was complete. A manager in the grants office stated that a final inspection occurred as noted in the file for a subsequent General Fund grant. When we reviewed that file, it indicated only that a final inspection was unnecessary because one had been performed for the \$492,500 grant; however, the file for the \$492,500 grant did not note any such inspection.

We also found that the recipient subsequently received other local grants for the same project. The Legislature appropriated \$100,000 in the fiscal year 2001–02 budget act, again to “complete construction” of the same facility. In fiscal year 2002–03, under a Proposition 12 competitive grant, Parks disbursed an

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*Parks plans in the future to stop action on any General Fund grant when direction is less than perfectly clear in the sponsoring legislation.*

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additional \$1.5 million to the recipient for the same project. The grants office's files indicated that it ultimately performed a site inspection of the facility in August 2002 as part of its review of the Proposition 12 grant.

Because of recent concern regarding the use of certain General Fund grants and the sometimes unclear purposes for which they are awarded, the deputy director states that in the future Parks will stop action on any General Fund grant when direction is less than perfectly clear in the sponsoring legislation. It will ask for further statutory direction from the Legislature before moving forward on the grant.

### **PARKS' PROCESS FOR IDENTIFYING AND AWARDING LOCAL GRANTS APPEARS REASONABLE**

Generally, Parks has established a reasonable process for identifying eligible recipients and determining the amounts awarded for two types of grants awarded under Proposition 12 and Proposition 40: population-based grants and competitive grants. Population-based grant programs are disbursed to local public agencies, such as cities and counties, based on their populations. Competitive grant programs award funds to cities, counties, and nonprofit organizations based on the merit of their applications and their level of need. A third type of grant, specified grants, which are funded by the General Fund and to a certain extent by Propositions 12 and 40, specify the recipient and amount of award in statute. By definition, the grants office is not involved in specified grant determinations; however, it may subsequently assist the recipients in identifying the scope of appropriate projects for the funds they have been awarded.

For population-based grants, Parks complied with bond requirements that it allocate funds to recipients based on population using data provided by the Department of Finance. Further, Parks' calculations of the awarded amounts based on these population figures were reasonable. Also, Parks' process for establishing scoring criteria based for competitive grants appears reasonable. We discuss Parks' process for identifying eligible recipients and determining the amounts awarded in Appendix A.

## **MOST GRANTS HAVE NOT YET REACHED THEIR PROJECT COMPLETION DEADLINES**

Different timelines apply to the expenditure of funds that the Legislature appropriates to Parks for local grants, depending on whether the funds are held by the State or the recipient and whether they are Proposition 12, Proposition 40, or General Fund grants. Only certain General Fund grants have reached the deadlines for recipients to complete their projects.

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*The bond acts generally require recipients to complete all funded projects within eight years of the effective date of appropriation.*

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Propositions 12 and 40 both require the Legislature to appropriate bond funds to Parks before they can be spent. The bond acts generally require recipients to complete all funded projects within eight years of the effective date of the appropriation. Based on the bond acts and the appropriation of funds in the budget acts, the grants office has generally instructed Proposition 12 and Proposition 40 recipients that their projects must be completed within eight years of appropriation by the Legislature. The grants office's procedure manuals warn recipients that they will lose their funding if they fail to execute their contracts with Parks within three years or to complete their projects within eight years of the date the Legislature appropriated bond funds. The grants office has interpreted Propositions 12 and 40 to provide that funds are fully encumbered once a contract between Parks and a recipient is executed and that the recipient may incur costs from that time through the eight-year period if the project is not completed earlier.

Different timelines apply to General Fund grants. State law establishes the maximum time for appropriations made to state agencies. In general, the timeline allows Parks to encumber General Fund grant appropriations for up to three years following the date of the appropriation. Parks has an additional two years to liquidate or distribute the money to the local recipients. Recently, the Attorney General's Office has advised the Department of Finance that this timeline gives a state agency up to three years to encumber an appropriation and an additional two years to liquidate the appropriation, for a total of five years, regardless of when the appropriation was actually encumbered.<sup>2</sup> Any portion of the appropriation not encumbered and liquidated within five years (four years for fiscal year 2001–02 appropriations) reverts back to the General Fund.

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<sup>2</sup> The local grant appropriations we reviewed were available for encumbrance for three years, with the exception of appropriations made for fiscal year 2001–02, which were available for encumbrance for two years. Thus, a four-year timeline existed for local recipients for fiscal year 2001–02 appropriations.

Parks has established a timeline in the procedure manual it provides to recipients of General Fund grants. To avoid the reversion of General Fund money appropriated for grants, in most instances Parks must disburse the funds within the five-year timeline that generally applies to General Fund appropriations for local grants. According to the procedure manual, Parks requires recipients to have contracts in place for their grant awards within three years of when the Legislature appropriated the funds and to complete their projects within two years after that. The grants office looked to the maximum timelines for encumbrance and liquidation of appropriations that state law places on state agencies in establishing its typical five-year timeline.

When Parks advances funds to a recipient, its policy is to withhold a certain percentage of the total award, generally 10 percent, until the project is complete. It instructs the recipient to return any unused funds that have previously been advanced within 60 days of project completion or the end of the contract performance period, whichever is earlier. As with grants awarded under Propositions 12 and 40, Parks informs General Fund grant recipients that Parks considers the appropriate remedy in the event of a breach of contract by a recipient to be specific performance of the contract, unless otherwise agreed to by the State.

Most grants have not yet reached the deadlines for completion. For example, Proposition 12 grants were first appropriated in fiscal year 2000–01, generally resulting in the first grant awards reaching an eight-year project completion deadline at the end of fiscal year 2007–08. The first Proposition 40 grants were appropriated two years later. Only the General Fund grants that were made in or before fiscal year 1999–2000 have reached the five-year project completion deadline established by Parks' contracts. Thus, we limited our review to General Fund grants that were made in or before July 1999.

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***Only the General Fund grants that were made in or before fiscal year 1999–2000 have reached the five-year project completion deadline established by Parks' contracts.***

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We reviewed Parks' grants management system as of mid-October 2004 and identified 302 projects funded by General Fund grants administered between fiscal years 1996–97 and 1999–2000. Because the grants management system does not capture the date a project's status changes to complete, we generally relied on the date of the final payment to determine if a project met its completion deadline. Additionally, we identified projects with statuses other than complete. Our review identified four instances in which recipients did not complete their projects by the established deadlines.

Of the four recipients whose projects were not complete, two are working with the grants office to determine how much of the roughly \$311,000 in advance payments are supported by eligible costs incurred before the established deadlines and whether there are remaining funds that need to be returned to the State. Additionally, the grants office indicated it has already returned approximately \$47,000 in undisbursed grant funds for three projects, which include the two recipients that received the advance payments previously mentioned. According to a grants office manager, the recipient for the fourth project spent its grant funds on park improvements that could not be installed until concrete work was complete. The concrete work was to be paid from other sources. The grants office plans to consider the project complete once it receives documentation that the remaining work that was to be paid from other sources was finished.

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***Although Parks had classified most of the General Fund grants we reviewed as complete, this does not necessarily mean that a park or facility was built and open to the public.***

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Although Parks had classified most of the General Fund grants we reviewed as complete, this does not necessarily mean that a park or a facility was built and open to the public. As discussed previously, Parks believes that the legislative intent behind a General Fund grant may not always be clear. For example, Parks' deputy director stated that a General Fund grant to complete construction of a new facility may not cover the total costs of construction, in which case it is difficult to determine whether the Legislature intended the grant to help pay for construction costs or to result in a usable facility. Parks' practice has been to consider a General Fund grant complete when eligible project costs, such as construction costs, exceed the grant amount. However, following such a practice results in Parks considering a General Fund grant complete even though the recipient did not meet the Legislature's apparent objective, such as completing construction according to the grant contract. As stated previously, if Parks believes that the intent of the grant is to cover only a part of the total construction costs, as in this example, it should document this expectation when it executes the grant contract. By not doing so, Parks places itself at risk of not being able to adequately explain to the public or other stakeholders why it considered the project complete and fully disbursed grant funds even though the apparent stated objective in the grant contract was not met.

Although the prevalence of General Fund grants have diminished in recent years, Parks should take steps now to improve how it documents its expectations for the use of grant funds. Grants awarded under Propositions 12 and 40 will begin to reach their

project completion deadlines beginning in two to four years. Further, General Fund grants could again be appropriated in future years. By clearly documenting in grant contracts what should be accomplished with grant funds, Parks will be in a stronger position to hold recipients accountable for grant funds, as well as explaining to the Legislature and other stakeholders why it considered the project complete and what was specifically accomplished with the public funds.

## **RECOMMENDATIONS**

Parks should continue its efforts to more consistently monitor recipients' use of grant funds, including its efforts to implement its new six-month reporting requirement. Additionally, it should take the step of requiring recipients to support these reports by submitting evidence of project progress, such as copies of preliminary plans and specifications or other evidence demonstrating how the funds are being spent. Further, Parks should modify its new status report form to request recipient information that describes significant project developments and potential obstacles to completion.

Additionally, Parks should revise its policies to ensure that grants office staff consistently document their interactions with recipients regarding the status of their projects. These policies should direct staff to document project-related discussions in sufficient detail to allow for the effective use of this information in future monitoring.

Parks should develop procedures describing the circumstances under which the grants office will conduct final inspections, ensuring that all recipients who expend significant grant funds are consistently reviewed. Additionally, it should continue with its efforts to better document its final inspections, ensuring that it demonstrates that specific project objectives were met.

Should it choose to appropriate General Fund grants in the future, the Legislature should specifically define what is to be accomplished with the funds. In cases where Parks is unclear as to the expected results or deliverables from grant funds appropriated by the Legislature, Parks should continue with its new policy of stopping action on these grants and seeking further statutory language clarifying the intended use of these funds.

Finally, to ensure that it is in a stronger position to hold recipients accountable for accomplishing clear objectives, and to adequately explain to the public what was accomplished with grant funds, Parks should clearly document its expectations as to what is to be accomplished with these funds in its grant contracts. ■

# CHAPTER 2

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## ***The Department of Parks and Recreation Needs to Better Justify Its Charges for Administering Local Grants***

### CHAPTER SUMMARY

**W**ith the passage of the Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000 (Proposition 12) and the California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002 (Proposition 40), the Department of Parks and Recreation (Parks) was given the responsibility of administering bond funds for capital outlay projects and local grants. Recognizing that there would be costs associated with administering these funds, the two bond acts specified that actual administrative costs would be paid from bond funds. However, our review of costs incurred by the Office of Grants and Local Services (grants office)—the office that has primary responsibility for Parks’ local grants—revealed that the grants office does not track its actual costs of administering Proposition 12 and Proposition 40 programs separately. Instead, Parks records the total actual program delivery costs incurred by the grants office for administering local grants and allocates those costs to Propositions 12 and 40 based on the share of funding they receive.

The grants office also administers local grants paid by the State’s General Fund. The Legislature generally limits Parks’ administrative charges for General Fund grants to 1.5 percent of each award, while administrative costs under the two bonds are not limited. Because the grants office does not track by funding source the actual costs of administering grants, one of the risks that exists is the bond funds may be subsidizing the grants office’s administrative efforts for General Fund grants. In addition, although Parks has established limits on certain costs recipients can charge to grants funded by Propositions 12 and 40, those limits are not as restrictive as they might initially appear.

## PARKS ESTIMATED ADMINISTRATIVE COSTS FOR PROPOSITIONS 12 AND 40 GRANTS WHEN THESE BONDS PASSED

Parks prepared cost plans estimating what its costs to implement Propositions 12 and 40 would be over an 11-year period. Although we were asked to identify administrative costs for the bonds as

### Types of Administrative Costs

**Statewide-Distributed Costs**—Two types of statewide-distributed costs exist. First, bond issuance costs, such as interest and loan charges, are taken directly from the bond fund without appropriation. Second, the costs of Parks' administration and coordination of the bond require appropriation; these are the type of statewide-distributed costs discussed in this section.

**Program Delivery Costs**—Parks incurs two types of program delivery costs. First, department-distributed program delivery costs provide support to Parks' staff directly administering bond fund programs and include personnel, accounting, and budgeting costs. Second, direct program delivery costs cover the direct administration of the bond fund program, including operating the grants office.

part of our audit, Parks' budget staff stated that administrative costs is not a term that it uses because there is considerable confusion and disagreement over its meaning. Nevertheless, in its cost plans, Parks identified two types of costs needed to administer the capital outlay projects, which are intended to improve the state park system and its facilities, and local grants authorized by each bond: statewide-distributed costs and program delivery costs (see the text box). For the purposes of this report, we refer to these costs as administrative costs. Additionally, for Proposition 12, Parks estimated other support costs related to its general plan and state park system planning programs. According to its cost plans, Parks estimated that about \$129 million would be needed from Propositions 12 and 40 bond funds for administrative and other support costs, including statewide-distributed costs for certain other agencies. Parks' budget officer stated that when estimating these two types of costs over the 11-year period,

Parks considered factors such as inflation and one-time costs, like furniture and computer equipment, and made assumptions about the number and timing of the additional staff required based on its expectations of when the Legislature would appropriate funding for capital outlay projects and local grants. As discussed in Chapter 1, Propositions 12 and 40 generally require recipients of local grants to complete projects within eight years of the effective date of the appropriation. The cost plans provided for administrative costs over 11 years because they generally reflected the Legislature appropriating grants in three fiscal years instead of one.

Table 2 presents the estimates Parks included in its cost plans for Propositions 12 and 40. Parks estimated that \$17.3 million would be needed for statewide-distributed costs that require appropriation and \$44.6 million in program delivery costs to administer the capital outlay and local assistance programs authorized by Proposition 12 from fiscal year 2000–01 through fiscal year 2010–11. Additionally, Parks estimated \$5.2 million in other support costs, for a total of \$67.1 million in administrative and other support costs. Parks estimated that \$22.1 million would be needed

**TABLE 2**

**Department of Parks and Recreation's Estimates of Administrative and Other Support Costs Related to Propositions 12 and 40 Over an 11-Year Period  
(in Thousands)**

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	Totals
<b>Proposition 12</b>												
Statewide-distributed costs	\$ 248	\$ 999	\$ 1,913	\$2,239	\$2,343	\$2,381	\$2,423	\$1,473	\$ 842	\$ 396	\$17,327*	
Program delivery costs:												
Direct program delivery	3,958	4,837	5,500	4,694	4,166	3,772	2,163	1,094	940	987	37,444	
Department-distributed program delivery	1,122	785	803	885	929	726	543	346	214	0	7,196	
Total program delivery costs	5,080	5,622	6,303	5,579	5,095	4,498	2,706	1,440	1,154	987	44,640	
Other support costs	991	1,908	1,885	199	0	0	0	0	0	0	0	5,173†
<b>Totals</b>	<b>\$6,319</b>	<b>\$8,529</b>	<b>\$10,101</b>	<b>\$8,436</b>	<b>\$7,438</b>	<b>\$6,879</b>	<b>\$5,129</b>	<b>\$2,913</b>	<b>\$1,996</b>	<b>\$1,383</b>	<b>\$67,140</b>	
<b>Proposition 40</b>												
Statewide-distributed costs	\$1,578	\$2,171	\$2,447	\$2,494	\$2,603	\$2,587	\$1,849	\$1,753	\$1,645	\$1,634	\$1,310	\$22,071‡
Program delivery costs:												
Direct program delivery	3,716	4,254	4,249	4,460	4,128	3,932	3,436	3,052	1,715	1,347	1,414	35,703
Department-distributed program delivery	474	455	477	501	526	473	366	384	134	141	148	4,079
Total program delivery costs	4,190	4,709	4,726	4,961	4,654	4,405	3,802	3,436	1,849	1,488	1,562	39,782
<b>Totals</b>	<b>\$5,768</b>	<b>\$6,880</b>	<b>\$7,173</b>	<b>\$7,455</b>	<b>\$7,257</b>	<b>\$6,992</b>	<b>\$5,189</b>	<b>\$3,494</b>	<b>\$3,122</b>	<b>\$2,872</b>	<b>\$61,853</b>	

Sources: Department of Parks and Recreation (Parks) budget requests for Proposition 12; Parks budget requests for Proposition 40, as subsequently adjusted by the Legislature for a program from a specific section of the bond act that was not funded.

\* Includes \$13.3 million to the Department of Finance for the annual audit of bond expenditures, \$1.1 million to the Resources Agency for bond coordination, and \$1.5 million for Parks' audit staff initially reflected in the department-distributed program delivery estimate but later recognized by Parks to be more appropriate as a statewide-distributed cost.

† Other support costs are costs for general plan and state park system planning programs that, according to Parks' budget staff, were specifically approved by the Legislature and are not directly related to implementing capital outlay projects or local assistance programs.

‡ Includes \$14.7 million to the Resources Agency, of which \$11.2 million is for reimbursement to the Department of Finance for the annual audit of bond expenditures and \$3.5 million for other costs, such as bond coordination.

for statewide-distributed costs that require appropriation and \$39.8 million in program delivery costs, for a total of \$61.9 million, to administer the capital outlay and local assistance programs authorized by Proposition 40 for fiscal years 2002–03 through 2012–13.

According to Parks’ budget staff, Parks, the Department of Finance, the Legislative Analyst’s Office, and interested legislative staff agreed that it was important for Parks to decide upfront the amount of administrative costs that would be required over the life of the bonds, allowing for the timely identification of the funds remaining for capital outlay projects and local grants. Parks’ budget staff emphasized that once these capital outlay and local grants are fully appropriated by the Legislature, the total lifetime amount of funding available for administrative costs cannot be changed because the total amounts of the bonds are fixed. The amounts Parks actually charges to bond funds in a given year for administrative costs may differ from its plan due to, among other factors, local assistance and capital outlay projects being appropriated at a different pace than initially planned. However, Parks maintains that the total amount it will charge to the bond funds for administrative costs over the 11-year period specified in its plan will remain the same over the life of the plan.

Parks actually charged more administrative costs for Proposition 12 through June 2004 than it initially estimated in its cost plan. We focused on direct program delivery costs because they account for 57 percent of the total administrative and other support costs Parks estimated over the life of the bonds. Table 3 displays estimated and actual direct program delivery costs through June 2004 for Propositions 12 and 40. Appendix B presents the total administrative and other support costs charged to Propositions 12 and 40, which also include statewide-distributed, department-distributed, and other support costs.

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***Parks indicated that its increased administrative costs in the early years of Proposition 12 reflect that the Legislature appropriated increased funding in an attempt to expedite implementation of the bond program.***

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Parks’ budget staff indicated that the increased administrative costs Parks incurred in the early years of Proposition 12 reflect the increased funding the Legislature appropriated in an attempt to expedite implementation of the bond program. Further, although Table 3 shows that Parks’ recorded actual costs for Proposition 12 exceeded what it initially estimated, our review noted that the costs charged were well within its budgetary authority. Finally, Parks’ budget officer stated that Parks did not incur as many costs for Proposition 40 through June 2004 as it initially estimated because of a hiring freeze in place during the period.

**TABLE 3**

**Comparison of Department of Parks and Recreation's  
Estimated and Recorded Actual Direct Program Delivery Costs  
as of June 30, 2004  
(in Thousands)**

Fiscal Year	Estimated	Recorded Actual	Actual Over (Under) Estimated
<b>Proposition 12</b>			
2000-01	\$ 3,958	\$ 7,419	\$3,461
2001-02	4,837	10,208	5,371
2002-03	5,500	6,303*	803
2003-04	5,333	3,811*	(1,522)
<b>Totals</b>	<b>19,628</b>	<b>27,741</b>	<b>8,113<sup>†</sup></b>
<b>Proposition 40</b>			
2002-03	3,716	4,052*	336
2003-04	4,254	2,496*	(1,758)
<b>Totals</b>	<b>\$ 7,970</b>	<b>\$ 6,548</b>	<b>(\$1,422)</b>

Sources: Department of Parks and Recreation (Parks) Proposition 12 budget requests; Parks' Proposition 40 budget requests, as subsequently adjusted by the Legislature for a program from a specific section of the budget act that was not funded; Parks' Statewide Expenditure/Encumbrance reports as of June 30, 2004.

\* Actual costs for these two fiscal years represent final expenditures (including encumbrances) charged as of June 30, 2004, for which recorded expenditures may not ultimately occur against the encumbrances.

<sup>†</sup> Although Parks' recorded actual costs for Proposition 12 exceeded what it initially estimated, our review noted that the costs charged were well within its budgetary authority.

**PARKS DOES NOT TRACK ITS ACTUAL COSTS  
FOR THE GRANTS OFFICE'S ADMINISTRATION OF  
PROPOSITION 12 AND PROPOSITION 40 PROGRAMS**

Although Propositions 12 and 40 require Parks to charge only its actual costs of administering each bond's programs to the respective bond fund, Parks does not track its actual administrative costs incurred by the grants office relative to each of the bonds. We focused on the grants office's costs because it is the office that has primary responsibility for monitoring local grants, the subject of Chapter 1. The grants office administers local grants under both Propositions 12 and 40, but it does

not separately track and charge administrative costs to the two bond funds. In general, the total actual cost of the grants office is initially charged to a single program cost account, which is funded by Propositions 12 and 40 as well as other funding sources. Although the amounts charged to the account reflect the actual costs of the grants office, those costs cannot be directly attributed to Propositions 12, 40, or other funding sources. They typically reflect the total personnel and operating costs of the grants office. Similarly, the sources and amounts funding the single program cost account are not based on the actual work of project officers on programs funded by those sources. The amounts are appropriated by the Legislature based on Parks' administrative cost plan, as modified by statutorily authorized adjustments, such as retirement and salary adjustments.

Once the program cost account is funded, actual administrative costs are charged to each funding source based on its share of the total funding received by the grants office. For example, in fiscal year 2003–04, 47 percent of the grants office's program cost account was funded by Proposition 12 funds, 46 percent was funded by Proposition 40 funds, and 7 percent was funded by the State Parks and Recreation fund. Therefore, 47 percent of the total actual cost of the grants office was charged to Proposition 12, 46 percent to Proposition 40, and 7 percent to the State Parks and Recreation fund. Because it does not track actual costs separately, Parks cannot ensure that these percentages reflect the actual costs of administering each fund's programs.

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***We question whether Parks' methodology for charging the cost of its grants office to bond funds based on its share of funding received is valid.***

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We question whether Parks' methodology for charging the cost of the grants office to bond funds based on the share of funding the grants office receives is valid. Parks' methodology, in effect, allocates more costs to the administration of large grants than that of small grants. However, according to a grants office manager, grant procedures are the same for administering large grants as they are for small grants, and the level of effort necessary to administer a grant does not depend on a dollar amount as much as it does on other variables, such as the experience and knowledge of the recipient and the complexity of the project. For example, the time and effort a project officer spends in administering a \$50,000 grant may be greater than the time and effort spent on a \$500,000 grant because the recipient may be less experienced and knowledgeable or the project may be more complex.

We asked Parks whether it periodically assesses the reasonableness of its methodology through an analysis of actual costs incurred by project officers on Proposition 12 and Proposition 40 grants.

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***Parks' review of its budgeting and accounting practices did not involve an assessment of the actual costs of administering Proposition 12 or 40 grant programs.***

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The federal Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* (OMB Circular A-87), requires entities receiving federal funds to do a similar analysis when charging administrative costs to the federal awards they receive. Parks stated that on an informal basis it has regularly reviewed and evaluated its budgeting and accounting methodologies for program delivery costs as part of its annual expenditure reporting and concluded that its existing methodologies are appropriate and responsible. Parks also stated that it recently performed a formal review of its budgeting and accounting practices. However, those reviews did not include assessing the actual costs of grants office personnel in administering Proposition 12 or Proposition 40 grant programs.

Parks asserted that its current process of charging direct and indirect administrative personnel costs for state-issued bonds complies with OMB Circular A-87 because the current process is the most cost-effective and ensures a clear and early identification of the available amounts for grant projects. OMB Circular A-87, Attachment B, Section 8, Subsection h(6)(c), states in part that less than full compliance with sampling standards can be used if the system proposed results in lower costs than a system that complies with the standards. Parks asserts that its current approach provides excellent customer service to its grant recipients and efficient administration of the bond fund programs while constraining costs. Parks believes other alternatives, such as detailed time keeping for actual costs or reorganization of staff to dedicated bond fund programs, would cost an estimated \$5 million to \$12 million over a 10-year period and would hinder customer service. However, staff reorganization, which Parks estimates will cost \$12 million, is not necessary to ensure that costs are charged properly to the bond funds. Further, Parks believes that to track actual administrative costs, it needs to track staff time by each program, and it estimates that it would have to spend \$5 million over the 10-year period to do so. However, this estimate is based on the premise that it would require staff at the grants office to incur an additional 12.5 percent in costs, or about one hour in an eight-hour workday, to track staff time by each program. We do not agree that it is necessary for Parks to incur this level of costs to ensure that it properly records Proposition 12 and Proposition 40 costs.

Further, our concern is not that Parks' process may not be cost-effective but that it does not include a frequent comparison to the actual costs incurred for each bond fund—a requirement for federal fund awards as specified in OMB Circular A-87,

Attachment B, Section 8, Subsection h(5)(e). This subsection states in part that budget estimates or other distribution percentages may be used if they are reasonable and comparisons of actual to budgeted distributions are made at least quarterly, and if the estimates are revised at least quarterly if necessary. Although we recognize that OMB Circular A-87 does not apply to nonfederal awards, this would be a prudent practice for Parks to adopt to ensure that administrative charges to Propositions 12 and 40 reflect actual costs as required by the bond acts.

### **THE AMOUNT OF ADMINISTRATIVE COSTS PARKS CAN CHARGE TO GENERAL FUND GRANTS IS LIMITED**

Unlike the bond funds discussed previously, the Legislature limited the amounts that Parks could charge to General Fund grants. The Legislature generally allowed Parks through the annual budget act to allocate an amount not to exceed 1.5 percent of each appropriated General Fund grant for its own administrative costs. As a result, Parks generally withheld 1.5 percent of each General Fund grant appropriated, making the rest available for local assistance. For example, if the Legislature appropriated a \$500,000 General Fund grant to Parks for local assistance, Parks would award only \$492,500 to the recipient, keeping the remaining \$7,500 to cover its administrative costs. In February 2002 the Legislature decided to revert \$38.6 million of General Fund grants that had previously been appropriated for fiscal years 1999–2000 and 2000–01. An additional \$12.7 million in fiscal year 2001–02 appropriations was also reverted. Table 4 shows the amount of General Fund grants that have been appropriated to Parks, net of these reversions, for local assistance for fiscal years 1996–97 through 2003–04.

Parks uses the administrative charges shown in Table 4 primarily to help support its grants office, which has the responsibility for administering General Fund grants. Project officers in the grants office provide technical guidance to recipients as they progress through their projects. However, as discussed previously, the grants office does not track by funding source the actual costs of administering grants. To the extent that the actual costs of administering General Fund grants exceed 1.5 percent of each grant award, the risk exists that other funding sources supporting the grants office—such as the bond funds discussed previously, which do not have a limit—are subsidizing these administrative activities. Another risk is that the grants office has charged more to the General Fund than what it actually cost to administer the grants.

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*To the extent that the actual costs of administering General Fund grants exceed 1.5 percent of each grant award, the risk exists that other funding sources supporting the grants office are subsidizing these administrative activities.*

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**TABLE 4**

**Appropriations for General Fund Grants and Related  
Administrative Costs Charged  
for Fiscal Years 1996–97 Through 2003–04**

Fiscal Year	Net Appropriated Amounts*	Department of Parks and Recreation's Administrative Charges
1996–97	\$ 780,000	†
1997–98	—	—
1998–99	30,857,000‡	\$ 462,855
1999–2000	41,884,500	730,215§
2000–01	43,988,455	556,850§
2001–02	13,594,000	203,910
2002–03	250,000	3,750
2003–04	—	—
<b>Totals</b>	<b>\$131,353,955</b>	<b>\$1,957,580</b>

Sources: Budget acts, related legislation, and an executive order for net appropriated amounts. Department of Parks and Recreation's (Parks) accounting records for administrative charges.

\* Appropriated amounts shown reflect subsequent budgetary augmentations and are net of reversions for the fiscal year noted.

† Parks did not have the statutory authority to charge administrative costs for fiscal year 1996–97.

‡ Appropriated amount shown for fiscal year 1998–99 is shown net of a \$300,000 grant that was subsequently administered by another department.

§ The administrative charges for fiscal years 1999–2000 and 2000–01 do not equal 1.5 percent of the net appropriated amounts because of the manner in which legislation handled certain reverted appropriations for those fiscal years. However, the administrative charges for the two fiscal years taken together equal 1.5 percent of the related net appropriated amounts.

**THE GRANTS OFFICE ESTABLISHED LIMITS ON CERTAIN COSTS CLAIMED BY RECIPIENTS OF PROPOSITIONS 12 AND 40 GRANTS**

We were asked to look at the amount of administrative costs, including planning costs, charged by recipients to Propositions 12 and 40 grants. The bond acts do not address administrative cost requirements for recipients. However, the grants office has defined a range of eligible project costs that recipients can charge to grant funds. The grants office has generally prohibited recipients from charging any indirect costs to grant funds and placed limits on nonconstruction costs. Nonconstruction costs are associated with planning, appraisals, and negotiations and include the

cost of construction plans, land acquisition documents, and complying with environmental protection requirements. We surveyed recipients for 100 grants regarding nonconstruction costs for Proposition 12, Proposition 40, or General Fund grants. We present this information in Appendix C for 92 grants for which recipients responded.

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***Although the bond acts do not address nonconstruction costs, the grants office has chosen to limit the extent to which recipients can charge these costs to grant funds.***

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Although the bond acts also do not address nonconstruction costs, the grants office has chosen to limit the extent to which recipients can charge these costs to grant funds. By limiting eligible nonconstruction costs to no more than 25 percent of the award, the grants office wanted to ensure that recipients would spend the majority of their awards on acquisition or development. Parks had not imposed any limits on similar costs charged to General Fund grants. When we asked the acting chief of the grants office about Parks' policy, she indicated that the grants office had developed General Fund requirements before it imposed the 25 percent limit for grants funded by Propositions 12 and 40, explaining that Parks did not believe it could change existing rules for ongoing General Fund grants.

The manner in which Parks applies the 25 percent limit on nonconstruction costs in practice is less restrictive than it might initially appear. As discussed in Chapter 1, Parks' audits office conducts fiscal reviews of some recipients to determine if the amount of grant funds disbursed is supported by eligible project costs. During its reviews, the audits office attempts to identify all eligible project costs, assessing whether these costs exceed the grant funds disbursed. When we asked the chief of the audits office (audits chief) how his office determines whether recipients complied with the 25 percent limit on nonconstruction costs, he indicated that testing this requirement is not always necessary. Explaining his comments, the audits chief stated that his auditors begin their review with the final project cost summary to identify the total project costs claimed by the recipient. Based on the expenditure detail cited on the cost summary, auditors evaluate the supporting documentation necessary to determine whether the costs for specific transactions fall within the scope of the grant as defined in the agreement with the grants office. If the recipient did not claim nonconstruction costs on the final project cost summary form and auditors were satisfied that eligible project costs exceeded the grant award based on the documentation reviewed, there would be no need to test the requirement. However, if the recipient did claim nonconstruction costs that exceeded the 25 percent limit and the excess was needed to meet the grant amount, auditors would

look for additional eligible costs to cover the disallowed overage. For example, if a recipient had received \$100,000 in grant funds and claimed \$30,000 in nonconstruction costs, auditors would deem only \$25,000 of that amount as eligible nonconstruction costs and look for an additional \$75,000 in eligible project costs to support the entire \$100,000 in grant funds disbursed.

## RECOMMENDATION

To ensure that it is reasonably charging administrative costs to the appropriate funding sources, Parks should perform quarterly comparisons of its actual administrative costs to the costs it recorded and adjust its methodology and recorded costs as necessary.

We conducted this review under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code and according to generally accepted government auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,



ELAINE M. HOWLE  
State Auditor

Date: April 5, 2005

Staff: Karen L. McKenna, CPA, Audit Principal  
Grant Parks  
Joe Azevedo  
Fernando Valenzuela  
Katrina Williams  
Paul Zahka

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# APPENDIX A

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## ***The Department of Parks and Recreation's Process for Identifying and Awarding Local Grants***

The Department of Parks and Recreation (Parks) administers three primary types of grants: population-based grants, competitive grants, and specified grants. The Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000 (Proposition 12) and the California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002 (Proposition 40) provide funding for each of the three types of grants. Population-based grants are disbursed to local public agencies, such as cities and counties, based on their populations. Competitive grants award funds to cities, counties, and nonprofit organizations based on the merit of their applications and the level of need. Parks' Office of Grants and Local Services (grants office) determines eligibility and amounts awarded based on information presented in the bond acts for each type. For specified grants, which are funded by the General Fund and to a certain extent by Propositions 12 and 40, recipients and award amounts are named in the statute rather than determined by the grants office.

### **Parks' Process for Identifying Eligible Recipients and Amounts Awarded for Population-Based Grants**

Under Propositions 12 and 40, Parks administers population-based grants under both the per-capita program and a grant program under the Roberti-Z'berg-Harris Urban Open-Space and Recreational Program Act (Roberti-Z'berg-Harris program). For per-capita grants—those awarded to eligible recipients throughout the State based on population—the grants office identifies eligible recipients and awards funds in accordance with the provisions of Propositions 12 and 40, which provide Parks with guidance on how to award these grants. Both bond acts state that cities, counties, and districts (such as regional parks or open-space districts) are eligible to receive these grants. Proposition 12 generally allocates the available \$388 million funds to two groups: (1) 60 percent of the available funds to cities and to districts other than regional parks or open-space districts and (2) 40 percent to counties and regional park or

open-space districts. Proposition 12 also specifies that the first group of recipients will be entitled to at least \$30,000 each, and any county in the second group is entitled to at least \$150,000. Proposition 40 establishes similar requirements for its available \$350 million, but the minimum amounts to recipients are higher under Proposition 40. An additional \$22.5 million was designated for a certain city and county. Parks uses a portion of the available funding to charge administrative costs.

Propositions 12 and 40 also prescribe that Parks is to determine population data in cooperation with the Department of Finance on the basis of the most recent verifiable census data and other population data that Parks may require to be furnished by the applicant. Finally, both bond acts prescribe how Parks will resolve instances in which eligible recipients serve overlapping populations.

We assessed Parks' methodology for identifying recipients and determining the amounts awarded. To identify eligible recipients, the grants office obtains a listing of cities and counties and their populations from the Department of Finance's demographic unit. To identify park districts, the grants office obtains a complete listing from the State Controller's Office. When a regional park district falls within the boundaries of a county, the grants office allocates funds to the county and regional park district in proportion to the population of the county that falls outside of the district and within the district, respectively. For overlapping cities and districts, the grants office allocates funds based on specific allocation plans, which the bond acts require overlapping cities and districts to complete. By following these processes, the grants office adheres to the guidelines set forth in the bond acts. We verified that the grants office allocates bond funds to recipients based on the aforementioned population reports and listings and distributes at least the minimum amount of funds to each eligible recipient in accordance with the bond acts.

For block grants made available under the Roberti-Z'berg-Harris program, the grants office also distributes funds in accordance with the provisions established under Propositions 12 and 40, under which Parks designated approximately \$332 million for population-based block grants and related administrative costs. Both bond acts require Parks to allocate these funds to urban areas within the State in accordance with special stipulations established in the public resources code. The code specifies that Parks is to allocate funds among urbanized and heavily urbanized areas based on population. The code identifies eligible

recipients from urbanized areas as counties with populations of 200,000 or more and cities and surrounding territories located inside urbanized areas as defined by the Department of Finance. Eligible heavily urbanized area recipients are counties and regional park districts with populations of 1 million or more and cities with populations of 300,000 or more. We determined that the grants office allocated funds to recipients based on the stipulations established in the bond acts and in the public resources code.

Once it establishes allocations to recipients, the grants office's policy is to have recipients apply to use their awards for the specific eligible projects they identify. Before receiving funds, recipients must provide the grants office with the documents discussed in Chapter 1.

### **Parks' Process for Identifying Eligible Recipients and Amounts Awarded for Competitive Grants**

Propositions 12 and 40 also provide funding to eligible recipients on a competitive basis. Competitive grants constitute a significant portion of each bond's overall local assistance funding, with Proposition 12 providing \$188 million and Proposition 40 providing \$274 million for grants and related administrative costs. The grants office has more discretion in how it selects eligible recipients and determines the amounts awarded than it does with population-based grants. The grants office establishes the criteria by which applications for competitive grants are evaluated. Our review found that the grants office's process for establishing the scoring criteria appears reasonable.

The process by which the grants office creates the scoring criteria it uses to evaluate applications for competitive grants is based on deliberation and input by prospective applicants. Before disbursing any funds or accepting applications for a grant award, the grants office drafts a procedure manual for the particular program based on previous manuals. Draft manuals are made available to the public through Parks' Web site, allowing any interested party to provide feedback on the proposed rules.

After the draft manuals are developed, the grants office solicits input from applicants and the general public by holding focus groups and public hearings. It invites potential applicants—including staff from cities, counties, and nonprofit organizations—to provide input on the eligibility of applicants, the scoring criteria used to select projects, and the application

procedures to be used. After this public review period, the procedure manual for the competitive grant is finalized, including the scoring criteria the grants office will use to judge the applications. Scoring systems generally favor applicants that demonstrate the greatest need for the grant and whose projects will be most accessible to the public, among other items.

Once copies of the finalized procedure manual are distributed to prospective applicants, the grants office provides a six-month period for applicants to develop and submit their applications. After the deadline has passed, staff at the grants office review the submitted applications and rank them based on the scoring criteria. As with other grant programs, each applicant must provide the grants office with information such as a cost estimate, a topographic map, proof of required permits, and a description of the project. For competitive grants, however, each applicant must also justify why the project should be selected for grant funds by providing a written response to each of the scoring criteria set forth in the procedure manual. The grants office ranks the applications based on the scoring criteria and initially selects projects based on their ranking until the available funding is exhausted. For example, it might select the 50 highest-ranked projects for further review because, if approved, these are all the projects they can fund based on the total money available. Once it has selected possible recipients, the grants office may inspect a proposed project to verify it scored the application accurately. Once satisfied, the grants office will notify recipients of their awards.

# APPENDIX B

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## ***Administrative and Other Support Costs Charged to Propositions 12 and 40 for Fiscal Years 2000–01 Through 2003–04***

**A**s part of our review, we were asked by the Legislature to determine the amount of administrative costs the Department of Parks and Recreation (Parks) charged to the Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000 (Proposition 12) and the California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002 (Proposition 40). To administer the bond programs, Parks identified two types of costs: statewide-distributed costs and program delivery costs. Statewide-distributed costs include those that require appropriation related to Parks' overall administration and coordination of each bond. Program delivery costs consist of department-distributed program delivery and direct program delivery costs. Department-distributed program delivery costs are for Parks' staff—such as personnel, accounting, and budgeting staff—who provide support to the staff that directly administer bond fund programs. Direct program delivery costs cover actual administration of the bond fund program—for example, Parks' staff who provide technical assistance to recipients. Additionally, Parks charges the bonds for certain other support costs—such as the costs for planning the state park system that were charged to Proposition 12. Table B on the following page shows administrative and other support costs charged to Propositions 12 and 40 from their inception through fiscal year 2003–04.

**TABLE B**

**Propositions 12 and 40 Recorded Administrative and Other Support Costs  
as of June 30, 2004**

Fiscal Year	Program Delivery			Total Program Delivery	Total Administrative Costs	Other Support Costs*	Total Administrative and Support Costs
	Statewide- Distributed	Department- Distributed	Direct				
<b>Proposition 12</b>							
2000-01	\$ 119,485	\$ 428,557	\$ 7,419,054	\$ 7,847,611	\$ 7,967,096	\$ 991,000	\$ 8,958,096
2001-02	962,058	849,739	10,208,036	11,057,775	12,019,833	3,918,607	15,938,440
2002-03 <sup>†</sup>	349,500	971,875	6,302,987	7,274,862	7,624,362	4,776,192	12,400,554
2003-04 <sup>†</sup>	1,027,271	774,276	3,810,780	4,585,056	5,612,327	4,455,652	10,067,979
<b>Totals</b>	<b>2,458,314</b>	<b>3,024,447</b>	<b>27,740,857</b>	<b>30,765,304</b>	<b>33,223,618</b>	<b>14,141,451</b>	<b>47,365,069</b>
<b>Proposition 40</b>							
2002-03 <sup>†</sup>	247,611	194,635	4,051,786	4,246,421	4,494,032	9,786,551	14,280,583 <sup>‡</sup>
2003-04 <sup>†</sup>	309,791	362,175	2,495,882	2,858,057	3,167,848	4,828,148	7,995,996 <sup>‡</sup>
<b>Totals</b>	<b>\$ 557,402</b>	<b>\$ 556,810</b>	<b>\$ 6,547,668</b>	<b>\$ 7,104,478</b>	<b>\$ 7,661,880</b>	<b>\$14,614,699</b>	<b>\$22,276,579</b>

Source: Department of Parks and Recreation's (Parks) Statewide Expenditure/Encumbrance reports as of June 30, 2004.

Note: Proposition 12 and Proposition 40 statewide-distributed costs do not include costs incurred by the Resources Agency, which were included in Parks' estimated cost plans.

\* Other support costs for Proposition 12 include programmatic costs for Parks' general plan and state park system planning, and support costs for deferred park maintenance, cultural artifacts, and Americans with Disability Act projects for Proposition 40. Certain costs for Proposition 12 reflect Parks' estimates of actual costs incurred.

<sup>†</sup> Actual costs for these two fiscal years represent final expenditures (including encumbrances) charged as of June 30, 2004, for which recorded expenditures may not ultimately occur against the encumbrances.

<sup>‡</sup> Certain Proposition 40 support costs related to special legislation are available for encumbrance for three fiscal years rather than one. Approximately \$1.16 million of these costs are shown in fiscal year 2002-03, the year appropriated, rather than fiscal year 2003-04, the year expended or encumbered.

# APPENDIX C

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## ***Survey Responses From Recipients Regarding Project, Grant, and Nonconstruction Costs***

The Joint Legislative Audit Committee asked us to determine the amount of administrative costs spent by recipients. The bond acts do not address administrative cost requirements for recipients. However, when defining project costs eligible for grant payments, the Department of Parks and Recreation (Parks) generally prohibited recipients from charging their indirect costs. Parks further limited a specific category of direct costs, called nonconstruction costs, to 25 percent of the amount of grants funded by the Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000 (Proposition 12) and the California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002 (Proposition 40). Parks defines nonconstruction costs as the project costs pertaining to the plans, appraisals, and negotiations related to a project. Parks imposed this requirement to ensure that recipients spend most of their grants on acquisition or development. Parks has only applied this requirement to Proposition 12 and Proposition 40 grants, stating that its requirements for General Fund grants were adopted before the 25 percent limit was established and it did not believe it could change existing rules for ongoing grants.

We sent surveys to recipients for 100 grants with projects that were either completed or listed as being in a final status. Among the data we asked survey participants to report were the project costs, grant costs, and nonconstruction costs they incurred. The grant costs presented in this appendix are those incurred on the specific grants for which we requested information. In many instances, project costs exceed grant costs as projects can be funded by other sources, such as local funds and, at times, other state grants. The amounts reported by recipients may not necessarily reflect Parks' perspective of how grant funds were used. In the following tables we present the results for 92 grants for which recipients responded to our survey. The responses from local governments appear in Table C.1 on the following page, and those from other entities appear in Table C.2 on page 61.

**TABLE C.1**

**Reported Project, Grant, and Nonconstruction Costs for Surveyed Local Governments**

Entity	Project Name	Reported Project Costs	Reported Grant Costs	Reported Nonconstruction Costs Paid by Grant
<b>General Fund Grants</b>				
City and County of San Francisco*	Conservatory of Flowers	\$23,807,262	\$1,970,000	\$ 710,115
City and County of San Francisco*	Conservatory of Flowers	23,807,262	2,462,500	1,106,345
City of El Monte	Teen Center and Aquatic Facility	16,062,998	492,500	102,125
City and County of San Francisco	Bayview Playground Swimming Pool	9,416,437	492,500	0
City of Santa Ana	Delhi Community Center and Park	6,098,457	788,000	0
County of Santa Barbara	Bowl Renovation	5,136,783	3,053,500	734,617
City of Walnut Creek	Shadelands Campus	4,609,964	203,895	0
City of San Carlos	Youth Center	2,565,000	788,000	0
East Bay Regional Park District	Arroyo Del Valle	2,462,500	2,462,500	394,752
City of San Buenaventura	Ventura Pier	2,199,821	738,750	0
County of San Diego	Tijuana River Valley Ballfields	2,130,248	68,950	0
East Bay Regional Park District	Arroyo del Valle Education Center	1,970,000	1,970,000	247,320
City of Fountain Valley	Mile Square Park	1,300,750	738,750	738,750
North Bakersfield Recreation and Park District	Liberty Park	1,288,260	246,250	0
City of Los Angeles	Debs Park	995,715	985,000	198,660
City of Half Moon Bay	Bike Trail	883,000	344,750	126,000
County of Los Angeles	Los Angeles County Trash Collection Devices	840,250	640,250	40,000
City of La Mesa	La Mesita/Parkway Regional Sports Complex	646,868	645,175	42,994
Hayward Area Recreation and Park District	Hayward Plunge Renovation-Phase I	625,481	391,045	0
City of La Cañada Flintridge	Rockridge Terrace	510,000	443,250	0
City of Montebello	Skateboard Park	462,374	197,000	0
City of San Diego	Paradise Hills Revitalization	405,115	225,565	90,903
City of El Cajon	Park Projects (5)	273,830	273,830	0
City of San Diego	Southcrest Community Park	221,472	147,750	25,518
Jurupa Area Recreation and Park District	Memorial Park Swimming Pool	58,933	49,250	1,532
City of Rancho Cucamonga	After School Drop-in Program	43,110	29,031	0
City of San Diego	M.L.King, Jr. Recreation Center (Lighting)	39,349	19,700	0

Entity	Project Name	Reported Project Costs	Reported Grant Costs	Reported Nonconstruction Costs Paid by Grant
City of Hanford	Community Pool	\$ 5,345	\$ 3,940	\$ 0
<b>Proposition 12 Grants</b>				
City of El Monte	Aquatic Center	16,062,998	349,397	0
City of Campbell	Heritage Theater	8,733,107	371,000	0
County of Orange	Huntington Beach-Storm Drain	6,088,339	945,000	0
City of Maywood	Los Angeles River Parkway	5,866,574	2,365,000	0
County of Sacramento	Deer Creek Hills Acquisition-Phase I	4,928,000	1,000,000	0
Santa Clara County Open Space Authority	Medeiros Property	4,399,803	1,400,000	0
City of Santa Rosa	Prince Memorial Greenway Phase	4,267,673	1,288,000	0
Midpeninsula Regional Open Space District	District Open Space Preserves	2,700,000	2,399,000	0
Midpeninsula Regional Open Space District	Sierra Azul Open Space Preserve Addition	2,150,000	1,253,789	0
County of San Diego	Tijuana River Valley Ballfields	2,130,248	1,400,000	42,220
City of Long Beach	El Dorado Park Senior Wing	1,821,142	1,077,022	130,321
City of Fontana	Center City Park Acquisition	1,517,347	709,000	0
City of Highland	Aurantia Park	1,300,015	129,422	0
City of Lancaster	Lancaster National Soccer Center	1,201,000	1,201,000	0
County of Sacramento	Effie Yeaw Nature Center	1,155,457	669,667	155,579
Hayward Area Recreation and Park District	San Lorenzo Community Park	1,041,853	669,677	0
Hayward Area Recreation and Park District	Five Canyons Park-Phase I	1,039,043	400,000	0
County of San Diego	Hilton Head Park	857,614	600,000	51,448
Town of Danville	Diablo Vista Park	803,415	250,000	0
City of Fresno	Victoria West Neighborhood Park Acquisition	790,372	790,372	5,372
City of San Dimas	City Park Restroom Buildings	714,566	338,000	0
City of Temple City	Live Oak Park Restroom/Maintenance	621,750	316,000	67,123
City of San Mateo	Park Restroom Upgrades	400,000	200,000	0
City of El Centro	McGee Park Renovation	394,227	275,000	22,000
City of San Mateo	Concar Park Playground	337,456	27,700	0
County of Yolo	Yolo County Parks Repaving	161,610	161,610	0
City of Santa Ana	Riverview Park Improvements	77,827	54,479	0

continued on next page

Entity	Project Name	Reported Project Costs	Reported Grant Costs	Reported Nonconstruction Costs Paid by Grant
City of Woodland	Schneider Park Play Equipment	\$ 32,713	\$ 32,713	\$ 0
Rim of the World Recreation and Park District	Running Springs Park	29,871	29,871	0
City of Barstow	Al Vigil Community Center Spring Floor	3,025	3,025	0
County of Yolo	Knights Landing Boat Launch	2,275	2,275	0
<b>Proposition 40 Grants</b>				
City of Campbell <sup>†</sup>	Heritage Theater	8,733,107	220,000	0
City of Campbell <sup>†</sup>	Heritage Theater	8,733,107	103,982	0
County of Sacramento	Deer Creek Hills Acquisition-Phase II	5,575,799	1,653,399	0
East Bay Regional Park District	Gleason Acquisition	3,808,300	544,135	0
City of Concord	Concord Community Park and Bathhouse	2,925,417	352,500	0
City of Lafayette	Multi-Purpose Ballfield Facility	1,458,820	218,000	0
City of Laguna Niguel	Crown Valley Community Park Synthetic Turf	614,876	279,000	5,269
City of Piedmont <sup>‡</sup>	Linda Beach Playfield Synthetic Turf	337,983	220,000	0
City of Piedmont <sup>‡</sup>	Linda Beach Playfield Synthetic Turf	337,983	30,193	0
East Bay Regional Park District	Roberts Pool Mechanical Rehabilitation	337,806	93,646	18,306
Brooktrails Township Community Services District	Redwood Grove Acquisition	170,790	170,787	0
Willow Creek Community Services District	Murphy Park Acquisition	159,254	159,254	0
Fulton-El Camino Recreation and Park District	Howe Park Parking Lot	138,136	79,514	0
City of Laguna Woods	Woods End Access Entry	82,496	45,492	0
Westside Recreation and Park District	Community Center Improvements	57,494	57,494	0
City of Barstow	Tree Removal and Rehabilitation at Various Parks	26,082	26,082	0
County of Siskiyou	Mt. Shasta Resort Tennis Courts	16,000	8,000	0
City of Pomona	Philadelphia Park	9,310	9,310	0

\* These two General Fund grants to the city and county of San Francisco were for the same project but were appropriated in different fiscal years.

† These two grants to the city of Campbell were for the same project but were funded by different Proposition 40 programs.

‡ These two grants to the city of Piedmont were for the same project but were funded by different Proposition 40 programs.

**TABLE C.2**

**Reported Project, Grant, and Nonconstruction Costs for Other Surveyed Entities**

Entity	Project Name	Reported Project Costs	Reported Grant Costs	Reported Nonconstruction Costs Paid by Grant
<b>General Fund Grants</b>				
Fine Arts Museums of San Francisco	M.H. de Young Memorial Museum	\$202,471,765	\$2,462,500	\$2,462,500
Asian Art Museum	Asian Art Museum	148,053,000	4,925,000	0
Cesar E. Chavez Foundation	Cesar E. Chavez Memorial Garden and Visitor Center	3,396,464	1,970,000	122,253
Mission San Juan Capistrano	Mission San Juan Capistrano	1,782,000	985,000	55,233
Sweetwater Authority	Sweetwater Reservoir	1,607,300	738,750	0
Lassen Park Foundation	Crossroads Information Center	705,310	98,500	0
Asian Youth Center	Asian Youth Center Annex	398,338	394,000	0
Sail San Francisco	Tall Ships	228,000	98,500	98,500
<b>Proposition 12 Grants</b>				
California Academy of Sciences	Capital Improvements	379,046,000	9,446,000	0
California Science Center	California Science Center-School	59,065,064	6,113,000	0
Turtle Bay Exploration Park	Turtle Bay Museums and Arboretum on the River	46,706,540	14,169,000	1,418,004
Santa Monica Mountains Conservancy	Compton-Slauson Natural Park	5,400,000	946,000	4,865
Aquarium of the Pacific	Shark Lagoon	2,605,116	270,050	0
<b>Proposition 40 Grants</b>				
California Academy of Sciences	Capital Improvements	379,046,000	4,000,000	0
Cesar E. Chavez Foundation	Cesar E. Chavez Memorial Garden and Visitor Center	3,396,464	600,000	12

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*Agency's comments provided as text only.*

Resources Agency  
1416 Ninth, Suite 1311  
Sacramento, CA 95814

March 17, 2005

Elaine M. Howle  
State Auditor  
555 Capitol Mall, Suite 300  
Sacramento, CA 95814

Dear Ms. Howle:

Thank you for the opportunity to review the draft copy of your report on the Department of Parks and Recreation's grant program administration.

We are appreciative of the efforts of your audit team to assist the Department in improving its processes. As you are aware, the Department was asked to implement a large number of grant programs in a very short time period. The Department responded enthusiastically to this direction and has assumed responsibility for the largest and most diverse park and recreation grant programs in the nation.

This is not to say the Department does not recognize a need to improve processes and procedures. Rather, the Department continually evaluates its processes and makes improvements. The Department has already implemented many of your recommendations and is in the process of implementing the rest. The Department's specific comments are enclosed.

If I can be of further assistance, please let me know.

Sincerely,

*(Signed by: Mike Chrisman)*

Mike Chrisman  
Secretary for Resources

**State of California – The Resources Agency**

**Memorandum**

**Date** : March 17, 2005

**To** : Michael Chrisman, Resources Secretary  
**Resources Agency**

**From** : **Department of Parks and Recreation**  
**Director's Office**

**Subject** : Bureau of State Audits Departmental Response

Since 1996, the California Department of Parks and Recreation (Parks) has taken on the task of implementing grant programs to public agencies and non-profit organizations from the 2000 Park Bond, the 2002 Resources Bond, the General Fund and other grant programs totaling approximately \$2 billion. This was a large undertaking requiring development of new procedures and hiring and developing staff capacity.

Parks has undertaken these tasks with enthusiasm and diligence. We have used extensive and unprecedented public involvement processes in developing 18 procedural guides for population based and competitive grant programs that are widely perceived to be clear, objective and fair to all grant applicants. We are pleased that the Bureau of State Audits found that our process for identifying eligible recipients and determining grant awards was reasonable.

We have a sophisticated system for collecting and storing project documentation in electronic and in paper file formats. Documentation in these project records is easily accessible and generally of a very high quality. Parks acknowledges that the level of detail in some files has not always been up to our current standards and is constantly taking steps to improve consistency.

Parks recognizes its grant administration procedures can always be improved. This is why Parks has made numerous changes in procedures over the past two years, including improved training. Even during the time of this audit, Parks has continued to identify ways to improve monitoring procedures. We are continuing to assess and address any weaknesses in processes and welcome the recommendations of the Bureau of State Audits.

More specifically Parks provides the following responses to each of the BSA audit recommendations:

*Parks should continue its efforts to more consistently monitor recipients' use of grant funds, including its efforts to implement its new six-month reporting requirement. Additionally, it should take steps of requiring recipients to support these reports by submitting evidence of project progress, such as copies of preliminary plans and specifications or other evidence demonstrating how the funds are being spent. Further, Parks should modify its new status report form to request recipient information that describes significant project developments and potential obstacles to completion.*

- Parks will modify its six months status report to include significant project developments and potential obstacles to completion. Parks will evaluate methods available to collect adequate supporting documents depending on the type of project. Parks will implement the new procedures for collecting supporting documentation as part of the six month status process.

*Additionally, Parks should revise its policies to ensure that grants office staff consistently document their interactions with recipients regarding the status of their projects. These policies should direct staff to document project related discussions in sufficient detail to allow for the effective use of this information in future monitoring.*

- Parks will revise its policies to ensure that grants office staff consistently document their interactions with recipients. This will be accomplished through additional training of project officers and supervisors. Supervisors will also conduct periodic review of project files and project diary entries with project officers.

*Parks should develop procedures describing the circumstances under which grants office will conduct final inspections, ensuring that all recipients who expend significant grant funds are consistently reviewed. Additionally, it should continue with its efforts to better document its final on-site inspections, ensuring that it demonstrates that specific project objectives were met.*

- Parks has implemented a new form and process to ensure that appropriate information is collected during the final inspection and adequately documented in project files. Parks will also develop a formal policy for approval of alternatives to site inspections. The policy will specify the types of projects, circumstances, alternative documentation acceptable and the level of approval required in the grants office for approving exceptions.

*Should it choose to appropriate General Fund grants in the future, the Legislature should specifically define what is to be accomplished with the funds. In cases where Parks is unclear as to the expected results or deliverables from grant funds appropriated by the Legislature, Parks should continue with its new policy of stopping action on these grants and seeking further statutory language clarifying the intended use of these funds.*

- Parks will continue its policy of stopping action on General Fund grants when necessary and will seek further statutory language clarifying the intended use of these funds.

*Finally, to ensure that it is in a stronger position to hold recipients accountable for accomplishing clear objectives, and to adequately explain to the public what was accomplished with grant funds, Parks should clearly document its expectations as to what is to be accomplished with these funds in grants contracts.*

- Parks will ensure that project objectives are consistently clear in grant contracts and application documents, and that any changes to project scope and dollar amounts are approved by Parks in a consistent and well documented manner to make it clear to the public what is accomplished with grant funds. This will be accomplished through training of staff and supervisory review.

*To ensure that it is reasonably charging administrative costs to the appropriate funding sources, Parks should perform quarterly comparisons of its actual administrative costs to the costs it recorded and adjust its methodology and recorded costs as necessary.*

- Parks believes that our program delivery efforts are cost-effective and are consistent with the overall intent and purpose of the underlying bond acts and appropriations. In accordance with the Auditor's recommendation, we will periodically assess the reasonableness of our cost allocations and adjust recorded costs as appropriate.

*(Signed by: Ruth Coleman)*

Ruth Coleman  
Director

cc: Members of the Legislature  
Office of the Lieutenant Governor  
Milton Marks Commission on California State  
Government Organization and Economy  
Department of Finance  
Attorney General  
State Controller  
State Treasurer  
Legislative Analyst  
Senate Office of Research  
California Research Bureau  
Capitol Press