

# Secretary of State **AUDIT REPORT**

Report No. 2000-11 • March 17, 2000

## Oregon Watershed Enhancement **Board** Grant Administration Practices



Bill Bradbury, Secretary of State  
John Lattimer, Director, Audits Division

### Summary

#### PURPOSE

This audit is requested by OWEB. Our audit included an independent risk assessment of OWEB. We undertook a detailed audit of the process and program areas that we identified as having the highest audit risk.

#### RESULTS IN BRIEF

OWEB's multiple level review process provides the opportunity for consistent evaluation of project grant applications and is appropriately based on the criteria found in statute.

OWEB could improve its grant management. We found that OWEB was not requiring grantees to submit reports according to grant terms. Further, we found that OWEB was not monitoring older or non-performing grants to assure that they are closed out, cancelled or amended and excess funds released for reallocation. Finally, we found instances in which OWEB had released funds prior to the grantee complying with the grant requirements.

OWEB's fiscal control process over approved payments to grantees appears to be adequate. We found, however, examples of payments that should not have been approved. We are also concerned about the effect that the significant increase in grantable funds will have on the risk that fiscal controls may fail.

#### RECOMMENDATIONS

- We recommend that OWEB implement a process that ensures that grantees submit final reports and monitoring reports according to the terms of their grant.
- We recommend that OWEB improve its grant administration process and implement a policy that would help to ensure that grants are closed out, cancelled, or amended in a timely fashion, and excess funds are released for reallocation.
- We recommend that OWEB modify their grant funding process as necessary to ensure funds are released after OWEB has adequately documented that grantees have met interim or final grant terms for present and prior grants.
- We recommend that OWEB develop a long-range plan for mitigating the risks associated with the expected increase in workload resulting from the increase in funding and grant activity.

#### AGENCY RESPONSE

OWEB generally agrees with the recommendations. Changes to the agency's data base and grant management procedures have been implemented. A plan for managing the anticipated increase in grant activity is being developed.

#### INTRODUCTION

The mission of the Oregon Watershed Enhancement Board (OWEB) is to promote and implement programs to restore, maintain and enhance Oregon watersheds in order to protect the economic and social well being of the state and its citizens.

As a result of the passage of Measure 66, OWEB will administer nearly \$43.4 million in natural resource restoration and protection funds during this biennium.

#### BACKGROUND

OWEB was created by the 1999 Legislature through the passage of House Bill 3225. This legislation implemented Measure 66 and established the framework for allocating constitutionally dedicated lottery resources. Measure 66, passed by the voters in 1998, amended the Oregon Constitution to split 15 percent of net lottery proceeds between state parks and salmon, watershed, and habitat restoration. OWEB is the single state agency charged with administering the salmon and watershed portion of these dedicated lottery revenues.

OWEB represents a 1999 reformulation of the Governor's Watershed Enhancement Board (GWEB). GWEB was established in 1987 by the legislature and given responsibility for the restoration and enhancement of riparian and upland watershed areas. The OWEB board, supported by a thirteen-employee staff, will consist of eleven voting members, including five members from state natural resource agency boards and commissions and six public members appointed by the Governor. The new Board will also include up to six additional non-voting members, including the director of Oregon State

University's Extension Service and representatives from five federal land and natural resource agencies.

OWEB's primary program focus is to grant funds to local Watershed Councils, Soil and Water Conservation Districts or private citizens in support of projects that will restore, maintain or enhance Oregon's watershed health.

**AUDIT RESULTS**

**Grant Review Process**

We found that OWEB's multiple level review process provides the opportunity for consistent evaluation of project grant applications and is appropriately based on the criteria found in statute.

Our analysis shows that the process provides a multiple step review of applications that includes the grantee, OWEB staff, independent regional reviewers, and the Board.

From our analysis, we also determined that its review guide included the significant provisions from relevant statutes and appeared to be free from extraneous evaluation that may bias approval toward a particular group or watershed area.

Furthermore, the reviewer's comments and conclusions for both approved and denied applications appeared to coincide with the applicable criteria, and with the project attributes as represented in the application.

**Grant Administration**

The additional funding provided by Measure 66 has increased the number and amount of grants that OWEB administers. In 1998, OWEB approved grants worth \$8.3 million. Grant funding approved for the 1999-2001 biennium will result in an average grant funding of \$15.3 million per year.

OWEB provides grants in support of projects that will restore, maintain or enhance Oregon's watershed health. This requires that OWEB's staff be able to manage a variety of grant types that includes on-the-ground project grants, monitoring grants, watershed assessment grants, education grants, and watershed council support grants.

To manage these grants, OWEB has divided the state into five regions and placed a regional program representative over each. The five regions are North Coast,

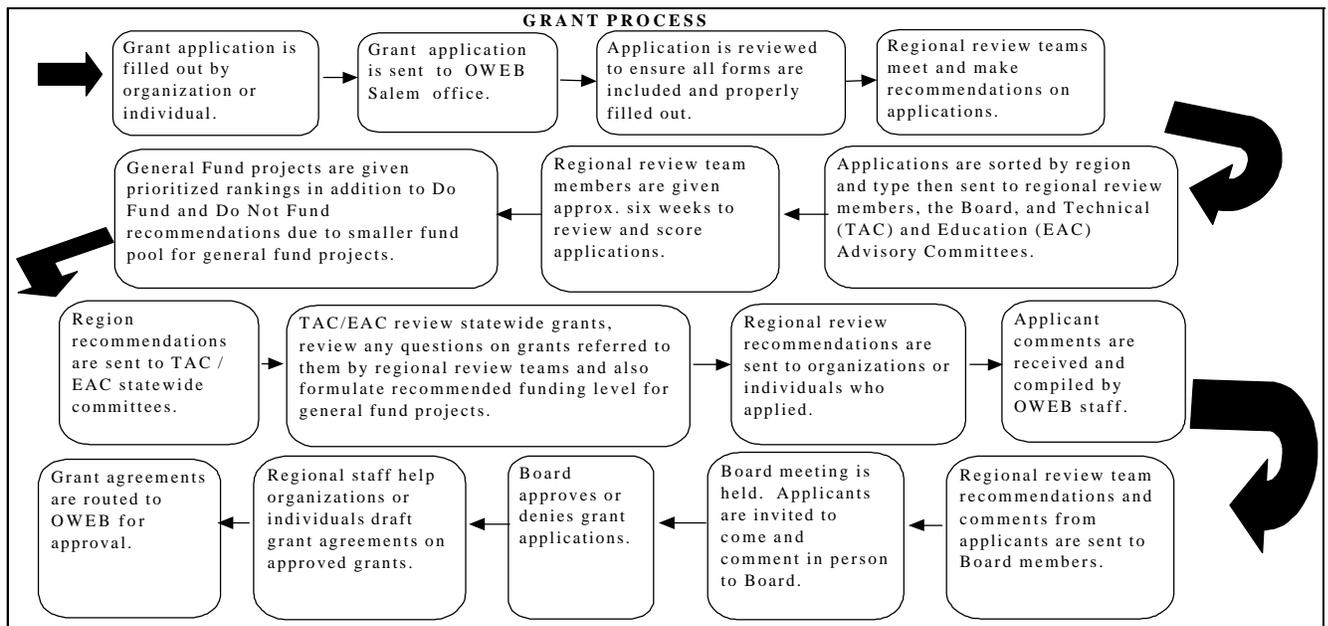
Willamette Valley, South Coast, central Oregon, and Eastern Oregon.

The regional program representatives oversee OWEB grants by receiving and reviewing all grant documentation from grantees prior to forwarding it to the central office. Regional program representatives are also the primary grantee points of contact when addressing project issues.

OWEB's Fiscal Coordinator provides the central office monitoring and oversight. His duties include reviewing all grant documents, reviewing all grantee expenditure documentation for all active grants, keeping the grant database up-to-date, and preparing and verifying grant payments prior to the director's approval.

Through our review of grant project files and the project management database, we found that OWEB could improve its grant management practices. Based on our work, we noted the following:

- OWEB grantees were not meeting their obligations as mandated in the grant agreements. For example, our review found four projects that were overdue and not completed as of January 2000.



Additionally, our review of OWEB's project management database showed that 56 percent of all final reports were overdue, with 36 percent not submitted at all as of January 2000. The database also showed that 63 percent of the annual monitoring reports were not submitted by their due dates.

- OWEB provided funding for additional grant projects when prior projects were in violation of grant agreements. For example, our review identified two grantees that had incomplete and overdue projects at the time a subsequent grant was funded. Similarly, we found four grantees receiving funds when final project reports were overdue. OWEB's policy is to not distribute funds for new grant projects when prior projects have not complied with their grant agreement.
- Some older or non-performing grants were not closed out, cancelled, or amended, and excess funds were not reallocated. Our review of eight project files identified two projects that needed to be closed out. As a result of our finding,

OWEB released \$20,255 in project funds.

- OWEB released funds prior to the grantee complying with grant requirements for present and prior grants.

**We recommend** that OWEB implement a process that ensures grantees submit final reports and monitoring reports according to the terms of their grant.

**We recommend** that OWEB improve their grant administration process and implement a policy that would help to ensure grants are closed-out, cancelled, or amended in a timely fashion, and excess funds are released for reallocation.

**We recommend** that OWEB modify their grant funding process as necessary to ensure funds are released after OWEB has adequately documented that grantees have met interim or final grant terms for present and prior grants.

**Agency Response:** OWEB generally agrees with the recommendations. It is noted, however, that entries in the data base incorrectly portrayed as overdue final reports were in fact submitted on time by the grantee and located in OWEB's files. This data entry error has been corrected.

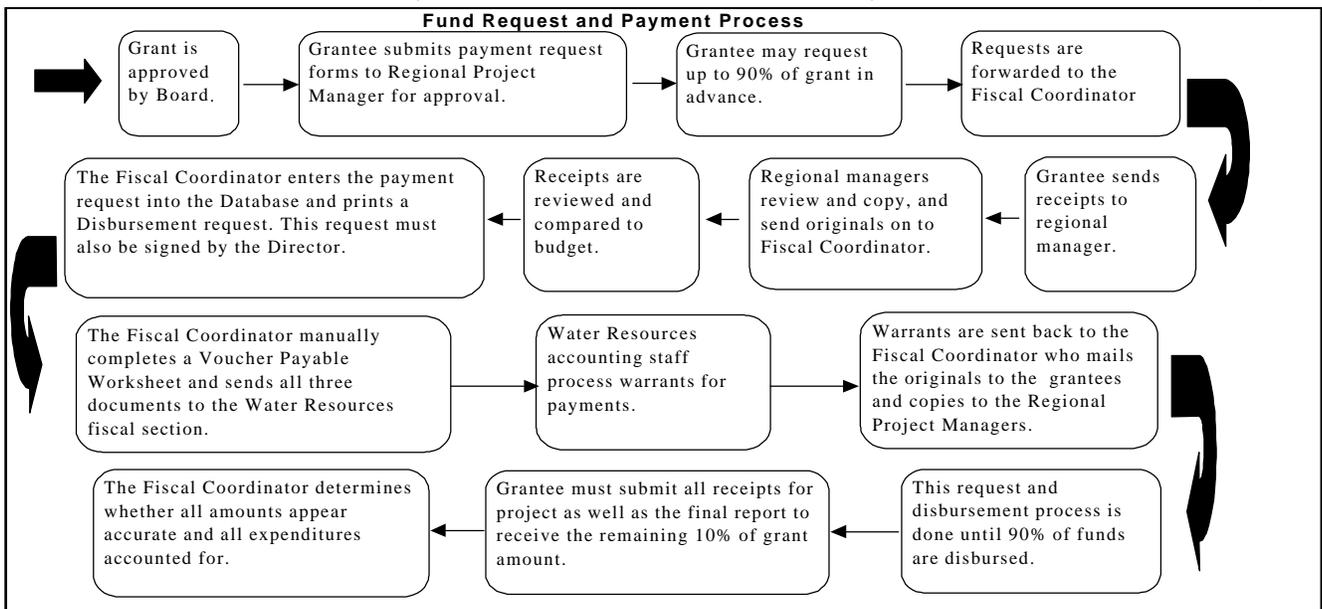
### Fiscal Control Process

OWEB's fiscal control process over payments to grantees appears to be adequate to assure that payments, once approved, are appropriate. However, we noted instances where payments should not have been approved initially. We also have concerns about the workload associated with the increase in funding and the extent to which the present fiscal controls may not be adequate in that environment.

OWEB has a contract with the Oregon Water Resources Department to perform accounting functions; therefore, key fiscal personnel at both OWEB and Water Resources were interviewed to gain an understanding of the process and the controls in place.

We selected a sample of grant payment transactions for testing to evaluate the effectiveness of internal controls and compliance with laws, regulations, and OWEB grant requirements. As a result of our testing, we determined that all payments were processed in accordance with sound fiscal control procedures. However, we noted several examples of payments that should not have been approved.

- We found two instances in which OWEB released grant



funds prior to the grantee's complying with incremental grant requirements. In these instances, the grantee failed to provide receipts for the prior expenditure before OWEB released additional funds.

- We also noted one of the payments reviewed was a final payment on a grant, for which the final report was not included in the project file. The owner sold the land and did not complete a final project report. OWEB made the final payment of the 10 percent withholding anyway.

With the implementation of new Measure 66 funding, OWEB's current grant process workload will dramatically increase. To help mitigate the risks to the existing control environment, OWEB should consider the following:

- OWEB and Water Resources should establish between them a method for documenting regular reconciliation between SFMS records and grant files;
- OWEB should completely cross-train a backup for the grantee payment processing portion of the Fiscal Coordinator position to ensure the job function will be

maintained in this person's absence; and

- OWEB management should ensure that there is staff available to cover the potential increase in workload with the increase in funding.

**We recommend** that OWEB develop a long-range plan for mitigating the risks associated with the expected increase in workload resulting from the increase in funding and grant activity.

**Agency Response:** OWEB agrees, and is developing a plan for managing the anticipated increase in grant activity. In the interim, grant processing staff will be enhanced effective May 1, 2000. It is noted, however, that in the cited instance in which a final grant payment was made without benefit of a final report from an owner who had sold the land, agency staff did visit the site to verify that the project was installed and completed according to the grant terms.

#### SCOPE AND METHODOLOGY

Our analysis of OWEB's grant review process included interviews with grantees and reviewers, and development of a review process flow chart. We also compared the

evaluation sheets used by reviewers in the grant review process to the pertinent statutes. Once the comparison was done, we selected a sample of approved and denied grant applications and their associated summary sheets for analysis.

Our review of OWEB's grant administration process included interviews with OWEB management and staff, commission members, and grant recipients. We selected a judgement sample of project files for review utilizing OWEB's project management database and management reports.

We obtained an understanding of the design of relevant controls and then reviewed transaction documents to confirm that they have been placed in operation. This review included judgmentally testing grant payments for the 1999-2000 fiscal year to date, as well as 100 percent of OWEB deposits prepared by Water Resources for the 1999-2000 fiscal year to date.

We conducted this audit from November 1999 to January 2000 in accordance with generally accepted government auditing standards.

*This report, which is a public record, is intended to promote the best possible management of public resources. Copies may be obtained by mail at Oregon Audits Division, Public Service Building, Salem, Oregon 97310, by phone at 503-986-2255 and 800-336-8218 (hotline), or internet at Audits.Hotline@state.or.us and <http://www.sos.state.or.us/audits/audithp.htm>.*

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*The courtesies and cooperation extended by the officials and staff of the Oregon Watershed Enhancement Board were commendable and much appreciated.*

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