

CALIFORNIA COASTAL COMMISSION

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W6c

MEMO

DATE: August 9, 2016
TO: Coastal Commission and Interested Person
FROM: Susan Hansch, Chief Deputy Director
SUBJECT: **Budget Update on Close-Out of FY 15-16 Budget
Item 6c, Wednesday, August 10, 2016**

Year End Close-Out FY 15-16

As staff reported to the Commission in writing on July 13, 2016 and verbally at the Commission meeting on July 13, 2016, the Commission received a bridge cash flow loan and we are in the process of year end close for FY 15-16 which ended June 30, 2016.

All invoices for reimbursable contract and grant work completed as of June 30, 2016 have been issued and many of the payments have been received. We expect all reimbursement payments to be received well before the deadline the cash flow bridge loan is due by October 30, 2016.

This is a bridge cash flow loan because of the timing of reimbursements. The Commission's Budget for FY 15-16 is **not** in deficit. Once all the reimbursement invoice payments are received by the Commission, the cash flow bridge loan will be paid in full.

Update on Audit

When the Department of Finance approved the General Fund cash flow loan (June 20, 2016 letter to Legislature - Attachment I), the Department of Finance also asked the Office of State Audits and Evaluations (OSAE) to conduct an audit of the Commission's fiscal management and related internal controls.

Commission staff has been working closely with OSAE staff to start the audit. The official start of the audit began on Thursday, August 4 with an entrance conference with OSAE staff and Coastal Commission staff in the Commission's San Francisco offices.

Attachment II and III are the audit objectives described by OSAE and the engagement letter required by OSAE. The evaluation process that OSAE will perform with the Commission is termed a "non-audit" services engagement.

OSAE has provided the following information explaining the non-audit services engagement classification:

"OSAE performs a wide variety of activities and types of engagements that are all commonly referred to as audits. However, Government Auditing Standards categorizes

these various activities into industry specific terms. Some examples are Financial Statement Opinion Audits, financial related audits, program performance audits, budgetary reviews, internal control reviews, agreed-upon procedures engagements, compliance audits, quality assurance reviews, nonaudit services, consulting services, etc.

This engagement is categorized as a non-audit service in accordance with Government Auditing Standards. OSAE elected to perform the requested audit work in accordance with the non-audit service guidelines because it allows more flexibility in addressing the engagement scope and objectives. The specific work activities to address the scope and objectives will include evaluation types of procedures. Regardless of the engagement classification, OSAE conducts all evaluation activities with objectivity, integrity, and high-quality work.”

The non-audit services engagement has begun and is expected to be completed by December 31, 2016. When completed, OSAE will communicate the results in writing. The Commission and Commission staff will receive a copy of the results.

All of OSAE services are required to be paid by the department receiving the services. Therefore, the Commission must pay for the full costs of the non-audit services which are estimated to be a maximum of \$300,000 for OSAE staff time and travel expenses. OSAE has the authority under Government Code Section 13295.5 to carry out a direct transfer for funds from the Commission’s Budget (See Attachment III Engagement Letter – California Coastal Commission Non-Audit Services.)

This payment of \$300,000 from the Commission’s FY 16-17 budget will require cost cutting measures such as reduced travel and holding staff positions open. We are currently exploring how best to postpone or reduce FY 16-17 planned expenditures to cover the expected \$300,000 cost. Commission’s budget is very tight and most of the budget covers staffing, Commission meeting costs, facilities and travel. Facilities costs are generally fixed due to lease agreements. The most likely way to cover this \$300,000 cost is by a combination of holding staff positions vacant, reduced travel and deferral of expenditures.

The non-audit services engagement officially began with the entrance conference on Thursday, August 8, 2016, and the OSAE team will be working intermittently in the Commission offices reviewing documents and conducting interviews with staff during the period August through October and issuing the written results by December 31, 2016.

From August 8, 2016 until the completion of the non-audit engagement in December 2016, there will be no public discussion updates until the non-audit services engagement is complete.

The OSAE auditors may attend Commission meetings during the engagement period to observe the work of the Commission staff and may interview Commissioners during the course of the engagement.

Attachments:

- I. June 20, 2016 letter from Department of Finance to Legislature
- II. Coastal Commission Audit Objectives prepared by OSAE/DOF
- III. August 2, 2016 Engagement Letter from OSAE/DOF



**DEPARTMENT OF
FINANCE**
OFFICE OF THE DIRECTOR

EDMUND G. BROWN JR. • GOVERNOR
STATE CAPITOL ■ ROOM 1145 ■ SACRAMENTO CA ■ 95814-4998 ■ WWW.DOF.CA.GOV

June 20, 2016

Honorable Mark Leno, Chair
Joint Legislative Budget Committee
Senate Budget and Fiscal Review Committee

Honorable Phil Ting, Chair
Assembly Budget Committee

Honorable Ricardo Lara, Chair
Senate Appropriations Committee

Honorable Lorena Gonzalez, Chair
Assembly Appropriations Committee

Approval of Request for General Fund Cash Flow Loan for the California Coastal Commission

We submit the following pursuant to the provisions of Item 9850-011-0001, Budget Act of 2015:

The 2015 Budget Act appropriated \$2.6 million in reimbursement authority to the California Coastal Commission (Commission) for regulatory and planning work. However, reimbursement payments are delayed and will not be received by June 30, 2016. Without these reimbursements, the Commission requires a General Fund cash flow loan to cover non-discretionary costs through the end of the fiscal year. Based on billing records, it is expected that the Commission will receive reimbursement payments and be able to repay the General Fund loan by October 30, 2016.

We concur with the request. Funding for this request will be provided from the 2015 Budget Act, Item 9850-011-0001, Augmentation for Contingencies or Emergencies, in the amount of \$1,456,000. The cash flow loan will be repaid once the Commission receives payment from existing contracts.

Given the urgent timing of the July 1 payroll and outstanding contracts that require payment, an immediate loan is necessary. This letter is notification that an executive order is being submitted immediately for this loan's authorization.

This is the second year in a row that the Commission has faced cash problems at the end of the fiscal year. Consequently, we will be requesting an audit by the Office of State Audits and Evaluations to conduct an evaluation of the Commission's fiscal management and related internal controls. This will help the Commission identify any gaps in its current business practices and strengthen fiscal controls to eliminate the need for cash flow loans in future fiscal years.

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If you have any questions or need additional information regarding this matter, please call Amanda Martin, Principal Program Budget Analyst, at (916) 324-0043.

MICHAEL COHEN

Director

By:



AMY M. COSTA
Chief Deputy Director

cc: Honorable Jim Nielsen, Vice Chair, Senate Budget and Fiscal Review Committee
Honorable Jay Obermiller, Vice Chair, Assembly Budget Committee
Honorable Lois Wolk, Chair, Senate Budget and Fiscal Review Subcommittee No. 2
Honorable Richard Bloom, Chair, Assembly Budget Subcommittee No. 3
Mr. Mac Taylor, Legislative Analyst (3)
Mr. Mark Ibele, Staff Director, Senate Budget and Fiscal Review Committee
Mr. Mark McKenzie, Staff Director, Senate Appropriations Committee
Mr. Kirk Feely, Budget Fiscal Director, Senate Republican Fiscal Office
Mr. Craig Cornett, Senate President pro Tempore's Office (2)
Mr. Christian Griffith, Chief Consultant, Assembly Budget Committee
Mr. Pedro R. Reyes, Chief Consultant, Assembly Appropriations Committee
Mr. Eric Swanson, Staff Director, Assembly Republican Fiscal Committee
Mr. Seren Taylor, Director of Strategic Policy, Assembly Republican Leader's Office
Mr. Jim Richardson, Policy and Fiscal Director, Assembly Republican Leader's Office
Mr. Christopher W. Woods, Assembly Speaker's Office (2)
Mr. Patrick Kemp, Assistant Secretary of Administration and Finance, Natural Resources Agency
Mr. Bryan Cash, Deputy Assistant Secretary, Natural Resources Agency
Ms. Susan Hansch, Chief Deputy Director, California Coastal Commission

icc: CAP-OFFICE, CM, FINN, ALMY, MARTIN, MOORE, C/F (3), SUSPENSE, FILE

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COASTAL COMMISSION AUDIT OBJECTIVES

SCOPE:

OSAE will review the Coastal Commission's (Commission) fiscal management and internal controls related to its governance, budgeting and accounting, and grant management for the period July 1, 2015 through June 30, 2016.

OBJECTIVES:

Governance

Assess the Commission's governance structure, whether operations are in accordance with the Commission's mission and authorizing statutes, and whether the organizational structure supports effective fiscal management.

Budgeting and Accounting Controls

Determine whether fiscal controls are adequate to properly manage the Commission's cash flows.

Grant Management

Determine whether grant projects or services performed by the Commission are appropriately managed to ensure the grant agreement requirements and deliverables are met.

TIME AND COST ESTIMATE:

Fieldwork: August through October 2016

Results Available: Verbal communication of results by December 1, 2016

Report Issuance: December 31, 2016

Cost Estimate: \$300,000



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915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

Transmitted via e-mail

August 2, 2016

Ms. Susan Hansch, Chief Deputy Director
California Coastal Commission
45 Fremont Street, Suite 2000
San Francisco, CA 94105

Dear Ms. Hansch:

Engagement Letter—California Coastal Commission, Non-Audit Services

The Department of Finance, Office of State Audits and Evaluations (Finance), will perform non-audit services for the California Coastal Commission (Commission). Specifically, Finance will review fiscal management and internal controls related to its governance, budgeting and accounting, and grant management for the period July 1, 2015 through June 30, 2016.

The Commission agrees to perform the following:

- Assume all management responsibilities.
- Designate an individual who possesses suitable skills, knowledge, or experience to oversee the non-audit services.
- Evaluate the adequacy and results of the non-audit services.
- Accept responsibility for the results of the non-audit services.
- Timely provide requested information.

An entrance conference is scheduled with Ms. Susan Hansch, Chief Deputy Director, on August 4, 2016 at 10:30 a.m. At the entrance conference, the non-audit services and reporting processes will be discussed. Following the entrance conference, we will require access to records and staff related to the engagement.

At the conclusion of fieldwork, an exit conference will be conducted to discuss the engagement results. The results of this engagement will be communicated in writing.

The Commission shall reimburse Finance for the cost of this engagement. Finance's estimated cost is approximately \$300,000 including salaries, travel, and equipment. The planned engagement duration is July 15, 2016 through December 31, 2016.

In accordance with Government Code section 13295.5, reimbursement will be recovered via direct transfer of funds from the designated Commission appropriation below. Please complete and e-mail the form below within ten business days from receipt of this letter. A monthly summary of costs will be provided to the Commission and we will promptly notify you if there is a need to revise the cost or duration of the engagement.

Ms. Susan Hansch
August 2, 2016
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If you have any questions, please contact Kimberly Tarvin, Manager, or Mindy Patterson, Supervisor, at (916) 322-2985.

Sincerely,

Cheryl A. McCormick

Jennifer Whitaker, Chief
Office of State Audits and Evaluations

cc: Mr. John Ainsworth, Acting Executive Director, California Coastal Commission
Ms. Julie Alvis, Deputy Assistant Secretary, California Natural Resources Agency
Mr. Bryan Cash, Deputy Assistant Secretary, California Natural Resources Agency
Ms. Karen Finn, Program Budget Manager, Department of Finance

Your signature below indicates understanding of, and agreement with, the terms of the engagement:

Susan Hansch, Chief Deputy Director
California Coastal Commission

Date

Please also identify the specific funding source (appropriation) from which to transfer funds:

Org Code Fund Reference Program Fiscal Year

Departmental contact name and e-mail for invoices: _____

Please sign and return or e-mail this engagement letter to:

Department of Finance
Office of State Audits and Evaluations
915 L Street, 6th Floor
Sacramento, CA 95814
Attention: Cheryl McCormick
Cheryl.McCormick@dof.ca.gov