DEPARTMENT OF FINANCE
EDMUND G. BROWN JR. • GOVERNOR
915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

Transmitted via e-mail

June 14, 2011

Ms. Lisa Silverman, Acting Executive Director
Department of General Services
Office of Public School Construction
707 Third Street
West Sacramento, CA 95605

Dear Ms. Silverman:

Final Report—Audit of Department of General Services, Office of Public School Construction's Proposition 1D Bond Funds

The Department of Finance, Office of State Audits and Evaluations (Finance), has completed its audit of the Office of Public School Construction's (OPSC) oversight of Proposition 1D bond funds.

The enclosed report is for your information and use. OPSC's response to the report finding is incorporated into this final report. OPSC agreed with our observations and we appreciate its willingness to implement corrective actions. The observations in our report are intended to assist management in improving its program.

This report will be placed on our website. Additionally, pursuant to Executive Order S-20-09, please post this report in its entirety to the Reporting Government Transparency website at http://www.reportingtransparency.ca.gov/ within five working days of this transmittal.

A detailed Corrective Action Plan (CAP) addressing the observations and recommendations is due within 60 days from receipt of this letter. The CAP should include milestones and target dates to correct all deficiencies.

We appreciate the assistance and cooperation of OPSC staff. If you have any questions regarding this report, please contact Diana Antony, Manager, or Chikako Takagi-Galamba, Supervisor, at (916) 322-2985.

Sincerely,

David Botelho, CPA
Chief, Office of State Audits and Evaluations

Enclosure

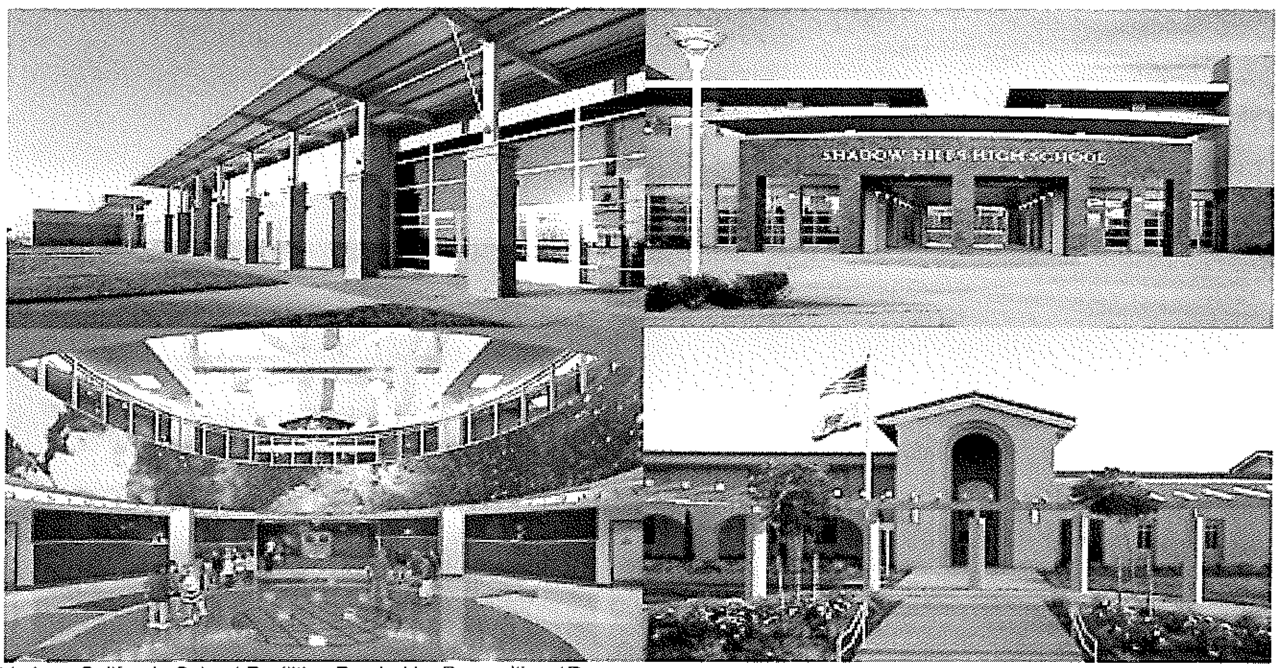
cc: On following page

cc: Mr. Fred Klass, Director, Department of General Services
Mr. Rob Cook, Deputy Director, Interagency Support Division, Department of General Services
Mr. Rick Gillam, Chief, Office of Audit Services, Department of General Services
Mr. Pedro Reyes, Chair, State Allocation Board

An Audit of Bond Funds

Office of Public School Construction

Proposition 1D



Various California School Facilities Funded by Proposition 1D
Source: Office of Public School Construciton

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

101760073

January 2011

MEMBERS OF THE TEAM
Diana Antony, CPA
Manager

Chikako Takagi-Galamba
Supervisor

Staff
Derk Symons
Jon G. Chapple, CPA

Final reports are available on our website at http://www.dof.ca.gov

You can contact our office at:

Department of Finance
Office of State Audits and Evaluations
300 Capitol Mall, Suite 801
Sacramento, CA 95814
(916) 322-2985

TABLE OF CONTENTS

Executive Summary

In accordance with the Department of Finance's (Finance) bond oversight responsibilities, we performed an audit of the Department of General Services, Office of Public School Construction's (OPSC), Proposition 1D bond funding. The audit objectives were to determine if (1) bond funds were awarded and expended in compliance with applicable legal requirements and established criteria, and (2) adequate project monitoring processes are in place.

Although OPSC has established accountability processes and controls for Proposition 1D bond funds, a number of these controls are either not implemented or not working as intended. The following deficiencies were noted:

- The School Facility Program's (SFP) formal appeals process is not followed when awarding bond funds. This may result in inequitable distribution of bond funds.

- For the period September 2009 through August 2010, only 6 percent of high risk projects were audited, leaving approximately $4 billion in SFP project costs unaudited. The lack of audits increases the risk of noncompliance with SFP regulations or funds being used for unintended purposes.

- As of October 1, 2010, $15.3 million in accounts receivables due from local education agencies (LEAs) was outstanding over 60 days. Of this amount, $7.8 million was outstanding for over one year with some amounts dating back to 1996. As a result, LEAs are provided new bond funding while having outstanding receivables.

- As of August 2010, OPSC's program data reflects over $5.9 billion in project savings; however, this data may not be reliable because the required LEA annual reporting is unenforced and the data unverified. Project savings are required to be used for future facility projects or returned to the state if not used within three years. OPSC has not determined the extent of project savings which could be used to offset new bond disbursements.

- Project status tracking and reporting is incomplete and OPSC lacks outcome-based performance measures to assess if the SFP goals are met.

Collectively, the issues noted above raise questions as to whether fiduciary responsibilities over bond funds have been met. These issues, if left unresolved, will continue to adversely affect bond accountability. As noted in Finance's January 16, 2009 report, we recognize the SFP is governed by multiple parties—the State Allocation Board (SAB) and OPSC—and as staff to the SAB, OPSC does not possess the unilateral ability to implement changes. Consequently, the SAB and OPSC should jointly develop a corrective action plan to address the report's observations and recommendations.

BACKGROUND, SCOPE, AND METHODOLOGY

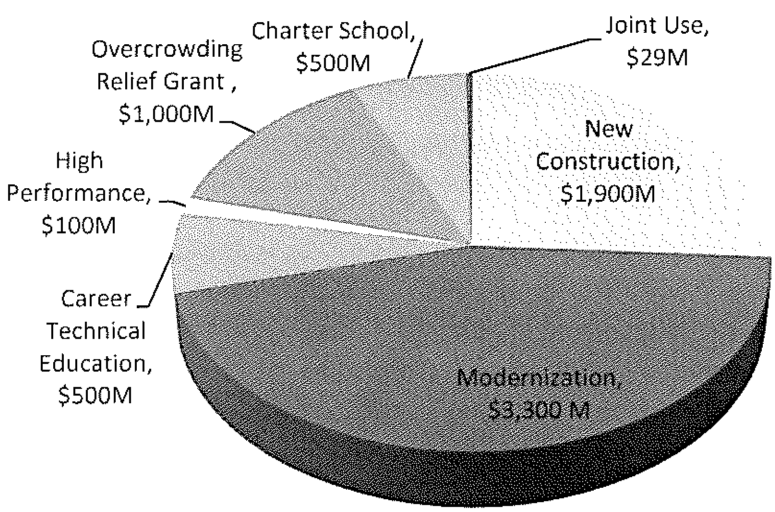
BACKGROUND

In November 2006, California voters passed Proposition 1D, the Kindergarten-University Public Education Facilities Bond Act of 2006, providing $10.416 billion in general obligation bonds for construction and renovation of educational facilities. Of the $10.416 billion, $7.329 billion is earmarked for kindergarten through twelfth grade (K-12) projects.

The School Facilities Program (SFP) provides state funding for local education agencies' (LEA)[1] K-12 school facility construction and modernization. Since 1998 several general obligation bonds have provided over $35 billion for school facilities, including Proposition 1D.

Specifically, Proposition 1D provides funding for the construction of new, modernization of existing, and creation of new charter, joint-use, and small high school facilities. In addition, new funding is provided for the creation of career technical education facilities, reduction of severely overcrowded sites, incentives for the construction of high performance schools, and seismic mitigation of the most vulnerable school facilities. Figure 1 summarizes the allocation of bond funding.

Figure 1: Proposition 1D School Facility Program Funding Allocation



Source: Education Code section 101012

[1] LEAs include all school districts, county offices of education, and charter schools.

State Allocation Board

The State Allocation Board (SAB) is responsible for authorizing the allocation of bond funds for K-12 new construction, modernization, and various other SFP projects. It is also responsible for establishing policies and regulations for the programs authorized under each bond act and administered by the Office of Public School Construction (OPSC). The SAB is comprised of the Director of Finance, the Director of General Services, the Superintendant of Public Instruction, three members of the Senate, three members of the Assembly, and one Governor appointee.

Office of Public School Construction

As staff to the SAB and under the authority of the Department of General Services, OPSC implements and administers the SFP. Some of its primary responsibilities include reviewing and processing funding applications, proposing and drafting regulatory and policy changes, and performing SFP compliance and expenditure audits.

SCOPE

In accordance with the Department of Finance's (Finance) bond oversight responsibilities, we conducted an audit to determine whether bond funds were awarded and expended in compliance with applicable legal requirements and established criteria and to determine if OPSC had adequate project monitoring processes in place.

The audit did not include an assessment of the bond authorization, issuance, and sale processes. Further, no assessment was performed on the reasonableness of the land acquisition and construction projects.

METHODOLOGY

To determine whether bond funds were awarded and expended in compliance with applicable legal requirements and established criteria, and whether OPSC had adequate project monitoring processes, we performed the following procedures:

- Reviewed the applicable legal provisions, bond acts and regulations, grant management policies, procedures, and program guidelines.
- Interviewed management and key staff responsible for administering bond funds to gain an understanding of how OPSC oversees the various project stages.
- Reviewed a sample of SFP projects to determine whether OPSC is consistently applying SFP regulations and adequately implementing established front-end accountability controls.
- Reviewed project close-out and expenditure reporting processes.
- Assessed the reliability of the information technology and data collection systems.
- Reviewed the administrative costs charged to bond funds for reasonableness.

- Verified the information reported to the Strategic Growth Plan Bond Accountability website.[2]

Recommendations were developed based on review of documentation made available to us and interviews with OPSC management and key staff responsible for administering bond funds. This audit was conducted from April 2010 through January 2011.

Except as noted, this audit was conducted in accordance with *Government Auditing Standards,* issued by the Comptroller General of the United States. In connection with this audit, there are certain disclosures required by *Government Auditing Standards.* Finance is not independent of OPSC, as both are part of the State of California's Executive Branch. As required by various statutes within the California Government Code, Finance performs certain management and accounting functions. These activities impair independence. However, sufficient safeguards exist for readers of this report to rely on the information contained herein.

[2] Bond accountability website address is www.bondaccountability.ca.gov

Although OPSC has established accountability processes and controls for the School Facilities Program's (SFP) Proposition 1D funds, a number of these controls are either not implemented or not working as intended. We identified the following control deficiencies and weaknesses. Collectively, these weaknesses raise questions as to whether fiduciary responsibilities over bond funds have been met.

Observation 1: Funding Approval Process Needs Improvement

The Plan Verification Team (PVT) reviews all funding requests to ensure project costs are in compliance with SFP regulations and established criteria. The PVT reviews are one of OPSC's key front-end accountability functions. However, we identified the following conditions where these accountability functions were bypassed.

Failure to Follow Appeals Process

In 5 of the 26 projects we reviewed, OPSC funded $43.9 million in site development costs[1] above the PVT verified amounts without sufficient documentation, and did not follow the established appeals process. In one case, OPSC continued funding methane mitigation without following the appeals process or seeking regulation changes with the SAB as recommended by staff counsel. See Attachment A for summary.

Informal adjustments above PVT amounts may result in potential inequitable distribution of bond funds and inconsistent application of SFP regulations. As noted in the text box, the formal appeals process allows LEAs to appeal funding decisions by providing written justification and supporting documentation. This process was not consistently followed for the sampled projects noted above. Additionally, Education Code section 17070.35 establishes the SAB as the entity responsible for creating and amending regulations as necessary.

School District Appeal Request
(Form SAB 189)

Purpose of Request: Provide a brief statement of the request.

Basis of Request: Site the applicable references in law, regulations, or other basis.

Description: Include the following:

- The background and circumstances which prompted the appeal
- Information relevant to the issues of the appeal
- The sequence of events and participants pertinent to the issues
- A statement explaining why the SAB should grant the district's request based on law, regulation, SAB policy, or other basis

Attachments: Attach substantiating documentation as necessary to support the request.

An effective appeals process would allow for increased transparency, would establish precedence for future funding, and may indicate regulations in need of amendment.

[1] Site development costs are unique site preparation costs which include the costs of bringing water or sewer lines to the school site, electrical hook-ups, site demolition or clearance, street lighting, sidewalks, as well as other site preparation costs.

Need to Promote an Understanding of SFP Regulations by LEAs

Based on our review of the 26 projects, PVT identified $114.9 million of ineligible costs out of $213.2 million in requested site development costs. This represents a disallowance rate of more than 50 percent. Further review found that some of the common causes of ineligibility included LEAs' requesting: (1) higher quantity and costs than allowable rates under the SFP regulations, (2) costs without detailed cost estimate, and (3) ineligible SFP costs, including costs for non-SFP projects. We note that OPSC has previously provided outreach and technical assistance to LEAs to reduce instances of requesting ineligible costs or submitting applications without required information. The high disallowance rate indicates a need to develop additional fiscal and programmatic controls to mitigate recurring non-compliance, such as returning incomplete or ineligible funding applications.

Recommendations:

OPSC should:

A. Follow the established appeals process for all funding applications.
B. Develop additional fiscal and programmatic controls to reduce non-compliance.
C. Expand outreach to promote a better understanding of the SFP regulations, application review process, required documents, and allowable costs.

Observation 2: Additional Project Close-Out Audits Should Be Performed

OPSC should perform more project close-out audits as required under SFP regulations and established criteria. Using its project risk assessment model, OPSC identified 744 high risk projects closed during the period September 2009 through August 2010; however, only 47 projects, or 6 percent, were audited. The remaining 697 high risk projects, representing approximately $4 billion in SFP project costs (including state and local match) were closed-out without an audit.

According to OPSC, the lack of audits stems partly from a lack of staffing resources and stakeholder concerns regarding OPSC's audit scope and potential duplication of audit efforts at LEAs. The latter issue was addressed in our report dated June 18, 2010[2], which concluded there was no audit duplication between OPSC's SFP audits and other statutorily required district audits.

Education Code section 17076.10 (b) and SFP regulation section 1859.106 require audits to determine program compliance, expenditure eligibility, total interest earned on state funds, and total project savings. OPSC developed a project risk assessment model to identify high risk projects which require an on-site project expenditure audit. For those projects identified as medium or low risk, a desk review is performed or LEA expenditure reports are accepted on a self-certified basis.

Without performing expenditure audits, OPSC is unable to ensure bond expenditures are in compliance with SFP regulations or used as intended. In addition, the lack of audits results in

[2] Management Letter, Department of General Services, OPSC, School Facilities Program, Review of Potential Audit Duplication, located at www.dof.ca.gov/osae/prior_bond_audits/.

inaccurate and inadequately tracked project savings. See Observation 4 for project savings issue.

Recommendation:

OPSC should perform more close-out audits as required by the Education Code and SFP regulations.

Observation 3: Insufficient Tracking and Collection of Accounts Receivable

OPSC's accounts receivable records have not been reconciled to financial statements or verified for accuracy for the last two fiscal years. At the time of this audit, OPSC was unable to provide accurate and reconciled accounts receivable reports as of June 30, 2009 and June 30, 2010. Further, OPSC had not pursued collection of delinquent receivables. As of October 1, 2010, the accounting records reflect $15.3 million[3] in receivables outstanding for more than 60 days. Of this amount $7.8 million was outstanding for more than one year with some amounts dating back to 1996. Moreover, LEAs continue to receive new bond funding without repaying outstanding receivables, as depicted in Table 1.

Table 1: New Funding Approved for LEAs with Outstanding Accounts Receivable

	Outstanding Accounts Receivable		New Funding Approved with Outstanding Account Receivable	
Local Educational Agency (LEA)	**Date**	**Amount**	**New Funding Amount**	**New Funding Date(s)**
LEA 1	October 15, 2003	$ 42,506	$ 23,469,287[(a)]	April 2004-August 2010
LEA 2	July 1, 2008	316,257	7,222,984[(a)]	August 2008-December 2008
LEA 3	December 10, 2008 and September 14, 2009	356,158	3,644,919	April 2010
LEA 4	March 25, 3009	606,463	1,775,017	November 2009
LEA 5	May 27, 2009	710,642	53,334,271	April 2010

Source: OPSC Accounting Records
Note: (a) New funding provided to multiple projects.

Education Code section 17076.10 requires outstanding accounts receivable to be repaid within 60 days. If the school district fails to make the required payment within 60 days, the department shall notify the State Controller to deduct the amount from the school district's next apportionment.

According to OPSC, it has recently identified inaccurate postings to accounts receivable and made the related accounting adjustments. OPSC also stated it continues to research the accuracy of aged receivables and is also initiating collection efforts. We did not confirm these subsequent events and did not validate the accuracy of subsequent accounting adjustments.

---

[3] Of the $15.3 million, $11 million is specifically SFP receivables. The balance includes other OPSC program receivables.

Recommendations:

OPSC should:

A. Confirm accounts receivable balances for all bond programs and perform timely reconciliations.
B. Collect delinquent receivables and/or offset the LEA's next apportionment.
C. Maintain supporting documentation for all receivable collections, adjustments, and postings.

Observation 4: Expenditure Reporting Is Not Enforced and Project Savings Are Inadequately Tracked

OPSC does not enforce the annual expenditure reporting requirement and inadequately tracks LEAs' expenditure of project savings. After project closeout, LEAs are required to annually report expenditures until all savings are expended. As of August 2010, OPSC program data reflects over $5.9 billion in project savings; however, the data may not be reliable. Current savings data has not been verified for accuracy. As a result, the extent of outstanding savings available for school facilities and the related offset to bond fund disbursements cannot be determined. Additionally, financial hardship savings are not used or returned to the state within three years as required. In 2 of 15 financial hardship projects reviewed, we noted over $1.4 million of savings that should have been remitted to the state:

- In one case, $315,092 in savings generated from two financial hardship projects was unused within the three year period and was not returned to the state. As of the date of this audit, this amount remained outstanding and unrecorded as an accounts receivable.

- In another case, an LEA was also allowed to transfer $1.1 million in financial hardship savings to a financial hardship project that received grant funding three years prior. Again, the savings should have been tracked as a receivable and ultimately remitted to the state.

Education Code section 17076.10 (a) requires LEAs to submit a state fund expenditure and district matching funds summary report annually until all state and matching funds are expended.

Under SFP section 1859.103, LEAs may apply project savings to high priority capital facility needs or use it as match for other SFP projects as long as the LEA's savings share is used towards a like-kind project. For financial hardship projects, LEAs may use savings to reduce the financial hardship grant of that project or other financial hardship projects within the LEA for a period of three years from the date the savings were determined. If the LEA does not apply the savings within three years, the savings must be remitted to the state.

Without complete and accurate project expenditure and savings data, OPSC is unable to verify the extent or usage of project savings. Additionally, OPSC cannot accurately determine receivables for financial hardship savings outstanding over three years. If collected, these funds could be used for other SFP project priorities.

Recommendations:

A. Enforce LEA annual expenditure reporting.
B. Review and confirm all outstanding project savings and ensure data is periodically reconciled to the accounting records.
C. Timely collect financial hardship project savings outstanding for more than three years.

Observation 5: Improvements Needed to Meet Executive Order Accountability Requirements

The Governor's January 2007 Executive Order S-02-07 outlined a framework for bond accountability and required all departments to ensure bond funded projects and programs met the intended outcomes and specified ongoing project status reporting requirements. We noted the following improvements needed:

> **School Facility Program Goals**
>
> ✓ To help school districts house California's school children in the most educational and environmentally friendly facility possible.
> ✓ To provide equitable and efficient distribution of funding to build schools in California.
> ✓ To improve the educational environment of California's children.
> ✓ To provide efficient, equitable, and quality school facility assistance to all public K-12 school districts.
>
> Source: OPSC Strategic Bond Plan

- *Lack of Outcome-Focused Performance Measures Results in Inability to Assess Programmatic Achievements.* OPSC currently measures (1) the total amount of bond funds provided to LEAs, and (2) average number of days to process applications. Although valuable measures, these metrics do not assess achievement of the programs' primary goals as listed in the text box.

  Additionally, as noted earlier in this report, audits have not been performed to determine actual facility costs and outstanding receivables and project savings. Therefore, critical data needed to measure project outcomes is absent. Performance measures should be directly linked to a program's goals. For example, how is OPSC determining if the educational environment of California's school children is improving? Possible metrics include, collecting data on the condition of school facilities. As previously reported by the Legislative Analyst's Office, Little Hoover Commission, and the California Performance Review, there is no complete inventory detailing when schools were built, their attributes, or their condition. This type of data/inventory is critical in assisting decision makers in determining the amount of bond funding needed to maintain current and future school facility needs.

- *Incomplete and Inaccurate Project Status Reporting.* Projects for the Career Technical Education, Joint Use, High Performance, and Charter School programs are not reported on the bond accountability website as required by Executive Order S-02-07. A summary chart on this same website reports over $800 million in project awards under these three programs. In addition, OPSC does not regularly reconcile project information reported to the public with internal fiscal and accounting records.

Recommendations:

A. Develop additional performance measures that focus on program outcomes related to the beneficiaries of the SFP in order to assess how effective programs are meeting their goals. Performance measures, such as the number of classrooms built or modernized, should be included in the metrics to realize desired results of the SFP.

B. Timely post complete project status data on the bond accountability website and reconcile data to internal fiscal and accounting records to ensure accuracy.

Follow Up on Previously Reported Financial Hardship Equity Issue and Need for Regulatory Change

As previously identified in Finance's December 2008 OPSC review report, the financial hardship equity issues and regulatory changes have not been resolved/implemented. In 2005, OPSC staff identified an equity issue resulting from approval of financial hardship funding for Local Education Agencies in which some LEAs had incorrectly overstated their encumbrances thereby qualifying them to receive financial hardship funding. When it was found the encumbrances were overstated it was determined there was no regulatory authority to cancel or revoke the financial hardship funding for these LEAs. The result is some LEAs may receive financial hardship funding that they should not receive; diminishing the funds available for other LEAs who may also have a financial hardship need. In 2007, an independent consultant study found the regulatory framework related to financial hardships created equity funding conditions which benefitted larger school districts over smaller ones.

The SAB recognized the need for policy and regulatory changes and requested OPSC to gather information, develop recommendations, and provide solutions to address the financial hardship issues. Between February 2005 and August 2010, following guidance from the SAB, OPSC testified on 15 separate occasions to the SAB and Implementation Committee, proposing policy and regulation changes. As of the date of this report, policy and regulation changes have not been implemented. However, during that same period between February 2005 and August 2010, $1.138 billion in financial hardship funding has been allocated.

Because the SAB is responsible for establishing program regulations, and OPSC does not have the authority to unilaterally implement policy or regulatory changes, we have provided written communication of this issue directly to the SAB Chairperson. The letter recommends the SAB resolve the Financial Hardship Program equity funding issues to minimize the risk of inequitable funding.

Attachment A
Summary of Informal Adjustments

			Plan Verification Team			Informal Adjustment		Apportioned	
	Type of Project	Site Development Costs Requested by LEA	Disallowed Amount	Review Date	Reason for Disallowance	Amount	Justification	Amount [2]	Date
1	Critically Overcrowded Schools	$41,540,143	$14,921,354	10/31/2007	Methane gas mitigation not identified as eligible costs under site development costs	$11,975,302	Methane gas mitigation required by the local ordinance that is more stringent than state regulations[1]	$38,594,091	2/27/2008
2	New Construction	$71,204,298	$49,359,890	10/29/2008	Site development and service site cost were not detailed nor justified	$29,174,692	Based on management review	$51,019,100	12/10/2008
3	Facility Hardship	$ 1,603,055	$ 812,110	2/9/2009	Additional funds were requested for costs outside of the eligible portion of the project and for a structure that didn't meet the prescribed SFP criteria	$ 394,623	Based on management review	$ 1,185,568	4/22/2009
4	Hybrid Project: New Construction, 2 Overcrowding Relief Grants, 2 Modernization Grants	$13,909,314	$12,075,208	5/25/2010	Site development and service site costs were not detailed or justified; duplicate site development costs requested for multiple projects	$ 492,976	Based on management review	$ 2,327,082	9/2/2010
5	Critically Overcrowded Schools	$ 7,665,969	$ 1,996,717	6/2/2010	Eligible service site development costs are allowable only within the qualifying school's property lines	$ 1,945,809	Based on management review	$ 7,615,061	9/2/2010
					TOTAL	**$43,983,402**			

(1) In 2009, OPSC received another gas mitigation funding request of $2 million. The Department of General Services Staff Counsel (DGS Counsel) recommended that OPSC create a provisional policy in order to fund these costs. The DGS Counsel further recommended that OPSC develop new regulations. In the 18 months following the creation of the provisional policy, OPSC funded an additional $3.3 million in methane gas without seeking regulation changes.
(2) Apportioned amount contains service site and site development costs, utility connection fees, and other site specific costs.

RESPONSE

MEMORANDUM

Date: May 27, 2011

To: David Botelho, CPA, Chief
Department of Finance
Office of State Audits and Evaluations
300 Capitol Mall, Suite 801
Sacramento, CA 95814

From: **Department of General Services**
Office of Public School Construction

Subject: **RESPONSE TO AUDIT OF PROPOSITION 1D BOND FUNDS**

Thank you for the opportunity to respond to the Office of State Audits and Evaluations' (OSAE) audit of the Office of Public School Construction's (OPSC) Proposition 1D bond funding program. The following response addresses each of OSAE's recommendations.

OVERVIEW OF THE REPORT

The OPSC appreciates OSAE's in-depth and professional audit of its accountability processes and controls established for State bond funding provided to local education agencies for K-12 school construction and modernization. In summary, OSAE concluded that the OPSC has established accountability processes and controls for Proposition 1D bond funds. However, it also identified that a number of the controls have not been fully implemented or are not working as intended.

As part of its continuing efforts to improve operations, the OPSC will take appropriate actions to address the areas for improvement presented in the report. As staff to the State Allocation Board (SAB), the OPSC is committed to efficiently and effectively implementing and administering the School Facilities Program (SFP), including Proposition 1D bond funds. Since the inception of the SFP in 1998, the SAB has apportioned and/or provided unfunded approvals of more that $32 billion to approximately 11,000 projects, including approximately $3 billion and 1,000 projects processed during the 2010 calendar year. The large number of projects processed by the OPSC for SAB approval reflects favorably on its ability to meet the school construction and modernization needs of local education agencies for K-12 schools.

Based on the results of its fieldwork, OSAE developed the following recommendations to further improve the OPSC's bond oversight process. In general, OSAE's recommendations have merit and will be promptly addressed.

RECOMMENDATIONS

Observation 1: Funding Approval Process Needs Improvement

RECOMMENDATION A: ***Follow the established appeals process for all funding applications.***

RESPONSE A:

The OPSC approval process is comprised of an initial review by staff and, if needed, a secondary review performed by a senior manager should there be a disagreement between the local education agency (LEA) and the OPSC. The great majority of disagreements can be resolved at this stage of the funding process, without necessitating a formal appeal to the SAB which would add significant workload to the SAB, OPSC and the LEA.

In discussing its processes with OSAE, the OPSC determined that it could improve the transparency of its internal resolution process. Therefore, the OPSC is developing additional operating policies and practices for that process, including requirements for thoroughly documenting decisions in the OPSC's files.

In addition, the OPSC encourages LEA's to pursue a formal appeal to the SAB if they are in disagreement with the office's final funding decision. The OPSC had established two teams, one in Fiscal and one in Program Services that are dedicated to researching and writing appeal items for presentation to the SAB. The SAB also has been working on improving its appeal process with the goal of providing additional transparency to stakeholders. At its April 2011 meeting, the SAB adopted a formalized appeal process that includes specific benchmarks within the appeals process timeline.

RECOMMENDATION B: ***Develop additional fiscal and programmatic controls to reduce non-compliance.***

RESPONSE B:

The OPSC will review its existing processes to determine if additional intake activities can be implemented to quickly identify inaccurate, missing and/or incomplete data on an LEA's application submittal prior to forwarding the funding request to professional staff within OPSC's Plan Verification Team. This will allow applications to be corrected and/or rejected in a timely manner.

RECOMMENDATION C: ***Expand outreach to promote a better understanding of the SFP regulations, application review process, required documents, and allowable costs.***

RESPONSE C:

The OPSC concurs that outreach is the key to understanding school facility bond programs and processes. During the 2010 calendar year, OPSC expanded its outreach efforts through the use of Town Hall Meetings and webinars, in addition to continuing to provide publications and reference materials through its website. Recently, OPSC also formed an outreach team whose purpose is to provide assistance to LEA's in submitting accurate funding applications.

Observation 2: Additional Project Close-Out Audits Should Be Performed

RECOMMENDATION: ***OPSC should perform more audits as required under SFP regulations and established criteria.***

RESPONSE:

The OPSC is actively reviewing its audit function to ensure that existing resources are used in an efficient and effective manner. As part of that process, additional guidance will be sought from OSAE on the number of annual audits that would be considered reasonable based on OPSC's current operating environment.

Currently, the OPSC prioritizes its audit workload using a Risk Assessment Model that focuses resources on the highest risk projects. With the assistance of OSAE, the Risk Assessment Model was developed to assist the OPSC in ensuring that best practices are followed in prioritizing and selecting projects for audit. In implementing the model, 47 projects were audited with a value of $682 million in State and LEA funding during the period reviewed by OSAE.

Observation 3: Insufficient Tracking and Collection of Accounts Receivable

RECOMMENDATION A: ***Confirm accounts receivable balances for all bond programs and perform timely reconciliations.***

RESPONSE A:

The OPSC has established policies and procedures to ensure the maintenance of up-to-date accounts receivable information. Specifically, upon being advised of this issue during the audit, the OPSC immediately redirected staff to ensure that its subsidiary accounts receivable records agreed to the official accounting records. This effort has been completed with the records showing approximately $16.6 million in outstanding receivables as of May 2011.

RECOMMENDATION B: ***Collect delinquent receivables and/or offset the LEA's next apportionment.***

RESPONSE B:

The OPSC is actively pursuing the collection of delinquent receivables and, since the completion of the OSAE's fieldwork, has reduced the amount outstanding over 60 days from $15.3 million to $8.5 million. As to the offset of amounts owed against an LEA's next apportionment, the OPSC does not have the statutory authority to take this action.

RECOMMENDATION C: ***Maintain supporting documentation for all receivable collections, adjustments, and postings.***

RESPONSE C:

The OPSC has implemented procedures which ensure the maintenance of documentation for all receivable collections, adjustments, and postings. Further, the OPSC will pursue accounting data system upgrades to enhance the quality of supporting documentation.

Observation 4: Expenditure Reporting Is Not Enforced and Project Savings Are Inadequately Tracked

RECOMMENDATION A: ***Enforce LEA annual expenditure reporting.***

RESPONSE A:

The OPSC is committed to implementing additional processes to ensure that LEA's comply with the annual expenditure reporting requirement. As part of this process, the office will create a team to evaluate current report oversight processes to identity areas for improvement that can be adopted administratively and, as necessary, pursue statutory and regulatory changes.

RECOMMENDATION B: ***Review and confirm all outstanding project savings and ensure data is periodically reconciled to the accounting records.***

RESPONSE B:

The OPSC has implemented additional policies and procedures to ensure that staff monitors outstanding financial hardship project savings. This process includes audit and accounting staff working closely to ensure that applicable records accurately reflect outstanding balances.

RECOMMENDATION C: ***Timely collect financial hardship project savings outstanding for more than three years.***

RESPONSE C:

Current OPSC policies and procedures provide for the prompt collection of any financial hardship savings outstanding for more that three years. These practices are being actively monitored and enforced by OPSC financial hardship and accounting staff.

Observation 5: Improvements Needed to Meet Executive Order Accountability Requirements

RECOMMENDATION A: ***Develop additional performance measures that focus on program outcomes related to the beneficiaries of the SFP***

in order to assess how effective programs are meeting their goals. Performance measures, such as the number of classrooms built or modernized, should be included in the metrics to realize desired results of the SFP.

RESPONSE A:

The OPSC recognizes the importance of performance measures to assess the effectiveness of the SFP's goals. OPSC will seek guidance from OSAE on best practices in the development of additional performance measures. The OPSC will also review the overall program goals of the SFP for possible revisions. With the maturity of the program, the goals in the *OPSC Strategic Bond Plan* referenced in the report may no longer be in alignment with current program expectations.

RECOMMENDATION B: ***Timely post complete project status data on the bond accountability website and reconcile data to internal fiscal and accounting records to ensure accuracy.***

RESPONSE B:

Currently, project status data is available on the bond accountability website. However, it is difficult to locate and, therefore, not fully transparent. To address this issue, the OPSC will work with the Department of Finance's Capital Outlay Unit, which is responsible for maintaining the bond accountability website, to determine the feasibility of enhancing the website to ensure the transparency of project status data.

CONCLUSION

The OPSC is firmly committed to ensuring that bond funds are expended in accordance with applicable laws and regulations. As part of its continuing efforts to improve operations, the OPSC will take appropriate actions to address the issues presented in the report.

If you need further information or assistance on this report, please contact me at (916) 375-5959.

LISA SILVERMAN, Acting Executive Officer
Office of Public School Construction

cc: Fred Klass, Director, DGS
Pedro R. Reyes, Chair, SAB
Rob Cook, Acting Deputy Director, Interagency Support Division, DGS