

REPORT OF THE EXECUTIVE OFFICER
State Allocation Board Meeting, October 24, 2007

OFFICE OF PUBLIC SCHOOL CONSTRUCTION WORK PLAN FOR
IMPROVING THE FINANCIAL HARDSHIP PROGRAM

PURPOSE OF REPORT

To present an implementation plan that addresses the Macias Consulting Group's (MCG) findings on the Financial Hardship (FH) Program.

DESCRIPTION

The Office of Public School Construction (OPSC) hired MCG to conduct a performance audit of the FH Program and provide recommendations to improve administration of the program. The State Allocation Board received the Consultant's findings and recommendations at its September 2007 meeting. The attached work plan will implement those recommendations.

RECOMMENDATION

Accept the report.

BOARD ACTION

In considering this item, the State Allocation Board on October 24, 2007 accepted the report with the following to be added to the Advisory Panel:

- FICMAT
- Assistant Executive Officer
- Fiscal Services Staff with the California Department of Education

OPSC

Work Plan for Improving the Financial Hardship Program

Contributors:

Rob Cook: Executive Officer

Lori Morgan: Deputy Executive Officer

Dave Zian: Chief, Fiscal Services

Lisa Silverman: Operations Manager, Fiscal Services

Jason Hernandez: Audit Supervisor, Fiscal Services

Executive Summary

The Office of Public School Construction (OPSC) contracted with the Macias Consulting Group (MCG) to conduct a performance audit of the Financial Hardship (FH) Program. The Macias consultants provided a number of recommendations to improve the program:

1. Revamp the FH framework.
2. Establish training for applicants.
3. Develop and implement program policies.
4. Revamp worksheets and instructions.
5. Establish information system safeguards.
6. Implement process improvements and training.

The OPSC will execute this work plan to implement these recommendations. Adoption of several recommendations is complete or underway, but the full complement of recommendations will take several months and approximately \$97,000 in one-time costs and \$44,000 in on-going costs to implement. These changes will streamline and simplify the FH review process for OPSC customers, improve the integrity of the program, and ensure an equitable distribution of hardship funding to qualifying school districts.

Recommendation #1: Revamp FH Framework

Recommendations:

Establish an advisory panel comprised of Legislative Analyst Office (LAO) and Office of Statewide Audits and Evaluations (OSAE) representatives to prepare the framework for the revised model. Once established, the advisory panel will need to address the following issues:

- a. Propose revised FH Program regulations to review the overall fiscal health of the applicant.
- b. Establish key fiscal health ratios to be submitted by the applicant that show revenue availability, debt levels, liability levels, and operating margins. The financial ratios should be based on the most recent audited financial statements and a current trial balance report.
- c. Develop an index of State and application contribution levels based on the fiscal health assessment of the applicant.
- d. Approve OPSC revamped FH Program instructions that provide guidance to the applicants on the FH certification program and funding allocation process.
- e. Establish performance requirements for the review of FH certification applications upon submission of complete applications (e.g., 30 or 60 days).
- f. Determine whether applicants should submit FH certifications for each project effectively eliminating the six-month effective period of the certification.

Work Plan for Improving the Financial Hardship Program

g. Seek an independent firm or expert to determine whether vulnerabilities exist within the revised model.

Actions Needed for Recommendation #1:

Assemble Advisory Panel	Completed
Revamp FH model	Underway
Beta test revised model	November 2007
Discuss the revised model at the Implementation Committee	December 2007
Follow-up discussion at the Implementation Committee	January 2008
Independent evaluation of model	February 2008
Revised regulations to State Allocation Board	March 2008

Recommendation #2: Establish Training for Applicants

Recommendation:

Establish a formal FH training program for prospective applicants to be administered once a year. This training program should include information pertaining to the application receipt, processing, and decision-making criteria used by OPSC reviewers.

Actions Needed for Recommendation #2:

Establish Training for Applicants	June 2008
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Recommendation #3: Develop and Implement Program Policies

Recommendations:

Develop policies and procedures that trigger OPSC mid-level and/or executive management resolution of issues raised by an applicant or by the OPSC reviewer's analysis of the FH application. These triggers could include the identification of excessive fund transfers to the applicant's General Fund, restrictions found on certificates of participation, a school district's utilization of legal services, and issues that require interpretation or application of regulations.

Add a component to the FH Review Process to require OPSC reviewers to visit school districts when circumstances are warranted. These circumstances can include unclear financial information, discrepancies found in the financial data, or the absence of supporting documentation on the FH application.

Require mid-level managers to provide bi-monthly performance monitoring key performance metrics, such as the timeliness of the review process, adherence to internal controls and review outcomes of the FH review process (e.g., percent of withdrawals, denials, and approval rates).

Establish an advisory panel comprised of LAO, OSAE representatives, OPSC mid-and executive-level management, and an independent auditor that meets monthly to validate the results of the FH certification review and provide approval of eligibility and funding contributions.

Work Plan for Improving the Financial Hardship Program

Actions Needed for Recommendation #3:

Establish program policies to elevate issues	Adopted Sept. 2007
Establish policy for on-site reviews	Adopted Sept. 2007
Establish bi-monthly performance monitoring	Adopted Sept. 2007
Advisory panel to review revised program and approve FH applications	Upon adoption of regulations

Recommendation #4: Revamp the Application and Worksheets

Recommendations:

Revamp the FH Checklist to reflect the revised review model, including updating instructions for each FH worksheet required.

Actions Needed for Recommendation #4:

Revamp the current program FH checklist	Adopted Oct. 2007
Revamp the current program FH worksheets	December 2007
Update the revised program FH checklist/worksheets	Available upon adoption of regulations

Recommendation #5: Establish Information System Safeguards

Recommendations:

Restrict access to information systems so that upon completion of the review of an application, the record cannot be overwritten with information from another application.

Implement information system-edit checks to require OPSC reviewers to enter required database information.

Add system tables to perform and validate contribution calculations for the application and final expenditure report submitted by the school district at the completion of the construction project.

Actions Needed for Recommendation #5:

Establish information system safeguards for current program	January 2008
Create new information program system for revised program	Available upon adoption of regulations

Recommendation #6: Process Improvements/Training

Recommendations:

The FH files were put together in a manner that did not provide a full audit trail of data used in completing the FH funding analysis. The FH review packages lacked cross-referencing, an index for the working papers, and there were no trail documenting when issues (e.g., high-level or policy issues) were elevated to management for recommendations.

Work Plan for Improving the Financial Hardship Program

At the time of the external management review, there were no staff members on the FH review team with outside audit experience. Staff with prior experience in accounting or financial auditing would better understand the concepts of analyzing financial data and what constitutes a complete audit. Additionally, the OPSC does not have a formal training process for new and current staff members.

Actions Needed for Recommendation #6:

Standardize format for FH review files

Adopted Aug. 2007

Transition of staff members with prior audit/accounting experience

Adopted Sept. 2007

Training in accounting and financial reviews

Commencing

November 2007

Resources Needed:

- Contract with an outside consulting firm to review FH Program changes.

Estimated one-time cost to assess the risk of the new program: \$25,000

Estimated one-time cost to develop training for OPSC reviewers: \$8,000

- Engage an outside audit firm to perform monthly reviews with the FH Committee.

Estimated annual cost: \$24,000

- Multi-level training program for in-house staff.

One-time cost to upgrade skill set of staff for FY 07/08: \$17,000

One-time cost to upgrade skill set of staff for FY 08/09: \$38,000

Estimated annual cost for on-going training: \$20,000

- Authorize overtime over the next two months to address the FH review workload.

One-time cost: \$9,000

- Redirect and rotate School Facility Program auditors onto the FH review team.

Estimated cost: Non-substantial

Total Costs:

- Total estimated implementation cost for these program improvements is \$141,000. This includes \$97,000 in one-time costs and \$44,000 in annual costs.