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STATE ALLOCATION BOARD
AUDIT SUBCOMMITTEE

CALIFORNIA DEPARTMENT OF EDUCATION
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DATE: APRIL 10, 2012
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APPEARANCES

Committee Members:

SENATOR ALAN LOWENTHAL, Chair

ESTEBAN ALMANZA, Chief Deputy Director, Department of General Services, designated representative for Fred Klass, Director, Department of General Services

KATHLEEN MOORE, Director, School Facilities Planning Division, California Department of Education, designated representative for Tom Torlakson, Superintendent of Public Instruction; Member State Allocation Board

State Allocation Board Staff:

LISA SILVERMAN, Executive Officer
BILL SAVIDGE, Assistant Executive Officer

P R O C E E D I N G S

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2
3 SENATOR LOWENTHAL: Okay. Let's begin the SAB
4 Audit Subcommittee. I'd like just to make a few remarks
5 that with us today, and I may ask her to come her if it's
6 needed, is Lettie Boggs who is a member of the Audit Working
7 Group -- is here if we have any questions about what took
8 place with the Audit Working Group and how -- she might be
9 able to answer any questions.

10 And we're here because on November 3rd of 2010,
11 which is now a year and a half ago, the State Allocation
12 Board adopted audit policies which were developed by this
13 Subcommittee.

14 The Board approved an implementation plan for
15 those policies in December of 2010, which was about 15
16 months ago now.

17 In taking these actions in 2010, the Board
18 recognized the critical importance of accountability and
19 transparency in the allocation of State bond dollars.

20 At the time, the Board directed the staff -- this
21 is when we approved the implementation plan -- to do the
22 following.

23 (1) Convene an audit committee that would review
24 the audit guide for clarity, consistency, and transparency
25 and review the audit guide annually thereafter;

1 (2) Determine an independent entity to conduct
2 audits based upon the audit guide;

3 (3) Develop incremental compliance reviews; and

4 (4) Do other related tasks that were detailed in
5 the Board's action item.

6 We're here today to have a status report on the
7 implementation of these Board policies which were developed
8 nearly a year and a half ago.

9 First we'll begin with a report from the Assistant
10 Executive Officer, Bill Savidge, and that will be followed
11 by an implementation status report from OPSC. Let's begin.
12 Welcome, Bill.

13 MR. SAVIDGE: Thank you, Senator. At the risk of
14 being too formal, I'm going to stand up here because it's
15 easier to run the slides. So the slides that contain my
16 report will be on the screen in front of you.

17 And thank you for having me, Senator and members
18 of the Subcommittee. I was asked at the meeting of --

19 SENATOR LOWENTHAL: Is there monitors that people
20 can see the slide?

21 MR. SAVIDGE: Yes. There are monitors back there.

22 SENATOR LOWENTHAL: Good. So I'd like
23 everybody -- you know, we're not ignoring you, those that
24 are here. Okay. Now you're on, Bill.

25 MR. SAVIDGE: Thank you, sir. So I was asked by

1 the Allocation Board at a meeting in September of 2011 to
2 review the status of the Audit Subcommittee policy
3 recommendations that had been forwarded. So since that
4 time, I've been working with the Office of Public School
5 Construction to review their work in this area.

6 And in my report today, you have a full packet
7 that has a detailed report that I prepared on each of the
8 recommendations, but I wanted to give you a status review of
9 the key recommendations from the Audit Subcommittee that was
10 adopted by -- from the work of the Audit Working Group,
11 including the scope of audits, audits by independent entity,
12 the audit committee, audit guide, and incremental compliance
13 review and then I want to give you some next steps and
14 options for you to consider.

15 First of all and at the bottom of the slide in the
16 box is the relevant recommendation from the working group
17 that was accepted by the committee and the Board.

18 OPSC is performing two different levels of review
19 at this time, compliance reviews or certification and
20 documentation reviews, so if a district makes a
21 certification on the 50-04 or 50-05, OPSC is gathering
22 documentation, reviewing that for conformance with the
23 School Facility Program regulations.

24 In addition, staff then performs expenditure desk
25 reviews using the material and the information that's

1 provided on the 50-06. So it's an in-depth review of
2 expenditures including background financial items, warrants,
3 et cetera, and a review for the eligibility of those
4 expenditures or ineligibility of the expenditures under the
5 program.

6 It's important to note that OPSC is not performing
7 true audits and so they are performing expenditure desk
8 reviews but not a true audit under governmental auditing
9 standards, and so they would not apply in this case.

10 It's also important for the Subcommittee to
11 understand that OPSC has stopped conducting external audits
12 and at the time that the Subcommittee accepted these
13 recommendations from the working group, external audits were
14 being performed by OPSC. So we have a changed situation
15 that I think it's important for the Subcommittee to look at
16 as we go forward.

17 Second, audits by an independent entity, this was
18 a key recommendation of the working group and the
19 Subcommittee, adopted by the Board.

20 Third-party audits were considered by OPSC in
21 their work in this area but only for their external field
22 audits.

23 OPSC contacted primarily the State Controller's
24 Office. They did give a request for proposal to the State
25 Controller's Office.

1 They're indicating at this time that there's no
2 budget available for them to perform third-party independent
3 audits and so they're not being pursued at this time.

4 Third, the audit committee, no action has been
5 taken at this time to perform an audit committee and to be
6 honest with you, it's tied to the question of performing
7 true audits.

8 So if we were -- if we had true audits being
9 performed, then we would have more of a sound basis for
10 performance of -- for having an audit committee that would
11 guide the work of the audit performance.

12 SENATOR LOWENTHAL: May I ask a question --

13 MR. SAVIDGE: Sure.

14 SENATOR LOWENTHAL: -- as you're going on. You're
15 saying that when we first -- a year and a half ago, maybe
16 even longer -- two, three years ago and up to a year and a
17 half ago when we -- the OPSC was doing, quote, external
18 audits at that time; right?

19 MR. SAVIDGE: Right. That's correct.

20 SENATOR LOWENTHAL: At some point, they stopped
21 doing these external audits. So they're saying that there
22 is no need or there's not -- because they're not doing these
23 external audits.

24 MR. SAVIDGE: That's correct. That's my
25 understanding and they're going to --

1 SENATOR LOWENTHAL: Do we have any understanding
2 what took place and did they come to the Board and tell the
3 Board that they were no longer doing external audits?

4 MR. SAVIDGE: I don't --

5 SENATOR LOWENTHAL: Because we were going through
6 this whole process because they were and we were hearing
7 input from districts and -- about external audits and we
8 wanted transparency.

9 I'm just not clear when this change occurred and
10 how it occurred because --

11 MR. SAVIDGE: And --

12 SENATOR LOWENTHAL: Because that's what you're
13 raising. You're saying, hey, they're not doing audits now.
14 They're doing -- and so there is a shift in policy at some
15 point which then leads to a shift in -- and there may be
16 very good reasons. I'm just not aware of how this took
17 place.

18 MR. SAVIDGE: And I'm not fully aware of them
19 either and I think that's going to be covered in their
20 presentation, but I think my -- I guess my point would be we
21 have a little bit of a different interpretation of the
22 direction and a different scenario than I think was
23 anticipated --

24 SENATOR LOWENTHAL: Um-hmm.

25 MR. SAVIDGE: -- at the time the Board adopted the

1 recommendations.

2 We probably need -- I'd recommend that the Board
3 reconsider and look again here are the recommendations, why
4 did we adopt them, what's the change situation, do we need
5 to modify anything going forward to ensure that we have
6 accountability in place and that the Board understands the
7 direction that OPSC's going. Yes, sir.

8 MR. ALMANZA: Just a clarification. So a true
9 audit would be an audit that's conducted on site.

10 MR. SAVIDGE: And a couple of the hallmarks in my
11 working with the audit staff, Mr. Asbell, and Lisa Silverman
12 is having access to source documentation at the school
13 district where they can then go through the auditing process
14 to provide the backup for an expenditure or a warrant and
15 that kind of information.

16 And so since they're not doing the external
17 audits, they are not considered a true audit is my
18 understanding. I'm sure that OPSC staff will go into this a
19 little bit further for you.

20 So having an audit committee -- and in one of the
21 other areas and some of the work that the Audit Working
22 Group did, the other area that school districts are audited
23 as part of the educational audit process that's coordinated
24 through CDE, there's a standing audit committee that is
25 referenced in regulation and statute that meets yearly that

1 coordinates new responsibilities and requirements for the
2 audit that goes to agencies for the educational side of the
3 house.

4 And this was I think the model that the Audit
5 Working Group was using to arrive at the recommendation to
6 have a standing audit committee for the School Facility
7 Program audits.

8 And so it's tied then again to the independent
9 third-party audit performance which is not being pursued at
10 this time. And so we need some further clarification and
11 direction in terms of the compliance reviews that OPSC is
12 performing and how we get to the audit committee that was
13 envisioned in the original recommendation.

14 Audit Guide is similarly somewhat connected to
15 this. The Audit Guide that's used on the education side of
16 the house is also established in statute and regulation and
17 contains specific items and specific references about
18 materials and numbers of transactions that will be reviewed.

19 OPSC, since they're not performing true audits, is
20 preparing a new handbook for the program, but they're
21 considering it to be a best practices manual. And so it's
22 called the School Facility Program Review Requirements
23 Handbook.

24 It's included in your overall packet and it's on
25 the website and there's no current basis in regulation for

1 the Audit Guide.

2 So my understanding of where we are currently is
3 that the true Audit Guide would not be prepared unless the
4 external field audits were resumed or -- and then an
5 independent third party who was performing those audits
6 would potentially then be responsible for preparing and
7 developing the Audit Guide working with the audit committee.

8 But this has not been implemented at this time.

9 Incremental compliance review, this was a critical
10 element. If you recall prior to what led up to the
11 formation of the Audit Working Group was concerns regarding
12 the fact that when a district makes certifications five
13 years previously say to an audit that occurs here, many
14 times the documents are -- could be audited earlier to
15 ensure that -- for example, if they're certifying that
16 they're 50 percent under contract that they have a signed
17 contract with the value that meets that requirement.

18 It's taken care of in a timely fashion close to
19 the event and not in a time frame where they might be liable
20 for significant interest penalties and other things that
21 occur when you don't do a timely audit.

22 This was a very critical recommendation of the
23 Audit Work Group.

24 OPSC has begun to look at some options here and I
25 think staff's going to talk to you about that a little bit,

1 including incorporating this review in one of the existing
2 checkpoints that we have in the program.

3 One of the first checkpoints for a project is
4 what's called the substantial progress check at 18 months
5 after the release of funds. And so perhaps the incremental
6 reviews could be tied onto that 18 month substantial
7 progress review.

8 But this may require some regulation changes in
9 order for it to be implemented appropriately.

10 There were a number of other issues associated
11 with these five major issues, including coordinating the SFP
12 handbook with the new Audit Guide. Clearly we need to get
13 the Audit Guide approved and in place before we can do that.

14 Publishing of audits was an element that the -- of
15 one of the recommendations and it's not a part of current
16 compliance reviews or expenditure reviews by OPSC and it's
17 probably more appropriate with the full external audits.

18 The current process, as you know, includes the
19 audit team goes in, prepares their findings, sends them to
20 the district that has then a certain time frame to agree or
21 disagree, 30 days, and then they take the audit -- or the
22 approved audit to the board for action or if the district
23 disagrees, they can file an appeal.

24 Training on school district financial management
25 has not occurred -- been initiated at this time and CDE

1 coordination regarding the California School Account Code
2 Manual has also not occurred at this time.

3 I just wanted to give you -- I think we're -- it's
4 clear in terms of some next steps here, there's a change in
5 approach by OPSC to the external audit function.

6 I may make the recommendations, many of them moot,
7 and we need to potentially reconsider that. We also
8 probably need to focus again on what regulatory changes
9 would need to be made to implement recommendations as we go
10 forward.

11 A good example of that would be the incremental
12 program compliance requirements. Those should be clearly
13 indicated in regulations so a district can know when they --
14 have their audit time frame for their documentation.

15 Also the Audit Guide, my recommendation would be
16 to reconvene the Audit Working Group to assess the current
17 progress, also specifically to review the proposed handbook
18 that OPSC is working on.

19 I think the expertise of the Audit Working Group
20 would probably represent the best assistance that we could
21 get in looking at that and making sure that that meets the
22 anticipation of the group.

23 And then I would recommend that the group update
24 and confirm their recommendations to the Audit Subcommittee.

25 So that's a brief overview from myself and I'm

1 going to turn it over to OPSC now to give you a status
2 update.

3 MS. SILVERMAN: I think it's too cluttered up
4 there, so I'll start by speaking.

5 Lisa Silverman with the Office of Public School
6 Construction.

7 Yeah, thank you, Bill, for giving us an overview.

8 As far as where we're at status-wise, I think
9 staff is prepared to give you a status update.

10 Give you just a little bit of history of kind of
11 where we've started with the external audits. This was
12 actually initiated sometime in late 2008 and again the goal
13 was to basically perform audits, to actually look at source
14 documents at the district, and actually have some -- a basic
15 understanding of the requirements and whether or not they're
16 being followed in accordance to the statute and regulations.

17 But really the real goal was to really speed up
18 the process of our reviews. Our reviews actually do take a
19 long time because all the external paperwork being
20 communicated back and forth.

21 So the goal was primarily to streamline the
22 process. So we would actually send a letter in advance to
23 us going out in the field and then actually list out the
24 type of documents we wanted to review out in the field.

25 And again the goal was to focus that effort on a

1 two-to-five-day approach and then we'd come back to the
2 office and try to wrap things up in a swift manner.

3 To get to the point of when the reviews stopped --
4 external reviews stopped, against we've actually only went
5 out on four districts and the reviews actually stopped --
6 external reviews stopped in April 2010 and that was at the
7 direction of the leadership at Department of General
8 Services.

9 So since that time, even though the Audit Work
10 Group was convening, that was already in place and -- so the
11 other issue we wanted to bring up is again OPSC still
12 continues to perform the desk reviews and that does equate
13 to a lot of correspondence going back and forth to some
14 extent and actually having a good dialogue with the district
15 as far as what kind of records we're actually seeking to
16 review.

17 And again I know Bill pointed out to the external
18 audits, again we're not doing external audits and they're
19 not being performed and whether or not the Audit
20 Subcommittee recommendations are going to be moving forward
21 with establishing an audit committee and whether or not
22 obviously the reviews are going to be performed in
23 accordance to government auditing standards.

24 So we just obviously -- our review is going to be
25 comporting with the statute and regulations.

1 And then the third point there is publishing of
2 the audit findings. Again the review, as Bill mentioned
3 before, is our communication to the school district after
4 we've wrapped up our desk review is basically highlighting
5 to the district here's some of the areas that we believe
6 that we have some disagreements or adjustments potential and
7 then we would summarize what those issues are and then also
8 provide them a worksheet based on the calculation and give
9 them a full opportunity, 30 days, to at least respond to us.

10 And again our goal is trying to resolve a lot of
11 their issues before even publishing or even moving forward
12 to the Board. But most of our recommendations that do go in
13 the Consent Agenda, there's probably at least -- I think
14 last year three items that actually elevated to the Board as
15 a result of some of our desk reviews.

16 For the most part, most of our items go through
17 the Consent Agenda. There's probably very little
18 controversy on the items that we do bring forward.

19 On page 3 --

20 SENATOR LOWENTHAL: You have a question.

21 MS. MOORE: I do have a question and this may be
22 before your time in terms of the history and what we -- I
23 think we're dealing with -- what we were dealing with with
24 the Subcommittee.

25 But there was a time -- correct me if I'm wrong --

1 that the desk audit was called -- or the desk review was
2 called an audit and there was an audit guidebook. Is that
3 true?

4 MS. SILVERMAN: Yes.

5 MS. MOORE: So at some point, we determined that
6 the desk audit really wasn't an audit; it was a review and
7 was that prior to our first Subcommittee beginning its work
8 and that's why we talked about a different type of audit in
9 our work originally with our Subcommittee?

10 MS. SILVERMAN: I believe you're correct. Again I
11 didn't start with the --

12 MS. MOORE: Right.

13 MS. SILVERMAN: -- initiation program many years
14 ago and I believe they called it an Audit Guide. It would
15 just basically clarify items and probably Rick could speak
16 to it, but it really was a guidebook to clarify the
17 requirements for the program.

18 But it was established as an audit guide, but in
19 reality I mean are we really doing audits. It's not really
20 a formal audit guide. It should be probably called
21 something else review -- a review compliance or best
22 practices manual to some extent, but again there is a
23 difference between a true audit guide and I'm sure there are
24 folks who could speak to that versus what we actually have
25 for this program.

1 MS. MOORE: Is that --

2 MR. ASBELL: That's correct.

3 MS. MOORE: Because I do remember being in the
4 field prior and we treated that review what you -- what is
5 now called a review, it was very much an audit in our mind
6 and when it was completed, we felt that we had gone through
7 an audit with the program and either the State owed the
8 district funds or the district owed the State funds and then
9 the books were closed.

10 And I think there -- probably as we proceed with
11 whatever our actions are here today that there's more
12 clarification around this desk review versus an external
13 audit because we want to make sure that the program has an
14 accountability feature that stands up to scrutiny and that
15 we can go -- you know, that we can say indeed we are
16 performing all functions in a program that we've been asked
17 to do.

18 SENATOR LOWENTHAL: I want to follow -- I have a
19 question that I asked Bill and I -- Lisa, to you. So we --
20 you're doing external audits. You did four you said. We
21 are now setting up an audit subcommittee to kind of review
22 the guide and the criteria and to look potential external
23 audit.

24 You said that it came from Department of General
25 Services. There was some decision that was made to stop

1 doing external audits -- to stop doing audits while we're
2 going through this elaborate process.

3 How come we never heard about any of this?

4 MS. SILVERMAN: I'm not sure why it wasn't
5 communicated. I think Mr. Harvey did communicate to --

6 SENATOR LOWENTHAL: That we're not doing audits
7 anymore and that this is --

8 MS. SILVERMAN: No. Well --

9 SENATOR LOWENTHAL: -- not needed?

10 MS. SILVERMAN: But we're still doing compliance
11 reviews which was --

12 SENATOR LOWENTHAL: But you're not calling them
13 audits. You deliberately don't call them audits any longer.
14 But you changed from an audit while we're going through this
15 process and no one -- really we never had a discussion on
16 that, why we're doing this or whether we needed to change
17 things or to do things. We were kind of left out of the
18 decision making.

19 MS. SILVERMAN: I believe Mr. Harvey at the time
20 who was the Chief Deputy of General Service did communicate
21 maybe -- at a Board meeting or a few Board meetings that
22 we're no longer going to do external audits out in the field
23 to respect the Audit Work Group and the Audit Subcommittee's
24 work and he -- they wanted to definitely refrain from those
25 external activities until we clarify what the requirements

1 are.

2 And I think that's really what the goal was, not
3 to overstep what staff was doing out in the field and
4 actually try to work with or comply with whatever new
5 requirements that were going to be --

6 SENATOR LOWENTHAL: So you're going to do audits
7 again.

8 MS. SILVERMAN: That's -- all depends if we're
9 doing external audits; right.

10 SENATOR LOWENTHAL: Who will make that decision?
11 The Board?

12 MS. SILVERMAN: Well -- right. Obviously the
13 Board will have to make a decision on whether or not they
14 want to do an external audit program.

15 SENATOR LOWENTHAL: Even though we didn't make a
16 decision as a Board to not do one.

17 MS. SILVERMAN: There are still compliance reviews
18 that are being -- that are happening in-house.

19 SENATOR LOWENTHAL: I get it. Yes.

20 MR. ALMANZA: This was all before my time too,
21 but, you know, based on my experience, an audit does require
22 the source documents. So I mean you could do an audit
23 without going to the site, but they have to send you all
24 their documentation for that project.

25 So I could understand why we wouldn't want to call

1 the desk reviews audits because they're not audits; they're
2 compliance reviews to whatever grant agreement exists in the
3 distribution of funds.

4 And as far as audits go, you know, we could --
5 others could conduct external audits if they wished to. The
6 Controller has the power to do that -- the Department of
7 Finance or even the Treasurer's Office since it's GO bond
8 money.

9 But we don't have an audit program right now and
10 don't plan to have one.

11 MS. SILVERMAN: That's correct.

12 So may I move to page --

13 SENATOR LOWENTHAL: Absolutely.

14 MS. SILVERMAN: But we did also want to
15 acknowledge or at least advise the Subcommittee, there were
16 some -- obviously some recommendations that were put forward
17 and the Board did adopt. We actually have completed some
18 tasks on that list.

19 So with respect to the regulations and the time
20 frames, the reviews are commencing with a two-year
21 regulatory time frame.

22 The reviews are also -- and comport to the
23 regulations that are in effect at the time applications are
24 received. I think that was something that the Audit Work
25 Group wanted to clarify. What rules are you following to

1 conduct your reviews because that really wasn't clear.

2 And so we are notifying districts to that extent
3 that when we do engage in review, here's the rules that
4 we're applying to your review. And so that's actually being
5 commenced -- that was actually commenced over a year ago.

6 So when we do contact an LEA or a district that we
7 are conducting a review, we do let them know what
8 regulations are in effect and that's the requirements that
9 we're going to review for compliance purposes.

10 And again another area that was posted or at least
11 notified to us was the past and present regulations weren't
12 posted on OPSC's website. We actually did do that last
13 year.

14 Another item that we wanted to again highlight is
15 there obviously were concerns of whether or not projects
16 were being reopened. Projects are not reopened unless there
17 was a misappropriation of funds or illegal activity. So --
18 and to that extent, that's -- we actually have completed
19 some items.

20 Do you have any questions?

21 MS. MOORE: I have a question. I do, Lisa. So if
22 districts are being notified what regulations they're
23 subject to, is that -- how does that happen and how does
24 that coincide with the review guideline? Is it given to
25 them what year they apply in: These are the regs in place

1 that year and here is the program review requirements that
2 are in place that year and how does that work.

3 MS. SILVERMAN: Yeah. I'm glad you brought that
4 up. Actually the problem with the guide that we have
5 posted, it had -- there wasn't any updates for quite some
6 time.

7 So most of us see a lot of changes and the changes
8 in the regulations could apply to some areas in program and
9 not necessarily on the fiscal side of the shop. But I mean
10 as far as there was no complementary audit guide that came
11 out with a new regulation. Is that really what your
12 question is?

13 MS. MOORE: Or an annual --

14 MS. SILVERMAN: Right.

15 MS. MOORE: -- annual you're under these regs --

16 MS. SILVERMAN: Right.

17 MS. MOORE: -- and you're under this review
18 guidelines.

19 MS. SILVERMAN: Right. And that wasn't actually
20 being performed.

21 MS. MOORE: So that it's clear to school districts
22 what their --

23 MS. SILVERMAN: Right.

24 MS. MOORE: -- rules are during the course of
25 their project; right?

1 MS. SILVERMAN: Right. And that wasn't -- the
2 guidebook in itself wasn't being updated annually.

3 So -- and now like I said, what we're trying to do
4 is bluish up a new updated version and the goal is to update
5 that annually.

6 MS. MOORE: So then a district would be handed or
7 however you communicate with them, here's your regulations
8 that you're under for your project and here's the
9 guidelines --

10 MS. SILVERMAN: Right.

11 MS. MOORE: -- the new guidelines you're under.

12 MS. SILVERMAN: That's correct.

13 MS. MOORE: That's your anticipation --

14 MS. SILVERMAN: That's correct.

15 MS. MOORE: -- of this review -- final review
16 process that you're talking about.

17 MS. SILVERMAN: That's correct.

18 MS. MOORE: Thank you.

19 MR. ASBELL: If I could interject really quickly.
20 So there are actually two times in which we notify the
21 district as to what regulations they're going to be under.
22 When they submit a 50-04 and that application is accepted,
23 we send them an acceptance letter. In there we denote which
24 regulations they're going to be under.

25 MS. MOORE: Okay.

1 MR. ASBELL: Also when we commence a desk review,
2 we also notify them at the time -- basically an engagement
3 letter basically saying what regulations you will be under
4 also.

5 MS. MOORE: And it would be the same; right?

6 MR. ASBELL: It should be the same, yes.

7 MS. MOORE: Okay. Thank you.

8 SENATOR LOWENTHAL: You never convened or tried to
9 pull because of these changes an audit -- that audit
10 committee -- that recommendation about an audit committee.

11 MS. SILVERMAN: I'm sorry. I --

12 SENATOR LOWENTHAL: You did not convene an audit
13 committee, one of the recommendations.

14 MS. SILVERMAN: No, we haven't formed an audit
15 committee.

16 SENATOR LOWENTHAL: And that's because we're not
17 doing audits?

18 MS. SILVERMAN: Because we're not doing audits and
19 again we wanted to clarify some of the concerns of whether
20 or not we needed to form a committee and again like Bill
21 mentioned, is a committee really necessary if we're not
22 doing --

23 SENATOR LOWENTHAL: And I agree, but I'm just
24 concerned that while we were passing all of that, that never
25 was discussed with the Board or has been since that we're

1 not forming this audit committee. Go on.

2 MS. SILVERMAN: Okay. So on page 4, we wanted to
3 highlight again the work in progress. The work in progress
4 as we mentioned is we actually are updating the review
5 requirements handbook and we tried to blush it out in a
6 sense that, you know, obviously it's not public yet and
7 we're seeking input from the audience, the districts, and
8 the committee here and we're not anticipated to go through
9 that today, but again the goal is try to simplify by which
10 type of program you're being reviewed under.

11 If it's new construction, we created some matrixes
12 and checklists of documents that may be required in review
13 and again we also identified the program requirements as
14 well and we actually collapsed a few pages.

15 There's a lot of redundancies in the other
16 guidebook, so we would hope again it would be more
17 comprehensive and easier to understand. We didn't go out
18 and run and publish it on the website because obviously we
19 want to be respectful to the committee and get some feedback
20 as well.

21 MR. ASBELL: Okay. So in terms of the next
22 slide -- and this is dovetailing on some of the comments
23 that Mr. Savidge made about an incremental review, I wanted
24 to throw out a slide that basically discusses the lifestyle
25 or life cycle of a particular project -- SFP project.

1 So what you see up at the top, numbers 1 through
2 11, are events that occur within a project and then at the
3 bottom, you have corresponding numbers that relate to how
4 long it takes for that process to go through.

5 You'll note that there are two items within the
6 top part there that are in red and those are things I'm
7 going to elaborate on a little bit further in the next
8 slide, but this is where I think we have the opportunity to
9 do some incremental reviews at the 50-04 stage and when
10 projects are apportioned and also when we have fund
11 releases.

12 So in terms of the incremental compliance review,
13 once again when we were talking about the recommendations
14 made by the -- or approved by the SAB, there were two areas
15 that we're focused on. Basically we're looking at the 50-04
16 certifications and then also the 50-05.

17 And one of the recommendations also talked about
18 you had a year from the time of the action that something is
19 apportioned to be able to look at those certifications and
20 then after that, then you wouldn't be able to go back and
21 conduct another review.

22 The same thing holds true for the 50-05. After
23 the fund release, you would have -- basically you would have
24 one year to perform some kind of a check on that and what we
25 have done already because of the rash of -- and there was a

1 short period of time -- of the premature fund releases -- I
2 think most of us remember the material inaccuracies that
3 were occurring.

4 A couple things that we've already implemented:
5 one, when the 50-05 comes through, we're checking contracts
6 at that time to see if they meet the 50-05 certification.

7 The other thing that we're checking is labor
8 compliance program. And so we can catch those issues before
9 the money is actually released to the districts and I think
10 we've been fairly successful on a few occasions in catching
11 those things before the money gets released.

12 Once the money gets released, then we have an
13 issue with a premature fund release. So we're really
14 focusing on that.

15 Going back to 50-04 certification within the one
16 year, some of the things we might look at are, you know, the
17 type of project; number of pupils requested; multi-level
18 construction, did you ask for that.

19 So we would have a team that would basically look
20 at that 50-04 and then from one year from the apportionment,
21 take a look at those certifications. We would also do the
22 same thing for the 50-05.

23 The other thing that Bill spoke about -- or
24 Mr. Savidge spoke about was leveraging substantial progress.
25 Now substantial progress basically occurs -- it's a check

1 that we do 18 months after the funds are released and we
2 look at how far along you are within the project, how many
3 contracts you have as a percentage, basically we have a
4 checklist of things that you're hitting to see that you're
5 moving forward with the project.

6 I think what we can do is in the closeout process
7 we have a couple of things -- and there could be a lot more
8 than that. We'll have to identify some more -- some things
9 that are done on the back end that we could actually move up
10 into the substantial compliance process.

11 So we could actually review those documents
12 probably a good two to three years prior to it actually
13 getting to closeout. So what that does is it front-loads
14 all the checks and balances and if we happen to catch an
15 error or an issue, we can elevate it and take care of it
16 then.

17 Some of the things we need to consider though when
18 we're talking about this incremental approach, once we have
19 this one year, one of the things we need to think about is
20 change of scope. What happens if there's a -- we look at a
21 50-04. The money gets apportioned. We look one year after.
22 There are no issues and then after that one year, maybe we
23 have a situation where they didn't build as many classrooms
24 as was indicated on the 50-04.

25 So that's one of the things I think we need to

1 consider.

2 One of the other issues is that if you have a --
3 let's say a financial hardship district that comes in for
4 site and design. Based on these parameters, they would be
5 subject to this type of review and then when they come in
6 for their adjusted grant, which would be a separate action,
7 there would be another review based on that.

8 So there is the possibility that you may have a
9 district or a project, depending on their circumstances,
10 where we may have to look at them more than once because of
11 those fund releases.

12 And then regulations I think need to be in place
13 and I think Mr. Savidge pointed to this that we need
14 something to be able to hold OPSC accountable to timelines
15 and then also the LEAs.

16 SENATOR LOWENTHAL: So on the work in progress
17 items that you've given us, the steps, step number 8 after
18 the standard audit -- that's not correct. There is no
19 audit, even though you wrote audit.

20 MR. ASBELL: Right. I think that was the -- it's
21 a review basically.

22 SENATOR LOWENTHAL: So let's not call it an audit
23 now if that's what you mean.

24 MR. ASBELL: And so that's all I have.

25 SENATOR LOWENTHAL: Okay. Is there public comment

1 on any of this? On any -- does anybody wish to address the
2 Subcommittee? Come on up, Lettie.

3 MS. BOGGS: Just a couple points of --

4 SENATOR LOWENTHAL: Introduce yourself for the --

5 MS. BOGGS: Sorry. I'm Lettie Boggs with Colbi
6 Technologies and I was a member of the Audit Working Group.

7 It's my understanding that -- let me back up. I
8 think it'd be really helpful if we clarified some
9 terminology because the way that we're using terms here
10 seemingly interchangeable is really frustrating to someone
11 who really studies and works with audit.

12 So first of all, nothing we're talking about
13 should be called an internal audit. That's a completely
14 separate thing.

15 They're using the term internal and external and
16 that's very unusual audit language. So if we're thinking of
17 that external component of when they go on a site visit or
18 they do it local at the site, that's my understanding what
19 you mean by the term, an external audit; correct? Not an
20 audit done by an external entity which would be the normal
21 way an auditor would think that was what was meant.

22 So that's why I want to be really clear, they're
23 really talking about desk reviews not internal and site
24 visit work which is not really referred to as external. So
25 I think it would be very helpful to clarify the language

1 throughout the document and be very consistent.

2 Secondly, an audit has to be done by an auditor --
3 a qualified auditor with independence to do the audit and
4 therefore I think it is actually more correct that they are
5 doing reviews not audits.

6 Because a review of the material can be a review
7 for compliance and if you look in the government auditing
8 practices -- or GAS, what's the yellow book -- GAS book --
9 Government Accounting Standards -- Auditing Standards,
10 sorry.

11 If you look at GAS, it says that compliance audits
12 and compliance reviews are performed. For instance, we have
13 one required for districts to cause to be performed during a
14 review annually for their bond oversight.

15 But if it's being done by an auditor, it's an
16 audit. If it's not being done by a qualified auditor, it's
17 a review. So that's how that audit world looks at it.

18 So that said, I am fine with the fact that we talk
19 about the mass reviews. I think the underlying concern of
20 the districts at the time that we had the task group was
21 that the reviews being performed by OPSC or what we had
22 always referred to as audits had expanded exponentially and
23 they were now doing things that were already being audited
24 by others.

25 So I don't think there is an element where in some

1 of these things them pulling back leaves them unaudited.
2 They are in fact audited by the district auditors. They are
3 audited by the County Office in already existing appropriate
4 ways.

5 What we need to make sure I think for the program
6 is that the reviews being conducted by OPSC or by an
7 independent reviewer at OP -- you know, somehow in the
8 system, that whatever review is being conducted has the
9 benefit of independence and has the benefit of knowledge of
10 the program.

11 It is a concern to me about the guide -- the Audit
12 Guide. You cannot audit something that doesn't have an
13 audit guide. You have to have standards by which it will be
14 conduct -- the program is conducted and the standards by
15 which it will be audited.

16 So without documentation, we would be sunk as far
17 as review. So if you're going to hold people accountable
18 for the results of the review, you have to have a proper
19 audit document -- or a review that is per documentation and
20 that was part of the concern that the audit process had
21 changed an the documentation had not kept pace with it.

22 One of the concerns I had with the write-up that I
23 reviewed from the website was they had said in two places
24 that the audit documents are posted on the website and then
25 at one place that they were going to pull them off because

1 it would be confusing to people.

2 So I think it would be very appropriate for them
3 to have a naming convention or a numbering -- some kind of
4 document control so we all know which document we're talking
5 about at which point in time and when it's changed and it's
6 a new one, it has a new date or a new number, something so
7 that people are very clear which audit document they are
8 subject to for any particular review.

9 SENATOR LOWENTHAL: Yeah. I have a few -- since
10 you're there, a few questions about the role of the working
11 group because I may request that the Assistant Executive
12 Officer to reconvene it.

13 But so the first question is, was it your intent
14 to recommend to our Audit Subcommittee that an independent
15 entity conduct both the desk review and also the site visit
16 components of the audit? Should that be done by -- was that
17 your intent or not? Because we're -- that was one of the
18 recommendations about having -- when we were calling this an
19 audit.

20 Now that they're saying it's -- we're not doing
21 that much and maybe where we are for a -- that's -- I'm
22 not -- I'm just saying I'm just surprised, you know, that
23 we've gotten this far without us really understanding, but
24 that may be totally appropriate. The question then is is
25 it -- do you think that your recommendation -- the working

1 group -- regarding an independent entity still holds today
2 when we're having not an audit, but we calling these desk
3 reviews and compliance, you know, review.

4 MS. BOGGS: I think independence is the primary
5 fundamental basis of being able to perform a legitimate
6 audit or review.

7 SENATOR LOWENTHAL: Okay. So you would stand by
8 that --

9 MS. BOGGS: So -- but there are a lot -- there is
10 more than one way that independence can be achieved and we
11 have discussed in the Audit Committee at length whether we
12 should recommend another agency or whether we should
13 recommend independent auditors which every district engages
14 anyway already to perform audits and just require districts
15 to notify their auditors they have a project so that some of
16 the selection would be -- include that in their regular
17 audit.

18 The committee decided not to decide that, to leave
19 that to go back to you, but there's more than one way to do
20 it. You can also sequester an internal audit group that has
21 firewalls and independence.

22 So there's more than one way to secure
23 independence, but I think independence is necessary.

24 SENATOR LOWENTHAL: Right. Now -- since we're
25 not -- now we're not doing again performing audits but doing

1 desk reviews, would you change some of your recommendations?

2 Potentially should that be open for discussion which --

3 MS. BOGGS: I think it would be appropriate to --

4 SENATOR LOWENTHAL: I'm not asking you right now
5 what you might change.

6 MS. BOGGS: Yeah.

7 SENATOR LOWENTHAL: Just do you think -- and the
8 third question is if you would because I may ask then the --
9 to reconvene you, are these adequate -- these desk reviews
10 adequate to -- you know, we've talked about transparency and
11 accountability. That's really why we're doing this. We're
12 not trying to make anybody's workload any bigger. We want
13 to be real clear about what we require, to have
14 transparency, to have clarity, and then to hold everyone
15 accountable to saying that this is what they've done.

16 Now, since we're not doing audits, we're doing
17 desk reviews, does this provide us the accountability that
18 we need?

19 MS. BOGGS: Let me answer that first and then go
20 back to the other.

21 SENATOR LOWENTHAL: Yes.

22 MS. BOGGS: I think -- if I were designing a
23 program, I think it would be very logical to say that you
24 would perform a desk review first and if there was any
25 indication of unusual or extraordinarily complex accounting

1 involved in that particular audit that it might warrant
2 stepping it up to a site visit as well.

3 So some -- you know, desk review, you can vet out
4 things that may look unusual, that may be legitimate or not,
5 but they warrant --

6 SENATOR LOWENTHAL: So that would be change --

7 MS. BOGGS: -- further investigation.

8 SENATOR LOWENTHAL: Since we are now moving in --
9 or have moved in that direction, that might be appropriate
10 for the task -- for the working group to consider.

11 MS. BOGGS: And then typically you also have a
12 random percentage that receive a full audit because audit is
13 a policing action of sorts. So if people know there's
14 always the potential that someone will look at everything,
15 it has an effect of moderating behavior.

16 So in that sense, I think a random selection of
17 full audits is always appropriate so that districts know
18 that they could be audited or -- so there are reasons you
19 might step from just a desk review very appropriately to a
20 more expanded review on a particular project.

21 That said, I do think that with some of the
22 responses and changes that OPSC has proposed to the initial
23 work that was done, I think it might be very appropriate to
24 take it back to the task group and say do your
25 recommendations still make sense or --

1 SENATOR LOWENTHAL: Right.

2 MS. BOGGS: -- would you modify them given this
3 modified work.

4 SENATOR LOWENTHAL: Got it. Thank you.

5 MR. ALMANZA: I have a comment.

6 SENATOR LOWENTHAL: Oh, he has a comment.

7 MR. ALMANZA: Okay. So again I think it is
8 important to differentiate between the compliance reviews
9 and an audit because I think that most of the reviews that
10 we're talking about are reviews that are part of the process
11 of administering the program and administering the
12 distribution of funds and payments of grant awards.

13 But the audits, you know, it would be appropriate
14 I think to have an audit committee and to have a robust
15 audit program and -- so that those who do receive funds know
16 that there is that possibility of a full, true audit of how
17 they use the funds that were awarded.

18 And -- but that's different from the compliance
19 reviews that I think we've been talking. Even those on-site
20 visits that happened weren't real audits. It sounds like
21 they were more of an on-site reviews that were being
22 conducted previously at the desk.

23 You know, because we do have a multi-billion
24 dollar program and so I think it'd be prudent and our
25 fiduciary responsibility is to have a robust audit program

1 where you do randomly select some awards of funds and do a
2 full on-site, independent audit.

3 SENATOR LOWENTHAL: Good. Are there other folks
4 that want to testify?

5 MR. FERGUSON: Yes. Chris Ferguson on behalf of
6 the Department of Finance.

7 We have a specific concern with the Audit Work
8 Group being proposed and the concern is that it's not as
9 transparent as an Audit Subcommittee or a public venue where
10 all of the public has the ability to listen and provide
11 input.

12 We would recommend that if we move forward with
13 some sort of work group that it be a public venue where all
14 of the public, any stakeholder within this -- interested in
15 the School Facilities Program be able to partake in that
16 discussion and provide appropriate input into that
17 discussion.

18 SENATOR LOWENTHAL: So you say you want more
19 openness? Is that --

20 MR. FERGUSON: Yes. More transparency.

21 SENATOR LOWENTHAL: It would have been nice for us
22 to -- on the Board to have known that.

23 MR. ALMANZA: And I would agree with that, that --
24 so you develop an audit program that it should be an open
25 and transparent discussion of what's going to go into that

1 program.

2 MS. MOORE: So in the interest of that, if we do
3 make recommendations for this working group to again review
4 their recommendations and actually the Board actions -- the
5 Board took action on every one of these audit
6 recommendations, that that be a noticed meeting and that
7 others can attend if necessary.

8 I do believe the Department of Finance was invited
9 to those meetings and declined, is my understanding. But
10 I -- in terms of others that may want to have input on it --

11 SENATOR LOWENTHAL: I do believe we have already
12 in our regulations about the working group and that it's
13 real clear and about noticing requirements and --

14 MS. MOORE: Okay.

15 SENATOR LOWENTHAL: -- public -- that's already
16 there.

17 MS. MOORE: So anyone can attend those meetings --

18 SENATOR LOWENTHAL: Yes.

19 MS. MOORE: -- if they'd like to. Okay. Great.

20 SENATOR LOWENTHAL: And they're all noticed.

21 MS. KAPLAN: They were all open and all noticed.

22 Just quickly --

23 SENATOR LOWENTHAL: Introduce yourself.

24 MS. KAPLAN: My name is Lisa Kaplan. I'm an
25 attorney, but I was actually at that time the Assistant

1 Executive Officer when this working group was going on and
2 according to the Board, the Board requested that all the
3 meetings be public and they were public and everybody was
4 invited and anybody could come in and testify at the time we
5 held them before.

6 MR. FERGUSON: Well, one of the specific -- Chris
7 Ferguson again. One of the specific things we're looking at
8 is in particular to the Audit Subcommittees and the SAB
9 itself, even the Implementation Committee, they're all
10 available via webcast to school districts and any interested
11 stakeholder that wants to participate in that manner.

12 The Audit Work Group was not done in the same
13 fashion. So all we're asking is an additional level of
14 transparency and that's somewhat of a paradigm shift between
15 the previous administration and the current administration
16 is that we prefer to have more public input under the Brown
17 administration.

18 SENATOR LOWENTHAL: Thank you.

19 MR. ALMANZA: You know, again I don't think -- I
20 mean we've been using the word audit over the years maybe
21 inappropriately because I don't think we've ever really had
22 an audit program.

23 And so, you know, it sounds like what we might be
24 proposing here is a new program or a new element to the
25 public school construction funding where we want to

1 establish an auditing function --

2 SENATOR LOWENTHAL: Or some oversight function.

3 We're not quite sure --

4 MR. ALMANZA: Right.

5 SENATOR LOWENTHAL: -- what the reasoning, why
6 things change, where we are, but I think originally that's
7 really what we wanted to do and now I think it --

8 MR. ALMANZA: Um-hmm.

9 MS. MOORE: And I think, however, it's very
10 important to state that this program has had what were
11 considered by school districts and were named by the Office
12 of Public School Construction audits.

13 So over the course of the last 12 years or since
14 we went to SB50, the districts were under the impression
15 that they were being audited and that they were -- it was an
16 iterative process with the Office of Public School
17 Construction that was asking for documentations. There were
18 spot checks.

19 There was all kinds of activity that went on
20 during that process and -- which ultimately resulted in
21 either again the State owing the school district funds or
22 the school district owing the State funds and there was a
23 check cut either way and the books were closed.

24 And I think it's important to note that, but
25 because of the amount of funds that have been expended and

1 are accountable I think in this program, it's important to
2 note that this function was going on.

3 Whether the semantics of it were it was an audit
4 or a desk review were now -- are now being raised and that I
5 think is appropriate as we move forward, you know, kind of
6 looking at that. But I would certainly not want to leave
7 ourselves or the public with a belief that there was not an
8 accountability component of the program that I think is very
9 important.

10 And I think our original work on the Subcommittee
11 was to look at how is that accountability going --

12 SENATOR LOWENTHAL: Right.

13 MS. MOORE: -- is it -- does it need improvement.
14 Does it need Board assistance. Those kinds of questions
15 were raised and I think they were raised because we were
16 advised that some changes were being made.

17 And so that was the -- I think the impetus for our
18 Subcommittee and we felt that we -- Senator Lowenthal and I
19 were here together with your predecessor and really I think
20 slogged through some very detailed information that a
21 working group spent a lot of time on.

22 And I think it's -- that a Board ultimately
23 adopted I think with one exception that they didn't adopt
24 all the recommendations of that Subcommittee.

25 So a lot of work went on, a lot of interest was

1 involved, and I think now that we know there's been a shift
2 of policy at the Department of General Services that we take
3 a look at that work and ensure once again that we have an
4 appropriate accountability structure for a very large bond
5 program.

6 And I am -- I think -- Senator, if you're ready to
7 make recommendations around that, I certainly am -- to move
8 this issue forward as well.

9 MR. ALMANZA: Yeah. Well, you know, I would
10 agree, but I think what's been in place is -- I mean there's
11 been accountability, but what's been in place is our
12 processes and procedures for administering the program and
13 distributing funds.

14 The accountability that I think you're talking
15 about would come from having a robust auditing program that
16 would require external audits, that check our procedures and
17 check our internal controls and on a random basis, check,
18 you know, the full administration of those funds at the
19 school district level as well.

20 So that's a function that I don't think has
21 existed in this program.

22 SENATOR LOWENTHAL: Right. Well, once -- you're
23 right. But I just want to say before you were here, once we
24 were setting up this, we really wanted to see whether it was
25 appropriate and how it was functioning. We understood that

1 that was going on, that's what it was called.

2 But during that process, there was a shift in
3 policy.

4 Now the question is where are we today. That may
5 be legitimate. We're not -- you know, but -- and where is
6 the Board and I would like to at least make some
7 recommendations now in terms of where we go from here and
8 one was to reconvene -- and I think with more transparency.
9 I think that's fine and the next level. I'm glad that the
10 Brown administration -- and I support it wholeheartedly --
11 wants to make sure that we're more accountable and more open
12 to public input and that, you know, our decisions are
13 discussed in a public venue.

14 I would like the working group -- the Assistant
15 Executive Officer to reconvene this working group to review
16 and make recommendations back to this Subcommittee before we
17 go back to the Board, one, to clarify some things whether it
18 was -- we know that whether it was the intent of the working
19 group to recommend that an independent entity conduct both
20 the desk review and the site visit.

21 If we're going to be where we are now, this is the
22 situation that we are, should we have OPSC doing this, even
23 the desk review part or the review or should we have some
24 kind of independent entity if we're going to do this lesser
25 amount of -- that's the first thing, at least doing that.

1 We just need a recommendation back because they
2 recommended that we have an independent review of the audit.
3 Well, since we're not doing that and this is what we are
4 doing, I think it's appropriate that they at least address
5 this issue about who should do this desk review and site
6 visit components, whatever they're called.

7 And if they're not conducting audits and doing
8 conducting, what changes in their recommendations would they
9 make back to us in terms of the effectiveness of the program
10 and really we need some recommendation back whether it's to
11 follow up. Should we do periodic audits? Is this enough.
12 Is this sufficient. Is that -- what we're doing, is this
13 sufficient for the oversight of this -- of a large bond
14 program by just doing desk reviews and site visits and
15 not -- and I think compliance reviews, what they call it,
16 and desk reviews.

17 Is that sufficient to ensure accountability for
18 the use of State funds or should we have something else in
19 place.

20 I'd like to have the working group reconvene. I'd
21 like OPSC to return to the Audit Subcommittee in May with an
22 analysis of what are these costs of doing periodic or doing
23 an audit.

24 We don't know what happened, why we've changed
25 this policy and I would like to hear from OPSC more -- an

1 analysis of what are the costs of conducting audits by an
2 independent entity versus the costs of just doing desk --
3 OPSC desk reviews.

4 And how do we solve the issue of audit
5 independence also with the process that we're doing now.

6 And we should kind of take a grasp of what our
7 current OPSC staffing levels are and what are the costs for
8 audits versus desk review services because we're making
9 decisions -- policy decisions and the Board is not I don't
10 think aware of what the cost implications are of making
11 those policy decisions.

12 It may be totally appropriate give the -- but we
13 need to discuss that as a Board. That's our role.

14 And also I'd like to see the Assistant Executive
15 Officer request that a representative of the Controller's
16 Office attend our next Audit Subcommittee to discuss and
17 maybe just for us in more depth what auditing services could
18 be provided or what couldn't be and what those costs might
19 be and what some of the issues -- are we really looking at
20 issues and that should be addressed in the transparency of a
21 large -- because we're making decisions now by our -- by not
22 even -- by our inaction or not doing audits -- maybe
23 appropriately -- and I just want to make sure that we're
24 acting in a fiscally responsible way.

25 MR. ALMANZA: I just have a comment. The scope

1 of, you know, what you just described for the Audit Work
2 Group is exactly what an independent auditor would be asked
3 to do if we wanted to do a program review of internal
4 controls and procedures of a program.

5 So if we think that's beneficial then, you know,
6 we should go out and get an independent -- contract for an
7 independent program audit review and -- so it's truly
8 independent. You know, I think the Audit Work Group has
9 folks on it who would be the subject of audits.

10 SENATOR LOWENTHAL: I'm not sure if we're ready
11 to -- maybe that's a good discussion to do that, to take
12 that to the next step. We're just trying to get some
13 recommendations back.

14 MS. MOORE: I'm supportive of the working group
15 kind of bringing their work back to the completion. I mean
16 we had recommendations. Those recommendations were vetted
17 here at the Subcommittee level and then they were adopted by
18 the State Allocation Board.

19 And as I understand our role in today's hearing
20 and in the future was to just kind of see where the status
21 was and as the status I think has changed -- shifted from
22 this external audit issue to desk reviews that it is
23 appropriate to ask that working committee to complete that
24 round I think of work.

25 And then if we really want to look after that

1 period of time at an external program review, I'm open to
2 that type of suggestion.

3 I'm under the understanding that an external
4 program review already occurred and that it was done through
5 I believe the Department of Finance's -- Chris, help me
6 their group?

7 MS. GARRITY: Audits and evaluation.

8 MS. MOORE: -- audits and evaluations in which
9 some of this work began, that that then came forward to this
10 group.

11 So I think that program review has occurred.
12 There were recommendations. I think that the staff was
13 working with those recommendations and the Subcommittee was
14 responding to the work with those recommendations and
15 perhaps we can wrap those all up with a bow and bring
16 them -- you know, bring them into this final place I guess
17 that we are now with the accountability portion of our
18 program which we believe is very important.

19 So particularly too as we move forward into any
20 potential new bond program, we certainly want to be able to
21 advise the public, the school districts, ourselves that our
22 funds were expended accordingly and well.

23 And so I would support the working group
24 reconvening and providing some recommendations back to the
25 Board and if we need to move in a different direction or a

1 program review direction after that, I'm open to that
2 possibility.

3 MR. ALMANZA: Or we could focus implementing the
4 recommendations of prior program reviews and even the --
5 some of the recommendations of what this work group has
6 already provided.

7 We're not conducting audits, so we have time to
8 conduct additional hearings to further develop what an audit
9 program should look like.

10 SENATOR LOWENTHAL: Well, I've made a series of
11 recommendations. Do we need a motion on those to -- is that
12 the way -- or can I just direct to the -- either to Bill or
13 to Lisa?

14 MS. MOORE: Well, I'll remind us in our last
15 meetings that we did make motions and recommendations and
16 votes. That's how we conducted ourselves prior times and
17 perhaps that's what we need to do. That's what I would
18 recommend we do today as well.

19 SENATOR LOWENTHAL: So whether we do change -- my
20 first preference would be -- my preference would be to
21 reconvene the Audit Working Group and to request that they
22 make recommendations back to us about whether an independent
23 entity can do now these -- both the desk reviews and site
24 visit components as they talked about when we were doing an
25 audit.

1 Do any of these changes, since we're not
2 performing audits but are conducting desk reviews,
3 compliance reviews, does that change any of their other
4 recommendations. If so, what would be their amended
5 recommendations and is what we're doing now going to assure
6 the public the accountability for the use of State funds and
7 we need something back to us.

8 We may decide then, Esteban, to go further after
9 our next hearing to really have someone come in and do it,
10 but I would prefer just -- since we've seen this policy
11 shift, they have responded based upon a different set of
12 policies in place that I at least want them to come back and
13 to kind of respond to this shift and then we can see where
14 we go from there, is what I would prefer.

15 MS. MOORE: I can -- I second that.

16 SENATOR LOWENTHAL: And we also return in May with
17 an analysis from OPSC also. That's the working group. The
18 other one would be the recommendation to -- well, let's just
19 do that one and then I'm going to ask the OPSC. Let's just
20 talk about the working group. That's what I recommend for
21 the working group.

22 With that, we'll call the roll.

23 MS. JONES: Okay. Lowenthal.

24 SENATOR LOWENTHAL: Aye.

25 MS. JONES: Almanza.

1 MR. ALMANZA: No.

2 MS. JONES: Moore.

3 MS. MOORE: Aye.

4 MS. JONES: It carries.

5 SENATOR LOWENTHAL: That passes with a two to one
6 vote.

7 MS. JONES: Yes.

8 SENATOR LOWENTHAL: And then I make a
9 recommendation that OPSC return in May with an analysis of
10 the costs of conducting audits by an independent entity
11 versus the costs of doing what they're doing right now, the
12 OPSC desk reviews, while also solving the issue of audit
13 independence and how we deal with that.

14 The analysis should include what their current
15 staffing levels are and the costs for both audit and desk
16 review services. We'd like to know what these costs are and
17 to understand why this shift took place and really what's
18 taken place.

19 And so that's another one to have OPSC to kind of
20 fill us in on where -- what actions and what the cost
21 implications of these actions are in terms of existing
22 resources now versus what would have been if they really had
23 followed through and done an independent audit.

24 We just don't have any idea why this shift took
25 place.

1 MR. SAVIDGE: Senator, could -- I'd recommend
2 actually that we --

3 MS. SILVERMAN: Yeah, Bill and I were just having
4 a discussion.

5 MR. SAVIDGE: Rather than use the May deadline, if
6 you could say June. Might give them enough -- a little more
7 time --

8 SENATOR LOWENTHAL: June is fine. June is fine.

9 MR. SAVIDGE: -- to get a review today.

10 SENATOR LOWENTHAL: It's fine. Let's move it to
11 June to get a full report on back to the Board actually
12 about what took place, what the cost implications are.

13 MS. MOORE: And this would be the discussions that
14 went on with -- was it the Controller that -- who did -- who
15 was it that we decided --

16 MS. SILVERMAN: Yes. We had discussions with the
17 Controller.

18 MS. MOORE: Okay. So the costs from the
19 Controller, that external audit function? Okay.

20 MR. ALMANZA: So this would be a report on what
21 the costs of an auditing program --

22 SENATOR LOWENTHAL: Yeah. We asked --

23 MR. ALMANZA: -- might be?

24 SENATOR LOWENTHAL: -- them to do that originally
25 and they were going to -- we thought we were moving in that

1 direction. Now they've changed that direction. It'd be
2 nice for the Board to understand more fully just what the
3 costs are --

4 MR. ALMANZA: Sure.

5 SENATOR LOWENTHAL: -- why we did that, what --
6 given the existing staffing, what that would have cost,
7 what's going on so we can understand what these actions are.

8 MR. ALMANZA: Okay.

9 MS. SILVERMAN: So --

10 SENATOR LOWENTHAL: I --

11 MS. SILVERMAN: Can I clarify? Is that going back
12 to the Board or coming back to the Audit Subcommittee?

13 SENATOR LOWENTHAL: I think back to the Audit
14 Subcommittee first.

15 MS. SILVERMAN: Okay.

16 SENATOR LOWENTHAL: We're really -- we don't have
17 to make that back to the Board. We may choose in our report
18 to get -- obviously to get back to -- but I think we're the
19 ones that are trying to understand this and I think it
20 should come back to the Audit Subcommittee.

21 I make recommendation that by June that you give
22 us a report back and I make that as a motion.

23 MS. MOORE: Second.

24 SENATOR LOWENTHAL: Please call the roll.

25 MS. JONES: Okay. Lowenthal.

1 SENATOR LOWENTHAL: Aye.

2 MS. JONES: Almanza.

3 MR. ALMANZA: Aye.

4 MS. JONES: Moore.

5 MS. MOORE: Aye.

6 MS. JONES: That carries.

7 SENATOR LOWENTHAL: And that passes. And also at
8 that next -- it would be nice to invite the Controller to
9 the next Audit Subcommittee to get a fuller discussion
10 because he was asked to discuss what this would take place,
11 just for him to fill us in on -- or a representative of the
12 Controller's Office to discuss the auditing services, what
13 we would get. Just for us to understand more.

14 And I make that as a recommendation to invite -- I
15 don't know if we need that -- to invite a representative
16 from the Controller's Office.

17 MR. SAVIDGE: We can follow up on that.

18 MS. MOORE: Just for clarity on two. So that was
19 just a recommendation. We don't need to vote on that.

20 SENATOR LOWENTHAL: I don't -- I think -- I don't
21 think we need to vote to invite someone to our hearing. I
22 just would like to -- again since we're meeting, we thought
23 we were going to go down that direction. We're not. It'd
24 be just nice to hear from the Controller's Office for our
25 own edification the differences between what they would

1 provide and what we're getting now and just what those costs
2 are. I think it would be just very helpful for us.

3 MS. MOORE: Can I just clarify on our second
4 motion just so we're all -- this is how I understood it, the
5 second recommendation is that the cost of the current desk
6 review program --

7 SENATOR LOWENTHAL: Right.

8 MS. MOORE: -- the cost of an OPSC administered
9 audit program and the cost of an external audit program. Is
10 that your thinking?

11 SENATOR LOWENTHAL: Yeah. I would like to know
12 since those decisions -- decisions were made based upon
13 assumptions about those --

14 MS. MOORE: Right.

15 SENATOR LOWENTHAL: It'd be nice for us to
16 understand more fully. That's all -- and that's what we
17 voted on.

18 MS. MOORE: So those three areas?

19 SENATOR LOWENTHAL: Just for those three areas.

20 MS. MOORE: Okay. So is that clear? I mean is
21 that --

22 MS. SILVERMAN: My understanding is you want to
23 know the costs of what an independent review or audits being
24 conducted outside OPSC --

25 SENATOR LOWENTHAL: Right.

1 MS. SILVERMAN: -- and the second is what's the
2 staffing for the current review program.

3 MS. MOORE: Yeah. I --

4 MS. SILVERMAN: Yes. Right.

5 MS. MOORE: -- the costs of the current review
6 program, the costs of an external audit program I think is
7 what -- I think at the time Scott Harvey indicated to the
8 Board that they were looking at an external audit program
9 and the last I heard were in preliminary discussions around
10 that. So the cost of what that program was and then I
11 guess -- and I don't know, maybe this is -- this is why I
12 was asking the clarifying question -- whether we're asking
13 staff to indicate what an internal audit program would cost
14 or whether that's more off the table.

15 I do know that the recommendation to the State
16 Allocation Board was for audits to be done externally.

17 SENATOR LOWENTHAL: Right.

18 MS. MOORE: And that -- so I guess asking that
19 question, what that cost is, and then asking the cost of
20 what the current function that OPSC is performing already
21 for desk reviews.

22 MR. ALMANZA: Okay. But the desk reviews are not
23 audits.

24 SENATOR LOWENTHAL: Right. No, they're not.
25 We're just understanding what the financial -- but they're

1 not audits.

2 MR. ALMANZA: Part of the normal process of
3 administering the program.

4 SENATOR LOWENTHAL: But we're now -- the concern
5 though is that -- that is true. What are we gaining and
6 what are we losing by doing that -- just by doing -- not
7 doing audits.

8 You know, and so we -- part of it is what are the
9 costs involved and that's really -- later on when we hear
10 from the Controller or the representative, we'll get a
11 better picture of what we're not gaining or are by just
12 doing the desk reviews and the compliance.

13 But you're right. We are not doing audits now.
14 We are doing compliance reviews and desk reviews. And we're
15 just looking at what those costs are -- how much it costs.

16 MS. MOORE: There was also -- I mean as I
17 recollect, was it two years ago or a year and a half ago
18 that through the budgetary process, OPSC had seven
19 additional staff members that went through the budgetary
20 process and I don't know if they were called auditors or --
21 but they were for that function -- they were for the
22 accountability function of the program.

23 Is that -- were they auditors or --

24 MS. SILVERMAN: They're classified as civil
25 service state auditors.

1 MS. MOORE: They are.

2 MS. SILVERMAN: So -- they are classified as civil
3 service state auditors.

4 MS. MOORE: Okay. So maybe as a component of the
5 report that we have a disposition of those positions and how
6 do they function within the review program as well.

7 SENATOR LOWENTHAL: Good. I think that's
8 sufficient. We done -- we passed two motions. The other
9 one is just inviting. We don't need a motion to do that.

10 So if there's any other comment, I think we -- and
11 we've listened to the public. I look forward to our next
12 hearing. This meeting is adjourned.

13 (Whereupon, at 4:28 p.m. the proceedings were recessed.)

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