



January 25, 2010

Ms. Stacey Aldrich, Acting State Librarian  
California State Library  
P.O. Box 942837  
Sacramento, CA 94237-0001

Dear Ms. Aldrich:

**Final Report—City of Newport Beach, California State Library Grant Audit**

The Department of Finance, Office of State Audits and Evaluations (Finance), has completed its audit of the City of Newport Beach's (City) Library Construction Grant Agreement 1038 for the period July 1, 2005 through October 10, 2006.

The City's response to the report observation is incorporated into this final report. The City agreed with our observation and we appreciate its willingness to implement corrective action. The observation in our report is intended to assist management in improving the effectiveness and efficiency of its operations.

In accordance with Finance's policy of increased transparency, 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.

We appreciate the assistance and cooperation of the City. If you have any questions regarding this report, please contact Frances Parmelee, Manager, or Rich Hebert, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

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

Enclosure

cc: On following page

cc: Mr. Homer Bludau, City Manager, City of Newport Beach  
Ms. Jamie Pollard, Finance and Administrative Manager, City of Newport Beach  
Mr. Dan Matusiewicz, Finance Officer, City of Newport Beach  
Mr. Curtis Purnell, Bond Fiscal Officer, California State Library

# A GRANT AUDIT

---

## City of Newport Beach Mariners Branch Library Grant Agreement 1038



Source: City of Newport Beach Public Works Department

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

096120190

November 2009

---

## **MEMBERS OF THE TEAM**

Frances Parmelee, CPA  
Manager

Rich Hebert  
Supervisor

Staff  
Issa Ndiaye

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

---

Background, Scope, and Methodology.....	1
Results.....	3
Response.....	4

# BACKGROUND, SCOPE, AND METHODOLOGY

---

## **BACKGROUND**

In March 2000, California voters approved the California Reading and Literacy Improvement and Public Library Construction and Renovation Bond Act (Proposition 14), which authorized the State of California to sell \$350 million in general obligation bonds to support public library construction and renovation. The California State Library, Office of Library Construction (OLC), administered this program during the application review and approval phases, and awarded 45 projects totaling \$334 million.

In 2006, the OLC was reorganized as the Bond Administration Office (BAO), which now administers the program. The BAO authorizes the disbursement of bond proceeds to local agencies via grants, and these agencies expend the funds on approved projects. Program requirements are codified in Title 5 and Title 24 of the California Code of Regulations.

The OLC awarded the City of Newport Beach (City) a \$3.2 million Proposition 14 grant, which represents 65 percent of the budgeted amount to fund construction of the Newport Beach Mariners Branch Library. The project, completed in April 2006, has replaced the existing Mariners Branch with a new 15,000 square foot library.

## **SCOPE**

In accordance with an interagency agreement, the Department of Finance, Office of State Audits and Evaluations, conducted a compliance audit of grant agreement 1038 for the period July 1, 2005 to October 10, 2006.

The audit objective was to determine whether the City's grant expenditures were in compliance with applicable laws, regulations, and grant requirements. In order to design adequate procedures to evaluate fiscal compliance, we obtained an understanding of the relevant internal controls. We did not assess the efficiency or effectiveness of program operations.

The City is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements. The California State Library is responsible for evaluating the efficiency and effectiveness of program operations.

## **METHODOLOGY**

To determine whether grant expenditures were in compliance with applicable laws, regulations, and grant requirements, we performed the following procedures:

- Interviewed key personnel to obtain an understanding of the grant-related internal controls.
- Examined applicable laws, policies, procedures, and grant files maintained by the BAO.
- Reviewed the City's accounting records, vendor invoices, pay warrants, and bank statements.

- Selected a sample of expenditures to determine if claimed costs were allowable, grant-related, incurred within the grant period, supported by accounting records, and properly recorded.
- Performed procedures to determine if other revenue sources were used to reimburse expenditures already reimbursed with grant funds.
- Conducted a site visit to verify project existence.

The results of our audit are based on our review of documentation, other information made available to us, and interviews with City staff directly responsible for administering the bond funds. The audit was conducted from May 2009 through November 2009.

This audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our observations and recommendations based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our observations and recommendations.

Except as noted below, the City of Newport Beach's (City) expenditures were in compliance with applicable laws, regulations, and the grant requirements. The City, which was required to provide matching funds equal to 35 percent of eligible expenditures, met the matching funds requirement. The claimed, audited, and questioned amounts are presented in Table 1.

**Table 1: Schedule of Claimed, Audited, and Questioned Amounts**

<b>Grant Agreement 1038</b>			
<b>For the Period July 1, 2005 through October 10, 2006</b>			
<b>Expenditures</b>	<b>Claimed</b>	<b>Audited</b>	<b>Questioned</b>
New Construction	\$ 1,682,669	\$ 1,682,669	\$ 0
Furnishing and Equipment Costs	249,577	249,577	0
Architectural and Engineering Fees	21,944	21,944	0
<b>Total</b>	<b>\$ 1,954,190</b>	<b>\$ 1,954,190</b>	<b>\$ 0</b>

**Observation 1: Inadequate Controls Exist over Claimed Costs**

Control procedures are not followed to ensure reimbursement requests are adequately reviewed for eligibility prior to submission to the Bond Administration Office (BAO). The City claimed \$1,100 in ineligible architectural and engineering fees, of which \$715 was reimbursed to the City (35 percent retention was withheld from the claimed amount). While the amount was immaterial and we are not questioning the costs, this control weakness is a recurring finding previously reported in our April 2006 interim audit.

The grant agreement requires reimbursement requests only for eligible project costs. During our review, the City substituted other eligible expenditures to offset the ineligible costs.

**Recommendation:**

Review all reimbursement claims for eligibility prior to BAO submission.





# CITY OF NEWPORT BEACH

## ADMINISTRATIVE SERVICES

Dennis Danner, Director/Treasurer

December 22, 2009

Department of Finance  
Office of State Audits and Evaluations  
300 Capitol Mall, Suite 801  
Sacramento, CA 95814

To Whom It May Concern:

We are in receipt of the Draft Report-City of Newport Beach, California State Library Grant Audit for the period July 1, 2005 to October 10, 2006. The City concurs with the State's finding concerning the erroneous inclusion of certain unallowable costs in progress billings. Although the ineligible amounts were immaterial, the City will provide additional scrutiny to amounts billed to prevent ineligible costs from being included in future grant billings.

We look forward to receipt of the Final Report. If you have any questions, please feel free to contact me at [DanM@newportbeachca.gov](mailto:DanM@newportbeachca.gov) or 949-644-3126.

Sincerely,

Original signed by:

**Dan Matusiewicz**  
Finance Officer

cc: Public Works Director