



Transmitted via e-mail

November 2, 2011

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

Dear Ms. Aldrich:

Final Report—Audit of California Cultural and Historical Endowment's Proposition 40 Bond Funds

In accordance with our bond oversight responsibilities, the Department of Finance, Office of State Audits and Evaluations, has completed its audit of the California Cultural and Historical Endowment's (CCHE) Proposition 40 bond funds.

The enclosed report is for your information and use. The California State Library's (Library) response to the report observations and our evaluation of the response are incorporated into this final report. This report will be placed on our website.

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 the Library and CCHE. If you have any questions regarding this report, please contact Diana Antony, Manager, or Beliz Chappuie, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

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

Enclosure

cc: Ms. Debbie Newton, Chief, Administrative Services Bureau, California State Library
Ms. Mimi Morris, Executive Officer, California Cultural and Historical Endowment
Ms. Francelle Phillips, Program Manager, California Cultural and Historical Endowment
Ms. Lynnda Fair, Officer Coordinator, California Cultural and Historical Endowment
Mr. Patrick Kemp, Assistant Secretary, Administration and Finance, Natural Resources Agency
Mr. Bryan Cash, Deputy Assistant Secretary, Natural Resources Agency
Ms. Julie Alvis, Deputy Assistant Secretary, Natural Resources Agency

AN AUDIT OF BOND FUNDS
California State Library
California Cultural and Historical Endowment
Proposition 40



Source: Detention Barracks, Angel Island Site Visit

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

MEMBERS OF THE TEAM

Diana Antony, CPA
Manager

Beliz Chappuie, CPA
Supervisor

Staff

Michael Barr
Veronica Green
Mary Halterman
Lorena Romero
Patty Roth

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

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EXECUTIVE SUMMARY

In accordance with the Department of Finance's (Finance) bond oversight responsibilities, we audited the California Cultural and Historical Endowment's (CCHE) Proposition 40 funding. The audit objectives were to determine if (1) bond funds are awarded and expended in compliance with applicable legal requirements and established criteria, and (2) adequate monitoring processes are in place to ensure projects are within scope and cost.

In general, CCHE awarded funds in compliance with applicable legal requirements and established criteria. CCHE established several key accountability processes, including comprehensive grant guidelines, a competitive awarding process, and developed a database to track and monitor their projects.

To further build on these controls, we noted the following observations:

- CCHE did not consistently adhere to the established application scoring procedures and did not document funding decisions for three projects. The three projects were awarded a total of \$2,573,024 during Round 1 awards. Additionally, in some cases, it was unclear what financial analysis was performed to support assigned financial capacity scores.
- Project monitoring needs improvement. We noted nine projects reimbursed for unallowable or unsupported expenditures, or with unsupported match contributions. Additionally, for four projects, deliverables were not met or were inconsistent with the project scope. It is our understanding CCHE is currently working with the specific grantees to remedy several of the noted items.
- Planning grants may not result in a capital project. Currently, there are 24 planning grants totaling \$2,926,166 that have not secured funding to complete the final project. When awarding planning grants, CCHE did not assess the grantee's financial capacity to complete the project beyond the planning phase.
- Facility costs allocated to bond funds were not equitable or properly supported. The California State Library overcharged approximately \$54,500 in facility costs to CCHE bond funds. The allocated cost was not proportionate to the space occupied by CCHE during fiscal year 2009-10.

The recommendations in this report are intended to assist management in improving operations and accountability for bond funds. CCHE should develop a corrective action plan to address the report's observations and recommendations.

BACKGROUND, SCOPE, AND METHODOLOGY

BACKGROUND

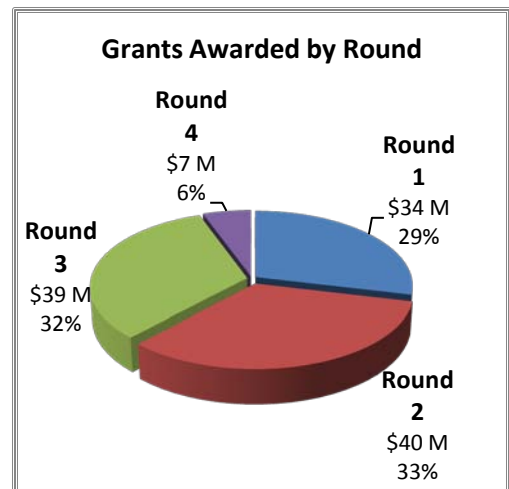
The California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002 (Proposition 40) authorized \$2.6 billion in general obligation bonds to fund acquisition, restoration, preservation, and interpretation of California's historical and cultural resources.

Administered by a number of state departments, agencies, boards, and conservancies, the bond proceeds support a broad range of programs that protect, preserve, and improve California's water and air quality, open space, public parks, wildlife habitats, and historical and cultural resources. Bond proceeds are expended directly by the administering departments on various capital outlay projects and are disbursed to federal, state, local, and nonprofit entities in the form of grants, contracts, and loans.

California Cultural and Historical Endowment

Education Code section 20053 established the California Cultural and Historical Endowment (CCHE) within the California State Library (Library) in 2003. The purpose of CCHE is to increase the state's commitment to cultural and historic preservation. As of January 2011, CCHE awarded 169 Proposition 40 grants totaling \$120 million on a competitive basis to government entities, non-profit organizations, and Indian tribal organizations. Grants were awarded over four rounds between 2004 and 2009. See Figure 1 for funds awarded by round. Projects funded included acquisition, restoration, preservation, and interpretation of resources, primarily for museums, historical structures, and art, cultural, and education centers.

Figure 1: Funds Awarded as of January 2011

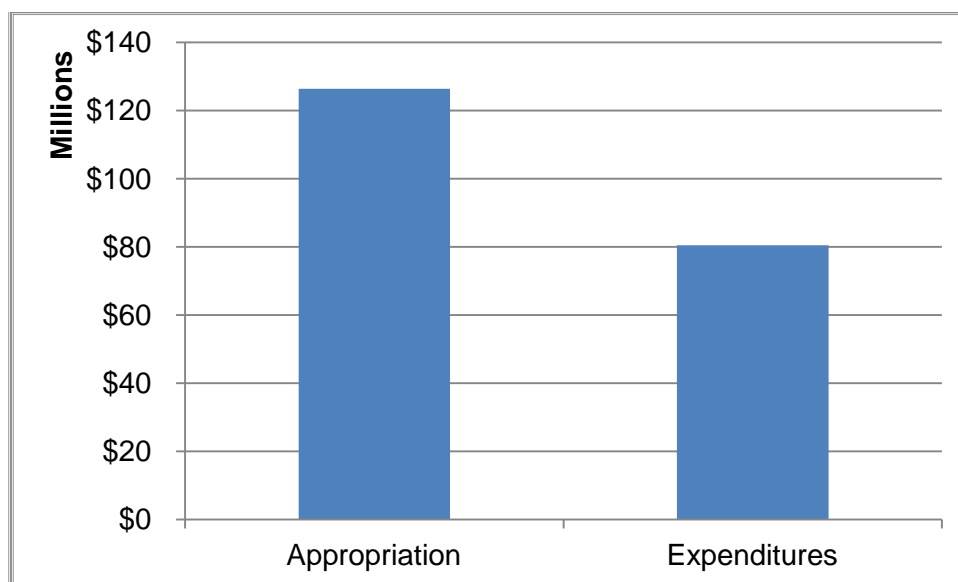


Source: CCHE's project database.

A board of ten voting members and four non-voting legislative representatives (two senators and two assembly members) governs CCHE. The members include the State Librarian, Secretary of the Natural Resources Agency, Director of Finance, and members appointed by the Governor and the Legislature. CCHE currently consists of six staff: an executive officer, a program manager, three project managers, and an office coordinator.

Bond funds have been CCHE's only funding source since inception in fiscal year 2003-04. As of June 30, 2010, CCHE was appropriated \$126.4 million and has expended \$80.5 million as shown in Figure 2. CCHE has fully committed the remaining funds and plans to expend all Proposition 40 funds by June 30, 2015.

Figure 2: Proposition 40 Appropriation and Expenditures as of June 30, 2010



Source: Budget Acts and accounting records.

SCOPE

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

The audit focused on four phases of the grant life cycle—pre-award, award, interim monitoring, and closeout. A limited review of the post-close monitoring phase was conducted to determine if processes were in place. The audit also focused on projects awarded in Rounds 1 through 3 because they represented over 90 percent of awards and there were minimal expenditures for Round 4 projects. The audit period included transactions and controls from program inception through January 2011.

The audit did not include an assessment of the bond authorization, issuance, and sale processes, or an examination of the efficiency or effectiveness of program operations.

METHODOLOGY

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

- Reviewed applicable bond acts, CCHE’s grant management policies and procedures, and other legal provisions and regulations.
- Interviewed key personnel responsible for administering bond funds to obtain an understanding of how CCHE oversees various project stages: pre-award, award, interim monitoring, close out, and post-close monitoring.

- Reviewed 29 grants totaling \$30.2 million and conducted site visits or desk reviews to determine if the projects stayed within scope and cost, and that grant expenditures were allowable and supported (see Appendices A, B, and C for Summary of Grants Reviewed and Questioned Costs, Criteria For Evaluating Grant Management, and Results of Grantee Reviews, respectively).
- Identified and assessed CCHE's project tracking and monitoring methods.
- Reviewed information reported on the Proposition 40/50 Awards website¹ to determine completeness and accuracy of reported project status.
- Reviewed a sample of expenditures and encumbrances to verify accuracy of recorded and reported financial information.
- Reviewed administrative expenditures charged to bond funds for reasonableness.

We held multiple discussions with CCHE and Library staff throughout our audit to discuss and understand specific project review details. Recommendations were developed based on review of documentation and interviews with CCHE, Library, and grantee staff. This audit was conducted during the period February 2011 through September 2011.

Except as noted, this audit was conducted in accordance with generally accepted 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 CCHE, 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.

¹ Proposition 40/50 Awards website address is <http://4050bonds.resources.ca.gov/> .

The California Cultural and Historical Endowment (CCHE) awarded funds in compliance with applicable legal requirements and established criteria. CCHE established several key accountability processes, including comprehensive grant guidelines, a competitive awarding process, and a database to track and monitor projects. Additionally, after each round of awards, CCHE continuously improved and updated its established guidelines and procedures.

To further improve bond accountability, we noted the following observations and recommendations:

Observation 1: Awarding Process For Three Projects Was Inconsistent and Undocumented

As noted above, CCHE established several key awarding procedures; however, in some cases the process was not implemented as intended.

- Based on our review of 29 projects, the 3 projects listed below did not receive a passing application score of 70 percent. CCHE could not demonstrate how the projects met the established awarding criteria and the project files lacked documentation. All 3 projects were Round 1 awards. Further, CCHE did not complete the required cultural status survey, which may have provided an additional basis for high priority projects.¹

Round 1 Projects Awarded Without a Passing Score

<u>Project Name</u>	<u>Amount</u>	<u>Score</u>
Brava! For Women in the Arts	\$1,338,024	51%
Breed Street Shul Project, Inc.	235,000	66%
Go For Broke Educational Foundation	1,000,000	unknown
Total	<u>\$2,573,024</u>	

- Based on a review of project files, CCHE did not document its analysis of the applicant's financial capacity to complete the project. For example, the Fresno Metropolitan Museum of Art and Science's financial information indicated significant cash balance fluctuations and unspecified revenue sources. The grantee scored 17 out of 20 points for project sustainability and was awarded \$2.5 million (see Appendix C, C-16). In January 2010, the grantee became financially insolvent resulting in the Museum's closure and liquidation. We did not have access to the grantee's records due to liquidation; however, we noted the media in 2010 reported significant cost overruns and indicated the project lacked a comprehensive renovation study to determine the full scope and cost to renovate the 1920s building. CCHE's grant guidelines require

¹ Education Code sections 20080-20082 require CCHE to complete a comprehensive survey of the state of cultural and historical preservation, accessibility, and interpretation in California and report to the Governor and Legislature by November 1, 2005; however, the survey was not completed. Recently, CCHE requested and was appropriated \$300,000 for fiscal years 2010-11 and 2011-12 to complete the survey. The results of the survey are expected to produce information and recommendations on how the state should preserve its historical and cultural resources.

applicants to provide three years of financial information to demonstrate financial sustainability. Applicants must demonstrate their ability to complete the project and maintain operations for a 20-year period. See Observation 3 regarding planning grants at risk.

Recommendations

- A. Follow and document the established project scoring and awarding process for each application.
- B. Review and document all applicants' financial capacity. Request documentation to validate significant funding commitments, including copies of independent audit reports, which may indicate if the entity has going concern issues.

Observation 2: Project Monitoring Needs Improvement

Based on a review of 29 grants (see Appendix A), the following areas for improvement were noted:

- *Claimed expenditures and match were not adequately supported for nine projects.* For example, Brava! For Women in the Arts (see Appendix C, C-3) was reimbursed \$112,105 for ineligible and unsupported expenditures, and claimed \$632,370 in ineligible or unsupported match. The reimbursement claims did not provide the required source documentation as noted in the text box. Additionally, performing a comparison between consecutive claims, CCHE could have identified \$41,779 in double billed expenditures. Further, the Cesar E. Chavez Foundation claimed \$1,497,000 in match derived from donated property; however, the appraisal for the donated property included additional acres and buildings that were not part of the funded project (see Appendix C, C-6).
- *Project status reports were not consistently submitted.* Specifically, 11 of 29 projects reviewed did not submit all of the required quarterly progress reports. Two of these grantees were brought before the board for non-compliance with reporting requirements. Because CCHE does not perform site visits, progress reports are critical in determining whether the project is remaining within scope and cost.
- *Deliverables were not fully met for four projects.* The following 4 of 29 projects reviewed did not complete all deliverables required by the grant agreement or did not meet the terms specified in the grant agreement:
 - The Cesar E. Chavez Foundation completed the restoration of the Learning Institute building; however, it is unclear how the use of the restored building is fully meeting the grant objectives. Specifically, the grant agreement stated the building would contain an exhibit hall, a library, a conference and retreat center, and meeting rooms and staff offices. Based on our site visit, there is no library and exhibits were limited to pictures without a history of Cesar Chavez and California farm workers (see Appendix C, C-6). Despite this, the

CCHE Information Required for Reimbursement

- A summary page with amount claimed, retention, and amount requested for payment.
- A spreadsheet by budget line item showing grant and matching expenditures claimed.
- A narrative by budget line item showing vendors paid, invoice numbers and dates, check numbers and dates, description, and whether expenditures are to be reimbursed by CCHE or if they are being claimed as part of the matching requirement.

retention was released and the project was closed. According to CCHE, the grantee is currently in the process of cataloging and stocking the library and developing additional photos and art exhibits.

- As previously noted, the Fresno Metropolitan Museum of Art and Science became financially insolvent and liquidated in January 2010. The museum is not in operation to meet the 20-year public access requirement as stated in the grant agreement (see Appendix C, C-16). CCHE did not pursue collection of the \$2.5 million spent on the project.
- The Unity Council met 50 percent of the deliverables prior to the project being terminated due to insufficient matching funds (see Appendix C, C-24); however, the grantee was reimbursed for 90 percent of the award.
- COPIA: The American Center for Wine, Food, and the Arts went bankrupt and did not complete the project after spending \$41,850 (42 percent) of the grant amount (see Appendix C, C-29). CCHE did not pursue collection of the expended funds.

Because CCHE requires applicants to operate and provide public access to the project for up to 20 years, long-term monitoring and record retention is important. However, based on available funding, CCHE is scheduled to sunset by June 30, 2015 and as of our audit, CCHE did not have a formal succession plan.

Recommendations

- A. CCHE will make the final determination on whether to recover or offset the questioned costs noted in Appendix A against any future reimbursement claims.
- B. Ensure grantees submit reimbursement claims with the required information as described in the text box on page 6.
- C. Ensure grantees complete and submit required quarterly progress reports. Perform site visits of high-risk grantees to ensure projects are on track.
- D. Release retention and close projects only after the grantee has completed all grant deliverables.
- E. Develop a succession plan to address post-program items, including long-term monitoring and record retention.

Observation 3: Planning Grants May Not Result in Completed Capital Projects

CCHE awarded 24 planning grants totaling \$2,926,166 during Rounds 2 and 3 for which match funds have not been secured to complete the final project. During the application process, CCHE did not review the applicants' plans or financial capacity to complete the project beyond the planning phase. Further, of the 24 planning grants, 13 were closed during 2008 and 2009. Because building codes change over time and plans become obsolete, the plans would need to be updated at an additional cost prior to construction.

For example, the Capital Unity Council (Council) received a Round 1 grant to develop building construction plans and a Round 3 grant for construction costs (see Appendix C, C-5 and C-26). The Division of the State Architect approved their construction plans in June 2008. The construction plans are valid for four years; however, if they are not under construction by June 2012, the plans will need to be updated and resubmitted for approval.

Currently, the Council has not started construction because they are still trying to secure matching funds to meet Round 3 grant requirements. Additionally, the Council stated it only has enough funding to remain in business through October 2011 and may not be able to complete the project.

Recommendation

Prior to awarding planning grants, assess the grantee's financial capacity to complete the capital project beyond the planning phase.

Observation 4: Support Costs Allocated to Bond Funds Were Not Equitable or Supported

The Library charged \$54,500 of unsupported facilities costs to CCHE's bond funds during fiscal year 2009-10 based on an unsupported cost allocation plan (CAP) and disproportionate to the space occupied by CCHE. The Library completed a major relocation during fiscal year 2008-09 and completed a new CAP during fiscal year 2009-10 based on space used by each program housed in the 900 N Street building. The Library claims the new CAP for facilities costs was effective beginning fiscal year 2010-11 and has not credited the bond funds for fiscal year 2009-10.

The State Administrative Manual (SAM) Chapter 9200 requires costs to be allocated according to the most equitable basis practical, and the cost allocation process should consider the timeliness of cost data in addition to consistency, accuracy, and auditability of costs. The same chapter also requires departments to document the allocation methodology in a cost allocation plan, including the cost basis rationale, anticipated changes to the base, and how often the base will be evaluated to determine its continued accuracy.

Recommendations

The Library should:

- A. Credit CCHE bond funds for all administrative cost overcharges.
- B. Allocate administrative costs in accordance with SAM.
- C. Inform CCHE of any changes to its share of distributed costs.

Summary of Grants Reviewed and Questioned Costs

Grant Ref #	Grantee Name	Grant Amount	Claimed Amount ¹	Questioned Amount	Questioned Match	Appendix C Page #
R1-01	Angel Island Immigration Station Foundation	\$3,000,000	\$286,679	\$0	\$0	C-1
R1-05	Bishop Museum & Historical Society	111,595	80,625	4,765	15,849	C-2
R1-06	Brava! For Women in the Arts	1,338,024	1,199,360	112,105	632,370	C-3
R1-07	Breed Street Shul Project, Inc.	235,000	235,000	0	0	C-4
R1-08	Capital Unity Council	2,200,000	2,200,000	0	0	C-5
R1-09	Cesar E. Chavez Foundation	2,500,000	2,500,000	0	1,497,000	C-6
R1-10	City of Brentwood	819,839	273,433	0	0	C-7
R1-17	Go For Broke Educational Foundation	1,000,000	399,979	0	0	C-8
R1-20	Japanese American Museum of San Jose	1,010,766	807,815	0	0	C-9
R1-24	Madera County Resource Management Agency	1,403,234	1,403,234	77,285	23,031	C-10
R2-01	Angel Island Immigration Station Foundation	622,842	622,842	0	0	C-11
R2-05	San Diego Coast District, California Department of Parks and Recreation	1,808,120	928,039	7,563	0	C-12
R2-07	City and County of San Francisco Recreation and Park Department	488,411	365,313	0	0	C-13
R2-11	City of San Buenaventura	1,076,000	348,630	0	0	C-14
R2-13	City of Long Beach	680,000	116,968	0	0	C-15
R2-23	Fresno Metropolitan Museum of Art and Science	2,500,000	2,500,000	2,500,000	2,550,355	C-16
R2-25	LA Plaza de Cultura y Artes	2,500,000	2,500,000	0	0	C-17
R2-29	Rancho Los Alamitos Foundation	1,500,000	1,500,000	0	0	C-18
R2-32	San Jose Museum of Quilts and Textiles	370,300	51,836	0	26,831	C-19
R2-44	Viet Heritage Society	1,300,000	0	0	0	C-20
R2-58	Navarro-by-the-Sea Center	280,000	238,076	0	0	C-21
R2-64	Friends, the Foundation of the California African American Museum	100,000	100,000	0	0	C-22
R2-69	18th Street Arts Center	100,000	100,000	0	45,000	C-23
R2-71	The Unity Council	200,000	200,000	0	0	C-24
R2-99	Rural Media Arts and Education Project	1,300,000	1,300,000	0	0	C-25
R3-11	Capital Unity Council	1,451,250	0	0	0	C-26
R3-55	Friends, the Foundation of the California African American Museum	200,000	200,000	0	0	C-27
R3-56	Pacific Locomotive Association, Inc.	50,000	49,280	0	0	C-28
R3-58	COPIA: The American Center for Wine, Food, and the Arts	100,000	46,500	41,850	46,500	C-29
Total		\$30,245,381	\$20,553,609	\$2,743,568	\$4,836,936	

¹ Amounts claimed are as of January 2011 and include retention withheld by CCHE, if applicable.

Criteria for Evaluating Grant Management

Project Phase	Criteria	Passing Criteria
Pre-Award		
Grant application and selection	CCHE's program requirements defined in Education Code section 20070.	Grant application documents how project meets objectives of the program.
	Proposition 40 requirements defined in Public Resources Code section 5096.652.	Grant selection properly documented and passing score achieved.
	CCHE's Grant Application Guidelines	
Award		
Grant agreement: budget, work plan, and schedule	CCHE's <i>Grant Procedures</i> provides descriptions of the three-part budget to be included in grant agreements.	Grant agreement budget, work plan, and schedule follow requirements and provide sufficient detail to verify what expenditures are allowable.
Long term control of property for at least 20 years	CCHE's <i>Long Term Control Policy</i> Grant Agreement Checklist, Item 6 Grant Agreement Part I, section D - Conditions Precedent to Commencement of Project and/or Disbursement of Funds	Deed, lease agreement, or other agreement with a public agency (if public land) were provided demonstrating grantee has legal right, control, and oversight of the premises for at least 20 years; not required if planning grant.
Contractor selection	Grant Agreement Checklist, Item 11 Grant Agreement Exhibit D - Special Terms and Conditions, Item 1 - Subcontracts	Selection of contractor(s) was/were in compliance with CCHE's requirements stated in the grant agreement.
Interim-Monitoring		
Reimbursement of project expenditures	Grant agreement budget and work plan provides details on tasks approved for the specific project.	Expenditures are allowable and comply with approved budget categories.
	Matching requirement defined in Education Code section 20071.	Matching amounts are identified in claims and comply with the budget.
	Grant Agreement Part I, section G - Payment Provisions	Amounts are mathematically accurate and 10 percent retention withheld.
Quarterly progress reports	Project progress reporting requirement defined in Education Code section 20072(a). Quarterly Progress Report Template included in the grant agreement.	Grantee submitted all quarterly progress reports following CCHE's template and provided photos showing progress, if applicable. Information provided in quarterly progress reports agrees to expenditures claimed in invoices during the same period.
Close Out		
Final report	Grant Agreement Exhibit H - Final Report Certification and Grant Closeout Procedure Checklist	Final close out package was submitted in accordance with CCHE's guidelines showing the grant agreement requirements have been met.
Grant Agreement Compliance		
Records and supporting documents	Grant Agreement Part I, section G - Payment Provisions, Item 6 - Audit Grant Agreement Exhibit C - Standard Terms and Conditions, Item 4 - Audit Grant Agreement Exhibit D - Special Terms and Conditions, Item 1 - Subcontracts	Grantee maintained adequate accounting records and supporting documents for the grant expenditures and matching sources.
Grant deliverables	Project deliverables and outputs as described in grant agreements.	Deliverables were consistent with grant agreement.

Results of Grantee Reviews

C-1

Grant Number: R1-01

Grantee: Angel Island Immigration Station Foundation

Project Name: Angel Island Immigration Station Hospital Renovation

Project Description: Rehabilitate the Hospital Building as part of the second phase of the Angel Island Immigration Station Preservation and Restoration Project. Perform hazardous materials abatement, selective demolition, and temporary bracing.

Grant Amount: \$3,000,000

Grant Term: January 7, 2007 to December 31, 2011

Schedule of Budgeted, Claimed, and Questioned Amounts

	Budgeted	Claimed	Questioned
Grant Funds	\$3,000,000	\$286,679	\$0
Match Funds	3,000,000	3,000,000	0
Total:	\$6,000,000	\$3,286,679	\$0

Audit Results:

Award

Project complied with applicable legal requirements and established criteria.

Compliance and Questioned Costs

Grant expenditures claimed and matching funds provided were in compliance with grant agreement terms and were properly supported. The match provided is related to the Detention Barracks Restoration, Phase I project.

Progress reports have been completed and submitted as of December 2010.

Deliverables

The project is currently active. The grantee was performing the hazardous materials abatement in March 2011 for Phase II of the project.

Grant Number: R1-05

Grantee: Bishop Museum and Historical Society

Project Name: Laws Museum Artifact Preservation, Rudolph Stamp Mill, and Textile Storage

Project Description: Design and construction of two structures, including site work. Restoration and installation of the Rudolph Gold Mine Stamp Mill. Design and installation of permanent storage and interpretive displays.

Grant Amount: \$111,595

Grant Term: September 13, 2005 to August 30, 2010

Schedule of Budgeted, Claimed, and Questioned Amounts

	Budgeted	Claimed	Questioned
Grant Funds	\$111,595	\$80,625	\$4,765
Match Funds	120,400	225,495	15,849
Total:	\$231,995	\$306,120	\$20,614

Audit Results:

Award

Project complied with applicable legal requirements and established criteria.

Compliance and Questioned Costs

The grantee was reimbursed \$4,765 for ineligible expenditures consisting of \$3,136 in unsupported costs and \$1,629 in non-project related expenditures.

Matching funds provided were not supported. Two claims reviewed included \$15,849 of questioned matching costs due to inadequate documentation.

The grantee did not properly prepare and submit quarterly progress reports. Specifically, the reports did not follow the required template included in the grant agreement or answer all of the necessary questions. In addition, 6 of 13 quarterly progress reports (46 percent) were not submitted as of December 2010.

Deliverables

Project is complete. Project close-out is pending CCHE's review of additional claimed expenditures.

Grant Number: R1-06

Grantee: Brava! For Women in the Arts

Project Name: Eighty Years of Culture: Brava Theatre Center Phase II

Project Description: Funding for project staff, schematic design, design development, bidding process; and construction costs for the renovation of an existing studio theatre, training and theatre productions room, performers' preparation room, and the addition of a second story for office space.

Grant Amount: \$1,338,024

Grant Term: July 7, 2005 to June 30, 2011

Schedule of Budgeted, Claimed, and Questioned Amounts

	Budgeted	Claimed	Questioned
Grant Funds	\$1,338,024	\$1,199,360	\$112,105
Match Funds	1,338,103	1,109,181	632,370
Total:	\$2,676,127	\$2,308,541	\$744,475

Audit Results:

Award

Although the project is consistent with applicable legal requirements and established criteria, it did not receive a passing score from the application review. The board approved the project award with a 51 percent score (46 out of 90 points), despite the established minimum passing score of 70 percent. The project file did not have information documenting the decision process.

Compliance and Questioned Costs

The grantee did not maintain adequate controls, sufficient supporting documentation, and separate accounts to track grant expenditures. The grantee was reimbursed for ineligible expenditures consisting of \$90,581 in unsupported charges and \$21,524 in expenditures claimed twice. The unsupported charges included \$70,932 in salaries for the executive director, building manager, office manager, auditor, and accountant that did not include documentation showing staff time spent on the project.

Matching funds included \$448,479 in unsupported costs, \$163,636 in ineligible expenditures, and \$20,255 in costs claimed twice. The unsupported costs included \$416,138 in salaries without documentation of staff time spent on the project. Further, equipment valued at \$100,000 donated prior to the grant agreement is considered ineligible per the grant guidelines.

The grantee did not properly submit reimbursement claims and progress reports. Specifically, the reimbursement claim narratives did not identify vendor names, invoice numbers, and check numbers for payments made. Further, 15 of 22 quarterly progress reports (68 percent) had not been submitted as of December 2010.

Deliverables

The project is active. As of the audit date, construction of the training and theatre productions room, performers' preparation room, and the addition of a second story for office space was pending completion.

Grant Number: R1-07

Grantee: Breed Street Shul Project, Inc.

Project Name: Breed Street Shul: Phase II-Full Rehabilitation

Project Description: Seismically retrofit and stabilize the main and rear buildings.

Grant Amount: \$235,000

Grant Term: August 22, 2007 to December 31, 2009

Schedule of Budgeted, Claimed, and Questioned Amounts

	Budgeted	Claimed	Questioned
Grant Funds	\$235,000	\$235,000	\$0
Match Funds	265,000	265,000	0
Total:	\$500,000	\$500,000	\$0

Audit Results:

Award

Although the project is consistent with applicable legal requirements and established criteria, it did not receive a passing score from the application review. The board approved the project award with a 66 percent score (59 out of 90 points), despite the established minimum passing score of 70 percent. The project file did not have information documenting the decision process.

Compliance and Questioned Costs

The grantee's manual accounting system did not track project expenditures separately. However, grantee staff prepared a spreadsheet to identify project expenditures from bank statements. Expenditures were supported with invoices and checks showing payment. Grantee met the match requirement.

The grantee was brought before the CCHE board on February 3, 2009, due to its failure to submit 2 quarterly progress reports. In total, the grantee did not submit 3 of 10 quarterly progress reports.

Deliverables

The project was completed in accordance with the grant agreement requirements.

Grant Number: R1-08

Grantee: Capital Unity Council

Project Name: Capital Unity Council

Project Description: Originally, funds were awarded for the construction and renovation of the two-story structure located at 1919 N Street in Sacramento. CCHE approved a scope change to demolish the existing structure and complete 100 percent concept and schematic designs, 100 percent exhibit design development, 100 percent exhibit final design and working drawings, and 25 percent construction documents for a new structure.

Grant Amount: \$2,200,000

Grant Term: March 1, 2006 to June 30, 2010

Schedule of Budgeted, Claimed, and Questioned Amounts

	Budgeted	Claimed	Questioned
Grant Funds	\$2,200,000	\$2,200,000	\$0
Match Funds	2,200,000	2,200,000	0
Total:	\$4,400,000	\$4,400,000	\$0

Audit Results:

Award

Project complied with applicable legal requirements and established criteria.

Compliance and Questioned Costs

Grant expenditures claimed and matching funds provided were in compliance with grant agreement terms and were properly supported.

Progress reports were completed and submitted.

Deliverables

The project was completed in accordance with the grant agreement requirements.

Grant Number: R1-09

Grantee: Cesar E. Chavez Foundation

Project Name: Cesar E. Chavez Learning Institute

Project Description: Restoration of a 15,500 square foot historical structure to house the Cesar E. Chavez Learning Institute that will contain an exhibit hall, a library, a conference and retreat center, and meeting rooms and staff offices.

Grant Amount: \$2,500,000

Grant Term: August 27, 2007 to June 30, 2010

Schedule of Budgeted, Claimed, and Questioned Amounts

	Budgeted	Claimed	Questioned
Grant Funds	\$2,500,000	\$2,500,000	\$0
Match Funds	2,617,000	3,611,113	1,497,000
Total:	\$5,117,000	\$6,111,113	\$1,497,000

Audit Results:

Award

Project complied with applicable legal requirements and established criteria.

Compliance and Questioned Costs

The grantee maintained separate accounting records for the project and had supporting documentation for grant expenditures claimed.

The grantee provided \$3,611,113 in match, which is \$994,113 more than the budgeted requirement; however, \$1,497,000 was not adequately supported. Specifically, the grantee used a 34-year lease agreement as in-kind match for property that included excess acres and buildings beyond the project scope, overstating the true value of match provided. The lease included 62 acres to allow for future hiking trails, sports fields, and a possible amphitheater that were not part of the project scope. The lease also included 4 additional buildings, which were not part of the grant project. We were unable to determine the eligible match portion of the lease.

Deliverables

It is unclear how the use of the restored building is fully meeting the grant objectives. The Cesar E. Chavez Learning Institute was renamed Villa La Paz and is advertised as a commercial conference center. On the day of the auditors' site visit, the building was locked and there were no signs for regular public use or signs informing visitors of the building's historical nature. Further, there was no library as required by the grant scope and the exhibits were limited to pictures without a history of Cesar Chavez and California farm workers as specified in the grant application.

Grant Number: R1-10

Grantee: City of Brentwood

Project Name: John Marsh Home Rehabilitation and Restoration

Project Description: This phase of the project is for the stabilization of the historic John Marsh Home.

Grant Amount: \$819,839

Grant Term: January 24, 2007 to June 30, 2011

Schedule of Budgeted, Claimed, and Questioned Amounts

	Budgeted	Claimed	Questioned
Grant Funds	\$819,839	\$273,433	\$0
Match Funds	967,641	245,222	0
Total:	\$1,787,480	\$518,655	\$0

Audit Results:

Award

Project complied with applicable legal requirements and established criteria.

Compliance and Questioned Costs

Grant expenditures claimed and matching funds provided were in compliance with grant agreement terms and were properly supported.

Progress reports have been completed and submitted as of December 2010.

Deliverables

Project closure is pending final reimbursement claims.

Grant Number: R1-17

Grantee: Go For Broke Educational Foundation

Project Name: Go For Broke Interpretive and Education Center

Project Description: Construct a 14,999 square foot building that will house a permanent, interactive exhibit on the contributions of the WWII Japanese American veterans. The grant will fund pre-construction costs including design development, environmental assessment, geological testing, architectural, and exhibit designs.

Grant Amount: \$1,000,000

Grant Term: March 15, 2007 to May 31, 2011

Schedule of Budgeted, Claimed, and Questioned Amounts

	Budgeted	Claimed	Questioned
Grant Funds	\$1,000,000	\$399,979	\$0
Match Funds	3,717,000	3,717,000	0
Total:	\$4,717,000	\$4,116,979	\$0

Audit Results:

Award

Although the project is consistent with applicable legal requirements and established criteria, it was not listed as recommended by CCHE staff for Round 1. The current CCHE staff was unable to locate the scoring sheet for the application review and stated that a board member might have added this project to the board's agenda for funding consideration.

Compliance and Questioned Costs

Claimed grant expenditures and matching funds complied with grant agreement terms and were properly supported. Grantee provided the value of the lease for the land on which the building will be constructed as in-kind match.

Progress reports have been completed and submitted as of December 2010.

Deliverables

Project is active. As of the audit date, the grantee was in the process of developing planning documents.

Grant Number: R1-20

Grantee: Japanese American Museum of San Jose

Project Name: Japanese American Museum Construction

Project Description: Further develop the Japanese American Museum of San Jose including the demolition of the existing museum structure at 535 North Fifth Street in San Jose, construction of a 9,803 square-foot museum structure, construction of a surface parking lot, and the on-site relocation, rehabilitation, and conversion of an existing residence at 529 North Fifth Street in San Jose to a museum.

Grant Amount: \$1,010,766

Grant Term: October 25, 2005 to June 30, 2011

Schedule of Budgeted, Claimed, and Questioned Amounts

	Budgeted	Claimed	Questioned
Grant Funds	\$1,010,766	\$807,815	\$0
Match Funds	1,010,766	964,484	0
Total:	\$2,021,532	\$1,772,299	\$0

Audit Results:

Award

Project complied with applicable legal requirements and established criteria.

Compliance and Questioned Costs

Claimed expenditures and matching funds provided were supported with spreadsheets, invoices, and checks showing payment.

The grantee did not submit 6 of 21 quarterly progress reports (29 percent) as of December 2010.

Deliverables

Project is active. As of the audit date, the project was nearing completion. The museum building was in use; however, the farm equipment exhibit was pending completion. The rehabilitation of the neighboring property, to be used for office and meeting space, was not yet completed.

Grant Number: R1-24

Grantee: Madera County Resource Management Agency

Project Name: Madera County Paleontology Museum

Project Description: To build the Fossil Discovery Center at the Fairmead Landfill in Madera County, the site of one of the largest middle-Pleistocene fossil excavations in North America.

Grant Amount: \$1,403,234

Grant Term: June 1, 2007 to September 1, 2010

Schedule of Budgeted, Claimed, and Questioned Amounts

	Budgeted	Claimed	Questioned
Grant Funds	\$1,403,234	\$1,403,234	\$77,285
Match Funds	913,635	913,635	23,031
Total:	\$2,316,869	\$2,316,869	\$100,316

Audit Results:

Award

Project complied with applicable legal requirements and established criteria.

Compliance and Questioned Costs

The grantee claimed and was reimbursed \$21,796 for unsupported expenditures and \$55,489 for costs reclassified to other grants after reimbursement. The reclassified amount included \$3,031 billed to a separate project and also claimed as match for this project. Further, the grantee overspent one budget line item, storm drainage, by 13 percent without the CCHE's approval or a budget revision.

The grantee claimed \$20,000 in ineligible match provided prior to the grant agreement. Additionally, as stated above, the grantee claimed \$3,031 in match reimbursed by the CCHE and billed to another grant.

The grantee did not properly submit reimbursement claims and progress reports. Specifically, the reimbursement request narratives did not identify vendor names, invoice numbers, and check numbers showing payments made. Further, 10 of 22 quarterly progress reports were not submitted.

Deliverables

The project was completed in accordance with the grant agreement requirements.

Grant Number: R2-01

Grantee: Angel Island Immigration Station Foundation

Project Name: Angel Island Immigration Station Barracks Restoration

Project Description: To create permanent interpretive exhibits for the Detention Barracks Building and surrounding area at the Angel Island Immigration Station. Work includes the fabrication and installation of fixed panel displays, interpretive signage, interpretive objects and features, audio equipment mounted in the Barracks Building, and the replication and installation of fixed bunks.

Grant Amount: \$622,842

Grant Term: April 1, 2007 to December 31, 2010

Schedule of Budgeted, Claimed, and Questioned Amounts

	Budgeted	Claimed	Questioned
Grant Funds	\$622,842	\$622,842	\$0
Match Funds	622,842	622,842	0
Total:	\$1,245,684	\$1,245,684	\$0

Audit Results:

Award

Project complied with applicable legal requirements and established criteria.

Compliance and Questioned Costs

Grant expenditures claimed and matching funds provided were in compliance with grant agreement terms and were properly supported.

Progress reports were completed and submitted.

Deliverables

The project was completed in accordance with the grant agreement requirements.

Grant Number: R2-05

Grantee: San Diego Coast District, California Department of Parks and Recreation

Project Name: Casa de Bandini Hotel

Project Description: To retrofit, stabilize, and restore the first-floor adobe; matching funds to restore the second-floor wood shingle hip roof, turned wooden columns, baluster railings, veranda, and chimney. In addition, to restore eight guest rooms, each designed to showcase the life of an important or representative individual from 19th-century Old Town San Diego.

Grant Amount: \$1,808,120

Grant Term: March 1, 2007 to July 31, 2011

Schedule of Budgeted, Claimed, and Questioned Amounts

	Budgeted	Claimed	Questioned
Grant Funds	\$1,808,120	\$928,039	\$7,563
Match Funds	1,811,800	1,811,800	0
Total:	\$3,619,920	\$2,739,839	\$7,563

Audit Results:

Award

Project complied with applicable legal requirements and established criteria.

Compliance and Questioned Costs

The grantee claimed and was reimbursed \$7,563 for ineligible expenditures consisting of \$6,291 in unsupported payroll accruals, \$400 in non-project related expenditure (appraisal certificate) and \$872 in unsupported labor costs.

Matching funds provided were in compliance with grant agreement terms and were properly supported.

Progress reports have been completed and submitted.

Deliverables

Project is active. As of the audit date, the project was nearing completion. The final exterior plaster coat, minor plumbing issues, and interpretive elements were pending completion.

Grant Number: R2-07

Grantee: City and County of San Francisco Recreation and Park Department

Project Name: South Windmill Restoration Project—Golden Gate Park

Project Description: Fund phase II of a three-phase project. To rebuild the windmill base and tower, install the refurbished cap, fantail, and blades.

Grant Amount: \$488,411

Grant Term: December 11, 2006 to June 30, 2011

Schedule of Budgeted, Claimed, and Questioned Amounts

	Budgeted	Claimed	Questioned
Grant Funds	\$488,411	\$365,313	\$0
Match Funds	488,411	305,073	0
Total:	\$976,822	\$670,386	\$0

Audit Results:

Award

Project complied with applicable legal requirements and established criteria.

Compliance and Questioned Costs

Grant expenditures claimed and matching funds provided were in compliance with grant agreement terms and were properly supported.

Progress reports have been completed and submitted as of December 2010.

Deliverables

Project is active. As of the March 2011 audit site visit, the windmill base was pending completion.

Grant Number: R2-11

Grantee: City of San Buenaventura

Project Name: Renovation of Olivas Adobe

Project Description: Rehabilitation and seismic retrofitting of a large and small adobe to be used for archaeological exhibit space and venue for community gatherings. In addition, includes construction of a small storage facility to permit expanded use of the site.

Grant Amount: \$1,076,000

Grant Term: April 16, 2007 to January 31, 2011

Schedule of Budgeted, Claimed, and Questioned Amounts

	Budgeted	Claimed	Questioned
Grant Funds	\$1,076,000	\$348,630*	\$0
Match Funds	1,076,000	348,630*	0
Total:	\$2,152,000	\$697,260	\$0

* Amount does not include one reimbursement claim under review by CCHE.

Audit Results:

Award

Project complied with applicable legal requirements and established criteria.

Compliance and Questioned Costs

Grant expenditures claimed and matching funds provided were in compliance with grant agreement terms and were properly supported.

Progress reports have been completed and submitted as of December 2010.

Deliverables

Project was completed in accordance with the grant agreement requirements. Grant closure was pending approval of a final reimbursement claim and release of retention.

Grant Number: R2-13

Grantee: City of Long Beach

Project Name: Rancho Los Cerritos Visitor Education Center

Project Description: To build the Visitor Education Center, a two-story structure based on the 1835 Cota Adobe.

Grant Amount: \$680,000

Grant Term: September 25, 2007 to June 30, 2011

Schedule of Budgeted, Claimed, and Questioned Amounts

	Budgeted	Claimed	Questioned
Grant Funds	\$680,000	\$116,968	\$0
Match Funds	1,324,668	168,319	0
Total:	\$2,004,668	\$285,287	\$0

Audit Results:

Award

Project complied with applicable legal requirements and established criteria.

Compliance and Questioned Costs

Grant expenditures claimed and matching funds provided were in compliance with grant agreement terms and were properly supported.

Progress reports have been completed and submitted as of December 2010.

Deliverables

Project is active. As of the audit date, the Rancho Los Cerritos visitor center was under construction.

Grant Number: R2-23

Grantee: Fresno Metropolitan Museum of Art and Science

Project Name: Fresno Met—Renovation of the Nationally Registered Historic Fresno Bee Building

Project Description: Phase II of the Fresno Bee Building renovation to add 28,000 square feet for use as exhibition and education space, and to provide a forum for issues facing the California Central Valley Community.

Grant Amount: \$2,500,000

Grant Term: December 15, 2006 to June 30, 2009

Schedule of Budgeted, Claimed, and Questioned Amounts

	Budgeted	Claimed	Questioned
Grant Funds	\$2,500,000	\$2,500,000	\$2,500,000
Match Funds	2,500,000	2,550,355	2,550,355
Total:	\$5,000,000	\$5,050,355	\$5,050,355

Audit Results:

Award

Project complied with applicable legal requirements and established criteria.

Compliance and Questioned Costs

Because the grantee became financially insolvent and liquidated, access to records and documentation was not provided to verify expenditures and determine whether the renovations were completed in compliance with the grant agreement.

Deliverables

The Museum closed due to financial difficulties and its assets were liquidated. The grantee is unable to fulfill the grant requirements.

Grant Number: R2-25

Grantee: LA Plaza de Cultura y Artes (LAPCA)

Project Name: LAPCA Rehabilitation of Plaza House and the Vickrey-Brunswig House

Project Description: Rehabilitate two historic buildings (Vickrey Brunswig and Plaza House) for use as a cultural center dedicated to celebrating Mexican American contributions to the history of Los Angeles.

Grant Amount: \$2,500,000

Grant Term: September 1, 2007 to June 30, 2010

Schedule of Budgeted, Claimed, and Questioned Amounts

	Budgeted	Claimed	Questioned
Grant Funds	\$2,500,000	\$2,500,000	\$0
Match Funds	2,500,000	2,500,000	0
Total:	\$5,000,000	\$5,000,000	\$0

Audit Results:

Award

Project complied with applicable legal requirements and established criteria.

Compliance and Questioned Costs

The grantee claimed that project expenditures were tracked with an excel spreadsheet; however, they were unable to locate it. Although the grantee was unable to provide documentation detailing how expenditures were allocated among different funding sources, we were able to trace claimed expenditures to invoices and checks showing payments.

The grantee did not properly submit reimbursement claims and progress reports. Specifically, the reimbursement claim narratives did not identify invoice numbers and check numbers for payments made. Further, 12 of 13 (92 percent) quarterly progress reports were not submitted since the beginning of the project on September 1, 2007.

Deliverables

The project was completed in accordance with the grant agreement requirements.

Grant Number: R2-29

Grantee: Rancho Los Alamitos Foundation

Project Name: Barns Area Restoration and Education Center Project

Project Description: Historic restoration of the barns area. Five historic barns will be relocated to represent their original grid pattern layout and functional relationships. The deteriorated structures will be repaired and restored; public safety improvements and seismic strengthening will be completed; and landscaping will be restored to the rugged working, semi-arid historic landscape.

Grant Amount: \$1,500,000

Grant Term: August 27, 2007 to June 30, 2010

Schedule of Budgeted, Claimed, and Questioned Amounts

	Budgeted	Claimed	Questioned
Grant Funds	\$1,500,000	\$1,500,000	\$0
Match Funds	1,939,319	1,939,319	0
Total:	\$3,439,319	\$3,439,319	\$0

Audit Results:

Award

Project complied with applicable legal requirements and established criteria.

Compliance and Questioned Costs

Grant expenditures claimed and matching funds provided were in compliance with grant agreement terms and were properly supported.

The grantee did not submit 5 of 12 quarterly progress reports (42 percent).

Deliverables

The project was completed in accordance with the grant agreement requirements.

Grant Number: R2-32

Grantee: San Jose Museum of Quilts and Textiles

Project Name: 520 South First Capital Project

Project Description: To complete the renovation of the 520 South First Street cultural facility as identified in the master plan, including construction and planning documents, site preparation, carpentry, electrical, HVAC, fire sprinklers, and security alarm.

Grant Amount: \$370,300

Grant Term: July 27, 2007 to March 31, 2011

Schedule of Budgeted, Claimed, and Questioned Amounts

	Budgeted	Claimed	Questioned
Grant Funds	\$370,300	\$51,836*	\$0
Match Funds	380,714	74,163*	26,831
Total:	\$751,014	\$125,999	\$26,831

* Amount does not include two reimbursement claims under review by CCHE.

Audit Results:

Award

Project complied with applicable legal requirements and established criteria.

Compliance and Questioned Costs

Grant expenditures claimed were in compliance with grant agreement terms and were supported.

The grantee claimed \$26,831 in matching funds that lacked supporting documentation. The grantee could not support \$2,581 for shelving and \$10,400 for awning installations. In addition, the grantee claimed \$19,850 in match for a task defined as "Build out caterer's kitchen/event storage"; however, the statement of work supported only \$6,000, leaving \$13,850 unsupported. Further, the grantee did not have a specific account code in the accounting system for grant and matching expenditures.

The grantee did not properly prepare and submit quarterly progress reports. Specifically, the reports did not follow the required template included in the grant agreement or answer all of the necessary questions. In addition, 9 of 14 quarterly progress reports (64 percent) were not submitted as of December 2010.

Deliverables

Project is active pending project completion and approval of final reimbursement claims. CCHE was working with the grantee to resolve issues with the unpaid claims.

Grant Number: R2-44

Grantee: Viet Heritage Society

Project Name: The Vietnamese Heritage Garden and Museum

Project Description: Construction of a permanent Vietnamese Heritage Garden and landscape in Kelley Park, San Jose.

Grant Amount: \$1,300,000

Grant Term: July 18, 2007 to June 30, 2011

Schedule of Budgeted, Claimed, and Questioned Amounts

	Budgeted	Claimed	Questioned
Grant Funds	\$1,300,000	\$0	\$0
Match Funds	1,300,000	0	0
Total:	\$2,600,000	\$0	\$0

Audit Results:

Award

Project complied with applicable legal requirements and established criteria.

Compliance and Questioned Costs

The grantee does not have an accounting system and will be using a manual system to track grant and matching expenditures. The grantee has not incurred or claimed any expenditures for reimbursement as of the audit date. The construction project is pending approval from the City of San Jose.

The grantee did not submit 4 of 14 quarterly progress reports (29 percent).

Deliverables

Construction is pending approval from the City of San Jose.

Grant Number: R2-58

Grantee: Navarro-by-the-Sea Center

Project Name: Navarro River Redwoods State Park

Project Description: Preparation of a Master Plan for future reuse of the Navarro-by-the-Sea complex at Navarro River Redwoods State Park, and construction plans for rehabilitation of the historic Captain Fletcher's Inn at the Navarro-by-the-Sea complex.

Grant Amount: \$280,000

Grant Term: August 1, 2007 to August 1, 2011

Schedule of Budgeted, Claimed, and Questioned Amounts

	Budgeted	Claimed	Questioned
Grant Funds	\$280,000	\$238,076	\$0
Match Funds	0	0	0
Total:	\$280,000	\$238,076	\$0

Audit Results:

Award

Project complied with applicable legal requirements and established criteria.

Compliance and Questioned Costs

Grant expenditures claimed were in compliance with grant agreement terms and were properly supported.

CCHE's Round 2 Grant Application Guidelines did not require applicants with less than a \$500,000 annual operating budget to provide match for planning grants.

Progress reports have been completed and submitted as of December 2010.

Deliverables

Project is active. As of the audit date, the plans have been completed and the remaining funds will be used for completion of abatement work and demolition once the grantee obtains an executed lease agreement from the California Department of Parks and Recreation for the 20 years of public access.

Grant Number: R2-64

Grantee: Friends, the Foundation of the California African American Museum

Project Name: California African American Museum Expansion Project

Project Description: To develop and prepare preliminary plans for expansion and rehabilitation of the California African American Museum in Los Angeles. Funds will support design team selection and completion of reports addressing historic research for the building, hazardous materials survey review, utilities survey, civil engineering site topography, and geotechnical issues.

Grant Amount: \$100,000

Grant Term: October 15, 2007 to December 30, 2008

Schedule of Budgeted, Claimed, and Questioned Amounts

	Budgeted	Claimed	Questioned
Grant Funds	\$100,000	\$100,000	\$0
Match Funds	0	0	0
Total:	\$100,000	\$100,000	\$0

Audit Results:

Award

Project complied with applicable legal requirements and established criteria.

Compliance and Questioned Costs

Grant expenditures claimed were in compliance with grant agreement terms and were properly supported.

CCHE's Round 2 Grant Application Guidelines did not require applicants with less than a \$500,000 annual operating budget to provide match for planning grants.

The grantee was brought before the CCHE board because none of the four grant-required quarterly progress reports were completed correctly or on time.

Deliverables

The project was completed in accordance with the grant agreement requirements.

Grant Number: R2-69

Grantee: 18th Street Arts Center

Project Name: 18th Street Arts Center

Project Description: Redevelopment planning of the 18th Street Arts Center property to expand the facility for increased cultural program services to the public. Planning activities include hiring an architect to conduct zoning and concept studies, hiring various technical consultants to conduct a physical assessment of the site, and hiring a public artist to conduct preliminary plans for public artwork commemorating the history of the 18th Street Arts Center.

Grant Amount: \$100,000

Grant Term: July 5, 2007 to July 30, 2010

Schedule of Budgeted, Claimed, and Questioned Amounts

	Budgeted	Claimed	Questioned
Grant Funds	\$100,000	\$100,000	\$0
Match Funds	75,000	67,850	45,000
Total:	\$175,000	\$167,850	\$45,000

Audit Results:

Award

Project complied with applicable legal requirements and established criteria.

Compliance and Questioned Costs

Grant expenditures claimed were in compliance with grant agreement terms and were properly supported.

Match claimed was not supported for several line items: \$20,000 of in-kind match provided by the Community Corporation of Santa Monica, and \$25,000 of cash match claimed for staff salaries were not properly tracked and recorded with timesheets, cost allocation methods, or general ledger entries.

Further, other funding sources for the project were comingled with the CCHE grant. Specifically, \$30,000 of grant funds from the City of Santa Monica were used to pay for grant expenditures prior to being claimed from CCHE; however, the project account only reflects expenditures for the CCHE grant amount. Grantee cannot provide documentation to demonstrate different funding sources were properly applied to the project costs.

Deliverables

Project close out is pending approval of the match amounts provided with the last reimbursement claim, including expenditures through June 30, 2010. The grantee has not completed the second community design workshop and has not achieved the architectural design stage.

Grant Number: R2-71

Grantee: The Unity Council

Project Name: Unity Council Fruitvale Masonic Temple

Project Description: An updated as-built plan must be prepared to provide a basis for comprehensive architectural and engineering surveys to be conducted and for planning of the spaces and uses.

Grant Amount: \$200,000

Grant Term: April 3, 2007 to February 28, 2010

Schedule of Budgeted, Claimed, and Questioned Amounts

	Budgeted	Claimed	Questioned
Grant Funds	\$200,000	\$200,000	\$0
Match Funds	200,000	160,280	0
Total:	\$400,000	\$360,280	\$0

Audit Results:

Award

Project complied with applicable legal requirements and established criteria.

Compliance and Questioned Costs

Grant expenditures claimed were in compliance with grant agreement terms and were properly supported.

The grantee did not submit 4 of 11 quarterly progress reports (36 percent).

Deliverables

The project was terminated prior to completion. The grantee submitted a letter of project termination dated January 11, 2010, citing lack of funds to meet the match requirement to complete the project. The letter further stated that although the project as proposed was not completed, a 50 percent stage of construction drawings was achieved. On February 4, 2010, the CCHE board resolved to terminate the grant agreement and retain the 10 percent retention totaling \$20,000, allowing the grantee to keep \$180,000 that had already been reimbursed for work completed.

Grant Number: R2-99

Grantee: Rural Media Arts and Education Project

Project Name: Old Masonic Lodge Restoration

Project Description: Assist with the exterior and interior renovation of the Old Masonic Lodge building in Mariposa. Renovation includes new foundation, structural strengthening, new roof and truss system, new doors and windows, paint, and flooring.

Grant Amount: \$1,300,000

Grant Term: September 1, 2008 to December 31, 2010

Schedule of Budgeted, Claimed, and Questioned Amounts

	Budgeted	Claimed	Questioned
Grant Funds	\$1,300,000	\$1,300,000	\$0
Match Funds	0	0	0
Total:	\$1,300,000	\$1,300,000	\$0

Audit Results:

Award

Project complied with applicable legal requirements and established criteria.

Compliance and Questioned Costs

Grant expenditures claimed and matching funds provided were in compliance with grant agreement terms and were properly supported.

The CCHE board did not require matching funds for this project since the applicant is part of an underserved community and qualified for a reduction of matching funds.

Progress reports were completed and submitted.

Deliverables

The project was completed in accordance with the grant agreement requirements.

Grant Number: R3-11

Grantee: Capital Unity Council

Project Name: A Journey of Exploration Exhibits

Project Description: Originally, funds were awarded for content development and final design, technology infrastructure design and integration, prototyping and evaluation, and fabrication and installation; however, CCHE is currently working with the grantee to change the scope and budget to allow only construction-related work and expenditures.

Grant Amount: \$1,451,250

Grant Term: July 1, 2009 to April 12, 2012

Schedule of Budgeted, Claimed, and Questioned Amounts

	Budgeted	Claimed	Questioned
Grant Funds	\$1,451,250	\$0	\$0
Match Funds	1,451,250	0	0
Total:	\$2,902,500	\$0	\$0

Audit Results:

Award

Project complied with applicable legal requirements and established criteria.

Compliance and Questioned Costs

The grantee has not incurred or claimed any expenditures for reimbursement as of the audit date.

Progress reports have been completed and submitted.

Deliverables

Project is active. As of the audit date, the grantee was waiting to secure matching funds to begin construction.

Grant Number: R3-55

Grantee: Friends, the Foundation of the California African American Museum

Project Name: Capital Renovation Project

Project Description: To prepare, review, and present the schematic design plan for the California African American Museum that will set the stage for the next phase of the Capital Renovation Project, of the unique structure originally designed by African American architects.

Grant Amount: \$200,000

Grant Term: May 15, 2009 to February 28, 2010

Schedule of Budgeted, Claimed, and Questioned Amounts

	Budgeted	Claimed	Questioned
Grant Funds	\$200,000	\$200,000	\$0
Match Funds	200,000	200,000	0
Total:	\$400,000	\$400,000	\$0

Audit Results:

Award

Project complied with applicable legal requirements and established criteria.

Compliance and Questioned Costs

Grant expenditures claimed and matching funds provided were in compliance with grant agreement terms and were properly supported.

Progress reports were completed and submitted.

Deliverables

The project was completed in accordance with the grant agreement requirements.

Grant Number: R3-56

Grantee: Pacific Locomotive Association, Inc.

Project Name: Niles Depot

Project Description: To provide a full set of design documents for the re-creation of the 1870 Niles Depot, one of the earliest structures of the Central Pacific Railroad (the western segment of the Transcontinental Railroad).

Grant Amount: \$50,000

Grant Term: February 1, 2008 to June 30, 2010

Schedule of Budgeted, Claimed, and Questioned Amounts

	Budgeted	Claimed	Questioned
Grant Funds	\$50,000	\$49,280	\$0
Match Funds	50,000	41,275	0
Total:	\$100,000	\$90,555	\$0

Audit Results:

Award

Project complied with applicable legal requirements and established criteria.

Compliance and Questioned Costs

Grant expenditures claimed and matching funds provided were in compliance with grant agreement terms and supported; however, the grantee did not properly submit reimbursement claims. Specifically, the reimbursement claim narratives did not always identify invoice numbers or check numbers for payments, and amounts claimed were different from the supporting documents provided. In addition, the grantee provided \$10,000 of in-kind match, but failed to report it on any of the reimbursement claims making it appear that they did not meet their match requirement.

Progress reports were completed and submitted.

Deliverables

The project was completed in accordance with the grant agreement requirements.

Grant Number: R3-58

Grantee: COPIA: The American Center for Wine, Food, and the Arts

Project Name: COPIA Transformation Project

Project Description: Conceptual designs, architectural drawings, and stations for the Imagination Project, including timeline and related budget, to transform the visitor experience and related exhibitions and educational/discovery stations within the existing COPIA facility.

Grant Amount: \$100,000

Grant Term: February 19, 2008 to August 31, 2008

Schedule of Budgeted, Claimed, and Questioned Amounts

	Budgeted	Claimed	Questioned
Grant Funds	\$100,000	\$46,500	\$41,850*
Match Funds	101,500	46,500	46,500
Total:	\$201,500	\$93,000	\$88,350

* \$46,500 - \$4,650 (retention withheld) = \$41,850

Audit Results:

Award

Project complied with applicable legal requirements and established criteria.

Compliance and Questioned Costs

Because the grantee went bankrupt in 2008, we did not have access to the accounting records or supporting documentation and were unable to verify whether grant and matching expenditures were eligible and properly supported.

Deliverables

The grantee did not complete deliverables due to bankruptcy. CCHE retained the 10 percent retention of \$4,650 withheld from the grantee's claimed expenditures.



October 11, 2011

Mr. David Botelho, Chief
Office of State Audits and Evaluations
California Department of Finance
300 Capitol Mall, Suite 801
Sacramento, CA 95814

Dear Mr. Botelho:

Thank you for the opportunity to respond to the draft audit report, "An Audit of Bond Funds, California State Library, California Cultural and Historical Endowment, Proposition 40," dated September 2011. Both the California State Library (CSL) and the California Cultural and Historical Endowment (CCHE) appreciate the efforts of the auditors to evaluate our existing processes and the valuable recommendations of improvements to our past and present procedures.

It is gratifying that the audit concluded that Proposition 40 funds were awarded in compliance with applicable legal requirements and established criteria. I am keenly aware of the fiduciary responsibilities of CSL and CCHE to appropriately manage state funds and have made this responsibility a priority during my tenure as State Librarian. While the overall findings of the audit were positive, a number of issues and recommendations were identified to which we offer the following responses.

Observation 1: Awarding Process for Three Projects Was Inconsistent and Undocumented

The Department of Finance (DOF) notes that three projects from Round 1 awards were funded despite receiving a score of less than the passing threshold of 70. Additionally, DOF notes that there is no evidence of a financial capacity review of an applicant that ultimately went bankrupt.

DOF recommends that the CCHE follow and document the established scoring and award process for each application.

CCHE's most recent funding round, Round 4, was initiated in October of 2009 with decisions made in April of 2010. The selection process employed in Round 4 incorporated the best practices and lessons learned from the first three funding rounds. The grant application review and scoring process described in the Request for Proposals was followed and the scoring process was thoroughly documented and records were retained. It is unfortunate that the first round of funded CCHE grants included three grants that appear not to have scored high enough to have been funded, but we have no documentation, nor any institutional memory to help us understand if additional factors were considered in the decision-making. The subsequent funding rounds improved on the effort of the first round as the organization matured.

DOF recommends that the CCHE review and document all applicants' financial capacity. This includes requesting documentation to validate significant funding commitments, including copies of independent audit reports, which may indicate if the entity has going concern issues.

CCHE's most recent funding round, Round 4, was initiated in October of 2009 with decisions made in April of 2010. That selection process included an assessment of the sustainability and organizational capacity of the applicant, judged by both peer reviewers and staff. Staff has also been diligent about reviewing independent audits, evaluating financial information, and bringing organizational capacity concerns to the board for applicants with reservations from earlier rounds whose funding has not yet been approved. CCHE concurs that it is critical to ensure that a potential grantee have the financial wherewithal to both complete the project and keep its doors open to the public for the 20 year period required by the grant applications.

Observation 2: Project Monitoring Needs Improvement

The Department of Finance (DOF) notes that claimed expenditures and match were not adequately supported for nine projects, project status reports were not consistently submitted, and deliverables were not fully met.

DOF recommends that CCHE make the final determination on whether to recover or offset the questioned costs identified by the auditors and ensure that grantees submit reimbursement claims that provide sufficient detail to substantiate the payment.

CCHE would like to address each of the nine projects specifically, following the order established on Appendix A:

R1-05: Bishop Museum. The grantee submitted requests for reimbursement totaling \$80,625 and had an obligation to demonstrate match of the same amount. The grantee demonstrated match of \$225,495, of which \$15,849 was disallowed, leaving \$209,646 in allowable match, \$129,021 more than required. The questioned match, therefore, is not an issue in this case as it provided match exceeded the amount required. CCHE will follow up with the grantee regarding the questioned reimbursement of \$4,765.

R1-06: Brava. The grantee submitted ineligible requests for reimbursement in the amount of \$112,000 and unsubstantiated match in excess of \$600,000. CCHE is working with the grantee to identify both additional sources of match and the appropriate documentation to support previously submitted match and grant expenses. Should appropriate match sources not be found, the CCHE will take appropriate actions.

R1-09: Cesar Chavez Foundation. The grantee submitted reimbursement requests totaling \$2.5 million and had an obligation to demonstrate match of the same amount. The grantee demonstrated match of \$3.635 million, of which \$1.497 million was disallowed, leaving \$2.138 million in allowable match. The CCHE will work with the Foundation to both identify additional sources of match totaling \$368,000 and to gain an understanding of what portion of the \$1.497 million disallowed lease agreement could be considered allowable. Should appropriate sources of match funds not be identified, the CCHE will take appropriate actions.

R1-24: Madera County. The grantee submitted reimbursement requests totaling \$1,403,234, of which \$77,285 was unsupported or disallowed. Match of \$23,031 was disallowed as well. CCHE will work with Madera County to identify other allowable expenditures, additional match documentation, or for recovery of funds.

R2-05: California State Parks. The grantee submitted reimbursement requests totaling \$928,039, of which \$7,563 was unsupported or disallowed. CCHE will work with California State Parks to identify other allowable expenditures, additional documentation, or for recovery of funds.

R2-23: Fresno Metropolitan Museum. The grantee submitted reimbursement requests totaling \$2,500,000 and match of \$2,550,355 at the close of 2008. One year later, the organization defaulted on its loan to the City of Fresno and shortly thereafter declared bankruptcy. CCHE reviewed evidence provided in support of reimbursement requests and demonstrated match throughout the project, but the bankruptcy and subsequent elimination of all staff removed all access to the original supporting documentation.

R2-32: San Jose Museum of Quilts. The grantee submitted reimbursement requests totaling \$294,146 and had an obligation to demonstrate match of the same amount. The grantee demonstrated match of \$326,962, of which \$26,831 was disallowed, leaving \$300,131 in allowable match, \$5,985 more than required. The questioned match, therefore, is not an issue in this case as the remaining match exceeded the amount required.

R2-69: 18th Street Arts Center. The grantee submitted reimbursement requests totaling \$100,000 and had an obligation to demonstrate match of the same amount. Match in the amount of \$45,000 was disallowed and CCHE has been in conversation with the grantee to reduce the final invoice to bring total grant payments in line with the amount of demonstrated match.

R3-58: COPIA. The grantee submitted reimbursement requests totaling \$46,500 and indicated match of the same amount shortly before declaring bankruptcy in late 2008. CCHE reviewed evidence of the reimbursement requests and demonstrated match for the two invoices submitted by the grantee, but the bankruptcy and corresponding elimination of staff removed all access to original supporting documentation.

CCHE agrees that the careful evaluation of grant expenses and match to ensure that the items are allowable and sufficiently supported by documentation is a critical and basic component of grant administration. CCHE believes that the lack of documentation for the two projects that went bankrupt does not demonstrate insufficient program monitoring on the part of CCHE staff, rather insufficient assessment of organizational capacity in the pre-award stage. Nevertheless, CCHE will take steps to better monitor the work of remaining project managers to ensure that appropriate evaluation of expenses occurs.

DOF further recommends that CCHE ensure that grantees complete and submit required quarterly progress reports and perform site visits of high-risk grantees to ensure that projects are on track.

CCHE agrees that the submission of quarterly progress reports (QPR) is critical and has created a database-tracking system to facilitate supervisory review of the QPR submission requirement.

CCHE will take steps to better monitor the work of remaining project managers to ensure that progress reports are submitted. CCHE staff will also perform site visits of slow-moving and high-risk grantees to ensure that projects advance.

DOF further recommends that the CCHE release retention payments and close projects only after the grantee has completed all grant deliverables.

CCHE implemented a comprehensive closeout plan in early 2008. The closeout plan starts with a communication to the grantee, outlining the steps necessary to close out the project, demonstrate completion of deliverables, and receive the final retention payments. There is a form letter and a checklist that is used to assist both the grantee and CCHE's project manager. Upon completion and submission of the final report and the rest of the required closeout documents, the CCHE releases the final retention payment. The four projects cited for non-completion of deliverables include the two projects that went bankrupt.

R3-58 COPIA. The uncompleted bankrupt project known as COPIA never received its retention payments, it only received partial payments on two invoices before it went bankrupt in late 2008.

R2-23 Fresno Metropolitan Museum. The Fresno Metropolitan Museum had fully completed its deliverables in December of 2008 and was appropriately closed out, but went bankrupt just over a year later. There were typical cash flow problems inherent in a large construction project, but there was no evidence regarding the excessive change orders and unexpected cost increases for non-CCHE funded portions of the project.

R2-71 The Unity Council (Oakland). The Unity Council, a Round Two planning grant, did not complete its deliverables, but it also did not receive its final retention payment, consistent with the CCHE policy that deliverables be received before the retained funds are released.

R1-09 Cesar Chavez Foundation. The Cesar Chavez building restoration included the core and shell of the building with the objective that the building be used programmatically as a library, conference and retreat center, exhibit hall, and administrative space. The applicant originally requested \$5 million in funding, but ultimately received only half of that amount, \$2.5 million, and all funds were devoted to site preparation, structural, HVAC, and plumbing work, and interior and exterior finish work. There were never any CCHE funds budgeted for the creation of a library or other interior aspects such as exhibits. The building itself is finished and the simple yet elegant space does feature a collection of photos of the famous farm workers march from 1966. The establishment of a library was delayed due to air conditioning system problems which took eight months to correct. The CCHE introduced the grantee to the Chair of the Department of Information Sciences at UCLA and the two parties are working together to find resources to develop a catalog of the National Chavez Center's collection.

The CCHE considers the grantee to have satisfactorily completed all the deliverables required under the grant.

DOF further recommends that the CCHE develop a succession plan to address post-program items, including long-term monitoring and record retention.

The State Library and CCHE agree that, given the expectation that the grant program is winding down and will be concluded by June 30, 2015, a succession plan is needed. At a March 2011 meeting, the CCHE Board Transition Working Group - created to address transition issues like this - discussed the issues of record retention and succession plans. The State Library, as the lead agency for CCHE, will manage the records retention. Succession plans are under development.

Observation 3: Planning Grants May Not Result in Completed Capital Projects

DOF noted that 24 planning grants which received CCHE funds in excess of \$2.9 million have no funds to complete the final projects.

DOF recommends that prior to awarding planning grants, the CCHE assess the grantee's financial capacity to complete the capital project beyond the planning phase.

The CCHE recognizes that over half of its planning grants have not resulted in an actual construction project and agrees that all organizations awarded grants for planning should demonstrate the capacity to take the plans to a finished product. It is likely that the economic downturn was a factor in the inability of grantees to secure additional funding for the projects themselves. Planning grants can be very useful in assessing structural issues before proceeding with a renovation project that might prove exceptionally difficult and expensive and should not be undertaken. For example, one reason the Fresno Metropolitan Museum project costs ballooned beyond the initial budget was the need to strengthen the structure more than originally intended and planned for. The load-bearing capacity of the walls and floors was not enough to sustain planned changes to the building. A more comprehensive pre-construction assessment might have caught the design flaw at an earlier, less costly stage and resulted in a suspension of the plans or a more cost-effective approach to the problem. The CCHE board rejected the idea of planning grants for Round Four, preferring instead to fund only "shovel ready" projects that would be able to use the money immediately to help preserve a cultural or historic resource.

Observation 4: Support Costs Allocated to Bond Funds Were Not Equitable or Supported

The Library respectfully disagrees that the facility costs allocated to bond funds was not equitable or properly supported. The Library facilities expenditures for Fiscal Year 2010/11 were distributed between all units of the State Library, including CCHE, consistent with ratios that had previously been established and applied. Facility costs for the 900 N Street building (Annex) consist of actual charges for DGS services and repairs as well as utilities, rather than a fixed rental rate. That being the case, the total facility-related costs for the Annex fluctuate from year to year. Costs for the Annex spiked during Fiscal Year 2010/11, increasing expenditures for all units of the library including the CCHE program, however the prorated proportion of the costs borne by each unit remained consistent with past practices. The portion of Annex costs charged to the CCHE program was 6.55% of the total costs, consistent with the five-year average of 6.52%, as presented in the table below.

LCII FACILITIES - CCHE Portion of Total Expenditure											
	<u>2005-2006</u>	<u>%</u>	<u>2006-2007</u>	<u>%</u>	<u>2007-2008</u>	<u>%</u>	<u>2008-2009</u>	<u>%</u>	<u>2009-2010*</u>	<u>%</u>	<u>5-year Avg %</u>
CCHE	\$51,329	6.0%	\$76,791	7.9%	\$50,554	5.9%	\$64,190	6.3%	\$87,183	6.55%	\$66,009 6.52%
Others	\$799,966	94.0%	\$897,591	92.1%	\$807,550	94.1%	\$960,121	93.7%	\$1,243,171	93.4%	\$941,680 93.5%
Total	\$851,294	100%	\$974,382	100%	\$858,105	100%	\$1,024,311	100%	\$1,330,354	100%	\$1,007,689 100%

* Adjusted amount: \$104,206 less \$17,023 = \$87,184

Note that an error in the budget appropriations for Central Plant cost increases was corrected, resulting in facilities cost credits applied to all library programs in arrears in FY 2010-11. The CCHE portion of that credit was \$17,023, reducing the CCHE portion of expenditures from \$104,206 to \$87,184.

The requirement for the CSL to vacate the Library-Courts Building for historic renovation caused major moves and reallocation of space among Library programs beginning in FY 2008-09 and completing in early FY 2009-10. Once those relocations were completed, measurements were taken and new allocation rates were calculated for each of the Library's programs based on square footage occupied. These new calculations were implemented at the beginning of the next funding cycle, FY 2010-11. Based on the newly-calculated ratios, the actual facility cost for the CCHE space should have been \$35,728 for FY 2010-11, however CSL only charged \$31,178 against CCHE funds to honor a previous estimate that had been given earlier in the budget year and had been used by CCHE for budget planning purposes.

While the Library believes that past practice was a valid methodology for distributing costs, if DOF believes a credit is due to the CCHE program for FY 2009-10, we believe the appropriate amount of that credit would be \$51,455 -- the actual CCHE charges of \$87,183 less the \$35,728 CCHE share as calculated using the new distribution ratios.

In closing, I would like to again express my appreciation for the efforts of the audit team to identify potential improvements to the CCHE and CSL processes. If you have any questions or need additional information, please contact Debbie Newton at (916) 651-3094.

Kindest Regards,

Original signed by:

Stacey A. Aldrich
State Librarian of California

EVALUATION OF RESPONSE

The California State Library's (Library) response to the draft audit report has been reviewed and incorporated in the final audit report. We acknowledge the Library's and the California Cultural and Historical Endowment's (CCHE) willingness to implement the recommendations made and their commitment to effectively manage bond funds. In evaluating the Library's response, we provide the following comments:

Observation 2: Project Monitoring Needs Improvement

In general, the Library agrees with the observation and has taken steps to address the related recommendations. For the Cesar Chavez project, the Library claims the grantee satisfactorily completed all required deliverables. However, as stated in our report, a restored building without a library and only limited exhibits may not fully meet the grant and program objectives. The project objectives as documented in the grant agreement states, "the restored building that will house the Cesar E. Chavez Learning Institute will contain an exhibit hall and a library." We encourage CCHE's and the grantee's efforts to further develop a catalog of the National Chavez Center's collection.

Observation 4: Support Costs Allocated to Bond Funds Were Not Equitable or Supported

The Library disagreed with the observation, claiming the distribution ratios have been consistent with ratios established and applied in previous years. However, no additional information was provided to support the basis for those ratios. Since the Library has recently developed a cost allocation plan based on square footage, it should base credits and future support charges consistent with the new cost allocation plan in accordance with SAM Chapter 9200. We acknowledge the final credit due to CCHE may differ from the \$75,000 included in the audit report due to previous credits applied and updates to the cost allocation methodology. Our recommendations remain as stated in the report.