



Transmitted via e-mail

December 2, 2011

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

Dear Ms. Aldrich:

Final Report—City of San Diego Logan Heights Branch Library Audit

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of the City of San Diego's (City) grant agreement 1051 for the period September 5, 2003 through December 31, 2010.

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. This report will be placed on our website.

We appreciate the assistance and cooperation of the City. If you have any questions regarding this report, please contact Jennifer Whitaker, 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: Ms. Deborah A. Newton, Bureau Chef, California State Library
Ms. Tona Paz, Bond Administration Officer, California State Library
Mr. Darren Greenhalgh, Deputy Director, Engineering and Capital Projects, City of San Diego
Ms. Sepi Amirazizi, Project Manager, City of San Diego
Mr. Alex Garcia, Senior Civil Engineer, City of San Diego
Ms. Leita Ross, Supervising Analyst, City of San Diego

AUDIT REPORT

City of San Diego Logan Heights Branch Library Proposition 14 Bond Program Grant Agreement 1051



San Diego Logan Heights Branch Library

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

MEMBERS OF THE TEAM

Jennifer Whitaker
Manager

Richard Hebert
Supervisor

Staff
Michael Bratman

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

You can contact our office at:

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Office of State Audits and Evaluations
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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, OLC was reorganized as the Bond Administration Office (BAO), which now administers the program. 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.

In 2003, OLC awarded the City of San Diego (City) a \$5.36 million Proposition 14 grant, which represents up to 65 percent of the budgeted amount to fund the Logan Heights Branch Library project. The City is required to provide a match of 35 percent or \$2.89 million, of the total project costs. The new 25,000 square foot library is located at the Logan Elementary School site, adjacent to the memorial Charter Middle School. The library opened on December 12, 2009 and offers a computer lab with 35 computers, a Digital Reference Center, cultural center, homework hotline, Teacher Resource Collection, and a 300-seat community room.¹

SCOPE

In accordance with an interagency agreement, the Department of Finance, Office of State Audits and Evaluations, conducted a performance audit of grant agreement 1051 for the period September 5, 2003 through December 31, 2010.

The audit objectives were to determine whether the City's grant expenditures claimed were in compliance with applicable laws, regulations, and grant requirements; and to determine whether the grant deliverables were completed as required. In order to design adequate procedures to conduct our audit, we obtained an understanding of the relevant internal controls. We did not assess the efficiency or effectiveness of program operations. Further, no assessment was performed on the reasonableness of the completed project.

The City management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements. The California State Library is responsible for the state-level administration of the grant program.

¹ Background information obtained from the grant application and City website.

METHODOLOGY

To determine whether grant expenditures were in compliance with applicable laws, regulations, and the grant requirements; and if the grant deliverables were completed as required, we performed the following procedures:

- Interviewed key personnel to obtain an understanding of the grant-related internal controls.
- Examined the grant files, the grant agreement, and applicable policies and procedures.
- Reviewed the grantee's accounting records, vendor invoices, and pay warrants.
- Selected a sample of expenditures to determine if costs were allowable, grant-related, incurred within the grant period, supported by accounting records, and properly recorded.
- Conducted a site visit to verify existence of the library.

The results of the audit are based on our review of documentation, other information made available to us, and interviews with staff directly responsible for administering grant funds. The audit was conducted from May 2011 through October 2011.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Except as noted below, the City was in compliance with the requirements of the grant agreement. Additionally, the grantee met the match requirements by providing matching funds equal to 35 percent of eligible expenditures. The Schedule of Claimed amounts are presented in Table 1.

Table 1: Schedule of Claimed Amounts

Grant Agreement 1051 For the Period September 5, 2003 through December 31, 2010	
Expenditures	Claimed
New Construction	\$ 5,141,832
Site Development	1,398,605
Site Permits and Fees	100,000
Furnishings and Equipment Costs	334,224
Architectural and Engineering Fees	540,007
Construction Cost Estimator Fees	15,000
Geotechnical and Geohazard Reports	5,900
Hazardous Materials Consultant Fees	17,819
Library Consultant Fees	111,363
Construction/Project Management	250,000
Other Professional Fees (City Labor Charges)	197,629
Local Project Administration Costs	133,001
Total	\$ 8,245,380¹

Observation 1: Inadequate recordkeeping and internal controls over grant-related expenditures

The City's recordkeeping and internal controls over the financial and compliance aspects of this grant were inadequate. There were several instances where recordkeeping and controls could be improved. For example:

- The grant coordinator did not maintain an adequate audit trail (e.g., supporting documentation) and bridging documents linking the general ledger to the payment requests were not available during fieldwork and were subsequently provided two months after the audit began.

¹ Amount includes \$535,972 representing the 10 percent withhold due from the California State Library and \$2,886,005 in matching funds.

- Labor costs were claimed in lump sums and were not traceable to individual budget line items. Additionally, the City claimed ineligible labor costs totaling \$64,825 for work done prior to the grant period. Further, the City over-claimed its eligible labor costs by \$4,470 on its payment requests to the state.
- The City claimed consultant and professional costs totaling \$139,757 for work performed prior to the grant period and for projects other than the library.

Because the grant agreement allows the City to offset ineligible costs with other eligible costs and the City was able to provide other allowable costs, we did not question the amounts. However, this does not negate the lack of internal controls and inadequate record keeping.

The grant agreement required the grantee to: (1) maintain a complete record of all financial transactions related to the project in accordance with generally accepted accounting principles, and (2) maintain records such as contracts, invoices, receipts, payrolls and personnel information, indirect cost allocation plans, and all other data or financial records related to this project.

Recommendation:

For future state grants, the City should maintain an adequate system of internal controls and a clear audit trail for the grant expenditures.



THE CITY OF SAN DIEGO

November 14, 2011

Mr. David Botelho, CPA
Chief, Office of State Audits and Evaluations
Department of Finance
915 L Street
Sacramento, CA 95814-3706

Dear Mr. Botelho,

Draft Report Response-City of San Diego Logan Heights Branch Library Audit

City of San Diego Engineering and Capital Projects, Architectural Engineering & Parks has received the draft report regarding the City of San Diego Logan Heights Branch Library Audit. We have conducted some coordination and evaluation meetings with our Auditor's office as well as the City of San Diego Grant coordinator management. The following is our response to the Department of Finance observations and recommendations for this project.

Observation 1:

Inadequate recordkeeping and internal controls over grant-related expenditures.

Recommendation:

For future state grants, the City should maintain an adequate system of internal controls and a clear audit trail for the grant expenditures.

Management Response:

The City of San Diego Engineering & Capital Projects, Public Buildings & Parks agrees with the recommendation and it has already taken some corrective actions. The City implemented a new SAP financial and procurement system which became effective July 1, 2009. The new system brought accuracy, efficiency, reliability, and built in internal controls to our accounting structure as well as the billing process. Our office will utilize the Grants Module in SAP to accurately account for all awarded grants. In addition, our office will coordinate the payment approvals with the appropriate City department prior to submitting requests to the State for reimbursements. We will ensure that no charges will apply to the grant prior to the approved grant period. Our office will also maintain a complete file for future audits.

We appreciate all your help and support with this project which has been a great asset to the Logan Heights Community and our City. If you have any questions regarding this response, please contact Sepi Amirazizi, Project Manager at (619)533-4651.

Sincerely,

Original signed by:
Darren Greenhalgh
Deputy Director



Engineering and Capital Projects Department

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