



Transmitted via e-mail

October 4, 2013

Mr. Mark Ghilarducci, Secretary  
Governor's Office of Emergency Services  
3650 Schriever Avenue  
Mather, CA 95655

Dear Mr. Ghilarducci:

**Final Report—Audit of Governor's Office of Emergency Services' Proposition 1B Bond Funds**

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of the Governor's Office of Emergency Services' (Cal OES) Proposition 1B bond funds for the period July 1, 2010 through December 31, 2012.

The enclosed report is for your information and use. Cal OES' response to the report observations are incorporated into this final report. Cal OES agreed with our observations and we appreciate its willingness to implement corrective actions. The observations in our report are intended to assist management in improving its Proposition 1B programs. This report will be placed on our website.

We appreciate the assistance and cooperation of Cal OES. If you have any questions regarding this report, please contact Susan Botkin, Manager, or Angie Williams, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

Richard R. Sierra, CPA  
Acting Chief, Office of State Audits and Evaluations

Enclosure

cc: Mr. Brendan Murphy, Assistant Secretary for Finance and Administration, Governor's Office of Emergency Services  
Mr. Rick Stolz, Director, Office of Administrative Services, Governor's Office of Emergency Services  
Ms. Helen Lopez, Director of Audits and Performance Evaluations, Governor's Office of Emergency Services  
Ms. Anne Marie Nielsen, Audit Chief, Office of Audits and Evaluations, Governor's Office of Emergency Services  
Ms. Gina Buccieri-Harrington, Assistant Director, Office of Grants Management, Governor's Office of Emergency Services

Audit Report

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Governor's Office of Emergency Services  
Proposition 1B Bond Funds



Oyster Point Marina Ferry Terminal Project

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

## **MEMBERS OF THE TEAM**

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

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# EXECUTIVE SUMMARY

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In accordance with the Department of Finance's bond oversight responsibilities, we audited the Governor's Office of Emergency Services' (Cal OES) administration of Proposition 1B bond funds from July 1, 2010 through December 31, 2012. The audit objectives were to: 1) determine if bond funds were awarded, expended, and reported in compliance with applicable legal requirements and established criteria; 2) determine if Cal OES had adequate project monitoring processes in place; and 3) determine whether Cal OES use of bond funds achieved the intended outcomes. Specifically, our audit focused on the California Transit Assistance Program and two of its three sub-programs: Mass Transit (close-out procedures only) and Regional Public Waterborne Transit. We did not review the Intercity Passenger Rail/Commuter Rail sub-program or the Port Program.

Since November 2006, Cal OES has developed and implemented Proposition 1B programs. Development efforts include outreach to transportation agencies statewide, grantee guidelines, grantee and project tracking tools, and a system of communication and oversight. As of December 2012, Cal OES has awarded over 500 grants in the two sub-programs reviewed.

Based on our audit, we observed that Cal OES has worked to establish fiscal, administrative, and programmatic controls in response to the bond accountability Executive Order S-02-07; however, we noted the following observations:

- Project monitoring should be improved
- Grantees are slow to spend funds
- Inappropriate administrative costs charged
- Inaccurate data reported on Bond Accountability website
- Interest earnings are not maximized

Cal OES should continue to implement appropriate controls over bond funds to further improve the programs. Cal OES should develop corrective action plans to address the observations and recommendations noted in this report.

# BACKGROUND, SCOPE AND METHODOLOGY

## BACKGROUND

In November 2006, California voters approved the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Proposition 1B). Bond proceeds totaling \$19.9 billion are designated for various transportation-related projects, trade infrastructure and port security projects, school bus retrofit and replacement, transit and passenger rail improvements, transit security projects, and local bridge seismic retrofit projects.

Administered by a number of state departments, agencies, boards, and commissions, bond proceeds are allocated to 16 different programs. No one entity is charged to act as a lead agency for Proposition 1B. Each department is responsible for reporting its project and financial status to the appropriate parties.

Of the \$19.9 billion of Proposition 1B bond funds, the Governor's Office of Emergency Services (Cal OES) received \$1.1 billion to administer two new programs: (1) Port, Harbor, and Ferry Terminal Security Program (Port Program) and (2) Transit System Safety, Security, and Disaster Response Program (Transit Program)

Cal OES is responsible for the coordination of overall state agency response to major disasters in support of local government. Cal OES is responsible for assuring the state's readiness to respond to and recover from all hazards – natural, manmade, war-caused emergencies and disasters – and for assisting local governments in their emergency preparedness, response, recovery, and hazard mitigation efforts. Cal OES disperses the Proposition 1B funds through local assistance grants to help transportation agencies prepare, protect, prevent, and quickly respond to security and safety threats. Proposition 1B specifies eligible grantees, projects, and funding allocations among cities and counties. Cal OES Office of Grants Management is responsible for administering the Proposition 1B programs.<sup>1</sup>

The Port Program is allocated \$100 million while the Transit Program is allocated \$1 billion over a ten-year period. The Transit Program is further divided into three sub-programs:

TABLE 1: Transit Program Allocation

SUB-PROGRAM	ALLOCATION AMOUNT
Mass Transit	\$600 million
Regional Public Waterborne Transit (Waterborne)	\$250 million
Intercity Passenger Rail/Commuter Rail (Heavy Rail)	\$150 million

Government Code sections 8879.57 (a) (b) (c)

<sup>1</sup> Source: [www.caloes.ca.gov](http://www.caloes.ca.gov)

## SCOPE

In accordance with the Department of Finance's bond oversight responsibilities, an audit was conducted to determine whether bond funds were awarded, expended, and reported in accordance with applicable legal requirements and established criteria; if adequate monitoring processes were in place; and if use of bond funds met the intended outcomes. The audit focused on grant management practices for the Waterborne Program and the Mass Transit Program.<sup>2</sup> We did not audit the Port Program or the Intercity Rail/Commuter Rail sub-program for this audit cycle. The audit period was July 1, 2010 through December 31, 2012. The audit was conducted at Cal OES headquarters and at grantee locations. The audit did not include an assessment of the bond authorization, issuance, and sale processes.

## METHODOLOGY

To determine whether bond funds were awarded, expended, and reported in compliance with legal requirements and established criteria; adequate monitoring processes were in place; and use of bond funds achieved the intended outcomes, we performed the following:

- Reviewed the bond act and Cal OES grant management procedures, program guidelines, legal provisions, and regulations.
- Reviewed internet resources, including Cal OES' website, to gain an understanding of the bond funded programs.
- Verified the financial information reported on the Strategic Growth Plan Bond Accountability website.<sup>3</sup>
- Interviewed key Cal OES personnel responsible for administering bond funds to obtain an understanding of how Cal OES oversees various project stages: pre-award, award, in-progress monitoring, close-out, and follow-up.
- Assessed key controls at Cal OES to ensure controls were working as intended over bond expenditures.
- Reviewed a sample of project files at Cal OES.
- Reviewed Cal OES' project tracking database to assess data accuracy and reliability.
- Performed a review of the Waterborne Program grantee and conducted fieldwork to assess key controls, grant compliance, monitoring, and to verify expenditures, earned interest, and project status reporting were reasonable, accurate, and appropriate.
- Performed 12 Mass Transit Program grantee reviews and conducted site visits to assess close-out procedures which include: grant compliance with established criteria, monitoring, project status reporting, and achievement of intended outcomes.

Recommendations were developed based on review of documentation made available to us and interviews with management and key staff directly responsible for administering bond funds and the selected grantees.

Except as discussed in the following paragraph, 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 observations and conclusions based on our audit objectives. We

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<sup>2</sup> Only close-out procedures were tested for the Mass Transit Program.

<sup>3</sup> [www.bondaccountability.ca.gov](http://www.bondaccountability.ca.gov)

believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

In connection with our audit, there are certain disclosures required by generally accepted government auditing standards. Finance is not independent of Cal OES, 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.

Cal OES complies with applicable laws, regulations, and established criteria in awarding bond funds and recording bond related expenditures. Cal OES has fiscal, programmatic, and monitoring processes in place for the over 500 grants awarded in the two sub-programs we reviewed. These processes include program guidelines updated annually for each new grant year, grantee and project tracking spreadsheets, a system of communication and oversight, and ongoing technical assistance provided during site visits. These efforts ensure most grant projects stay within scope and cost, intended outcomes are achieved, and reporting efforts are accurate. However, there is opportunity for improvement. To improve Cal OES' bond accountability, we provide the following observations and recommendations:

## **Observation 1: Project Monitoring Should Be Improved**

Project monitoring should be improved to ensure adequate oversight and accountability of Proposition 1B funds. Cal OES' project monitoring relies on information reported by the grantees, with limited verification by Cal OES. Lacking a process to verify the validity of project information greatly increases the risk that projects will not be within scope, schedule, and cost. Due to weak and insufficient grant management practices, we found grantees did not comply with grant guidelines and reported inaccurate information or failed to report.

Our sample of 12 Mass Transit grantees identified the following weaknesses:

- In 7 instances, bank statements provided by the grantees did not agree to the interest amount reported on the closeout reports.
- Cal OES allows the grantees to roll the interest forward to the next fiscal year if it was not spent. However, once the interest is rolled forward, Cal OES does not have an adequate tracking system to capture the outstanding interest balance.
- In 4 instances, expenditures were not reported accurately to Cal OES. Further, because Cal OES requires no supporting documentation (i.e. invoices), there is currently no procedure in place to authenticate the expenditures.
- Cal OES has a thorough site visit checklist form. However, the grantees complete the form themselves. To provide oversight, the Cal OES project managers should receive training and complete the form during each site visit.

During testing of the Waterborne Program grantee, we identified the following weakness:

- Cal OES did not follow its own policy requiring follow-up when the grantee failed to submit the October 2012 project status reports for three grants totaling \$71,340,000. Review of these reports is Cal OES's primary method of performing oversight. Oversight is weakened when the receipt of the project status reports is not enforced and a review is not completed.

Executive Order S-02-07 requires each administering agency to ensure bond funds are used efficiently, effectively, and in the best interests of the state. Cal OES' reliance on self reported information greatly increases the risk that the information reported to the state is not accurate.

**Recommendations:**

- A. Ensure expenditures, interest, and other relevant information is properly reported through regular Cal OES verification. A process should be developed to identify potential high risk grantees or projects and determine the necessity and frequency of spot audits.
- B. Modify reporting templates to improve the ability to track interest rolled forward from prior years.
- C. Provide grant managers the necessary training so they are able to complete the site visit checklist.
- D. Ensure grantee reports are submitted regularly and reviewed timely.

**Observation 2: Grantees Are Slow To Spend Funds**

The Proposition 1B intended outcomes are delayed by the grantees' slow spending of funds. Cal OES is legislatively required to advance the bond funds for the Mass Transit and Waterborne Programs. Even after numerous efforts were made by Cal OES, the grantees are still slow to spend the funds and Cal OES has no authority to withhold their funding. Consequently, there is an accumulation of unspent advanced funds and a backlog of unfinished projects. Proposition 1B funding began in 2007-08 to fund safety and security projects for ten years. Further, some of the same grantees that are slow to spend 2007-08 funding are also slow to spend funding from more recent years. Some grantees stated that environmental studies, project delays, and spending federal match funds first have all been reasons for the delayed spending.

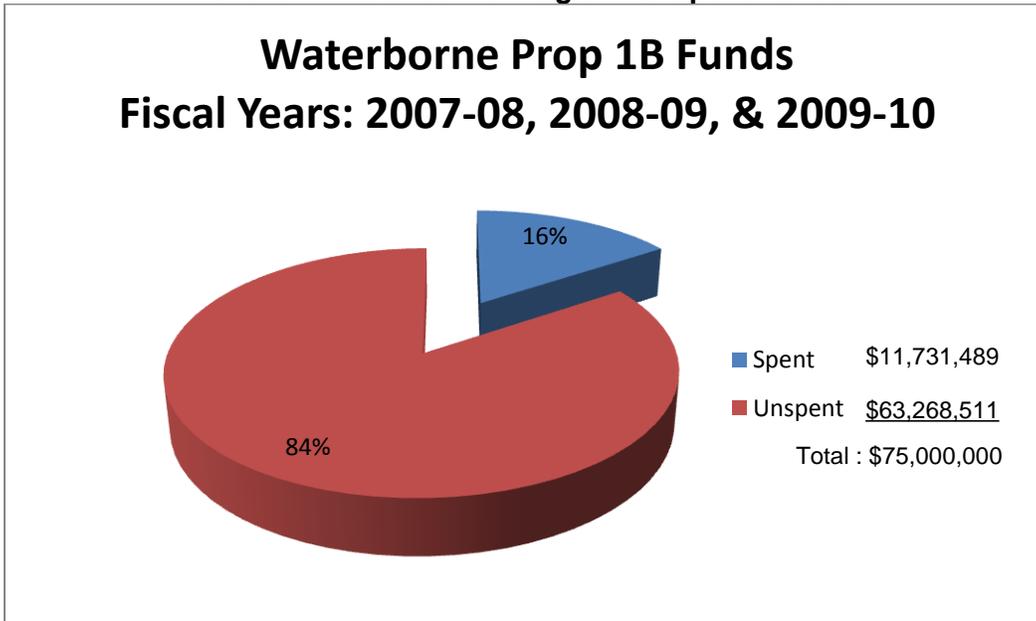
**Waterborne Program**

The Waterborne Program grantee is advanced \$25 million each year and has not completed the first three fiscal years' projects,<sup>4</sup> leaving \$63,268,511 unspent. In March 2011, Government Code section 8879.61 (a) (2) was amended allowing the grantee until June 30, 2014 to complete the first two grants and until June 30, 2015 to complete the third grant. Although the Government Code provides for time extensions to spend funding, the ongoing environmental review and planning stages are expected to cause the grantee to seek even further time extensions.

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<sup>4</sup> The first three grant funding years are 2007-08, 2008-09, and 2009-10. Cal OES did not fund grant years four and five until early 2013 when the Waterborne Program grantee received an additional \$50 million advance funding. Advance funding of \$109,040,182 is unspent in the Waterborne Program as of June 2013.

**Chart 1: Waterborne Program Unspent Funds**

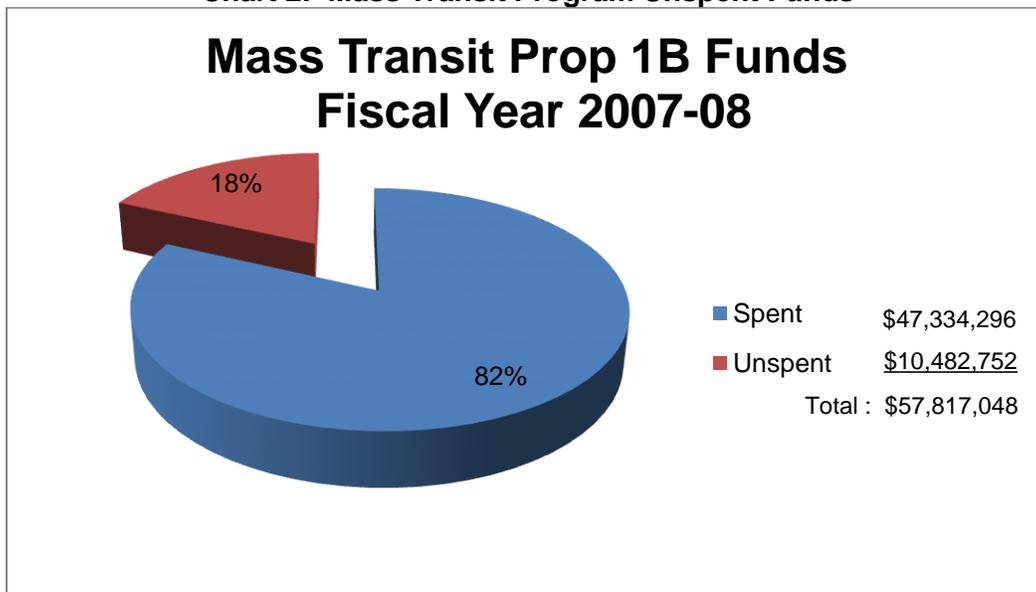


Source: [www.bondaccountability.ca.gov](http://www.bondaccountability.ca.gov), December 2012 Project Status Report

### Mass Transit Program

As part of the 2007-08 Mass Transit Program close-out testing, we noted ten grantees have not completed their 2007-08 grant projects, leaving \$10,482,752 unspent. Government Code section 8879.61 (a) (1) gives the grantees three years to spend funds once they are allocated. Therefore, most 2007-08 funds should have been spent by June 2011.

**Chart 2: Mass Transit Program Unspent Funds**



Source: [www.bondaccountability.ca.gov](http://www.bondaccountability.ca.gov), December 2012 Project Status Report. There are inaccurate amounts reported on the website (see Observation 4). Without a complete review of the website report and all grantee projects, we cannot determine the amount spent and must rely on published data. Our site visits of the 12 grantee projects and the Cal OES reporting of expenditure amounts spent reflect the following information: 9 of 12 projects' expenditures were reported correctly; 2 of 12 were misreported by less than 4 percent; and 1 of 12 projects was under-reported by 95 percent, or \$5.1 million.

**Recommendation:** Continue to work with grantees to ensure timely completion of project milestones and reduce the backlog of unfinished projects.

### **Observation 3: Inappropriate Administrative Costs Charged**

Cal OES inappropriately charged direct administrative costs to Proposition 1B. According to Government Code section 8879.50(b), Cal OES is allowed to charge up to three percent for administrative costs. Although administrative costs are under the three percent limit, Cal OES' management instructed some employees to charge their time to the Proposition even though the employees were not working on Proposition related activities. Specifically, eleven employees charged time to Proposition 1B, of which, eight employees spent all or most of their time on other duties. This observation was previously identified in Finance's audit report dated October 28, 2010.

State Administrative Manual section 9201 defines direct costs as those incurred for activity or service that benefits a specific program.

**Recommendation:** Accurately report direct project time and related costs in accordance with the State Administrative Manual.

### **Observation 4: Inaccurate Data Reported On Bond Accountability Website**

Expenditure and interest information reported on the Bond Accountability website (website) does not agree with the Mass Transit grantees' close-out reports in 5 of 12 (41 percent) reports tested for interest and 3 of 12 (25 percent) tested for expenditures. In one instance, the website stated \$277,230 of funds were expended by the San Francisco Bay Area Rapid Transit District, when in fact, \$5,400,372 was reported to Cal OES as expended on the grantee's close-out report. Various causes such as missing data, mathematical errors, typographical errors, and incorrect data reported to Cal OES contributed to the variances. Cal OES lacks a process to review and verify project information before and after it is reported on the website. Without a process for verifying this information, the public could be misled and decisions could be made based on inaccurate information posted to the website.

Executive Order S-02-07 establishes the accountability reporting requirements for each administering agency. The intent of the website is to enhance accountability and transparency of bond funds.

#### **Recommendations:**

- A. Develop and implement procedures to verify expenditures reported on grantee close-out reports are posted accurately to the website.
- B. Perform periodic reconciliations between the grantee close-out reports and the website.

### **Observation 5: Interest Earnings Are Not Maximized**

Cal OES grantees are inconsistently following grant guidelines which require advanced funds be kept in a separate interest bearing account. Some grantees follow the grant guidelines literally and deposit funds received each grant cycle in a separate bank account. Other grantees deposit funds received into a pooled local agency account and track interest earnings separately. In some instances, the amounts deposited are large and require extra deposit insurance. The cost of insurance and bank fees reduce earned interest. Cal OES should

evaluate alternatives to determine the best method for maximizing earned interest. For example, allow grantees to deposit advanced funds in a secure investment fund, such as the State Treasurer's Local Agency Investment Fund, to enhance interest earnings and reduce fees.

State Administrative Manual section 8099 documents the state policy to maximize interest earnings whenever possible.

**Recommendation:** Reevaluate the interest policy to determine the best method for grantees to maximize earned interest while following the Proposition 1B guidelines.





September 19, 2013

Mr. David Botelho  
Chief, Office of State Audits and Evaluations  
Department of Finance  
915 L Street, 6<sup>th</sup> Floor  
Sacramento, CA 95814

Dear Chief Botelho:

The Governor's Office of Emergency Services (Cal OES), formerly the California Emergency Management Agency, is submitting the required 10-day response to the observations and recommendations provided in the July 2013 Proposition 1B (Prop 1B) Bond Funds Report concerning the Transit System, Safety, Security, and Disaster Response Account (TSSSDRA). We appreciate the opportunity to provide the status of our corrective action plan to the specific observations and recommendations in the report and do so as follows:

### **Project Monitoring Should Be Improved**

#### **Recommendation #1**

- A. Ensure expenditures, interest, and other relevant information is properly reported through regular Cal OES verification. A process should be developed to identify potential high risk grantees or projects and determine the necessity and frequency of spot audits.
- B. Modify reporting templates to improve the ability to track interest that is rolled forward from prior years.
- C. Provide grant managers the necessary training so they are able to complete the site visit checklist.
- D. Ensure grantee reports are regularly submitted and reviewed timely.

#### **Follow-Up Response**

- A. Cal OES developed and implemented a subrecipient risk assessment program that allows for the fiscal and administrative monitoring of all grants during the grant award period through limited or extended scope field and/or desk reviews. Programs will be working more closely with Grants Monitoring to identify any potential high risk grantees or projects under the Proposition 1B Program for audits.

- B. Performance reporting and closeout templates will be modified to include fields to track applicable interest earnings from any advanced TSSSDRA funds received by the grantee. The reported interest will be verified by a bank statement or internal fiscal tracking spreadsheet to be included with the reports submitted by the grantee. Information from these templates will be used to track the interest accrued by the grantee in a Cal OES internal spreadsheet.
- C. Cal OES believes that staff is knowledgeable with the contents of the site visit checklist. Nevertheless, during future site visits, components of the checklist will be more thoroughly reviewed and discussed with the grantee to ensure compliance with all applicable guidelines and regulations and to resolve any relevant concerns.
- D. Cal OES currently sends periodic reminders to grantees regarding the deadlines for Performance Reports and Closeout Reports. These deadlines are also listed in the guidance of the respective Program. Any reports that are past due will be consistently brought to the attention of the grantee and if necessary, engaging the appropriate chain of command, until the proper documentation/report has been submitted.

### **Grantees Are Slow to Spend Funds**

#### **Recommendation #2**

Continue to work with grantees to ensure timely completion of project milestones and reduce the backlog of unfinished projects.

#### **Follow-Up Response**

During the Investment Justification (Public Hearings) submission process, Cal OES will work with grantees to ensure that projects submitted for funding under the Proposition 1B Program are ready to begin upon the receipt of funding. Cal OES will also continue to follow-up on backlogged projects and provide any relevant technical assistance to grantees to help remedy any issues.

### **Inappropriate Administrative Costs Charged**

#### **Recommendation #3**

Accurately report direct project time and related costs in accordance with the State Administrative Manual.

#### **Follow-Up Response**

Cal OES is reviewing all project time charged to Proposition 1B funding. Project time reported will be reconciled to ensure that it accurately reflects the administrative costs associated with the individuals working on Proposition 1B activities. Cal OES will develop processes to ensure all future administrative costs will be associated with Proposition 1B activities.

## **Inaccurate Data Reported On Bond Accountability Website**

### **Recommendation #4**

- A. Develop and implement procedures to verify expenditures reported on grantee close-out reports are posted accurately to the website.
- B. Perform periodic reconciliations between the grantee close-out reports and the website.

### **Follow-Up Response**

- A. Closeout reports posted to the website will receive a second review by management before submission to the Department of Transportation for final posting on the Bond Accountability Website.
- B. In order to ensure accuracy of reports received from grantees, close-out reports will be reconciled with the website periodically using a random sampling due to the overall mass of information that is uploaded to the website.

## **Interest Earnings Are Not Maximized**

### **Recommendation #5**

Reevaluate the interest policy to determine the best method for grantees to maximize earned interest while following the Proposition 1B Guidelines.

### **Follow-Up Response**

The intent of the Proposition 1B Program is to allocate available funds to agencies with capital projects in immediate need for funding. However, the interest policy will be reassessed to provide grantees a better opportunity to maximize interest, where applicable.

On behalf of Cal OES, we appreciate the assistance and guidance offered during your review. If you have additional questions or concerns, please feel free to contact Helen Lopez, Acting Chief at (916) 845-8534.

Sincerely,

*Original signed by*

MARK S. GHILARDUCCI  
Director