



Transmitted via e-mail

October 23, 2015

Mr. Dan Troy, Vice Chancellor
College Finance and Facilities Planning Division
California Community Colleges, Chancellor's Office
1102 Q Street
Sacramento, CA 95811

Dear Mr. Troy:

Final Report—California Community Colleges Chancellor's Office, Proposition 1D Bond Funds Corrective Action Plan Implementation

The Department of Finance, Office of State Audits and Evaluations (Finance), has completed its audit of the California Community Colleges Chancellor's Office's (CO) Corrective Action Plan (CAP) in response to Finance's Proposition 1D bond funds audit report dated March 2, 2012.

The enclosed report is for your information and use. The CO's response to the report observation and our evaluation of the response are incorporated into this final report. This report will be placed on our website.

We appreciate the assistance and cooperation of the CO. If you have any questions regarding this report, please contact Diana Antony, Manager, or Mindy Patterson, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

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

Enclosure

cc: Ms. Susan Yeager, Administrator of Facilities Planning Unit, California Community Colleges
Mr. Ron Gerhard, Vice Chancellor of Finance and Administration, San Francisco
Community College District
Mr. James O'Reilly, Chief Facilities Executive, Los Angeles Community College District
Ms. Jeanette Gordon, Chief Financial Officer, Los Angeles Community College District

AUDIT REPORT

California Community Colleges Chancellor's Office
Corrective Action Plan
Proposition 1D

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

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

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BACKGROUND, SCOPE AND METHODOLOGY

BACKGROUND

In November 2006, California voters passed Proposition 1D, the Kindergarten-University Public Education Facilities Bond Act of 2006, providing \$10.4 billion in general obligation bonds for construction and renovation of educational facilities. Of the \$10.4 billion, \$1.5 billion was earmarked for California Community Colleges (CCC). As of January 2015, \$1.4 billion, or 93 percent of the \$1.5 billion provided, has been committed to statewide projects.¹

The CCC Chancellor's Office (CO) is charged with providing leadership, advocacy and support of the CCCs. Serving as the administrative branch of this system, the CO is also responsible for allocating state funding, including Proposition 1D bond funds, to the colleges and districts.²

In 2012, the Department of Finance, Office of State Audits and Evaluations (Finance), audited CCC's Proposition 1D bond funds.³ The report identified weaknesses within CCC's operations and at two community college districts. The CO was required to develop a corrective action plan (CAP) to address the observations and recommendations, including milestones and target dates to correct all deficiencies. The CO submitted their CAP on May 10, 2012.

SCOPE

The objective of the audit is to verify whether corrective actions were implemented as reported in the CAP and adequately addressed the March 2, 2012 audit report observations.⁴ The audit period included activity from July 1, 2012 through June 30, 2014.

CO management is responsible for the content of the CAP and ensuring corrective actions addressed the audit observations and were implemented as reported. Finance's responsibility is to verify the implementation and adequacy of the CAP based on our audit.

METHODOLOGY

To determine whether corrective actions were implemented as reported and adequately addressed the audit observations, we performed the following procedures:

- Reviewed the applicable legal provisions, bond acts and regulations, policies, procedures, and program guidelines.
- Obtained an understanding of the CO's internal controls over implementation of the corrective actions and assessed whether those controls were properly designed and implemented.

¹ Source: <http://bondaccountability.cccco.edu/>

² Source: www.cccco.edu

³ A copy of the report can be found at www.dof.ca.gov.

⁴ See Appendix A for a list of the March 2, 2012 audit observations and recommendations.

- Interviewed management and key staff responsible for administering bond funds to obtain an understanding of how the CO oversees the various project stages and how corrective actions have been implemented.
- Reviewed the information reported on the Strategic Growth Plan Bond Accountability website and verified the website is regularly reconciled to internal accounting records.⁵
- Verified policies and procedures over bond-funded projects at the Los Angeles Community College District (LACCD) and the San Francisco Community College District have been adopted as outlined in the corrective action plan.
- Performed a site visit to LACCD and conducted interviews with key district staff responsible for project management, monitoring, and close-out procedures.
- Selected a sample of CO project files for review based on project data tracked in manually maintained spreadsheets. Verified the accuracy and completeness of key spreadsheet data by comparing the data to supporting documentation and concluded the data was sufficiently reliable for the purposes of this audit.
- Verified CO final project closeout packages for projects funded by Proposition 1D are completed and retained.

In conducting our audit, we obtained an understanding of CO's internal controls, including any information systems controls that we considered significant within the context of our audit objectives. We assessed whether those controls were properly designed and implemented. Any deficiencies in internal control that were identified during our audit and determined to be significant within the context of our audit objectives are included in this report.

Except as discussed in the following paragraph, we conducted this audit in accordance with generally accepted government performance 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 believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

Finance and the CO are both 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. Under generally accepted government performance auditing standards, performance of these activities creates an organizational impairment with respect to independence. However, Finance has developed and implemented safeguards to mitigate the organizational impairment so reliance can be placed on the work performed.

⁵ Source: www.bondaccountability.ca.gov

The Department of Finance, Office of State Audits and Evaluations' (Finance) March 2, 2012 audit report on the California Community Colleges Chancellor's Office's (CO) Proposition 1D bond funds included four observations. The CO developed 15 corrective actions to address the reported observations and recommendations.

As noted below, our audit of the corrective action plan (CAP) indicates corrective actions for three of the observations have been fully implemented and one was partially implemented. See Appendix A for CAP implementation detail.

Audit Observation 1: Audits and Oversight Activities Need Improvement

Corrective Action Status: Partially Implemented

The CO partially implemented the corrective actions related to audits and oversight activities. In response to audit recommendations 1A through 1C, the CO stated that districts are not required to submit Proposition 39 audit information to the CO, and as a result, it does not review Proposition 39 audits or the local citizen oversight committees' reports. However, these reports are available upon request and are also required to be posted online. Additionally, as noted in the CO's bond accountability plan, Proposition 39 audits often verify the progress of Proposition 1D projects because the projects are partially financed with both local general obligation bonds authorized by Proposition 39 and state Proposition 1D monies. As a result, we continue to recommend the CO review and consider all bond-related audit reports as they may contain audit findings pertaining to Proposition 1D.

In response to recommendation 1D, beginning in fiscal year 2012-13, the CO included a requirement in its Contracted District Audit Manual (CDAM) to evaluate whether Proposition 1D costs are accurately reported, appropriate, incurred for the project, and paid by the district. Districts are required to complete and submit to the CO an annual financial and compliance audit report in accordance with the CDAM. These reports are separate from the Proposition 39 audits. The CO actively monitors annual district audit findings and corrective actions required to resolve repeat findings.

Observation 2: Bond Program Oversight by Los Angeles Community College District Needs Improvement

Corrective Action Status: Implemented

The Los Angeles Community College District (LACCD) fully implemented corrective actions related to bond program oversight. We reviewed LACCD policies and procedures to verify they have been adopted as outlined in the CAP.

Observation 3: Contracting Criteria Not Always Followed by City College of San Francisco

Corrective Action Status: Implemented

The City College of San Francisco (CCSF) fully implemented all corrective actions related to contracting criteria. We verified CCSF has policies and procedures in place to follow state contracting laws and CO guidelines; however, we were unable to verify contract compliance prior to issuance of a Notice to Proceed, as no new construction contracts were executed during the audit period.

Observation 4: Inaccurate Project Reporting on the Bond Accountability Website

Corrective Action Status: Implemented

The CO fully implemented the corrective action related to project reporting on the Bond Accountability website. We verified the prior observation had been resolved and the website is regularly reconciled to internal accounting records.

**California Community Colleges Chancellor's Office (CO)
Corrective Action Plan Status and Evaluation**

Audit Observation	Audit Recommendation	May 10, 2012 Corrective Action Response	Corrective Action Implemented ¹
<p>1. Audits and Oversight Activities Need Improvement</p>	<p>1A - Review Local Citizen Oversight Committees' (LCOC) annual activity reports and determine if these committees actively review project progress.</p> <p>1B - Track districts' Proposition 39 audits to help identify high-risk districts.</p> <p>1C - Strengthen procedures for resolution of Proposition 39 audit findings and recommendations, including requiring corrective action plans for material and repeat findings.</p>	<p>The CO is unable to proceed with recommendations 1A - 1C. The CO does not have specific authority to monitor local Proposition 39 bond issues and cannot impose additional requirements on local audits to satisfy state-funded project oversight requirements.</p>	<p align="center">P</p>
	<p>1D - For projects not covered by other audits, develop a process to ensure bond expenditures are consistent with state requirements and achieve the intended outcomes.</p>	<p>Proposition 1D bond-funded projects are subject to the following processes:</p> <ol style="list-style-type: none"> 1. Preliminary plans approved by the CO and Department of Finance (Finance). Working drawings and project specifications are approved by the Division of the State Architect (DSA). 2. The DSA-approved working drawings are approved by the CO and Finance. The district uses the approved plans and specifications to solicit bids and is required to submit any addenda to the CO for approval. The district's legal counsel is responsible for ensuring compliance with state contract law. 3. The district receives permission to award the bid from its Board of Trustees, CO, and Finance. 4. DSA field engineers and inspectors of record certify construction. 5. The CO reviews district's quarterly reports. 6. CO reviews and approves all reimbursement claims. 7. A final project closeout package is compiled for each project and includes supporting documents that provide a comprehensive view of project scope and costs. 	<p align="center">Y</p>

¹ Y = Yes, N = No, P = Partially.

2. Bond Program Oversight by Los Angeles Community College District (LACCD) Needs Improvement	2A.1 - LACCD should improve communication with BuildLACCD to ensure better coordination and oversight.	<p>LACCD has made significant management and leadership changes in order to ensure better coordination and oversight in its bond construction program. Some of the actions include:</p> <ul style="list-style-type: none"> • New controls on allowable expenses. • Board of Trustees has monthly dedicated meetings for the Building Program. • Independent Review Panel Report, released January 2012, suggested a variety of structural reforms. • The District's Office of Inspector General (OIG) completed a Fraud Risk Assessment in November 2011. • The OIG developed a conflict of interest disclosure form. • A program management assessment by Hill International was to be presented in early 2012. 	Y
	2A.2 - LACCD should take ownership of the cost allocation plan and ensure completion of the plan.	LACCD has had formal plans detailing the allocation of costs and fees since the inception of its program in 2001. These were documented in numerous Facility Master Plans approved by its Board of Trustees. The material detailed the construction costs and more than a dozen related soft-cost categories for each of the hundreds of projects planned. Additionally, the Master Budget Plan, formally adopted by the Board of Trustees, aggregates all project and other program costs into a single document and fixes budget amounts at the project level, rather than the previous college allocation that had been in effect to date.	Y
	2A.3 - LACCD should take a more proactive role to expeditiously address audit findings and recommendations	Past Performance Audit reports from fiscal years ending 2005 to 2010 indicate a total of 116 issues or findings were identified. As of the last completed performance audit ending June 30, 2010, 114 [issues] have been reported as closed with 2 remaining in progress. These figures express proactive and timely actions by LACCD and its program management team to resolve any audit findings and implement audit recommendations.	Y
	2A.4 - LACCD should continue to work with the Review Panel to improve program operations and ensure accountability.	The Independent Review Panel spent many months examining the LACCD's Building Program. The district is committed to restoring public trust, adding value to student success and continuing its progress on program refinements and a demonstrated commitment to integrity.	Y
	2B - The CO should continue to provide guidance to ensure success of LACCD's bond construction program.	The CO will continue to work with LACCD to ensure success of the district's bond construction program. The CO notes the LACCD has been thoroughly investigated and the district has implemented its own corrective action plan. The LACCD has undertaken a thorough review and investigation of its building program prompting many structural changes that have already been implemented as previously discussed. It should be noted the structural issues in the program notwithstanding, the state-funded projects at LACCD, conformed to all requirements of the state capital outlay program.	Y

3. Contracting Criteria Not Always Followed by City College of San Francisco (CCSF)	3A - CCSF should continue its efforts to improve controls over contract administration and construction management by following state contracting laws and CO guidelines.	The district will continue to follow all state contracting laws and CO guidelines as well as continue its efforts to improve controls over contract administration and construction management.	Y
	3B - The CO should closely monitor implementation of CCSF's corrective actions.	The CO will conduct quarterly reviews of ongoing CCSF state-funded construction projects. We will also request verification that future construction contracts be reviewed for compliance with current contract law and obtain copies of contracts prior to issuing the Notice to Proceed.	Y
4. Inaccurate Project Reporting on the Bond Accountability Website	4A - Reconcile project information on the bond accountability website to internal fiscal and accounting records and adjust the website amounts as needed.	The CO agrees that at the time of this audit, (March 2011), a discrepancy existed on the bond accountability website that resulted in a \$16.8 million error. The problem was resolved in April 2011 and the data continues to be accurate. The website will be updated twice annually as required.	Y

**CALIFORNIA COMMUNITY COLLEGES
CHANCELLOR'S OFFICE**

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September 30, 2015

Richard R. Sierra, CPA
Chief, Office of State Audits and Evaluations
Department of Finance
915 L Street
Sacramento, CA 95814

Dear Mr. Sierra:

Thank you for the opportunity to respond to the Office of State Audits and Evaluations (OSEA) draft report on "California Community Colleges Chancellor's Office, Corrective Action Plan, Proposition 1D" dated August 25, 2015.

The Chancellor's Office (CO) has reviewed the draft audit as presented in Report No. 146870113 of the corrective action plan presented in our May 10, 2012 letter. The draft report identified three of the four audit observations and recommendations as having been fully implemented and one—observation 1 on Audits and Oversight Activities Need Improvement—partially implemented.

Audit Observation 1: Audits and Oversight Activities Need Improvement**Corrective Action Status: Partially Implemented**

The CO partially implemented the corrective actions related to audits and oversight activities. In response to audit recommendations 1A through 1C, the CO stated that districts are not required to submit Proposition 39 audit information to the CO, and as a result, it does not review Proposition 39 audits or the local citizen oversight committees' reports. However, these reports are available upon request and are also required to be posted online. Additionally, as noted in the CO's bond accountability plan, Proposition 39 audits often verify the progress of Proposition 1D projects because the projects are partially financed with both local general obligation bonds authorized by Proposition 39 and state Proposition 1D monies. As a result, we continue to recommend the CO review and consider all bond-related audit reports as they may contain audit findings pertaining to Proposition 1D.

Audit Recommendations:

1A - Review Local Citizen Oversight Committees (LCOC) annual activity reports and determine if these committees actively review project progress.

1B - Track districts' Proposition 39 audits to help identify high-risk districts.

1C - Strengthen the procedures for resolution of Proposition 39 audit findings and recommendations, including requiring corrective action plans for material and repeat findings.

Response: The CO is unable to proceed with recommendations 1A through 1C. Districts with Proposition 39 bonds have a local annual obligation to complete a financial audit, a performance audit and a report for the Citizen's Oversight Committee. Per requirements in the Education Code, all of these Proposition 39 items must be posted annually on each district's website including the agendas and meeting minutes for the Citizen's Oversight Committee. Although these reports are available and could potentially be used to track district's Proposition 39 audits to aid with identifying high-risk districts, the CO does not have the staffing resources or the specific authority to influence or to resolve issues with the districts' Proposition 39 audit findings.

However, the Proposition 39 funds are district monies that are subject to the districts' annual audits, as are other district funds used for state-funded capital outlay projects for which districts will ultimately be reimbursed by the state. These audits are reviewed annually by the CO fiscal unit to determine if there are negative findings. An informal policy has been in place since the initial Proposition 1D audit, wherein, if there is a negative audit finding regarding a state-funded capital outlay project, the appropriate notification will be made to the CO facilities planning unit. The facilities planning unit will follow up with the district to document the reasons for and the district's planned resolution to the audit finding. This policy has been formalized via a policy memo sent to staff from the Assistant Vice Chancellor of College Finance and, therefore, formally adding this step to the procedures followed by the fiscal unit when reviewing the districts' annual audits.

Additionally, the CO does have the responsibility for oversight of state funded projects and for advising districts on compliance issues in terms of both capital outlay projects and fiscal matters.

The CO will also continue to review districts' Quarterly Reports for all Proposition 1D projects to ensure bond expenditures, including any Proposition 39 local fund commitments, are consistent with state requirements and achieve the intended outcomes.

Additionally, as part of the project closeout package, districts provide a final Quarterly Report and a revised JCAF 32 depicting the final costs and scope for the project to verify that the state requirements have been met. The costs include both state and local costs, including any local Proposition 39 funding.

Finally, we would point out that districts are not required to contribute to state capital outlay projects. To the extent they do, it makes the project more competitive for state funding, but districts could request 100 percent capital outlay funding from the state for eligible projects. The Chancellor's Office would like to continue with our current scoring formula which includes the local funding allocation because it offsets the state contribution to projects and state capital outlay resources can therefore be disbursed more widely throughout the state. There are a myriad of fiscal controls surrounding the districts' local funds, including Proposition 39 funds, such that the perceived risk of an audit finding regarding the districts' Proposition 39 funds causing a major issue on a state-funded project is fairly low. This is not to say that issues do not arise on state-funded projects that are partially funded by local Proposition 39 funds; however, to date these issues have typically been centered around project scope rather than the voluntary local contribution from Proposition 39 funding.

Again, thank you for the opportunity to respond to these audit findings. We look forward to working with your office to continuously improve our system's and the state's bond accountability.

Sincerely,

Original signed by:

Dan Troy, Vice Chancellor for Fiscal Policy
College Finance and Facilities Planning

EVALUATION OF RESPONSE

The California Community Colleges Chancellor's Office (CO) response to the draft report has been reviewed and incorporated into the final report. In evaluating the CO's response, we provide the following comments:

Audit Observation 1: Audits and Oversight Activities Need Improvement

Corrective Action Status: Partially Implemented

The CO partially disagreed with the audit observation and recommendation. In its response, the CO stated they do not have the staffing resources or the authority to influence or resolve issues with the districts' Proposition 39 audit findings. The intent of the recommendation was that the CO should incorporate any negative district audit findings into the CO's risk assessment process for awarding state bond funds. We continue to recommend the CO review and consider all bond-related audit reports as they may contain audit findings pertaining to Proposition 1D.

The observation and recommendation remain unchanged.