

3:30 – 4:15 pm

**Audits and Oversight:
The importance of CBOCs**

Special Guest Speakers:

Jeffrey V. Brownfield, CPA, Chief, Division of Audits

Andrew Finlayson, Chief, State Agency Audit Bureau

Having qualified citizen oversight committee members to carry out the duties they are entrusted with and for the members to be active in reviewing a master plan that ties back to the bond measure and the timely and proper review of bond expenditures. Through this audit issues that we found in the four Prop 39 related audits we have performed thus far would most likely not have occurred.

Those districts were:

- **LAUSD**
- **SJUSD**
- **San Joaquin Delta College**
Cover letter and Summary on following 4 pages
www.sco.ca.gov/Press-Releases/2008/pr08062auditrpt.pdf
- **LACCD**
www.sco.ca.gov/Content-Images/EO/LACCD.pdf

California State Controller's Office

The Controller is the state's independent fiscal watchdog, providing sound fiscal control over more than \$100 billion in receipts and disbursements of public funds a year, offering fiscal guidance to local governments and uncovering fraud and abuse of taxpayer dollars.

The State Controller's Audit authority is the only one that is independent of both the Administration and the Legislature. They are directed at ensuring that taxpayer dollars spent at the State and local level are free of fraud, waste and abuse. They ensure that independent auditors performing annual financial and compliance audits of school districts and local governments comply with professional audit standards and ensures that findings are addressed.

Jeffrey V. Brownfield, CPA.

As the Division Chief, Jeffrey is responsible for audit programs of national, state, and local agencies to: Ensure expenditures of state and federal public funds are proper and legal; Identify fraudulent or abusive accounting practices; Identify areas of significant savings, cost recoveries or operation improvements; Provide sound fiscal control of monies due the state; Provide effective, equitable audit controls; Communicate legislatively mandated audit programs to local governments, state and national private business with access to state and federal public funds; and Communicate with other state agencies such as the Department of Finance, the State Treasurer's Office, and the Legislature on issues that affect state audit programs. Mr. Brownfield has a Bachelor of Science degree in Business Administration with concentration in Accounting, from the California State University, Sacramento.

Andrew Finlayson.

Andy Finlayson is a Bureau Chief with the State Controller's Office, Division of Audits. He has more than 28 years audit experience in the public sector and have oversaw many sensitive, high profile audits for the state. He currently oversees the State Agency Audits Bureau which includes audits of state agencies, the Lottery, and contracted audits with CalTrans and other state agencies. Andy holds a Bachelor of Science Degree in Accounting and Finance from the California State University California, Sacramento.

To read more about the California State Controller's Audit Programs visit:

www.sco.ca.gov/controller_audits_main.html
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Controller John Chiang, the State's chief fiscal officer, has fought to make finances more transparent and accountable to the public, and to weed out waste, fraud and abuse of public money. Chiang has led efforts to reform the State's public pension systems, helped local governments navigate difficult economic times, protected California's precious natural resources, reunited owners with more than \$1.6 billion in unclaimed property, and launched financial and tax assistance seminars.

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Audits and Oversight • California State Controller's Office

Jeffrey V. Brownfield, Chief, Division of Audits

Andrew Finlayson, Chief, State Agency Audit Bureau

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SAN JOAQUIN DELTA COLLEGE

Audit Report

MEASURE L AND PROPOSITION 1D BOND PROCEEDS

March 1, 2004, through August 31, 2008



JOHN CHIANG
California State Controller

November 2008



JOHN CHIANG
California State Controller

November 18, 2008

Raul Rodriguez, President
San Joaquin Delta College
5151 Pacific Avenue
Stockton, CA 95207

Dear Dr. Rodriguez:

Enclosed is the State Controller's Office (SCO) report of its audit of the San Joaquin Delta College's (Delta College) use of Measure L and Proposition 1D bond proceeds. Delta College's response to our audit findings and recommendations is incorporated as Attachment A to this report. Our comments on some statements made in your response are included as Attachment B to this report. The audit period was March 1, 2004, through August 31, 2008.

Based on your response, you disagree with most of the audit findings and recommendations. We cannot compel you to take action; however, please be advised that, under the "School Bond Waste Prevention Action" section of the Strict Accountability in Local School Construction Bond Act of 2000, any citizen who has paid an ad valorem tax on real property within the community college district can pursue legal action against any officer of the district for failure to use bond proceeds in accordance with legal requirements or who willfully failed to appoint the citizens' oversight committee.

We are forwarding our report to the Commission on California State Government Organization and Economy (Little Hoover Commission) for review and consideration. The Little Hoover Commission is currently conducting a review of the adequacy of state oversight and control over bond expenditures.

Please convey our appreciation to your staff for their cooperation during the course of our audit. If you have any questions, please contact Andrew Finlayson, Chief, State Agency Audit Bureau, at (916) 324-6310.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/wm

Audit Report

Summary

The State Controller's Office (SCO) conducted an audit of the San Joaquin Delta College's (Delta College) use of Measure L and Proposition 1D bond proceeds. Measure L was approved by voters in the Delta College District, which provided \$250 million in bond funds to repair, improve, expand, and upgrade facilities. Delta College received \$40.2 million of state matching funds from Proposition 1D for two projects under Measure L. As of June 30, 2008, total expenditures for Measure L and Proposition 1D were \$72 million and \$1.4 million, respectively.

Measure L was approved under provisions of Proposition 39, which amended the California Constitution to enable school bond measures to pass with a 55% vote majority instead of a two-thirds margin, provided that:

- Bond funds can be used only for facilities and not for other purposes such as teacher and administrator salaries or other school operating expenses.
- Before holding an election, a school district or a community college must publicize a list of its intended projects. Measure L contains a list of the intended projects.
- The school district or community college must arrange for two independent audits (one performance audit and one financial audit) annually. The performance audit is intended to ensure that funds are spent only on the specific projects listed.
- The school district or community college must appoint a citizens' oversight committee (COC) to actively review and report on the proper expenditure of taxpayers' money and alert the public to any waste or improper expenditures.

Of the approximately \$72 million in Measure L expenditures incurred through June 30, 2008, we found that Delta College spent \$11.5 million (16%) on projects that are not consistent with the priorities identified in the voter-approved measure. Approximately \$10.6 million was spent to build state-of-the-art athletic facilities at the college. Another \$887,000 was used to install two high-tech electronic message signs (marquee signs) at two of the college's entrances. According to its budget documents, Delta College anticipates spending \$4.25 million more in fiscal year (FY) 2008-09 to complete construction of the athletic facilities. We could find no rationale or basis for assigning high priority to these projects, given the fact that the bond proceeds were clearly insufficient to fund even the projects listed in Measure L and approved by the voters.

Delta College also used Measure L funds to pay \$283,382 in costs incurred during FY 2004-05, FY 2005-06, and FY 2006-07 for a new financial information system called Kualii, a project sponsored by a consortium of colleges. Costs incurred include consortium fees, consultant fees, and costs of staff travel to 18 other college campuses/sites throughout the country, including campuses in New York, Las Vegas, and Hawaii. As the financial information system is an administrative function, the costs are operating expenses and thus are specifically prohibited under Proposition 39 and Measure L. Although Delta College removed the expenditure from Measure L funds in July 2008, we are still concerned about the lack of control and oversight over bond expenditures.

We found the oversight effort of the COC to be ineffective because the scope of its review is limited in the bylaws adopted by the Board of Trustees. The reviews performed during the COC's quarterly meetings were passive and perfunctory; committee members, citing their unpaid and voluntary status, stated that they could not devote significant time and effort to the oversight endeavor. According to the Education Code, each COC member can serve only two consecutive two-year terms. Under this criterion, the term of all four current COC members would expire by the end of October 2008. The Board of Trustees amended the COC bylaws to extend the term of the current COC members by another two-year term. However, we question whether the Board of Trustees has the legal authority to override the Education Code.

Finally, we found that the annual audit requirement for a performance audit and a financial audit did not result in meaningful enhancement of accountability and transparency of Measure L funds. Instead of arranging for performance audits as specified in Proposition 39 and Measure L, Delta College retained the auditors to perform "agreed-upon procedure" reviews, which are less comprehensive. In performing the procedures, the auditors retained by Delta College apparently were liberal in their interpretation as to what constitutes appropriate expenditures under Measure L. Although Proposition 39 requires an independent financial audit of bond proceeds until all proceeds have been expended, the contract between Delta College and its auditors since the passage of Measure L did not call for any additional audit procedures beyond what the auditors already were required to perform to meet audit requirements under state and federal laws. The Statements of Revenues, Expenditures, and Changes in Fund Balance, which provide detailed data concerning bond revenues and expenditures in the Capitol Project Fund, were presented in Delta College's audited financial statements as supplemental information and marked "unaudited". Yet, in the COC's annual reports, these statements were presented as "audited financial reports."