

Bond Accountability Task Force Meeting
Thursday, May 21, 2015
California State Auditor Comments

Background

The California State Auditor conducts audits that are either mandated by statute or requested by the Legislature. Our work has included audits of State general obligation bond programs and local revenue bond programs. The scopes of these audits have generally focused on ensuring that bond funds are awarded timely to eligible/qualified parties and are spent for allowable purposes/activities.

State GO bond programs:

- Housing and Emergency Shelter – aid to low/moderate income and homeless populations (statutory)
- Children’s Hospital – construction of acute care facilities and equipment to improve the health and welfare of California’s critically ill children (statutory)
- High-Speed Rail – development and implementation of intercity high-speed rail service (statutory and request)
- Various water bond programs administered by the Department of Water Resources (request)
- Various state and local park improvement projects administered by the Department of Parks and Recreation and supported by bonds and other funding sources (request)

Local revenue bonds – Community Facilities Districts

- City of Indio – housing development (request)
- San Diego – school acquisition and improvements (request)

The remaining observations and comments below are based on the recommendations we have made and best practices we have observed in conducting bond audits. They are not intended to represent a complete list of key controls or best practices and may not always be applicable depending on the nature of the bond program. The comments are grouped under various stages in the “lifecycle” of a bond program.

General considerations for all stages

- Variability of bond programs – depending on the purpose of the bond, there can be one or many programs, administering agencies, intended recipients/beneficiaries, funding sources, etc. Accordingly, there is no single set of controls/procedures that will fit every circumstance.
- Ensure adequate separation of duties – particularly risky/challenging for smaller issuers/administering agencies
- Ensure appropriate levels/layers of supervisory/management review

Program startup/planning phase

- Develop regulations/guidelines/procedures/program manuals as necessary for all stages of the bond lifecycle before the first dollar is awarded or spent
- Risk assessment – determine what can go wrong and ensure procedures exist to mitigate each significant risk

- Perform workload analysis to determine staffing needs. Assess training needs. If any outsourcing is planned – be careful to retain sufficient control to ensure effective oversight.
- Conduct public hearings as warranted
- Confer with stakeholders/potential award recipients to assess needs and inform timelines
- Consider ways to: maximize competition for awards, identify high-quality projects, meet the greatest needs, serve the most people, ensure the greatest public good/best use of funds
- Develop financing plan for shared costs (federal, state, local, private), consider short-term/interim financing needs/availability
- Develop coordination plans with any external parties as warranted
- Determine whether you will incur and how you will pay for any ongoing operations or maintenance costs after bond funds have been spent
- Identify reliable sources of information that may be needed to correctly allocate/award funds e.g. population, eligible recipients, etc.
- Establish appropriate accounting/fund structure to properly account for and track all bond-related activities

Awarding Funds

- Establish timelines/schedules for awarding funds
- Determine whether award process will be competitive, noncompetitive, or a mix
- Some recipients and/or amounts may be specified in statute
- Ensure recipients are eligible to receive awards (usually applies to noncompetitive awards)
- Establish clearly defined criteria to evaluate proposals/assess the merits of competitive grants
- Use tools to score/document award decisions consistently
- Establish and monitor application deadlines
- Ensure award agreements fully address: allowable activities, required deliverables, expected outcomes, and documentation/evidence that must be provided to secure a payment. If funds will be advanced, include provisions to require use of interest-bearing accounts and recovery of interest earnings.
- Ensure applicants have submitted all required information/documentation prior to awarding funds e.g. cost estimates, project description, work plans, proof of required permits, maps
- Evaluate and approve awards promptly
- Notify recipients and the public of award decisions

Expenditure of Funds

- Require adequate documentation before making payments. Depending on the circumstances this could include:
 - Contracts, purchase orders, invoices, canceled checks (time and/or materials)
 - Deliverables, special studies/reports
 - Contractor/subcontractor agreements and payments
 - Description/volume of activities or services provided
 - Certifications e.g. review/approval of progress or completion by internal or external oversight parties
 - Progress reports (could also be a component of monitoring activities)
- Verify conformance with contract/award agreement/bond act requirements
- Track payments to ensure contract/award/budget amounts are not exceeded
- Establish and track withholds from progress payments
- Track administrative costs (administering agency/recipient) to ensure limits are not exceeded

- Consider cost allocation requirements e.g. multiple funding sources
- If applicable, determine whether conditions have been met for advance payments
- Risk related to multiple funding sources—Be wary of spending funds on closely related purposes/activities that technically fall outside the allowable uses of bond proceeds. Limitations will vary among funding sources so avoid treating them as interchangeable “pots” of money.

Monitoring Activities

- Develop/Review Progress reports – (this could be part of the invoicing/payment request process to the extent other parties are involved or it may be work the administering agency needs to perform)
 - current and to-date expenditures
 - current and to-date activities completed
 - status of project relative to budget and schedule
 - key issues encountered and related mitigation strategies
- Conduct site visits and document results
- Monitoring may need to occur beyond the date that all funds have been disbursed e.g. continuing eligibility requirements
- Document all recipient contacts/communications
- Consider periodic review by internal/external auditors (may be required)
- Conflicts of interest – ensure that designated employees and contractors complete and file statements of economic interests on time. Review and evaluate potential conflicts and take action as warranted.

Reporting and Closeout Activities

- Document and communicate everything
- Develop robust tools, including a review process, to accurately report on the status of bond programs (transparency)
 - bonds authorized, issued, unissued
 - debt service principal/interest to date and remaining
 - other funding sources if applicable
 - amounts awarded/remaining and spent/to be spent in total and by project/recipient
 - planned and actual timelines/deadlines for bond issuance, awards, expenditures, and project completion
 - planned activities/outcomes and actual results by program and project/recipient
- Use creative charts/graphs/pictures/videos to show taxpayers what the bond program produced/accomplished
- Develop user-friendly website for stakeholders and keep information up to date
- Develop and frequently update FAQs for various stakeholders
- Establish and meet deadlines for periodic reporting/updating website
- Conduct and document final inspection/closeout of project (onsite/project file)
- Establish target dates/deadlines for closing down the bond program and update as necessary
- Determine what will be done with any remaining funds e.g. increase bond debt service/redeem bonds early, reallocate to other approved recipients
- Secure funding for any ongoing operations/maintenance costs