

October 9, 2008

Little Hoover Commission
 925 L Street, Suite 805
 Sacramento, CA 95814

RE: Bond Oversight Hearing on October 23, 2008

Dear Commissioners:

Thank you for inviting me to discuss the important topic of bond oversight. This response addresses your request for information about the Resources Agency's implementation of the Governor's Executive Order (S-02-07), the role of audits and other mechanisms that provide bond oversight, and the agency's plans to establish a citizens' advisory committee in future years.

Since 2000, the voters of California have approved six bond measures in the resources area: Propositions 12, 13, 40, 50, 84, and 1E. These propositions authorized the sale of bonds to finance a variety of resource programs. The proceeds from these bonds support a broad range of programs that protect, preserve, and improve California's water and air quality, open space, public parks, wildlife habitats, and historical and cultural resources. With direction from the Resources Agency, 21 departments, boards, and conservancies administer bond-funded programs and projects.

Agency's response to the Governor's Executive Order to expand transparency and accountability for the November 2006 bonds

On January 24, 2007, Governor Schwarzenegger signed an historic Executive Order (EO) that established guidelines and procedures for spending Strategic Growth Plan bond funds efficiently, effectively, and in the best interests of Californians. Specifically, the EO directed government agencies that spend bond funds to institute a three-part accountability structure:

Front-end accountability – Lays out the criteria or processes that will govern the expenditure of bond funds and the outcomes that these expenditures are intended to achieve prior to the expenditure of the funds. Examples include the development of grant program guidelines or strategic plans.

1416 Ninth Street, Suite 1311, Sacramento, CA 95814 Ph. 916.653.5656 Fax 916.653.8102 <http://resources.ca.gov>



In-progress accountability – Monitors and documents the ongoing actions that departments take to ensure that infrastructure projects or other activities funded from bond proceeds are staying within scope and cost. Additionally, each department makes semi-annual reports to the Department of Finance to ensure that the projects and activities funded from bond proceeds are executed in a timely fashion and are achieving their intended purposes.

Follow-up accountability – Requires that departmental bond expenditures are subject to audit to determine whether the expenditures were made according to the established front-end criteria and processes and were consistent with all legal requirements.

At the Resources Agency, we have extensive experience with bond programs and have historically maintained a transparent process. With each bond measure, oversight and accountability have improved and transparency of expenditures has greatly increased. For example, there has been a significant shift from spending bond funds on non-competitive programs and specified projects to programs that award funding in public venues and through competitive processes.

In fact, many of the goals of the Executive Order had already been implemented by the Agency for bond expenditures from Propositions 40 and 50. Our current Web site for Proposition 40 and Proposition 50 includes the implementing statutes, information on each program, appropriation balances for each bond section, and a searchable project database, which allows the public to locate projects by county, city or zip code.

A similar Web site and database was created in coordination with the Department of Finance to track and report the Strategic Growth Plan bond funds, as required by the EO. The Resources Agency and the lead departments authorized under Propositions 84 and 1E meet bi-weekly to coordinate work related to fulfilling these requirements. To date, we've taken significant actions towards the development and management of the database and public Web site, such as:

- Identifying key contacts within each department from who to receive as well as provide accurate and up-to-date budget information, program information, and project details;
- Assigning a lead staff to serve as “bond coordinator” for both Propositions 84 and 1E. These coordinators perform quality control, serving as liaisons between departments that provide information and what is ultimately posted to the Web site;
- Preparing and posting online bond allocation balance summaries, which will continue to occur on a semi-annual basis;
- Developing and posting the three-part accountability plans for all bond-funded programs in coordination with the Department of Finance;
- Posting online project details, status, costs and funding information for the bond-funded projects under way;
- Mapping locations for each project;
- Providing search capability within the Web site; and
- Improving design, functionality, and performance of the Web site.

Moreover, Resources Agency staff is focusing on additional actions to improve the Web site, including:

- Enhancing the mapping capability and search functions of the public site;
- Developing a web-based project input system so that departments can directly upload their specific projects on an on-going and timely basis, and;
- Providing individual training for all departments, conservancies and boards on bond accountability responsibilities. The training sessions will address requirements for spending general obligation bonds, auditing expectations, and department specific issues.

Audits and mechanisms to improve the oversight of bond expenditures

In your letter to me, you asked what steps had been taken to resolve issues identified in previous audits of the Santa Monica Mountains Conservancy (SMMC) and the State Coastal Conservancy (SCC). These audit examples were provided by the State Controller's Office in their testimony at the September 25th hearing. The SMMC and SCC audits were performed by the Department of Finance in 2006. Immediately following the release of their findings, corrective measures were taken. Funds were returned for all ineligible expenses, and operating procedures and organizational structures were modified to enhance independence and oversight of bond expenditures.

The Department of Finance, Office of State Audits and Evaluations, provides an independent audit of departments receiving funding under the Propositions 12, 13, 40, and 50 bond programs. Beginning in Fall 2009, the Department of Finance will also perform annual audits of Proposition 84 and 1E bond expenditures. Each department that is appropriated bond funds is required to annually report to the Department of Finance a list of approved projects, project progress or actual expenditures made, and the funds remaining in each account. This information provides the basis for their audits.

The Resources Agency coordinates with the Department of Finance and the departments under review through all stages of the audit process: at the entrance conference, during fieldwork, and at the time the draft and final audit reports are issued. The Department of Finance reviews the applicable internal controls of administering departments to determine areas of risk and to identify improvements that could be made to enhance the control and accountability for bond funds. The Resources Agency then implements the recommendations provided by the Department of Finance and works with its departments as needed to improve overall processes.

In accordance with the Administration's policy of increased transparency, audit reports are published on the Department of Finance's Web site. The site includes audit reports for individual departments, selected grantees, and annual reports that include a status of bond projects, a review of project expenditures, findings, recommendations, and a consolidated response from the Resources Agency.

In addition to closely monitoring audit activities and department responses, as well as managing reporting on the bond accountability Web site, the Resources Agency works with individual departments and programs to ensure that the bond programs are implemented according to

statute and other regulations and guidelines. Examples include: reviewing grant guidelines, participating on conservancy boards, soliciting legal advice from the Attorney General's Office for agency-wide policy issues, and monitoring allocations, appropriations and expenditures.

Establishment of a citizens' advisory committee

The Secretary for Resources is required by Proposition 84 to appoint a citizens' advisory committee to review the annual audit and to identify and recommend actions to ensure that the intent and purposes of the bond act are met by the entities responsible for its implementation. The Department of Finance is scheduled to complete its first audit of Proposition 84 expenditures in Spring 2010. Following the release of this audit, the Agency will convene a citizens' advisory committee in Fall 2010. The committee will subsequently review the Department of Finance's findings and observations for improving oversight of bond expenditures and make recommendations for improving practices. The Resources Agency will ensure that the committee's recommendations are addressed by taking whatever follow-up actions may be necessary.

Thank you for the opportunity to submit testimony on this important matter. As requested, please find my biography (see enclosed).

Sincerely,



Mike Chrisman
Secretary for Resources Agency