



September 9, 2016

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

RE: Bond Spending Hearing on September 22, 2016

Commissioners:

Thank you for inviting me to discuss the important topic of bonds oversight. This response addresses your request for information about the measures that the Natural Resources Agency has taken to improve accountability and transparency of natural resources bond expenditures. The Commission specifically asked for information on: improvements in tracking since 2008; training that has occurred to improve accountability; and an overview of audits.

Background:

From 2000 to 2014, California voters authorized \$26.7 billion from 7 bond measures. This new influx of funding shows the strong support for programs in our area that focused on water, flood, parks, habitat, land preservation, climate change and coastal issues. In fact, the average percentage of yes votes for these seven measures was 61%. Californians clearly want to preserve and protect their natural resources and parks for many generations to come.

Natural Resources Bond Measures 2000 - Present*				
Name	Focus	Year	Size	% Yes
12	Parks	2000	\$ 2,100,000,000	63.2%
13	Water	2000	\$ 1,884,000,000	64.8%
40	Parks	2002	\$ 2,600,000,000	56.9%
50	Water	2002	\$ 3,345,000,000	55.3%
84	Water/Parks	2006	\$ 5,283,000,000	53.8%
1E	Flood Control	2006	\$ 3,990,000,000	64.2%
1	Water/Flood	2014	\$ 7,545,000,000	67.1%
Total			\$ 26,747,000,000	

At the Natural 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, through a competitive process and where extensive information on each project is posted online. In addition, coordination among departments has increased to allow for best practices to be shared and implemented. One example of this is the new online application and review database that was rolled out this summer: <http://www.soars.resources.ca.gov>. Departments will be able to receive and review applications online and to transfer information to the enhanced reporting database.

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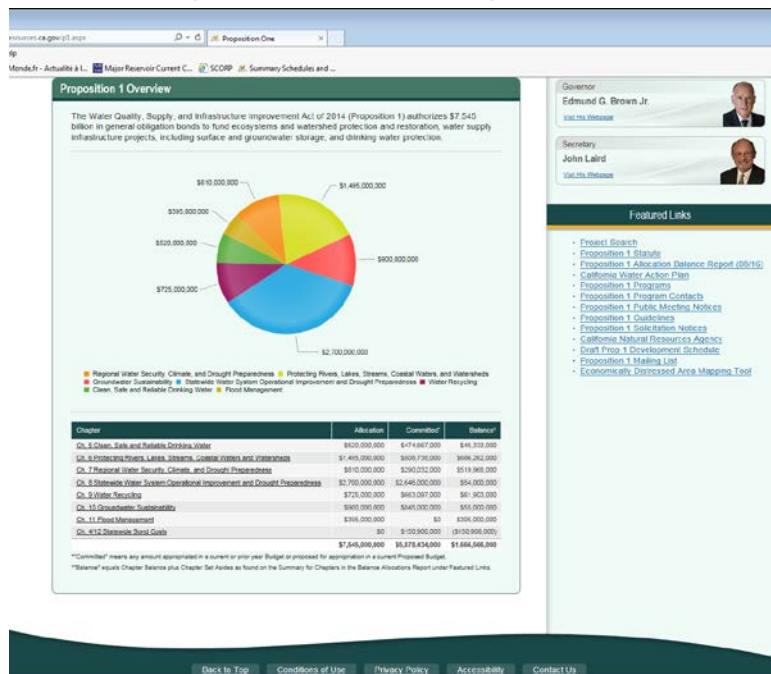


Improvements Since 2008

In addition to the online application and review database, Agency has made other changes since 2008 to the way that we track and report information. The first is the development of the Agency Bond Consolidated Reporting System (ABCRS). ABCRS was developed as an upgrade to the existing bond accountability database and to meet additional reporting requirements. These requirements came about because of the budget crisis and the need to switch funding methods to provide cash for projects. Until December of 2008, the Pooled Money Investment Board (PMIB) would approve interim loans (AB 55 loans) from the state's pooled cash accounts to provide funds to keep projects moving before the issuance of state bonds that would ultimately pay down the loans. In December 2008, the PMIB essentially froze AB 55 loan funding, because of the increasing need of the General Fund to borrow from the pool due to the state's cash flow and budget crises. Since then, cash is generated by selling bonds upfront or through commercial paper. This means that information that could normally be gathered farther along in the process needed to be put together before the bond sales. The new database allows departments and control agencies to enter this needed information online. It also provides tools for Agency to report the information to control agencies. ABCRS was set up to be flexible and can easily add additional bond measures, departments, programs or other funding sources. This allowed us to seamlessly add Proposition 1 when it was passed in November 2014.

In addition to providing information for internal reporting, ABCRS also holds all of the information required to be reported online for various bond measures. Websites were created to report on past bond measures, however, under Proposition 1, a more comprehensive one-stop shop website was created for interested parties to receive information on all of the programs and projects that received funding. The website includes:

- Project searches by county, zip code, congressional, assembly and senate districts, metrics and others
- Mapping information for all projects
- Bond Statute
- Balance report for all bond allocations
- Program contacts
- Public meeting notices: workshops, outreach and guideline development
- All program guidelines
- Program development calendar
- Link to sign up for email notices from Prop 1 programs.



Along with the development of ABCRS and the new bond accountability website, Agency also worked with the Office of State Audits and Evaluations (OSAE) to adjust the audit program for the bonds to include more project audits, to create an audit guide and to develop on-site workshops for departments. Projects and departments that are audited are selected based on risk and to follow up on any previous issues. Here are the highlights from the past eight years:

- **12 Department Bond Audits Issued** – All audits are posted to OSAE’s website: http://dof.ca.gov/Programs/OSAE/Audit_Memos/
- **355 Projects Audited** – OSAE independently selected grant audits to perform on an ongoing basis and also received specific requests from the Natural Resources Agency and/or departments. Grant/project audits are performed at both close-out and interim stages, which allow for a more proactive and preventative approach.
- **2013 Annual Bond Report** – A summary of bond accountability audit and oversight activities performed by OSAE was issued. A Citizen’s Advisory Committee reviewed this audit and the report from this committee can be found at: <http://bondaccountability.resources.ca.gov/PDF/Prop84/Prop84CitizensAdvisoryCommittee.pdf>
- **Bond Accountability & Audit Guide** – A guide developed in collaboration between OSAE and the Natural Resources Agency that provides a grant management framework and best practices. Guide provides several grant management templates and illustrations from various federal and state agencies and several authoritative references. The guide can be found at: http://resources.ca.gov/docs/bonds_and_grants/Bond_Accountability_and_Audits.pdf
- **5 Department On-Site Training Workshops** – Titled “Top Ten Audit Findings” the workshop provides an overview of the top ten bond grant audit findings. The workshop provides an additional proactive approach to ensure grant managers are aware of project monitoring “red flags” and grant management best practices. Attendees have included project leads and managers, fiscal and legal staff, and executive management.

I appreciate the opportunity to highlight the changes that we have made over the past eight years to enhance accountability and transparency of bond expenditures. I also look forward to answering any questions that you may have at the September 22, 2016 hearing.

Sincerely,

Bryan Cash

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Deputy Assistant Secretary

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