

AGENDA ITEM #5

Audit Report

In January of 2011, the Department of Finance initiated an audit of the CCHE. A confidential draft report was provided to the CCHE and the State Library on September 27th. The final report will be available within the next month, following the submission of our response to the report in mid-October. Then, the CCHE and the Library have 60 days to make corrective actions to the findings included in the audit.

The report praised the CCHE for its establishment of "several key accountability processes, including comprehensive grant guidelines, a competitive awarding process, and a database developed to track and monitor their projects."

However, it also noted the following:

- (In Round 1) CCHE did not consistently adhere to the established application scoring procedures and did not document funding decisions for three projects. The three projects were awarded a total of \$2,573,024 during Round 1 awards. Additionally, in some cases, it was unclear what financial analysis was performed to support assigned financial capacity scores *(the audit included the two projects funded by CCHE which declared bankruptcy and noted that CCHE's grant guidelines require applicants to provide three years of financial information to demonstrate financial sustainability)*.
- Project monitoring needs improvement. We noted nine projects reimbursed for unallowable or unsupported expenditures, or with unsupported match contributions. Additionally, for four projects, deliverables were not met or were inconsistent with the project scope. It is our understanding CCHE is currently working with the specific grantees to remedy several of the noted items.
- Planning grants may not result in a capital project. Currently, there are 24 planning grants totaling \$2,926,166 that have not secured funding to complete the final project. When awarding planning grants, CCHE did not assess the grantee's financial capacity to complete the project beyond the planning phase.
- Facility costs allocated to bond funds were not equitable or properly supported. The California State Library overcharged approximately \$50,000 in facility costs to CCHE bond funds. The allocated cost was not proportionate to the space occupied by CCHE during fiscal year 2009-10.

CCHE and the Library will be working to produce a response to the specific issues included in the draft report and will also develop a corrective action plan to address the monitoring concerns.

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