



October 20, 2009

Mark B. Horton, M.D., M.S.P.H., Director  
California Department of Public Health  
P.O. Box 997377, MS 0500  
1615 Capitol Avenue  
Sacramento, CA 95899-7377

Dear Dr. Horton:

**Final Report—Audit of California Department of Public Health's Propositions 13 and 50 Bond Funds**

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of the California Department of Public Health's (Department) Propositions 13 and 50 bond funds for the period ending June 30, 2008.

The enclosed report is for your information and use. The Department's response to the report findings and our evaluation of the response are incorporated into this final report. In accordance with Finance's policy of increased transparency, this report will be placed on our website. Additionally, pursuant to Executive Order S-20-09, please post this report in its entirety to the Reporting Government Transparency website at <http://www.reportingtransparency.ca.gov/> within five working days of this transmittal.

We appreciate the assistance and cooperation of the Department. If you have any questions regarding this report, please contact Diana Antony, Manager, or Beliz Chappuie, Supervisor, at (916) 322-2985.

Sincerely,

***Original signed by:***

David Botelho, CPA  
Chief, Office of State Audits and Evaluations

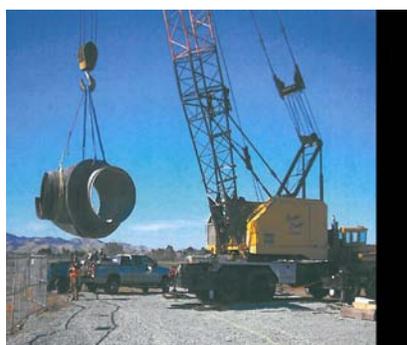
Enclosure

cc: Mr. Gary H. Yamamoto, P.E., Assistant Division Chief, California Department of Public Health  
Ms. Leah G. Walker, P.E. Chief, Drinking Water Technical Programs Branch, California Department of Public Health  
Mr. Bryan Cash, Deputy Assistant Secretary for Bonds and Grants, Resources Agency  
Ms. Julie Alvis, Deputy Assistant Secretary, Resources Agency  
Ms. Karen Petruzzi, Audit Coordinator, California Department of Public Health

# AN AUDIT OF BOND FUNDS

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## California Department of Public Health Propositions 13 and 50



*Department of Fish and Game, Gray Lodge Wildlife Area, Butte and Sutter Counties  
Source: Courtesy of the Wildlife Conservation Board*

Prepared By:  
Office of State Audits and Evaluations  
Department of Finance

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Final reports are available on our website at <http://www.dof.ca.gov>

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# TABLE OF CONTENTS

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Executive Summary .....	1
Background, Scope, and Methodology.....	2
Audit Results.....	5
Appendix A—Summary of Proposition 50 Bond-Funded Projects for Chapters 3 and 4.....	8
Appendix B—The Department’s Bond-Funded Projects as of June 30, 2008.....	9
Appendix C—Drinking Water Program District Offices .....	10
Response.....	11
Evaluation of Response .....	17

## EXECUTIVE SUMMARY

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In accordance with the Department of Finance's (Finance) bond oversight responsibilities, we have audited the California Department of Public Health's (Department) funding under the Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act (Proposition 13), and the Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002 (Proposition 50) as of June 30, 2008.

The objectives of this audit were to determine whether bond funds are awarded and expended in compliance with applicable legal requirements and established criteria, and to determine if the Department has adequate monitoring processes in place.

The Department awarded and expended bond funds in compliance with applicable legal requirements. However, we noted the following areas for improvement.

- The Department has experienced delays in awarding proposition 50 projects. In 2002, the Department was allocated \$395 million in Proposition 50 funding. As of June 30, 2008, the Department had awarded 19 projects totaling \$46.5 million and representing \$16.8 million in total expenditures to date. As of January 2009, no projects had been completed. According to the Department, several factors contributed to the delay, including program development, staffing resources, and a lengthy awarding process. The Department is reviewing its awarding process to reduce the timelines while ensuring compliance with the bond act requirements.
- Project monitoring procedures are not clearly established and inconsistent among the Department's district offices. The Department relies on its 22 district offices throughout the state for monitoring the Proposition 50 projects. The district offices visited during the audit had varying degrees of project monitoring and site visiting policies and procedures in place. The Department is developing a project monitoring course, but it had not been provided as of the date of the audit fieldwork. We recommend the Department continue its plans to develop and provide appropriate training and guidance over grant management and monitoring to ensure projects stay within established scope and cost.
- Fiscal internal controls need improvement to ensure accounting records appropriately reflect program activities and financial records are accurately reported. As of June 30, 2008, local assistance encumbrances were overstated by \$683,560 on financial reports submitted to the Department of Parks and Recreation (Parks). Parks uses the Department's financial reports to track expenditure and encumbrance balances and provide periodic reports to the Legislature.

The Department's fiscal and administrative controls over bond funds would be strengthened if it develops a plan to address the observations and recommendations noted in this report.

# BACKGROUND, SCOPE, AND METHODOLOGY

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## **BACKGROUND**

In March 2000 and November of 2002, California voters passed two bond measures totaling \$5.41 billion. The Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act (Proposition 13) was passed on the March 2000 ballot. The Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002 (Proposition 50) was passed on the November 2002 ballot. These propositions authorized the sale of bonds to finance a variety of water programs.

Administered by a number of state departments, agencies, boards, and conservancies, the proceeds from these bonds support a broad range of programs that protect, preserve, and improve California's water quality and resources. Bond proceeds are expended directly by the administering departments on various capital outlay projects, and are also disbursed to federal, state, local, and nonprofit entities in the form of grants, contracts, and loans.

### **California Department of Public Health**

The California Department of Public Health (Department) was established on July 1, 2007. The Legislature enacted Chapter 241, Statutes of 2006 (SB 162), transferring specific programs and public health responsibilities formerly entrusted to the California Department of Health Services to the newly established Department. The mission of the Department is to protect and improve the health of all Californians. To fulfill its mission, the Department administers a broad range of population-based public and environmental programs. These programs focus on promoting good health and safe environments and ensuring critical public health and emergency services.

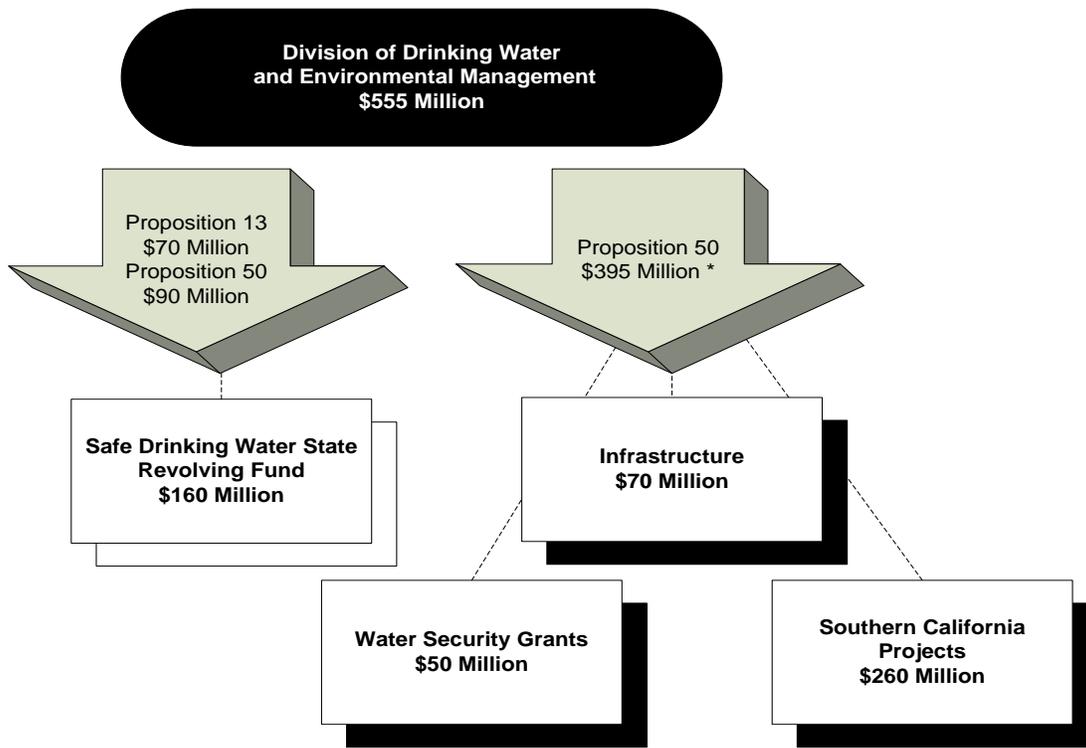
The Department's Division of Drinking Water and Environmental Management (DDWEM) was allocated \$555 million in bond proceeds to provide funding opportunities for water system improvements within the Division's Drinking Water Program. The DDWEM is responsible for promoting the maintenance of physical, chemical, and biological environments that contribute positively to health, prevent illness, and assure protection of the public. The four major components of DDWEM are: Drinking Water Program, Environmental Management Branch, Sanitation and Radiation Laboratory, and Environmental Laboratory Accreditation Program.

The Department's Drinking Water Program is responsible for the enforcement of the federal and California Safe Drinking Water Acts and the regulatory oversight of 7,500 public water systems to assure the delivery of safe drinking water to all Californians. The Drinking Water Program staff perform inspections, issue operating permits, review plans and specifications for new facilities, take enforcement actions for non-compliance with laws and regulations, review water quality monitoring results, and support and promote water system security. In addition, the Drinking Water Program is involved in funding infrastructure improvements, conducting source water assessments, evaluating projects utilizing recycled treated wastewater, and promoting and assisting public water systems in drought preparation and water conservation. The bond funds are used for these infrastructure improvements.

## Bond Funded Programs

To promote its broad range of water quality and safety programs, the Department administers Propositions 13 and 50 bond funds. Bond funds are issued in the form of loans and grants to public water systems to fund a variety of programs ranging from water security, infrastructure, deficiency improvements, and reduction of Southern California's dependency on Colorado River water. The Department was allocated a total of \$555 million from Propositions 13 and 50 and as of June 30, 2008, expenditures were \$67 million and \$16.8 million for Proposition 13 and 50, respectively.

**Figure 1 California Department Public Health Bond Funds**



\* State Operations allocation for Proposition 50 is \$15 Million

### Proposition 13

The Safe Drinking Water State Revolving Fund (SDWSRF) program is a federal loan program that provides funding to water systems for infrastructure improvements to meet safe drinking water standards. Proposition 13 provides funds to meet the Department's 20 percent federal loan program match requirement.

### Proposition 50

Proposition 50 charged the Department with responsibility for funding projects to improve water security which will aid in protecting state, local, and regional water systems from terrorist attack and deliberate acts of destruction or degradation. Additionally, funds are to be used for loans and grants for infrastructure improvements to meet safe drinking water standards including the SDWSRF program. The funding for infrastructure includes contaminant removal and treatment, source protection, and monitoring facilities and equipment. Further, the bond act charges the Department with using funds to assist water systems in an effort to reduce Colorado River water use to 4.4 million acre-feet per year. For projects and amounts defined in the bond act, see Appendix A.

## SCOPE

The audit was conducted to determine whether bond funds were awarded and expended in compliance with applicable legal requirements and established criteria, and to determine if the Department has adequate project monitoring processes in place.

The audit did not include an assessment of the bond authorization, issuance, and sale processes, or an examination of the efficiency or effectiveness of program operations.

## METHODOLOGY

To gain an understanding of key legal provisions and established criteria, we reviewed the Department's enabling legislation, strategic plan, program guidelines, and applicable bond acts. We interviewed executive management and key program staff to gain an understanding of the established program policies and procedures for the various bond funded programs.

To assess whether the Department awarded and expended bond funds in accordance with the identified legal requirements and established criteria, we tested a sample of projects to ensure the applicable laws and established criteria were followed. The project samples were selected from the three Proposition 50 programs: the Southern California Program with \$260 million allocation, the Infrastructure Program with \$70 million allocation, and the Water Security Program with \$50 million allocation. Because the Proposition 13 program was separately audited and reported, the present audit focused primarily on the Proposition 50 funds.

Using the selected projects above, we reviewed expenditures to ensure they were recorded and reported accurately in the Department's accounting system and financial statements. In addition, we tested a sample of the Department's administrative expenses charged to bond funds to determine the reasonableness and compliance with applicable bond acts.

To determine whether the Department had adequate project monitoring processes, we interviewed the Department's management and key program staff to gain an understanding of the Department's project management policies and procedures. Specifically, we reviewed the Department's progress monitoring, expenditure review and reimbursement process, and project close-outs. Using the same sample, the projects were tested to determine if they were adequately monitored to ensure the projects stayed within cost and scope.

Recommendations were developed based on our review of documentation made available to us and interviews with the Department's management and staff directly responsible for administering bond funds. The audit was conducted during the period September 2008 through December 2008.

Except as discussed below, this audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

In connection with this audit, there are certain disclosures required by *Government Auditing Standards*. The Department of Finance is not independent of the Department, as both are part of the State of California's Executive Branch. As required by various statutes within the California Government Code, the Department of Finance performs certain management and accounting functions. These activities impair independence. However, sufficient safeguards exist for readers of this report to rely on the information contained herein.

The California Department of Public Health (Department) established its Safe Drinking Water and Water Security Programs in 2002 and has been awarding projects to public and private water systems consistent with the Proposition 50 requirements. This process has been arduous since the Department established new program procedures to execute projects funded with Proposition 50. The bond act requires the Department to develop project solicitation and evaluation guidelines. In doing so, the Department is required to receive public comments on the scope, procedures, and content of the project guidelines. The Department is striving to ensure compliance with the bond act requirements; however, the following observations identify areas for improvement.

## **Observation 1: Department Has Experienced Delays in Awarding Proposition 50 Projects**

In 2002 the Department was allocated a total of \$485 million in Proposition 50 funding for the Safe Drinking Water and Water Security Programs; however, by June 2008 only 19 projects had executed grant agreements with expenditures totaling \$16.8 million. As of January 2009, no projects had been completed. For a list of projects and allocation amounts as specified in the bond act, see Appendix B. According to the Department, several factors contributed to the delay, including program development, staffing resources, and a lengthy awarding process.

The Department spent approximately two years developing program guidelines and criteria for the new programs, which included extensive public comments and stakeholder input, see Appendix A. Additionally, the Department claims adequate staffing resources were delayed due to a hiring freeze preventing the approval of new positions. Lastly, the lengthy awarding process can take as long as four years with an additional three years for project construction. The Department is reviewing its awarding process to minimize the timelines while ensuring compliance with the bond act requirements.

Section 79502 of the Water Code requires projects funded by Proposition 50 be administered and executed in the most expeditious manner possible. Although the Department is striving to ensure the awarding process selects the best projects, it needs to consider how to expedite the process. Reducing the amount of time it takes to execute agreements would help to supply much needed water-facility projects in a timelier manner, as required by the bond act.

## ***Recommendation***

The Department should continue its efforts to reduce the awarding process timeline.

## **Observation 2: Project Monitoring Needs Improvement**

The Department relies on 22 district offices throughout the state to monitor the Proposition 50 projects; however, the project monitoring policies and procedures are not well established nor consistently applied. For a map of the district offices, see Appendix C. Based on a review of monitoring processes at the Riverside and San Francisco District Offices, the following issues were noted:

*Policies and procedures have not been developed and adequate training has not been provided.* Although the districts were directed to use the Proposition 13—Safe Drinking Water State Revolving Fund Program manual as a reference, district offices are not consistently following the policies while administering the Proposition 50 projects. The district offices do not have a clear understanding of headquarters project monitoring expectations and therefore, have developed their own practices.

Specifically, district engineers are not comparing the project plans and specifications to the expenditure invoices, documenting site visits, or following the contingency and change order policies. The Riverside District Office established an informal monitoring process and was able to provide limited examples of informal site visit documentation and claim reimbursement reviews. The San Francisco District Office relied heavily on the grantee to manage the projects and was not able to provide any documentation. Although headquarters provided two training classes on the awarding cycle, further training and guidance over grant management and monitoring is needed to ensure projects stay within established scope and cost. According to the Department, project monitoring training is planned, but had not been provided as of the date of the audit fieldwork.

Adequate monitoring ensures projects stay within scope and cost and intended outcomes are achieved. Section 20050 of the State Administrative Manual indicates departments are accountable for activities carried out in their agencies and should regulate and guide operations with documentation through narratives and desk procedures. The ultimate responsibility for good internal controls rests with management.

The Department has a significant portion of the Proposition 50 allocation remaining that it plans to award in the near future. Thus, the development of project monitoring procedures will be critical as projects commence and near completion.

### ***Recommendations:***

- Develop a policy and procedure manual for Proposition 50 Programs, which includes project monitoring guidance. Provide periodic training to appropriate staff, including district offices.

## **OBSERVATION 3: Internal Controls Over Financial Reporting Need Improvement**

The Department's internal accounting controls need improvement to ensure fiscal records properly reflect program activities and financial reports are accurate. Specifically, an issue was identified for the reported encumbrance amounts and the Department's procedures thereon.

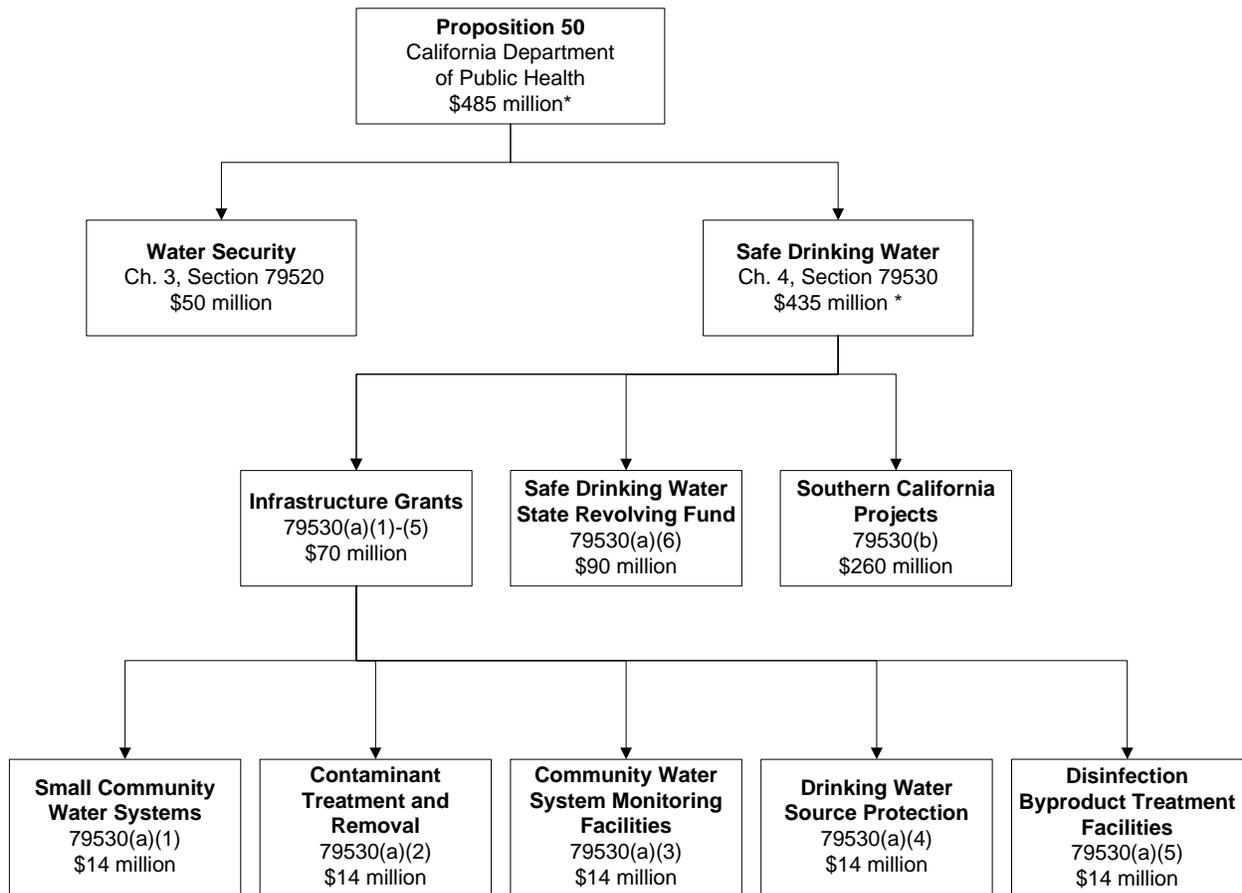
- As of June 30, 2008, local assistance encumbrances were overstated by \$683,560 on the Expenditures and Encumbrances Report submitted to the Department of Parks and Recreation (Parks). Parks uses this information to track expenditure and encumbrance balances and reports the bond balances to the Legislature. Additionally, two project encumbrances were classified as support cost instead of local assistance.

Section 13403 of the Government Code, states the elements of a satisfactory system of internal accounting and administrative control shall include, but are not limited to, a system of authorization and recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures; and an effective system of internal review.

***Recommendations***

Ensure encumbrances are properly recorded and reported.

Summary of Proposition 50 Bond-Funded Programs for Chapters 3 and 4



\* Administrative Costs , 79530(a) \$15 million

Water Code Section 79520 (Chapter 3 - Water Security) and Water Code Section 79530 (Chapter 4 - Safe Drinking Water)

# APPENDIX B

## Proposition 50 Bond-Funded Projects as of June 30, 2008

	Project Name	Project Number	Chapter	Funding Date	Encumbrances	Expenditures
1	East Bay MUD (001)	P50-0110005-001	3	05/01/06	\$ 2,550,000	\$ 0
2	SLO (003)	P50-4010025-003	4A.5	05/10/06	\$ 320,435	\$ 320,435
3	Willow Creek (004), DC	P50-1210015-004	4A.4	10/11/06	\$ 2,000,000	\$ 2,000,000
4	Valhalla (026), DC	P50-5710008-026	4A.1	12/05/06	\$ 1,043,932	\$ 770,154
5	CCWD - Security (002)	P50-0710003-002	3	12/22/06	\$ 3,266,002	\$ 2,620,177
6	L.A. Co - Dist 40 (005), DC	P50-1910005-005	4A.5	01/04/07	\$ 231,100	\$ 0
7	Paradise ME (013)	P50-3600399-013	4A.1	01/15/07	\$ 378,042	\$ 0
8	Yreka (033), DC	P50-4710011-033	4A.3	01/24/07	\$ 19,750	\$ 16,627
9	Eastern MWD (010)	P50-3310009-010	4B	05/31/07	\$12,123,014	\$ 7,281,477
10	Nice (028), DC	P50-1710008-028	4A.3	08/01/07	\$ 65,667	\$ 38,882
11	Westport (017), DC	P50-2300730-017	4A.3	09/15/07	\$ 50,000	\$ 0
12	Antelope Valley (027)	P50-1510053-027	4A.5	10/18/07	\$ 1,360,504	\$ 0
13	Elsinore Valley MWD (035)	P50-3310012-035	4B	10/18/07	\$ 6,732,293	\$ 3,778,917
14	ASC Treatment Group	P50-1503509-022	4A.1	10/25/07	\$ 319,279	\$ 0
15	TUD (008), DC	P50-5510001-008	3	12/20/07	\$ 348,869	\$ 0
16	TUD (018), DC	P50-5510001-018	3	12/20/07	\$ 219,107	\$ 0
17	City of Riverside (014)	P50-3310031-014	4B	04/15/08	\$12,838,847	\$ 0
18	San Joaquin (009)	P50-3910024-009	3	05/06/08	\$ 2,589,000	\$ 0
19	L.A. Co. - Val Verde (038)	P50-1910185-038	4A.5	06/11/08	\$ 63,685	\$ 0
<b>Totals</b>					<b>\$46,519,526</b>	<b>\$ 16,826,669</b>



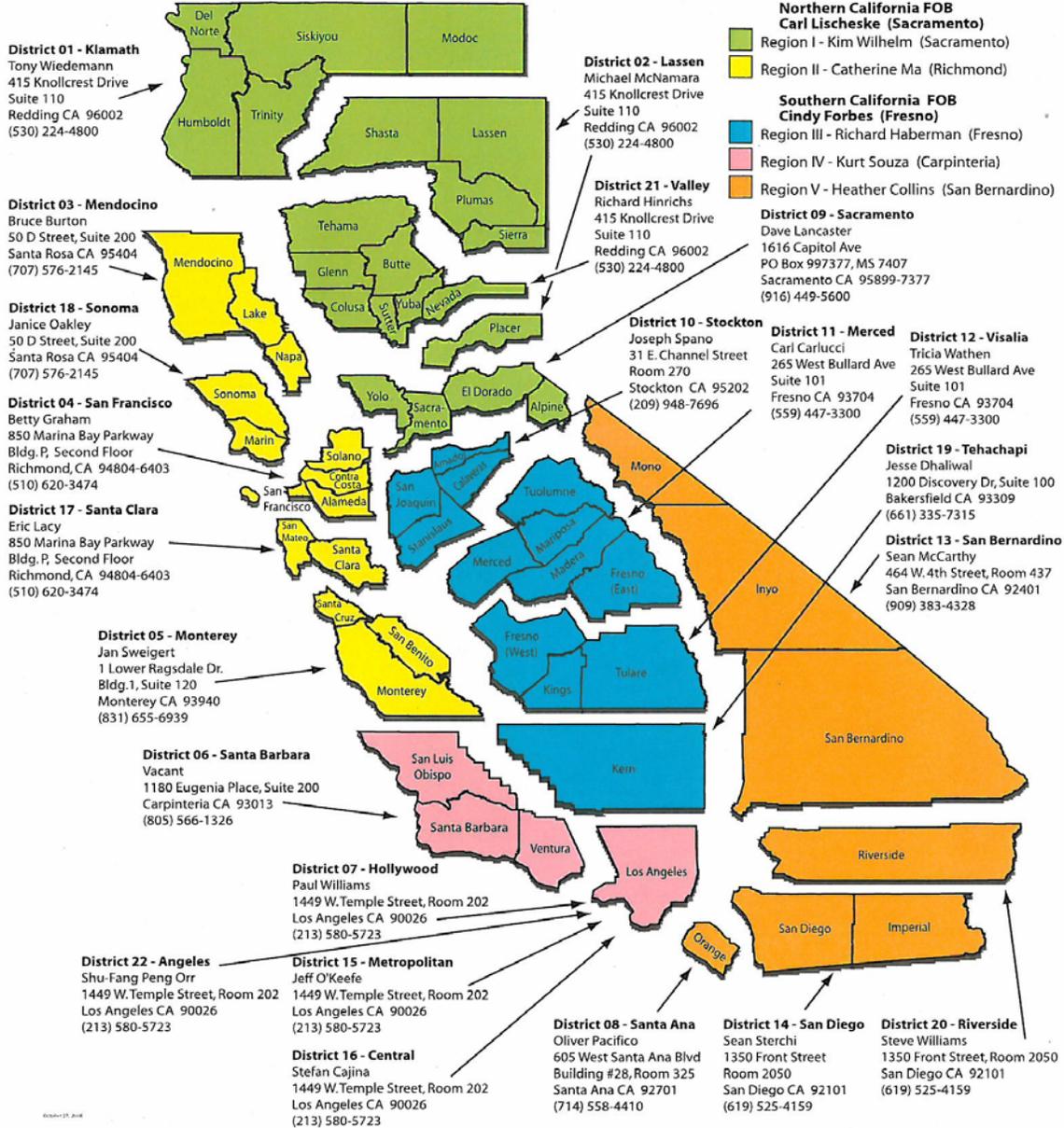
Mark B Horton, MD, MSPH  
Director

## State of California DEPARTMENT OF PUBLIC HEALTH DRINKING WATER PROGRAM DISTRICT OFFICES

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Arnold Schwarzenegger  
Governor







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State of California—Health and Human Services Agency  
California Department of Public Health



ARNOLD SCHWARZENEGGER  
Governor

OCT 01 2009

David Botelho, Chief  
Department of Finance  
Office of Audits and Evaluations  
300 Capitol Mall, Suite 801  
Sacramento, CA 95814

Dear Mr. Botelho:

The California Department of Public Health (CDPH) has prepared its response to the California Department of Finance draft report entitled, "Draft Report: Audit of California Department of Public Health's Proposition 13 and 50 Bond Funds." The CDPH appreciates the opportunity to provide the Department of Finance with responses to the draft report.

Please contact Rufus Howell, Deputy Director, Center for Environmental Health, at (916) 445-0275, should you have any questions.

Sincerely,

Original signed by:

Mark B Horton, MD MSPH  
Director

Enclosure

cc: Rufus Howell  
Acting Deputy Director  
Center for Environmental Health  
MS 0511  
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Sacramento, CA 95899-7377

Response to Department of Finance  
Draft Report- Audit of California Department of Public Health's  
Propositions 13 and 50 Bond Funds

**Observation 1: Department Has Experienced Delays in Awarding Proposition 50 Projects**

**Recommendation**

The Department should continue its efforts to reduce the awarding process timeline.

**Department Response**

The Department acknowledges that it has been delayed in moving Proposition 50 projects to funding agreement and to construction. As noted in the Audit, the Department has had limited control over several factors contributing to these delays, including the initial hiring freeze and lengthy criteria development process. More recently, all bond programs were frozen in December 2008, just as the Department was accelerating the pace of issuing funding agreements.

The Department developed Proposition 50 funding procedures by building off of existing Safe Drinking Water State Revolving Fund (SRF) procedures. However, it was quickly realized that many SRF procedures, due in part to federal requirements, were time consuming. In addition, the SRF and Proposition 50 funding programs work with many small water systems with few resources and skills in preparing funding applications or construction plans and specifications. The Department, with the assistance of third-party contractors, must spend significant time with these systems, essentially holding their hands through the funding process.

The Department has taken several steps to improve the pace of issuing funding agreements for all funding programs. These steps include streamlining procedures and restructuring the funding program branch. These changes have resulted in greater efficiencies that have enabled the Department to execute a total of \$92 million in funding agreements with water systems and disburse over \$52 million to date. The December 2008 bond freeze has prevented the Department from maintaining this accelerated pace.

In addition, the Department had issued approximately \$82 million in letters of commitment for other Proposition 50 projects. If the December 2008 bond freeze had not prevented the Department from moving these projects from letters of commitment to funding agreements, then these projects would have received by now executed funding agreements of at least \$82 million.

Beginning with Proposition 50, the Department has streamlined many of the procedures for its funding programs. For example, the funding application was reorganized and

redundant components were eliminated. The format for field staff technical reviews was simplified. The streamlining and efficiencies have continued as the Department has initiated Proposition 84 funding and the recent American Recovery and Reinvestment Act (ARRA) funding. The Department has demonstrated that we can swiftly issue funding agreements if projects are "ready to proceed" to construction. In just two and one-half months, the Department has issued over \$110 million in 38 ARRA funding agreements.

When the SRF program was started, the program was decentralized and most positions were placed in field offices (rather than the Sacramento headquarters offices), while financial reviews, preparation of funding agreements, and claim reviews were contracted to the Department of Water Resources (DWR). This was continued at the initiation of Proposition 50. It became apparent that this decentralization was contributing to the slow pace of moving projects to funding agreements. Subsequently, additional funding positions for Proposition 50 were allocated to headquarters, allowing centralized review and greater support to field staff. For Proposition 84 and ARRA, the majority of positions have been allocated to headquarters, and the financial elements of these funding programs are now done in-house.

Recent restructuring of the funding programs branch has created greater coordination, uniform procedures and moving more quickly to funding agreements. All of the administrative staff are now in one section, the engineering staff has been expanded and are now in a separate section, and the scientific staff are in a third section. This allows each section to focus on their respective funding assignments, and reduces delays in awards of funding agreements. Headquarters staff are able to provide greater assistance to small water systems to assist them in completing all necessary documents for funding.

The biggest obstacle for Proposition 50 funding at this time is the bond freeze. The Department was notified in December 2008 that bonds were frozen until further notice. Since then, some Proposition 50 funds have been made available to the Department. These funds have been used to process outstanding claims. Despite the bond freeze, the Department has a total of \$92 million in funding agreements with water systems and of that total has disbursed over \$52 million. As further bond funds become available, the Department will process claims in order of priority.

Since January 2009, at least four projects have been completed and fully funded.

## **Observation 2: Project Monitoring Needs Improvement**

### **Recommendations**

Develop a policy and procedure manual for Proposition 50 Programs, which includes project monitoring guidance. Provide periodic training to appropriate staff, including district offices.

## **Department Response**

The Department acknowledges that project monitoring procedures are not consistently followed in all field offices. The Department has developed the State Revolving Fund Procedure Manual (SRF Manual) for staff to use, and the procedures in the manual apply to all funding programs. Attached to this response is Section VIII of the SRF Manual, which describes project monitoring procedures. The SRF Manual also includes detailed guidance for inspecting construction projects. To make it more clear to all staff, the Department will revise and retitle the SRF Manual to apply to all funding programs administered by the Department.

While the SRF Manual is useful, the Department has found that field staff have difficulty keeping track of the requirements of each of the Department's funding programs. As a result, in order to ensure more consistent and uniform monitoring of funding projects, the Department has established Funding Program Regional Coordinator positions, one in each of the five field regions. The regional coordinators will work exclusively on funding programs and will act as liaisons between the field offices and funding program headquarters staff. The regional coordinators will attend all funding policy committee meetings and will be given additional training by headquarters staff. Two of the regional coordinator positions have been filled, and offers have been made to fill the remaining three.

In addition, the Department has scheduled a four-hour webcast training for the Regional Coordinators and staff in all field offices on November 19, 2009, to review project monitoring procedures, record keeping, and evaluation of claims. The Department also made training available to field and headquarters staff on "Preventing Fraud, Waste, and Abuse" put on by the U.S. Environmental Protection Agency Office of the Inspector General. This training was held because of the ARRA program, but was useful and applies to all funding programs.

### **Observation 3: Internal Controls Over Financial Reporting Need Improvement**

#### **Recommendation:**

Record encumbrances in Fund 6031 to accurately reflect Proposition 50 obligations

#### **Department Response:**

The CDPH concurs with the observation that as of June 30, 2008, local assistance encumbrances were overstated by \$683,560 on the Expenditure and Encumbrance Report submitted to the Department of Parks and Recreation. During our first year as a department, invoices were processed without consistently posting to our contract ledgers or reconciling our contract ledgers to expedite the payments to vendors due to the large volume of late invoices. CDPH now has a Senior Accounting Officer,

Specialist dedicated to processing all Proposition 50 invoices, encumbrances, and reconciling Accounting's contract ledgers to CALSTARs and program records.

The CDPH disagrees with the observation that when the CALSTARs Clearing Account is used to encumber funds, financial reports reflect an understatement of commitments for Fund 6031 and an overstatement of commitments for the General Fund. While it is correct that the document file reports will show encumbrances under both the general fund, the financial reports shows expenditures and encumbrances to the ultimate fund 6031 after the month-end and year-end CALSTARs processes are complete.

## EVALUATION OF RESPONSE

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The California Department of Public Health's (Department) response to the draft audit report has been reviewed and incorporated into the final report. The attachment referenced in the response has been omitted in the interest of brevity. We acknowledge the Department's willingness to implement the recommendations made and its commitment to effectively manage the bond funds.

The Department concurs with all findings except for part of Observation 3 which addresses use of the General Fund Clearing Account. The finding stated that the General Fund Clearing Account was used despite the Program's instructions to process payments directly from Proposition 50, Fund 6031, and this contributed to inaccurate reporting of encumbrance balances for Fund 6031.

In its response, the Department claims that use of the Clearing Account wouldn't have an impact on the Fund 6031 encumbrances balance because after the month-end and year-end CALSTARS process is complete, the financial reports would show the expenditures and encumbrances in the ultimate fund—Fund 6031—and not in the General Fund.

The Department is correct and we have adjusted our report to remove the statement related to use of the General Fund Clearing Account.