



October 20, 2006

Assembly Member Nicole Parra, Chair  
California State Legislature  
Joint Legislative Audit Committee  
1020 N Street, Room 107  
Sacramento, CA 95814

Senator Wesley Chesbro, Chair  
California State Senate  
Budget and Fiscal Review Committee  
State Capitol, Room 5035  
Sacramento, CA 95814

Assembly Member John Laird, Chair  
California State Assembly  
Committee on Budget  
State Capitol, Room 6026  
Sacramento, CA 95814

### **Final Report—Review of Proposition 14 Bond Funds**

In accordance with the Governor's directive, we respectfully submit the report on our review of the 2000 California Public Library Construction and Renovation Bond funds as of June 30, 2005. The report includes a status of open bond projects, a review of project expenditures, findings, recommendations, and a response from the State Library. This report will be published on the Department of Finance's website.

We appreciate the cooperation and assistance of Library staff and management with our review. If you have any questions, please contact me or Richard R. Sierra, Manager, at (916) 322-2985.

Sincerely,

***Original Signed By: Janet I. Rosman***



Diana L. Ducay, Chief  
Office of State Audits and Evaluations

Enclosure

cc: Ms. Susan Hildreth, State Librarian, California State Library  
Mr. Cameron D. Robertson, Deputy State Librarian, California State Library  
Mr. Andrew St. Mary, Bureau Chief, Administrative Services Bureau, California State Library  
Mr. Richard B. Hall, Bond Act Manager, Office of Library Construction, California State Library  
Mr. Curtis Purnell, Bond Act Fiscal Officer, Office of Library Construction, California State Library  
Office of the Legislative Analyst  
Bureau of State Audits  
State Library, Governmental Publications Section

AR<sub>VIEW</sub> OF BOND FUNDS

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Proposition 14  
California Public Library Construction  
and Renovation Fund  
Status of Bond Projects and Expenditures  
As of June 30, 2005

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

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The Department of Finance, Office of State Audits and Evaluations, performed this review at the Governor's direction and under an interagency agreement with the California State Library, Office of Library Construction (OLC). The review's purpose was to determine the project status of the California Reading and Literacy Improvement and Public Library Construction and Renovation Bond Act (Proposition 14) funds, and to audit the expenditures of these funds for the period July 1, 2004 through June 30, 2005. Specifically, our objectives were to:

- Obtain from the OLC information on the status of Proposition 14 bond projects, including projects approved, expenditures incurred, and remaining appropriation balance.
- Review the OLC's internal control to determine areas of risk and to identify where the control and accountability for bond funds could be improved.
- Audit a sample of bond program expenditures for the period July 1, 2004 through June 30, 2005 for accuracy and fiscal compliance with statutory or contractual requirements. Expenditures include state operations and local assistance.

This report includes audit results for fiscal year 2004-05, and also summarizes cumulative fiscal information since program inception.

We did not conduct a performance review to assess the efficiency and effectiveness of the bond program's operations or program compliance. The scope of our review was limited to fiscal compliance.

**STAFF:**

Richard R. Sierra, CPA  
Manager

Doris M. Walsh  
Supervisor

Agnieszka Yeager  
Lisa Negri  
Randy McClendon

## EXECUTIVE SUMMARY

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During our review of the California Reading and Literacy Improvement and Public Library Construction and Renovation Bond Act (Proposition 14) funds for the period July 1, 2004 through June 30, 2005, we determined that, except as noted, the bond funds and bond-acquired assets were accurately accounted and reported in compliance with the bond act, and in conformity with the accounting practices prescribed by the State of California. Below is a summary:

As of June 30, 2005:

- Cumulative expenditures, encumbrances, and other commitments totaled \$349,862,548.
- \$137,452 of the total appropriation remained unexpended, unencumbered, and uncommitted.
- There were 46 approved projects.

### **Internal Control Issues**

As discussed in the *Findings and Recommendations* section of this report, there are areas where the control and accountability for the bond funds could be strengthened, and recommendations to improve fiscal operations have been provided. The control issues pertain to accounting and reporting.

## **Background**

In March 2000, California voters passed a bond measure enacting the California Reading and Literacy Improvement and Public Library Construction and Renovation Bond Act (Proposition 14). Implemented by Chapter 726, Statutes of 1999 (Education Code Section 19987), and administered by the California State Library, Office of Library Construction (OLC), the proceeds from these bonds support the acquisition or construction of new public library facilities or additions to existing libraries. The OLC Board authorizes the disbursement of bond proceeds to local agencies via grants, and these agencies expend the funds on OLC-approved construction projects. Program requirements are codified in Title 5 and Title 24 of the California Code of Regulations.

To finance these costs, the program provides for the issuance and sale of \$350 million in general obligation bonds of the State of California, and the establishment of the California Public Library Construction and Renovation Fund for depositing the bond proceeds and carrying out the purposes specified in the act. Operating cash is provided by short-term loans from the State's Pooled Money Investment Account (PMIA). The PMIA loans are repaid upon the sale of bonds.

## SCOPE AND METHODOLOGY

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On November 9, 1999, the Governor directed the state agency administering Proposition 14 funds “to annually report to the Department of Finance: a list of projects approved, the progress of the project or actual expenditures made, and the amount of funds remaining in each account.” The Governor also directed the Department of Finance to annually audit and report on the expenditure of these funds.

In response to the Governor’s directive, the Department of Finance, Office of State Audits and Evaluations, has completed its audit of Proposition 14 expenditures as of June 30, 2005, and presents its annual report.

Our scope included an audit of the Proposition 14 bond controls and transactions for the period July 1, 2004 through June 30, 2005, and a compilation of OLC-reported project information as of May 30, 2006, with the objective of determining whether the bond expenditures and encumbrances were accurately reported. The methods used and procedures performed by scope area are as follows:

- **Determine whether the OLC had effective control and accountability for bond funds, and whether it had adequate project monitoring processes.** For this area, the OLC’s fiscal and program staff were interviewed; operations and activities were observed; and policies, procedures, contract terms, and project scopes were reviewed. Project files were checked for evidence of periodic monitoring and submission of required documentation, and a sample of bond expenditures was tested for proper authorization and compliance with established procedures. Except as noted, bond funds and bond-acquired assets were safeguarded against loss from unauthorized use or disposition, and bond transactions were executed in accordance with management’s authorization and recorded properly to permit the preparation of reliable financial reports.
- **Determine whether bond funds were expended and reported in accordance with the bond act and state accounting requirements.** To complete this objective, the bond act, applicable laws and regulations, policies and procedures, and grant agreements and contracts were reviewed; the OLC’s management and staff were interviewed; and bond allocations and appropriations, fund transfers, and encumbrances and reserves were reviewed and verified. Accounting records were reconciled with financial reports, and a sample of expenditures (support and local assistance) was tested to supporting documents. Except as noted, the bond expenditures for the period July 1, 2004 through June 30, 2005 were accurately accounted and reported in compliance with the bond act, and in conformity with the accounting practices as prescribed by the State of California. The results of our audit are summarized on pages 11 and 12. Identified accounting and reporting weaknesses are described in the *Findings and Recommendations* section of this report.

- **Determine whether the OLC’s self-reported project status was complete, consistent, and informative.** In accordance with the Governor’s directive, and at our request, the OLC reported the status of its open projects. The results are summarized in the *Project Overview and Status* section of this report. The project status information was reported through May 30, 2006. Because this information is estimated and self-reported, auditing procedures did not extend to a verification of the expected completion dates, and we make no representations about their accuracy. However, the information was reviewed for consistency and completeness and discussed with the OLC to clarify details. Project completion will continue to be reviewed during subsequent field audits of grantees.

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

# AUDITEE SECTION

## PROJECT OVERVIEW AND STATUS

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Since program inception in July 2000, the OLC has developed processes to review applications, identify and prioritize projects and grantees, and administer the bond program. Project grants are available on a 65 percent-state to 35 percent-local matching fund basis to cities, counties, and library districts authorized to own and maintain a public library facility. The entire \$350 million Proposition 14 allocation has been appropriated and is available for expenditure. The OLC awarded 46 projects totaling \$334,141,372. The awards, which range from \$500 thousand to \$20 million, were made via three award cycles: 18 Cycle One awards totaling \$145,395,447; 16 Cycle Two awards totaling \$108,157,632; and 12 Cycle Three awards totaling \$80,588,293. The OLC anticipates that all library projects will be completed by the end of fiscal year 2009-10.

In order to report the most current information, the OLC provided an updated project overview and status as of May 30, 2006. We performed limited tests of the information provided, some of which was obtained from the OLC's website. The OLC is responsible for the accuracy and completeness of the information contained herein.

The following is a summary of the 46 approved projects as of May 30, 2006:

### **Cycle One Awards**

**Camarillo Library:** The City of Camarillo began plans for a new library in April 2004. Centrally located within the city, the 65,621 square foot library will be a joint venture facility serving city and Ventura County residents, as well as Pleasant Valley School District students. Total project costs are budgeted at \$24.5 million, including \$15.6 million of Proposition 14 funds. The estimated opening date is September 2006. The city has expended \$6,568,466 of its grant award.

Note: A joint venture facility serves both public library users and any combination of K-12 students as defined by a cooperative agreement between a public library jurisdiction and one or more public school districts.

**Alameda Free Library:** In March 2004, the City of Alameda began plans for a new 47,470 square foot downtown library. The library will be a joint venture facility serving both city residents and Alameda School District students. Total project costs are budgeted at \$24 million, including \$15.5 million of Proposition 14 funds. The estimated opening date is November 2006. The city has expended \$8,241,043 of its grant award.

**San Mateo Public Library:** The City of San Mateo began plans for a new main library in February 2004. The 93,800 square foot facility, to be located at the same downtown site as the old library, will be a joint venture facility serving city residents and San Mateo/Foster City School District students. Total project costs are budgeted at \$61.4 million, of which \$20 million is from Proposition 14. The estimated opening date is July 2006. The city has expended \$19,673,647 of its grant award.

**Hercules Public Library:** The City of Hercules began plans for a new library in February 2004. The 20,492 square foot library will be a joint venture facility serving city and Contra Costa County residents, as well as West Contra Costa Unified School District students. Total project costs are budgeted at \$10.1 million, including \$6.2 million of Proposition 14 funds. The estimated opening date is October 2006. The city has expended \$1,146,247 of its grant award.

**Highland Branch Library:** The City of Highlands began plans for a new library in March 2003. The library will be part of a 30-acre multi-purpose complex. At 30,016 square feet, the library will be a joint venture facility serving city and San Bernardino County residents, as well as San Bernardino City Unified School District students. The Cypress Elementary School library will also be located in the new facility. Total project costs are budgeted at \$8.2 million, including a Proposition 14-funded portion of \$5.2 million. The estimated opening date is December 2006. The city has expended \$363,648 of its grant award.

**South Oxnard Branch Library:** The City of Oxnard began plans for a new branch library in September 2004. The library will be located adjacent to the South Oxnard Community Center, which houses a senior center and a childcare center. The 23,000 square foot library will be a joint venture facility serving city residents and Ocean View/Hueneme School District students. Total project costs are budgeted at \$9.7 million, of which \$5.8 million is funded from Proposition 14. The estimated opening date is August 2006. The city has expended \$2,097,894 of its grant award.

**Manor Community Branch Library:** The City of San Leandro began plans for a new branch library in July 2003. The 9,500 square foot library will be located at the same site as the existing branch, and will be a joint venture facility serving city residents and San Leandro Unified School District students. Total project costs are budgeted at \$5.9 million, of which \$3.8 million is funded from Proposition 14. The estimated opening date is July 2006. The city has expended \$2,106,028 of its grant award.

**National City Public Library:** National City's new library has been open to the public since August 2005. The 48,998 square foot library is a joint venture between the city and its related school district. The \$17.4 million project included \$11.1 million in Proposition 14 funds. The city expended \$10,295,446 of its grant award to complete the project.

**Victoria Gardens Library:** The City of Rancho Cucamonga began plans for a new multipurpose building in September 2003. Located in the Victoria Gardens Regional Mall, the facility will include a library, children's theatre, and event center. The library will occupy 26,863 square feet and will be a joint venture facility serving city residents and Etiwanda School District students. Total project costs are budgeted at \$13.7 million, of which \$7.8 million is funded from Proposition 14. The estimated opening date is August 2006. The city has expended \$4,197,629 of its grant award.

Note: A multipurpose building is a multi-occupant facility, part of which is a public library and part of which is used for other purposes.

**Lemon Grove Public Library:** The City of Lemon Grove had planned a new 18,564 square foot library to serve city and San Diego County residents, as well as Lemon Grove School District students; however, on November 18, 2004, the city notified the OLC that due to the city's inability to obtain the required matching funds, it would not utilize the grant award. The

city returned all funds and terminated its \$3.8 million grant agreement with the OLC. This amount was redirected to Cycle Three awards.

**Mariners Joint Use Library:** In September 2003, the City of Newport Beach began plans for a 15,125 square foot branch library adjacent to Mariners Park. The library has been completed and opened to public since April 2006. The Mariners Elementary School's library is co-located within the city's library. The \$5.1 million project included \$3.2 million in Proposition 14 funds. The city expended \$1,226,548 of its grant award to complete the project.

**Orange Main Library Expansion:** The City of Orange began remodel/expansion plans for its main library in January 2005. The existing library, built in 1961, will be expanded from 17,000 to 45,000 square feet. Total project costs are budgeted at \$16.5 million, including a Proposition 14-funded portion of \$9.1 million. The estimated opening date is November 2006. The city has expended \$3,213,112 of its grant award.

**Bruggemeyer Memorial Library:** The City of Monterey Park began remodel/expansion plans for its library in February 2004. The existing library was last renovated in 1979, and will be expanded from 26,354 to 53,237 square feet. Total project costs are budgeted at \$13.9 million, of which \$8.9 million is funded from Proposition 14. The estimated opening date is August 2006. The city has expended \$8,357,400 of its grant award.

**Santa Maria Public Library:** The City of Santa Maria began plans for a new Civic Center library in November 2003. The 60,825 square foot library will be a joint venture facility serving both city residents and Santa Maria Joint Union High School District students. Total project costs are budgeted at \$25.3 million, of which \$16.4 million is funded from Proposition 14. The estimated opening date is March 2007. The city has expended \$3,311,208 of its grant award.

**Julian Branch Public Library:** The County of San Diego constructed a new branch library in the rural, historic town of Julian. The library has been open to the public since September 2004. The 9,573 square foot library is a joint venture facility serving county residents and Julian Union School and High School District students. The \$3.9 million project included \$2.5 million in Proposition 14 funds. The county expended \$2,403,339 of its grant award to complete the project.

**Haskett Branch Library:** In January, 2004, the City of Anaheim began plans to replace its existing Maxwell Park branch library. The library has been completed and opened to the public since May 2006. The new 24,000 square foot library is a joint venture facility serving city residents, Maxwell Elementary School, and Magnolia School District students. The \$8.7 million project included \$5.7 million in Proposition 14 funds. The city expended \$3,686,668 of its grant award to complete the project.

**Logan Heights Public Library:** In September 2003, the City of San Diego began plans for a new branch library in the Memorial Park area near several elementary schools. The 25,000 square foot library will be a joint venture facility serving city residents and San Diego Unified School District students. Total project costs are budgeted at \$8.8 million, with a Proposition 14-funded portion of \$5.4 million. The estimated opening date is December 2007. The city has expended \$351,004 of its grant award.

**Visalia Library Remodel and Expansion:** The County of Tulare plans to remodel and expand its Visalia branch library beginning in June 2004. The existing 42,970 square foot library, last renovated in 1976, will be expanded to 45,192 square feet. Total project costs are budgeted at

\$5.3 million, of which \$3.4 million is funded from Proposition 14. The estimated opening date is January 2007. The county has expended \$96,284 of its grant award.

### **Cycle Two Awards**

**Pickleweed Library:** The City of San Rafael began remodel/expansion plans for its Pickleweed Library in September 2004. The library is part of the multi-use Pickleweed Park Community Center. The existing library will be expanded from 526 to 6,487 square feet. Total project costs are budgeted at \$2 million, including \$1.3 million funded from Proposition 14. The estimated opening date is September 2006. The city has expended \$658,148 of its grant award.

**Redding Main Library:** In January 2005, the County of Shasta began plans for a new main library in the City of Redding, adjacent to City Hall and near the downtown area. The 55,000 square foot library will be a joint venture facility serving the county, City of Redding, Shasta Union High School District, and Redding School District. Total project costs are budgeted at \$20 million, of which \$12.2 million is funded from Proposition 14. The estimated opening date is March 2007. The county has expended \$4,537,275 of its grant award.

**Castroville Library:** In April 2003, the County of Monterey began plans for a new branch library near downtown Castroville. The 9,163 square foot library will be a joint venture facility serving the county, City of Castroville, and North Monterey County School District. Total project costs are budgeted at \$5.3 million, with a Proposition 14 funded portion of \$3.2 million. The estimated opening date is October 2006. The county has expended \$1,699,985 of its grant award.

**MacArthur Park Library:** The City of Long Beach began plans for a new MacArthur Park branch library in February 2005. The 16,155 square foot library will be a joint venture facility serving city residents and Long Beach Unified School District students. Total project costs are budgeted at \$10.1 million, including \$6.4 million in Proposition 14 funds. The estimated opening date is June 2007. The city has expended \$1,342,084 of its grant award.

**Frazier Park Library:** In February 2005, the County of Kern began plans for a new branch library in the community of Frazier Park. The 9,972 square foot library will be a joint venture facility serving county residents and El Tejon Unified School District students. Total project costs are budgeted at \$5.6 million, of which \$3.4 million is funded from Proposition 14. The estimated opening date is June 2007. The county has not claimed any grant expenditures.

**Mendota Library:** In June 2004, the County of Fresno began plans for a new Mendota branch library adjacent to Mendota High School. The 12,635 square foot library will be a joint venture facility serving city and county residents, and Mendota Unified School District students. Total project costs are budgeted at \$5.6 million, including \$3.5 million funded from Proposition 14. The estimated opening date is January 2007. The county has expended \$290,420 of its grant award.

**Hesperia Library:** In April 2005, the City of Hesperia began plans for a new library adjacent to the proposed Hesperia Government Center. The 20,000 square foot library will be a joint venture facility serving both city and San Bernardino County residents, and Hesperia Unified School District students. Total project costs are budgeted at \$6.8 million, of which \$4.2 million is funded from Proposition 14. The estimated opening date is September 2006. The city has expended \$1,726,267 of its grant award.

**Dorris Library:** The City of Dorris began plans for a new library in May 2004, in close proximity to the city's schools and medical clinic. The 3,300 square foot library will be a joint venture facility serving city and Siskiyou County residents, and Butte Valley Unified School District students. Total project costs are budgeted at \$895,000, of which \$534,000 is funded from Proposition 14. The estimated opening date is July 2006. The city has expended \$175,111 of its grant award.

**Harbor-Gateway Library:** The City of Los Angeles began plans for a new Harbor Gateway/Harbor City branch library in July 2004. The 14,621 square foot library will be a joint venture facility serving Harbor City residents and Los Angeles Unified School District students. Total project costs are budgeted at \$9.7 million, of which \$5.7 million is funded from Proposition 14. The estimated opening date is September 2006. The City of Los Angeles has expended \$3,052,645 of its grant award.

**Calabasas Library:** In December 2004, the City of Calabasas began plans for a new library in the city's Civic Center Complex. The 23,332 square foot library will be a joint venture facility serving city residents and Las Virgenes Unified School District students. Total project costs are budgeted at \$18.6 million, of which \$8.2 million is funded from Proposition 14. The estimated opening date is March 2008. The city has expended \$1,541,234 of its grant award.

**Temecula Library:** The City of Temecula began plans for a new library in June 2004, in close proximity to several schools, the Rancho California Sports Park, and the Community Recreation Center. The 34,000 square foot library will be a joint venture facility serving city and Riverside County residents, as well as Temecula Valley Unified School District students. Total project costs are budgeted at \$15 million, including \$8.5 million in Proposition 14 funds. The estimated opening date is November 2006. The city has expended \$373,750 of its grant award.

**San Diego Main Library:** In September 2004, the City of San Diego began plans for a new main library at the Park-to-Bay site, within the city's central business district. The 286,327 square foot library will be a joint venture facility serving city residents and San Diego Unified School District students. Total library project costs are budgeted at \$159.1 million, including \$20 million funded from Proposition 14. The estimated opening date is December 2009. The city has not claimed any grant expenditures.

**Redwood Shores Library:** In December 2005, Redwood City began plans for a new branch library in the Redwood Shores community. The 22,558 square foot library will be a joint venture facility serving city residents and Sequoia Union School District and Belmont/Redwood Shores School District students. Total project costs are budgeted at \$17 million, of which \$10.1 million is funded from Proposition 14. The estimated opening date is October 2007. The city has expended \$3,217,738 of its grant award.

**Fairfield-Cordelia Library:** In September 2004, the City of Fairfield began plans for a new library in the community of Cordelia. The 16,459 square foot library will be a joint venture facility serving city and Solano County residents, along with Fairfield-Suisun Unified School District students. Total library project costs are budgeted at \$12 million, with a Proposition 14-funded portion of \$4.1 million. The estimated opening date is December 2006. The city has expended \$1,749,253 of its grant award.

**Lincoln Library:** The City of Lincoln began plans for a new library in December 2004, co-located in the same complex with a Western Placer Unified School District library and a Sierra Community College library. The 37,872 square foot library will be a joint use facility

-serving the city, Western Placer Unified School District, and Sierra Community College District. Total project costs are budgeted at \$16.4 million, of which \$10.4 million is funded from Proposition 14. The estimated opening date is March 2007. The city has expended \$1,428,217 of its grant award.

**Murrieta Library:** The City of Murrieta began plans for its first permanent library in August 2004, adjacent to the historic downtown area and centrally located near public schools. The 24,951 square foot library will be a joint venture facility serving city residents and Murrieta Valley Unified School District students. Total project costs are budgeted at \$10 million, with \$6.4 million funded from Proposition 14. The estimated opening date is February 2007. The city has expended \$1,359,277 of its grant award.

### **Cycle Three Awards**

**Fontana Library and Resource Technology Center:** The City of Fontana began plans for a new library and resource technology center in December 2005. The 84,042 square foot library is a joint venture facility serving city residents and Fontana Unified School District students. Total project costs are budgeted at \$35.5 million, including \$14.9 million of Proposition 14 funds. The estimated opening date is April 2008. The city has not claimed any grant expenditures.

**Lawndale Library:** The County of Los Angeles plans to construct a new 17,360 square foot library in the community of Lawndale. The library will be a joint venture facility serving Lawndale residents and local students. Total project costs are budgeted at \$12.1 million, including \$7.3 million of Proposition 14 funds. The estimated opening date is March 2009. The county has not claimed any grant expenditures.

**Acton/Agua Dulce Library:** The County of Los Angeles plans to construct a new 10,874 square foot library in the community of Acton/Agua Dulce. The library will be a joint venture facility serving county residents and local students. Total project costs are budgeted at \$8.4 million, including \$4.6 million of Proposition 14 funds. The estimated opening date is June 2009. The county has not claimed any grant expenditures.

**Castro Valley Library:** The County of Alameda plans to construct a new Castro Valley library. The 41,331 square foot library will be a joint venture facility serving county residents and Castro Valley Unified School District students. Total project costs are budgeted at \$22.2 million, including \$13.9 million of Proposition 14 funds. The estimated opening date is October 2009. The county has expended \$1,920,829 of its grant award.

**Tranquillity Branch Library:** The County of Fresno plans to construct a new 3,484 square foot library in the town of Tranquillity. The library will be a joint venture facility serving county residents and local school students. Total project costs are budgeted at \$1.9 million, including \$1.2 million of Proposition 14 funds. The estimated opening date is October 2008. The county has not claimed any grant expenditures.

**Orange Cove Neighborhood Library:** The County of Fresno plans to construct a new Orange Cove library. The 9,735 square foot library will be a joint venture facility serving county residents and Kings Canyon Unified School District students. Total project costs are budgeted at \$4.4 million, including \$2.8 million of Proposition 14 funds. The estimated opening date is May 2008. The county has expended \$65,512 of its grant award.

**Sierra Valley Library and Children and Families Center:** The County of Sierra plans to construct a new library and children and families center. The 3,579 square foot library will be a joint venture facility serving county residents and Sierra-Plumas Joint Unified School District students. Total project costs are budgeted at \$2.1 million, including \$666,755 of Proposition 14 funds. The estimated opening date is July 2006. The county has not claimed any grant expenditures.

**Lafayette Library:** The City of Lafayette plans to construct a new library and learning center. The 25,453 square foot library will be a joint venture facility serving city and Contra Costa County residents. Total project costs are budgeted at \$22.1 million, including \$11.8 million of Proposition 14 funds. The estimated opening date is June 2008. The city has expended \$1,463,596 of its grant award.

**Oakland 81<sup>st</sup> Avenue Library:** The City of Oakland plans to construct a new 28,112 square foot library. The library will be co-located and serve as both the public library and the school library for two new autonomous schools within the Oakland Unified School District. Total project costs are budgeted at \$12.9 million, including \$6.5 million of Proposition 14 funds. The estimated opening date is October 2008. The city has not claimed any grant expenditures.

**Richmond Library:** The City and County of San Francisco plans to renovate and expand its Richmond Branch library. The new 13,820 square foot library will serve residents of the city's Richmond District. Total project costs are budgeted at \$9.2 million, including \$5.9 million of Proposition 14 funds. The estimated opening date is October 2008. The city has not claimed any grant expenditures.

**Ingleside Library:** The City and County of San Francisco plans to construct a new Ingleside District library. The 6,100 square foot library will be a joint venture facility serving San Francisco residents and San Francisco Unified School District and Aptos Middle School students. Total project costs are budgeted at \$5.9 million, including \$3.7 million of Proposition 14 funds. The estimated opening date is July 2008. The city has not claimed any grant expenditures.

**North Natomas Library:** The City of Sacramento plans to construct a new 23,011 square foot library. The library will be a joint use public and school library serving North Natomas residents and area high school and community college students. Total project costs are budgeted at \$13.3 million, including \$7 million of Proposition 14 funds. The estimated opening date is January 2008. The city has not claimed any grant expenditures.

## REVIEW OF BOND EXPENDITURES

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The information presented on the accompanying schedule was prepared from the accounts and financial transactions of the California State Library, Office of Library Construction, and in accordance with the legal/budgetary basis of accounting prescribed by the State of California, which is a comprehensive basis of accounting other than generally accepted accounting principles. Under this method, spending authority is created by legislative appropriation, and expenditures are recorded when obligations for goods and services are incurred. We audited the financial information for accuracy, reasonableness, classification, and presentation, and adjusted the schedule for any material errors, exceptions, or misstatements. The information presented is for the period July 1, 2000 through June 30, 2005.

**California State Library  
Office of Library Construction**

**California Public Library Construction and Renovation Fund  
Schedule of Appropriations, Expenditures, Encumbrances, and Reserves  
For the Period July 1, 2000 through June 30, 2005**

|   |                          |
|---|--------------------------|
| <b>Appropriations:</b>  |                          |
| Chapter 726, Statutes of 1999 <sup>1</sup>                        | <u>\$350,000,000</u>     |
| <br>  |                          |
| <b>Deductions:</b>  |                          |
| Expenditures <sup>2</sup>   | 54,948,296               |
| Encumbrances <sup>2</sup>   | 255,811,907              |
| Reserve for Commitments <sup>3</sup>                              | 29,468,921               |
| Reserve for Statewide Costs and Future Obligations <sup>4</sup>   | <u>9,633,424</u>         |
| Total Deductions  | <u>349,862,548</u>       |
| <br>  |                          |
| <b>Available Appropriation Balance, June 30, 2005<sup>5</sup></b> | <u><u>\$ 137,452</u></u> |

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<sup>1</sup> Proposition 14 funds are continuously appropriated beginning with fiscal year 2000-01.

<sup>2</sup> Expenditures and encumbrances are shown net of any adjustments.

<sup>3</sup> Reserve for Commitments includes funds awarded for specific projects, where contracts have been initiated but not yet executed.

<sup>4</sup> Amount represents the Office of Library Construction's estimated program delivery, financing, and support costs during the life of the program.

<sup>5</sup> As of June 30, 2005, this amount had not yet been awarded for specific projects or otherwise reserved for future programs costs.

## FINDINGS AND RECOMMENDATIONS

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In planning and performing our audit of Proposition 14 expenditures, the applicable internal control of the OLC was reviewed to determine areas of risk and to identify where the control and accountability for bond funds could be improved. In general, bond funds and bond-acquired assets were adequately accounted, safeguarded, and reported in compliance with the bond act and state fiscal requirements. However, we noted certain conditions requiring corrective action to improve fiscal operations.

The following conditions illustrate the importance of designing controls that enhance the OLC's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

### **FINDING 1                      Not All Grants Were Encumbered**

Condition:                      The OLC did not encumber two grant awards totaling \$9,710,784 for which valid agreements existed at June 30, 2005. Because the encumbrances were not made, there was no identification of amounts that should be accrued and recorded as expenditures in the year-end financial statements. The schedule on page 12 has been adjusted to reflect these encumbrances. *This finding was also reported in our prior audits of fiscal years 2000-01 through 2003-04; however, the number of unencumbered grants has significantly decreased from the prior audits.*

Criteria:                         State Administrative Manual (SAM) Section 10608 requires that encumbrances be established for valid obligations.

Recommendation:            Encumber all grant awards upon execution of grant agreements.

### **FINDING 2                      Lack of Cost Allocation Plan**

Condition:                      The California State Library continues to lack a current cost allocation plan to equitably allocate administrative costs to all of its programs and funding sources, including Proposition 14. For fiscal year 2004-05, we identified several instances where allocated costs were either not supported, or not reasonably allocated among the OLC and other programs. Although the costs were not material, without a current, approved cost allocation plan, there is an increased risk that the Proposition 14 program could pay expenses significantly in excess of its actual administrative costs. *This finding was reported in our prior audits of fiscal years 2000-01 through 2003-04.*

Criteria:                         SAM Section 9202 requires all state agencies to document their cost allocation procedures and methods in a Cost Allocation Plan (CAP).

Each CAP will contain detailed, documented information regarding the costs being allocated, the allocation method/basis, justification for the selected method, and provisions for periodic review and revision.

Recommendation: Develop a cost allocation plan to equitably distribute administrative costs to all programs and funding sources. Retain documentation of the plan and periodically adjust the plan and accounting records as necessary.

## CONCLUSION

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We respectfully submit this report on our review of the California Public Library Construction and Renovation Bond Act (Proposition 14) funds as of June 30, 2005.

The control and accountability issues discussed in the *Findings and Recommendations* section present opportunities to correct identified weaknesses and improve operations. The internal control would be strengthened if the OLC implements our recommendations. The internal control weaknesses, if left uncorrected, increase the risk that material errors or irregularities could occur and remain undetected.

Except as discussed in the following paragraph, we conducted our review in accordance with *Generally Accepted Government Auditing Standards* (GAGAS) issued by the Comptroller General of the United States, based on fieldwork performed from February 9, 2006 to August 30, 2006. We limited our review to those areas specified in the scope section of this report.

In connection with our review, there are certain disclosures required by GAGAS Statement No. 3. Both the OLC and the Department of Finance, of which the Office of State Audits and Evaluations is a unit, are part of the Executive Branch, which GAGAS considers an impairment to independence. Also, as required by various statutes within the California Government Code, the Department of Finance's other units are mandated to perform certain management and accounting functions. These activities impair independence. Although the Department of Finance is statutorily obligated to perform these specific activities, we believe that sufficient safeguards and divisions of responsibility exist that would enable the reader of this report to rely on the information contained herein.

***Original Signed By: Janet I. Rosman***

 Diana L. Ducay, Chief  
Office of State Audits and Evaluations  
(916) 322-2985

August 30, 2006





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October 10, 2006

Ms. Diana L. Ducay  
Chief  
Office of State Audits and Evaluations  
Department of Finance  
300 Capitol Mall, Suite 801  
Sacramento, CA 95814

Dear Ms. Ducay:

Thank you for the opportunity to respond to the draft audit report of the California Reading and Literacy Improvement and Public Library Construction and Renovation Bond Act of 2000 (OLC). We appreciate the efforts of the auditors working with the California State Library, which administers this bond program, and the cooperative and responsive relationships that have developed.

The audit of this program has been helpful and informative. As a small department we welcome your staff's expertise in these areas. The OLC staff will be working on the findings and recommendations with all appropriate parties. It is gratifying to note that this audit of the program confirmed that bond funds were accurately accounted for and reported in compliance with the bond act, and in conformity with the accounting practices prescribed by the State of California.

We look forward to our continued working relationship with the Department of Finance staff.

Yours truly,

*Original Signed By:*

Cameron D. Robertson  
Deputy State Librarian

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