

California Legislature

Joint Legislative Audit Committee

GOVERNMENT CODE SECTION 10500 et al

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Office of the Auditor General



February 15, 1980

Chairman and Members,
Joint Legislative Audit Committee
Room 4158, State Capitol
Sacramento, California 95814

Dear Mr. Chairman and Members:

I respectfully submit my Annual Report for 1979. This document summarizes the reports issued during 1979 and describes the actions taken by executive branch agencies on the recommendations within these reports.

This report illustrates the broad scope of financial and performance audits undertaken during the year at the request of numerous legislators. Fifty-five audit reports were issued, ranging from a report on the financial statements of the California Maritime Academy to a performance review of the Department of Education's Bilingual Program. The audit reports of 1979 most frequently dealt with the areas of Education, Health, and Welfare.

It is important to note that the actions taken in response to the report recommendations are unaudited; they have been recorded as reported by the various agencies, commissions, and boards.

Respectfully submitted,

A handwritten signature in cursive script that reads "Thomas W. Hayes".

THOMAS W. HAYES
Auditor General

ITEM NO. 13G CALIFORNIA LEGISLATURE

REPORT NO. 903

FINANCIAL AUDIT REPORT U.S. DEPARTMENT OF HOUSING AND URBAN
DEVELOPMENT PROJECT GRANTS
YEAR ENDED JUNE 30, 1978

SUMMARY OF FINDINGS

The audit report on examination of the California Legislature's financial statements for the U.S. Department of Housing and Urban Development (HUD) Project Grant CPA-CA-09-00-1004 from July 1, 1975 to February 28, 1979 and Grant 1033 from July 1, 1976 to February 28, 1979 contains an unqualified opinion. That is, in our opinion, the financial statements present fairly the financial position of the California Legislature, U.S. Department of Housing and Urban Development Project Grants CPA-CA-09-00-1004 and 1033 at February 28, 1979 and the results of their operations for the periods from July 1, 1975 and July 1, 1976, respectively, to February 28, 1979 in conformity with generally accepted accounting procedures and in accordance with standards prescribed by HUD.

We also reviewed the Legislature's accounting procedures and related system of internal accounting control. We made no recommendations.

ITEM NO. 17G COMMISSION ON JUDICIAL PERFORMANCE

REPORT NO. 033

FINANCIAL AUDIT REPORT COMMISSION ON JUDICIAL PERFORMANCE
YEAR ENDED JUNE 30, 1978

SUMMARY OF FINDINGS

The audit report on examination of the Commission on Judicial Performance's financial statements for the period ended June 30, 1978 contains an unqualified opinion. That is, in our opinion, the financial statements present fairly the financial position of the Commission on Judicial Performance as of June 30, 1978 and the results of operations and changes in operating clearing and fund balances for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. We also reviewed the commission's accounting procedures and related system of internal accounting control.

ITEM NO. 17G JUDICIAL COUNCIL

REPORT NO. 032

FINANCIAL AUDIT REPORT JUDICIAL COUNCIL
YEAR ENDED JUNE 30, 1978

SUMMARY OF FINDINGS

The audit report on examination of the Judicial Council's financial statements for the period ended June 30, 1978 contains a qualified opinion. Because of inadequate supporting records, we were unable to obtain sufficient evidence to form an opinion regarding the General Fixed Assets account group at June 30, 1978. Accordingly, we did not express an opinion on the General Fixed Assets account group. In our opinion, except for the General Fixed Assets account group, the financial statements present fairly the financial position of the Judicial Council as of June 30, 1978 and the results of its operations and changes in operating clearing and fund balance accounts for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We also reviewed the council's accounting procedures and related system of internal accounting control. This review enabled us to suggest improvements which would result in better controls over cash, payroll, and property.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

Strengthen the internal controls over cash, payroll, and property.

AGENCY ACTION

The department has strengthened its internal controls by implementing these improvements:

- Separating the duties of maintaining the accounts receivable register and handling cash;
- Separating the duties of handling payroll warrants from signing payroll documents;
- Reconciling the property ledger with the general ledger, conducting a physical inventory, and tagging all equipment.

ITEM NOS. 32G and 36G SECRETARIES OF THE BUSINESS AND
TRANSPORTATION AND RESOURCES AGENCIES

REPORT NO. 824

CALIFORNIA ENVIRONMENTAL PROTECTION PROGRAM: NEED FOR DISCRETE
PROGRAM OBJECTIVES

SUMMARY OF FINDINGS

Revenue from the sale of personalized license plates is to be used for the preservation and protection of California's environment. Most of this revenue is used to support a variety of environmentally-related activities conducted by 14 state departments and agencies. Only five percent of this revenue in fiscal year 1977-78 was used to fund discrete projects identified in the Budget Act.

Without discrete objectives which must be achieved by specific dates, we cannot fully evaluate this program.

AUDITOR GENERAL RECOMMENDATIONS
TO LEGISLATURE

We recommend the Legislature consider requesting the Secretaries of the Resources and the Business and Transportation Agencies to identify and recommend discrete environmental objectives for a program to be financed with net proceeds from personalized license plates.

Alternatively the Legislature may wish to consider legislation eliminating vague restrictions on the use of revenues from personalized license plates and controlling the usage of such funds through normal General Fund appropriations.

LEGISLATIVE ACTION

Senate Bill 256 was enacted (Chapter 1105, Statutes of 1979) requiring the Secretaries of the Resources Agency and the Business and Transportation Agency to develop and adopt an Environmental Protection Program Plan for submission to the Legislature by July 1, 1980.

No action taken.

ITEM NO. 44G OFFICE OF EMERGENCY SERVICES

REPORT NO. 063

FINANCIAL AUDIT REPORT OFFICE OF EMERGENCY SERVICES
YEAR ENDED JUNE 30, 1978

SUMMARY OF FINDINGS

The audit report on examination of the Office of Emergency Services' financial statements for the period ended June 30, 1978 contains a qualified opinion. Because of inadequate supporting records, we were unable to obtain sufficient evidence to form an opinion regarding the General Fixed Assets account group at June 30, 1978. Accordingly, we did not express an opinion on the General Fixed Assets account group. In our opinion, except for the General Fixed Assets account group, the financial statements present fairly the financial position of the Office of Emergency Services as of June 30, 1978 and the results of its operations and changes in operating clearing and fund balance accounts for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We also reviewed the Office of Emergency Services' accounting procedures and related system of internal accounting control. This review enabled us to suggest improvements which would result in better controls over cash, accounts receivable, and property.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

Strengthen the internal controls over cash, receivables, and property.

AGENCY ACTION

The department concurs with the recommendations and has reported improved controls in these areas.

ITEM NO. 48G DEPARTMENT OF JUSTICE

REPORT NO. 862.1

CHANGES NEEDED IN THE DEPARTMENT OF JUSTICE'S SUBSEQUENT ARREST NOTIFICATION PROGRAM

SUMMARY OF FINDINGS

The Department of Justice (DOJ) provides agencies with arrest information on individuals who are licensed, certified, or employed by these agencies. However, inadequate procedures have resulted in the following problems:

- DOJ sends the criminal histories of applicants to agencies which have no need to know this information. The Legislative Counsel stated in an opinion that this practice is contrary to law;
- DOJ retains unnecessary records; this practice adversely affects its identification program.

In addition, we found that DOJ was not charging law enforcement agencies the fingerprint processing fee for peace officer applicants.

AUDITOR GENERAL RECOMMENDATIONS TO AGENCY

We recommend the Department of Justice retain applicant records of only those individuals who are licensed or certified. Also, the department should revise its program procedures to ensure that arrest information is sent only to agencies with a need to know. To do this, DOJ should eliminate rapbacks on employment applicants because even if the individual was hired, there is no practical way for DOJ to determine if a relationship still existed at the time the individual was arrested. If an agency needs updated information, it may request a new rapsheet from DOJ.

AGENCY ACTION

DOJ agrees with our findings but is studying our recommendations to ensure that they are the best of available alternatives. DOJ expects to complete this study by March 1, 1980.

ITEM NO. 48G DEPARTMENT OF JUSTICE

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

AGENCY ACTION

The department should adopt these improvements:

- | | |
|---|--|
| - Reevaluate the fee charged for rapbacks; | No action taken. |
| - Increase compliance audits of agencies receiving criminal history information; | DOJ stated that it has increased audits of these agencies. |
| - Charge law enforcement agencies the \$6.10 fee for processing fingerprint cards for peace officer applicants. | No action taken. |

ITEM NO. 48G DEPARTMENT OF JUSTICE

REPORT NO. 862.2

NEED TO EXPAND THE USE OF PARALEGALS IN THE OFFICE OF THE ATTORNEY GENERAL

SUMMARY OF FINDINGS

Virtually all legal work in the Office of the Attorney General is conducted by deputy attorneys general. By expanding the use of paralegal personnel to perform duties not requiring the legal background of an attorney, deputy attorneys general would be free to concentrate on more complex legal duties.

Greater use of paralegals could either:

- Allow the Office of the Attorney General to maintain its current workload at an annual savings of approximately \$2.8 million, or
- Allow an expansion of the Office of the Attorney General within the current expenditure level of about 157 persons. This expansion would help reduce the office's current case backlog.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

The Attorney General expand its use of paralegals within the Civil and Criminal Law Divisions.

AGENCY ACTION

The Attorney General agrees with this recommendation and is currently

- Determining how many paralegal positions should be established;
- Working with the State Personnel Board to establish new paralegal classifications.

ITEM NO. 48G DEPARTMENT OF JUSTICE

REPORT NO. 862.3

ORGANIZED CRIME AND CRIMINAL INTELLIGENCE BUREAU

SUMMARY OF FINDINGS

Our review of the Department of Justice's Organized Crime and Criminal Intelligence Bureau (OCCIB) indicated that:

- From 1975 to 1978, OCCIB responded to over 55,000 requests for assistance, resulting in approximately 5,000 arrests and 160 prosecutions;
- OCCIB is providing effective intelligence services according to a survey of law enforcement.

AUDITOR GENERAL RECOMMENDATIONS
TO THE LEGISLATURE

The Legislature may want to require the Department of Justice to periodically report on the progress and accomplishments of the special prosecutions unit.

LEGISLATIVE ACTION

No action taken.

ITEM NO. 59G BOARD OF EQUALIZATION

REPORT NOS. 861.1 and 861.2

COUNTY PROPERTY TAX ASSESSMENT PRACTICES: AN ANALYSIS OF THE
POST-PROPOSITION 13 ASSESSMENT ROLL AND BASE VALUE OPTIONS

SUMMARY OF FINDINGS

Ambiguities in Article XIII(A) and the limited availability of 1975-76 assessment data caused variations in counties' interpretation and implementation of this law, particularly as it relates to base year values.

For the 47 counties we reviewed, we found that:

- Twenty counties revalued all parcels except those reappraised for the 1975-76 tax roll;
- Fifteen counties revalued all properties not at full cash value in 1975-76, including those reappraised for the 1975-76 tax roll, to their full market value as of March 1, 1975;
- Twelve counties adopted the actual assessed values recorded on the 1975-76 tax roll as the base year value for developing their 1978-79 rolls.

Furthermore, in constructing the 1975-76 tax roll, counties differed significantly in (1) the percentage of total parcels reappraised for the roll, (2) the methods used to reappraise parcels, and (3) the levels of full market value actually achieved. In some counties, these practices affected the 1978-79 tax roll.

In response to these disparities, the Task Force on Property Tax Administration suggested three options clarifying the concept of base year value. The report estimated the fiscal impact on property tax reserve of implementing each option.

ITEM NO. 64G SECRETARY OF STATE

REPORT NO. 096

FINANCIAL AUDIT REPORT SECRETARY OF STATE
YEAR ENDED JUNE 30, 1978

SUMMARY OF FINDINGS

The audit report on examination of the Secretary of State's financial statements for the period ended June 30, 1978 contains a disclaimer of opinion on the Ballot Paper Revolving Fund and an unqualified opinion on the General Fund and Special Deposit Fund. The disclaimer of opinion on the Ballot Paper Revolving Fund is necessary because we were unable to observe the physical inventories for the fiscal years ended June 30, 1977 and 1978. Other than this disclaimer, the financial statements present fairly the financial position of the Secretary of State as of June 30, 1978 and the results of operations and changes in operating clearing and fund balances for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We also reviewed the office's accounting procedures and related system of internal accounting control. This review enabled us to suggest improvements which would result in better controls over cash, accounts receivable, equipment, and revenue.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

Strengthen the internal controls over cash, accounts receivable, equipment, and revenue.

AGENCY ACTION

The Secretary agreed with most of the findings and recommendations and indicated changes will be made. The Secretary disagreed with our specific recommendation dealing with earlier deposits of checks, money orders, and warrants citing that the current procedure saves approximately \$30,000 annually and is in the State's best interest.

ITEM NO. 73G OFFICE OF THE STATE TREASURER

REPORT NO. 302

THE RESULTS OF SECURITY LOAN AGREEMENTS ENTERED INTO BY STATE AGENCIES UNDER CHAPTER 1214, STATUTES OF 1975 FOR THE THREE YEARS ENDED SEPTEMBER 30, 1978

SUMMARY OF FINDINGS

Chapter 1214, Statutes of 1975 authorized the State Treasurer and the Board of Administration of the Public Employees Retirement System (PERS) to implement a security loan program. Although implementation of the program was delayed, the State Treasurer plans to report net additional interest income of \$174,424 for the year ended June 30, 1978.

We have obtained reasonable assurance to conclude that the State Treasurer

- Has received from the borrowers all income which the Pooled Money Investment Account (PMIA) would otherwise have been entitled to, plus, all additional interest due the State as remuneration for lending PMIA securities;
- Has fairly stated net additional interest income from PMIA security loans;
- Has incurred no losses in reacquiring loaned PMIA securities;
- Plans to publicize the net additional interest income from PMIA security loans beginning with results for the year ended June 30, 1978.

In the case of one security loan, however, for four consecutive days, the State Treasurer was approximately \$230,000 short of the amount of collateral necessary to enable the PMIA to reacquire securities in the open market had the borrower been unable to return the loaned securities.

Contrary to the recommendation of PERS staff, the Investment Committee of the PERS Board of Administration, on February 16, 1977 and again on January 16, 1979, decided not to embark on a securities lending program. In response to detailed PERS staff proposals, the Investment Committee responded only that "the returns appear small versus the risk incurred." Since it would be required that PERS would hold cash collateral equal to or greater than the market value of loaned securities, we could not foresee any risks provided the program is properly administered.

ITEM NO. 74G CALIFORNIA MUSEUM OF SCIENCE AND INDUSTRY

REPORT NO. 117

FINANCIAL AUDIT REPORT CALIFORNIA MUSEUM OF SCIENCE
AND INDUSTRY
YEAR ENDED JUNE 30, 1978

SUMMARY OF FINDINGS

The audit report on examination of the California Museum of Science and Industry's financial statements for the period ended June 30, 1978 contains an unqualified opinion. That is, in our opinion, the financial statements present fairly the financial position of the California Museum of Science and Industry as of June 30, 1978 and the results of operations and changes in operating clearing and fund balances for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We also reviewed the department's accounting procedures and related system of internal accounting control. This review enabled us to suggest improvements which would result in better controls over cash, fixed assets, payroll, revenues, and revolving fund disbursements.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

Strengthen the internal controls over cash, fixed assets, payroll, revenues, and revolving fund disbursements.

AGENCY ACTION

The museum generally agrees with the concepts and recommendations; however, it is unable to fully implement all recommendations due to staff limitations.

ITEM NO. 100S CONTRACTOR'S STATE LICENSE BOARD

REPORT NO. 859

NEED FOR IMPROVED ADMINISTRATION OF COMPLAINT-PROCESSING PROGRAM

SUMMARY OF FINDINGS

We have identified various weaknesses that inhibit the Contractor's State License Board (CSLB) in effectively and efficiently handling consumer complaints. Although some problems may be the result of an increased workload, we focused upon these areas:

- Inadequate procedures have caused excessive delays in investigating and resolving consumer complaints. As a result, the board may be unresponsive to legitimate consumer complaints;
- The board's automated Investigation Management Information System fails to provide timely, accurate, or appropriate data.

AUDITOR GENERAL RECOMMENDATIONS TO LEGISLATURE

LEGISLATIVE ACTION

The Legislature may wish to provide these mechanisms to improve the board's enforcement program:

No action taken.

- Allow the Registrar to determine which complaints would be investigated;
- Introduce the issuance of a Notice of Violation when allegations of unlawful activities are confirmed;
- Authorize the board to assess licensees for investigative costs when they violate the law;
- Provide an arbitration process for licensees as an alternative to bringing formal action;

ITEM NO. 100S CONTRACTOR'S STATE LICENSE BOARD

AUDITOR GENERAL RECOMMENDATIONS
TO LEGISLATURE

- Supply an in-house counsel for CSLB to reduce the time and cost of bringing formal action.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

The board adopt a timetable and specific production goals to reduce complaint backlog; the board develop and implement operating procedures to process complaints.

The board improve its Management Information System by evaluating management information needs at each level, checking the present system's performance, and introducing system modifications gradually, to ensure program reliability.

LEGISLATIVE ACTION

No action taken.

AGENCY ACTION

CSLB has adopted a caseload goal of 100 cases per staff member and a production goal of 40 complaint resolutions per month.

CSLB has proposed a budget change for funding to research its caseload goal by the end of 1979-80. Additional funding requests will finance the preparation of a detailed procedures manual and the implementation of these procedures.

CSLB will evaluate management information needs during meetings.

The Department of Consumer Affairs Data Processing Unit has reviewed the system; as a result, minor program changes have been made. Other system modifications have been scheduled.

ITEM NO. 117G DEPARTMENT OF CONSUMER AFFAIRS

REPORT NO. 853

DIVISION OF INVESTIGATION AND DIVISION OF CONSUMER SERVICES:
A PROGRAM REVIEW

SUMMARY OF FINDINGS

We reviewed the Division of Investigation and the Division of Consumer Services within the Department of Consumer Affairs and found these weaknesses:

- The Division of Investigation needs to establish procedures for screening and assigning priorities to cases to improve the timeliness of investigations. Also, the division should establish criteria to ensure selective use of investigators and to assume efficient operation;
- No method of funding the Division of Investigation should be revised to ensure a consistent level of investigation and inspection activity;
- The time reporting system with which the Division of Consumer Services monitors General Fund and special fund expenditures needs modification to provide more accurate information on project costs.

AUDITOR GENERAL RECOMMENDATIONS
TO LEGISLATURE

The Legislature may wish to consider alternate funding methods to provide a stable and consistent level of funding for investigation and inspection activity within the Division of Investigation. A stable and consistent level of funding could prevent instances of investigation and inspection activity being reduced or held in abeyance due to lack of funds.

LEGISLATIVE ACTION

No action taken.

ITEM NO. 117G DEPARTMENT OF CONSUMER AFFAIRS

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

The Department of Consumer Affairs should establish procedures requesting agencies to take certain actions, such as making telephone contacts and letter inquiries, before referring cases to the Division of Investigation.

Request agencies to review their inspection requirements and revise frequency of inspection requirements as appropriate.

The Division of Investigation should establish procedures to screen and assign priorities to cases referred for investigation and modify the request for service form to reflect what actions agencies have taken to resolve a case before it is referred.

AGENCY ACTION

The department has requested the boards and bureaus to screen cases and indicate what actions they have taken prior to investigation.

The department agreed that inspection requirements are not being met. However, the department stated that inspection staffing is a function of funds allocated by boards and bureaus and insufficient allocations have caused infrequent inspections.

The department has (1) requested boards and bureaus to review and update enforcement priorities and screening efforts and (2) established a procedure within the division to review cases for jurisdiction.

Board and bureau screening of cases prior to referral for investigation is now reviewed at the division. All boards and bureaus using division services have been requested to list actions taken prior to investigation on the request for service form. Correspondence or documents demonstrating pre-investigation steps taken are to be attached to any request for service.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

Review its management information system to determine the adequacy and usefulness of the information currently provided. The division should consider gathering data on the method of disposition of investigations to better evaluate its activities.

Establish procedures regarding the use of investigators and inspectors for special types of inspections in an effort to reduce investigative costs.

Establish formal selection criteria and procedures for selecting establishments and licensees for inspection.

AGENCY ACTION

A departmental study indicated that information generated was adequate but that it was not being sufficiently used.

The chief of the division implemented procedures to monitor all completed investigations returned to boards and bureaus where the probability of criminal conduct was noted and to report to the department when a board did not refer such a case to the appropriate jurisdiction.

Inspection processes for the Boards of Cosmetology and Veterinary Medicine are no longer classified as investigations. Further, supervisors at the division have been instructed that investigators may inspect only on an exception basis.

No action taken. By statute, boards and bureaus are responsible for enforcement, promulgation of selection criteria, and procedures for the inspection of establishments and licensees.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

The Department of Consumer Affairs and the Division of Consumer Services develop an improved time reporting system for identifying project costs. We also recommend that the Division of Consumer Services consider integrating the time reporting system with project evaluation efforts by establishing time reporting categories that are consistent with specific activities.

AGENCY ACTION

The Division of Consumer Services management and the department's internal auditors have devised a time reporting system to provide accurate and timely information on project costs. The system is operating on a test basis for all division units.

ITEM NO. 122G FRANCHISE TAX BOARD

REPORT NO. 453

FINANCIAL AUDIT REPORT FRANCHISE TAX BOARD
YEAR ENDED JUNE 30, 1978

SUMMARY OF FINDINGS

The audit report on examination of the Franchise Tax Board's (FTB's) financial statements for the period ended June 30, 1978 contains an unqualified opinion. That is, in our opinion, the financial statements present fairly the financial position of the Franchise Tax Board as of June 30, 1978 and the results of operations and changes in operating clearing and fund balances for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We also reviewed the board's accounting procedures and related system of internal accounting control. This review enabled us to suggest improvements which would result in better controls over computer facilities, collections, equipment, and undeposited checks. Also, the review addresses the lack of communication between the FTB and the Department of Benefit Payments which administers FTB's personal income tax withholding program.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

Strengthen the internal controls over the computer facilities, collections, equipment, and undeposited checks.

AGENCY ACTION

The board has strengthened its internal controls by constructing a wall to separate the computer room from uncontrolled access areas and by developing a computer recovery and backup plan. Also, the board has improved its controls over collections, strengthened the accounting for equipment, and has physically secured undeposited checks.

ITEM NO. 124G DEPARTMENT OF GENERAL SERVICES

REPORT NO. 858

DEPARTMENT OF GENERAL SERVICES, OFFICE OF PROCUREMENT,
PURCHASING POLICIES AND PROCEDURES

SUMMARY OF FINDINGS

The Department of General Services' Office of Procurement (Procurement) is responsible for most state purchases of supplies and equipment costing more than \$100. Our review revealed that Procurement's:

- Processing of purchases totalling \$500 or less is generally not cost-effective;
- Policies for purchasing items under \$5,000 are sometimes ineffective, and guidelines for noncompetitive purchases require modification to ensure that noncompetitive purchases are awarded only when appropriate;
- Excessive workload at the end of fiscal year 1977-78 caused backdated purchase orders to be charged to expired appropriations; and
- Central Stores' prices do not include financing costs.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

Delegate a \$500 purchasing authority to all state agencies.

AGENCY ACTION

The \$500 delegation pilot program has been completed and, as a result of its success, Management Memo 79-33 was issued in September 1979. This management memo established a policy of delegating purchasing authority to all requesting departments at the \$500 level. As of November 30, 1979, 80 departments have been granted this delegation.

ITEM NO. 124G DEPARTMENT OF GENERAL SERVICES

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

Initiate the delegation of additional purchasing authority under the Departmental Delegation Program.

Annually reassess the appropriate level of general purchasing authority to be given state agencies.

Redesign the present management information reports to better accommodate delegation management staff.

Reorganize its income and expense reports to separate costs and revenues into method of processing and billing method.

Formally instruct buyers to report instances of ineffective purchase processing to the Departmental Delegation Unit.

Revise its express line policy to (1) allow buyers to purchase items costing \$500 or less without securing competitive quotations if the prices are considered reasonable and such purchases are fairly distributed among qualified suppliers, and (2) require two or more price quotations on purchases over \$500.

AGENCY ACTION

This is an ongoing program. The most recent expansions in this area include increases in delegated levels for Cal Trans, Forestry, and Rehabilitation Departments.

As this recommendation calls for an annual reassessment, no action can be taken until June 1980.

Modifications to these reports are being initiated as required. Modifications to date have included development of a new buyer workload report. Revisions to delegation reports are currently being made.

No action taken. This recommendation would require installation of a functional time reporting system at an estimated cost of \$13,000 annually.

Adopted. Policy Manual has been revised.

Adopted. Policy Manual has been revised.

ITEM NO. 124G DEPARTMENT OF GENERAL SERVICES

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

AGENCY ACTION

Produce with its computer informal bid lists of randomly selected vendors for each express line purchase. The referenced vendor should continue to be solicited and buyers should still exercise discretion in selecting vendors.

No action taken.

Establish formal noncompetitive purchase guidelines, including but not limited to:

Adopted. Policy Manual has been revised.

1. Criteria such as prices found reasonable on previous purchases, current price lists or value analysis
2. Justification criteria as established in the State Administrative Manual
3. Documentation requirements for purchases over \$500 which would address the need for limiting competition, determining reasonableness of price and complying with law and policy.

Continue to develop its newly formed policy guidelines to include all its purchasing processes, such as contracting and price schedules of purchasing orders.

The Formal Bid Policy Section was published in September and the Contract Policy Section was published in December.

Date purchase orders with the date of transmission to the vendor.

No action taken.

The Chief of Procurement control fiscal year-end workload by more strictly enforcing the applicable State Administrative Manual provisions.

Office of Procurement has suggested certain changes to the State Administrative Manual to reduce year-end workload.

ITEM NO. 124G DEPARTMENT OF GENERAL SERVICES

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

Establish specific completion dates and priorities for implementing the purchasing phases of SLAMM, particularly management report deficiencies, refinement of bid lists, and collection and submission of contract and delegation order data.

Reinstruct buyers to check SLAMM bid lists for known sources of supply until system improvements are implemented.

Propose to the State Controller that he consider accumulating contract and departmental purchasing delegation data for the Office of Procurement.

Schedule periodic SLAMM training sessions for agency purchasing personnel.

We recommend that the Department of General Services set its prices based on cost rather than on market value.

We further recommend that the Office of Procurement decrease its charges for purchasing services and correspondingly increase Central Stores' prices as necessary to recover needed cash in accordance with its working capital plan.

AGENCY ACTION

Major deficiencies in the SLAMM management reports have been corrected. Bid list refinement has been completed, the bidder removal EDP program is operational, and contract and delegation order data is being captured.

Adopted. Policy Manual has been revised.

Adopted. The Office of Procurement and the State Controller are working on methods to accumulate this data.

Office of Procurement is holding SLAMM training classes on a periodic basis. The most recent was a series of four sessions for the Department of Corrections in four different locations.

No action taken.

The Office of Procurement has reviewed its rates to ensure that rates are set on the basis of cost. It decided to add a 4% surcharge to the Stores' rates to recover additional working capital and to reduce the purchasing rate from 1.9% to 1.8%.

ITEM NO. 124G DEPARTMENT OF GENERAL SERVICES

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

In the event these actions exempt certain items from competition, we recommend that the Office of Procurement examine alternative methods such as purchasing these items directly or contracting for them.

AGENCY ACTION

This is an ongoing Office of Procurement process.

ITEM NO. 152N DEPARTMENT OF VETERANS AFFAIRS

REPORT NO. 847.1

A REVIEW OF THE CAL-VET PROGRAM'S LOAN PROCEDURES AND CASH FLOW

SUMMARY OF FINDINGS

The State offers low-interest farm and home loans to California veterans through the Cal-Vet loan program of the Division of Farm and Home Purchases, Department of Veterans Affairs.

Our review found that the division lacks a complete, written, formal operations manual which identifies areas of authority and responsibility and assures consistency among districts. In part, this caused the division to pay delinquent property tax penalties amounting to \$29,000 in fiscal year 1977-78. Also, district offices are applying varying procedures when evaluating the credit status of loan applicants because of the lack of a written procedures manual and lax observation of existing guidelines.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

The department should develop a complete, written, formal operations manual and follow its procedural guidelines.

AGENCY ACTION

The department has completed a written formal operations manual, covering various functions in the Cal-Vet Program.

ITEM NO. 153G DEPARTMENT OF VETERANS AFFAIRS

REPORT NO. 847.2

THE VETERANS' HOME OF CALIFORNIA, DEPARTMENT OF VETERANS AFFAIRS

SUMMARY OF FINDINGS

This report represented a joint audit of the Veterans' Home of California, which provides long-term care to approximately 1,400 aged and disabled persons who have served in the armed forces of the United States. Both the Office of the Auditor General and the Office of the Inspector General, U. S. Veterans Administration, conducted the study. These are the administrative weaknesses which were found:

- State statute and federal regulations conflict regarding the deposit of interest income earned on certain members' trust funds;
- Administrative control of members' assets is adequate;
- Retroactive charges to the Veterans Administration for the cost of member care was underestimated by \$87,900;
- Claims for cost reimbursement for members residing in two sections of the Veterans' Home is not allowable.

AUDITOR GENERAL AND INSPECTOR
GENERAL RECOMMENDATIONS
TO LEGISLATURE

The Legislature may wish to amend the California Military and Veterans Code Section 1042 to comply with federal regulations on interest income on certain members' trust funds.

LEGISLATIVE ACTION

No action taken.

AUDITOR GENERAL AND INSPECTOR
GENERAL RECOMMENDATIONS
TO AGENCY

We recommend that the Veterans' Home establish appropriate written financial controls on accounts of members unable to manage their funds.

AGENCY ACTION

The Veterans' Home instituted written financial controls and proper documentation to support financial restrictions on members' funds.

ITEM NO. 153G DEPARTMENT OF VETERANS AFFAIRS

AUDITOR GENERAL AND INSPECTOR
GENERAL RECOMMENDATIONS
TO AGENCY

Also, the Veterans' Home should submit an amended claim for \$87,900 to recover allowable reimbursements for nursing costs from January 1976 through September 1976.

AGENCY ACTION

The Veterans' Home submitted an amended claim for reimbursement.

ITEM NO. 155G DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

REPORT NO. 645

FINANCIAL AUDIT REPORT DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL
YEAR ENDED JUNE 30, 1978

SUMMARY OF FINDINGS

The audit report on examination of the Department of Alcoholic Beverage Control's financial statements for the period ended June 30, 1978 contains an unqualified opinion. That is, in our opinion, the financial statements present fairly the financial position of the Department of Alcoholic Beverage Control as of June 30, 1978 and the results of operations and changes in operating clearing and fund balances for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We also reviewed the department's accounting procedures and its related system of internal accounting control. This review enabled us to suggest improvements which would result in better operating procedures or better internal accounting controls over cash transaction duties, liquor licenses and related refund forms, compliance with Section 25761 of the Business and Professions Code, and district office procedures.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

AGENCY ACTION

Separate the duties of preparing cash receipts from handling cash disbursements so that no one employee performs both. Separate the duties of purchase approval from claim schedule certification. Also, separate accounting control duties from the physical controls over equipment.

Adopted.

Strengthen district office internal accounting controls. Also, record cash receipts on the date they are received.

The department is now determining the appropriate action regarding these recommendations.

Press number all licenses; maintain a control log for all license numbers. Also store unissued licenses in a safe.

The department is determining what action to take on these recommendations.

ITEM NO. 155G DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

Verify that the name of the person paying the fee matches the name of the payee on the license fee refund form. Maintain a daily issuance log for the license fee refund forms. Keep the blank license fee refund forms in a restricted area.

Correct the data processing program so that revenues are allocated in accordance with Section 25761 of the Business and Professions Code.

AGENCY ACTION

The department is determining what action to take on these recommendations.

The department will adopt this recommendation.

ITEM NO. 156G ALCOHOLIC BEVERAGE CONTROL APPEALS BOARD

REPORT NO. 649

FINANCIAL AUDIT REPORT ALCOHOLIC BEVERAGE CONTROL APPEALS BOARD
YEAR ENDED JUNE 30, 1978

SUMMARY OF FINDINGS

The audit report on examination of the Alcoholic Beverage Control Appeals Board's financial statements for the period ended June 30, 1978 contains an unqualified opinion. That is, in our opinion, the financial statements present fairly the financial position of the Alcoholic Beverage Control Appeals Board as of June 30, 1978 and the results of operations and changes in operating clearing and fund balances for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ITEM NO. 163G DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

REPORT NO. 907

CONTINUING ADMINISTRATIVE DEFICIENCIES IN THE DEPARTMENT OF
HOUSING AND COMMUNITY DEVELOPMENT

SUMMARY OF FINDINGS

This letter report reviewed allegations against the Department of Housing and Community Development's (HCD's) personnel policies and procedures, travel expenditures, and contract administration. These problems had been reviewed by the Department of Finance and the State Personnel Board. Our report confirmed that these areas still warrant improvements although the department is undertaking measures to correct the deficiencies.

In the area of personnel practices and policies, we found that the Personnel Board's findings relating to the Chief of the Division of Codes and Standards need further investigation. Also, the board's study of the problem may have been impaired because the employee who initially approved the department's contracts and personnel actions audited those same actions. The board's study did not include members of the department who may have provided valuable information.

We followed up the Department of Finance's review of HCD's travel expenditures. HCD has tightened its travel guidelines but problems with proper authorization of travel expense claims and excessive allowances for per diem meals remain.

Furthermore, we found that deficiencies in HCD's contract administration pointed out by the Department of Finance still exist. Progress reports, contractor evaluations, and statements showing compliance with competitive bid provisions of the State Administrative Manual are missing from contract files. HCD also does not record total contract volume and dollar value. Consequently, there is a limited basis for measuring contract workload and staffing needs for contract support.

ITEM NO. 163G DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

Eliminate specific deficiencies
in travel administration

- Double reimbursements
- Excessive travel advances
- Inadequate control of airline
ticket issuance and payment
- No formal travel policy.

Eliminate specific deficiencies
in contract administration

- Inadequate documentation for
noncompetitive contracts
- Final payment when services
not completed
- No contract manual
- No single individual respon-
sible for contract coordina-
tion.

AGENCY ACTION

HCD has developed a com-
puterized system to provide
quarterly reports to super-
visors on employee travel
advance balances. Also,
procedures and forms have
been developed for issuance
of airline tickets and a
comprehensive travel manual
detailing policies and
procedures has been issued.

HCD is requesting approval
of a contract officer posi-
tion. A paralegal position
has been established as a
contract coordinator in the
interim. The agency has
tightened contract review
and evaluation procedures.

ITEM NO. 166G DEPARTMENT OF INSURANCE

REPORT NO. 662

FINANCIAL AUDIT REPORT DEPARTMENT OF INSURANCE
YEAR ENDED JUNE 30, 1978

SUMMARY OF FINDINGS

The audit report on examination of the Department of Insurance's financial statements for the period ended June 30, 1978 contains a qualified opinion. Because of inadequate supporting records, we were unable to obtain sufficient evidence to form an opinion regarding the General Fixed Assets account group at June 30, 1978. Accordingly, we did not express an opinion on the General Fixed Assets account group. In our opinion, except for the General Fixed Assets account group, the financial statements present fairly the financial position of the Department of Insurance as of June 30, 1978 and the results of its operations and changes in operating clearing and fund balance accounts for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We also reviewed the department's accounting procedures and related system of internal accounting control. This review enabled us to suggest improvements which would result in better controls over property and payroll transactions.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

Strengthen the internal controls over property and payroll transactions.

AGENCY ACTION

The department reports that it has established procedures to strengthen controls in these areas.

ITEM NO. 172S DEPARTMENT OF TRANSPORTATION*

REPORT NO. 905

HIGHWAY REVENUE DISTRIBUTIONS

SUMMARY OF FINDINGS

The Auditor General conducted this study to determine, on a county-by-county basis, the source of funds supporting the California highway systems and the expenditures and other distributions of these funds.

The state highway system is supported by seven major fees and taxes which are collected by two agencies and deposited into five different accounts.

This report apportioned all highway revenues and expenditures by county and explained the assumptions used in allocating the various revenues and expenditures.

* This report also applies to Item Nos. 173S-183S Department of Transportation and Item Nos. 512S-514S Business and Transportation Agency.

ITEM NOS. 172S and 174S DEPARTMENT OF TRANSPORTATION*

REPORT NO. 910

REPORT ON THE STUDY TO ASSESS ALTERNATIVES FOR EXPENDING
HIGHWAY FUNDS MORE EXPEDITIOUSLY

SUMMARY OF FINDINGS

A review of certain Department of Transportation (Caltrans) activities by Arthur Young and Company revealed that Caltrans probably will be unable to fully deliver the State Transportation Improvement Plan.

In addition, Arthur Young and Company found that: (1) potential for accelerating new facilities is limited, (2) contracting with the private sector for project development work is feasible, and (3) local government can perform certain project functions for the Department of Transportation.

* This report also applies to Item Nos. 173S and 175S-183S Department of Transportation and Item Nos. 512S-514S Business and Transportation Agency.

ITEM NO. 174S DEPARTMENT OF TRANSPORTATION*

REPORT NO. 912

THE BOARD OF EQUALIZATION HAS UNDERESTIMATED TRANSFERS TO THE TRANSPORTATION, PLANNING, AND RESEARCH ACCOUNT, STATE TRANSPORTATION FUNDS

SUMMARY OF FINDINGS

The Transportation, Planning, and Research Account in the State Transportation Fund was established to support mass transportation and transportation planning programs. This account receives funding through an annual transfer from the Retail Sales Tax Fund. The State Board of Equalization underestimated the transfers by \$15,132,290 for the period from July 1, 1973 through December 31, 1978. As a result, the Transportation, Planning, and Research Account was underfunded.

AUDITOR GENERAL RECOMMENDATIONS TO AGENCY

AGENCY ACTION

State Board of Equalization recalculate the transfers to correct the inaccuracies, and, with the concurrence of the Department of Finance, direct the State Controller to transfer \$15,132,290 to the Transportation, Planning, and Development Account.

No action taken.

The board ensure that future transfers are based upon the most accurate information available.

The board has incorporated our recommended refinements into its formula for calculating the transfer.

* This report also applies to Item No. 61S Motor Vehicle Fuel Account.

ITEM NOS. 190S and 192S DEPARTMENT OF MOTOR VEHICLES

REPORT NO. 870

FINANCIAL AUDIT REPORT DEPARTMENT OF MOTOR VEHICLES
YEAR ENDED JUNE 30, 1978

SUMMARY OF FINDINGS

The audit report on examination of the Department of Motor Vehicle's financial statements for the period ended June 30, 1978 contains an unqualified opinion. That is, in our opinion, the financial statements present fairly the financial position of the Department of Motor Vehicles as of June 30, 1978 and the results of operations and changes in operating clearing and fund balances for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We also reviewed the department's accounting procedures and related system of internal accounting control. This review enabled us to suggest improvements which would result in better controls. Some of the suggested improvements concerned internal controls over cash, cash-related activities, accounts receivable, claim schedule documentation, and salary advances.

In addition, we noted two areas needing attention--travel expenditures and the department's internal audit unit. Our examination of travel expenditures revealed that some employees claimed unwarranted mileage and subsistence allowance payments. Participants in Drivers License Examiner classes were overpaid approximately \$18,000 based upon State Board of Control rules. After reviewing the department's internal audit unit, we noted that although the work of the unit is commendable, it could better serve management's needs by reviewing and analyzing other departmental activities. It could, for example, appraise the adequacy and application of accounting, financial, and operating controls or ascertain whether assets are accounted for and safeguarded from losses. Expanding the scope of the unit to include these and other activities would help eliminate control weaknesses as well as increase efficiency and economy.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

Strengthen the internal controls over cash, cash-related activities, accounts receivable, claim schedule documentation, and salary advances.

AGENCY ACTION

The department has strengthened its internal controls by implementing these improvements:

- Establishing an automatic remittance processing unit for endorsing all checks;

ITEM NOS. 190S and 192S DEPARTMENT OF MOTOR VEHICLES

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

AGENCY ACTION

Limit approval of mileage and subsistence allowance to the amount necessary to conduct and complete state business.

- Examining paid checks periodically for suspicious or irregular features;
- Securing blank check stock;
- Documenting, reviewing, and approving claim schedules; and
- Ensuring that employees reimburse salary advances from their next payroll warrant.

The department will demand reimbursements from claimants whose expenses were in excess of those necessary for conducting state business. Also, the department has solicited recommendations regarding travel from the Division of Field Office Operation and from the DMV fiscal office.

Expand the scope of the internal audit unit to include activities that strengthen internal control and promote economy and efficiency.

The department will restructure the internal audit unit so that in addition to performing procedural fiscal audits, it will identify and recommend changes based upon priorities, fiscal impact, and level of risk.

ITEM NO. 192S DEPARTMENT OF MOTOR VEHICLES

REPORT NO. 261

FINANCIAL AUDIT REPORT OFF-HIGHWAY LICENSE FEE FUND
YEAR ENDED JUNE 30, 1978

SUMMARY OF FINDINGS

The audit report on examination of the Off-Highway License Fee Fund's financial statements for the period ended June 30, 1978 contains an unqualified opinion. That is, in our opinion, the financial statements present fairly the financial position of the Off-Highway License Fee Fund as of June 30, 1978 and the results of operations and changes in operating clearing and fund balances for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ITEM NO. 194S DEPARTMENT OF MOTOR VEHICLES

REPORT NO. 378

FINANCIAL AUDIT REPORT STATE BICYCLE LICENSE AND REGISTRATION
FUND
YEAR ENDED JUNE 30, 1978

SUMMARY OF FINDINGS

The audit report on examination of the State Bicycle License and Registration Fund's financial statements for the period ended June 30, 1978 contains an unqualified opinion. That is, in our opinion, the financial statements present fairly the financial position of the State Bicycle License and Registration Fund as of June 30, 1978 and the results of operations and changes in operating clearing and fund balances for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ITEM NO. 197N TEALE CONSOLIDATED DATA CENTER*

REPORT NO. 834

REVIEW OF DATA PROCESSING USAGE IN THE EXECUTIVE BRANCH

SUMMARY OF FINDINGS

This study, conducted by Arthur Young and Company, revealed that Electronic Data Processing (EDP) planning is limited to the department level as reflected in departmental annual information system plans submitted to the Department of Finance. The statewide Master Plan has not been updated since May of 1970. A statewide EDP planning and coordination effort is needed to minimize unnecessary effort and excess personnel costs resulting from duplicate application development.

RECOMMENDATIONS TO THE
LEGISLATURE

LEGISLATIVE ACTION

Establish a statewide data processing, planning, and coordinating organization.

No action taken.

To avoid curtailment of data processing capability, the State should transfer applications to computers with available capacity.

No action taken.

The Franchise Tax Board Computer Center should become the State and Consumer Services Agency Data Center.

No action taken.

Transfer State and Consumer Services Agency applications from Teale Data to the Franchise Tax Board.

Contractors' State License Board applications have been partially implemented at the Franchise Tax Board.

* This report also applies to Item No. 414G Department of Finance and Item No. 59G Board of Equalization.

ITEM NO. 197N TEALE CONSOLIDATED DATA CENTER

RECOMMENDATIONS TO AGENCY

Applications of little value should be eliminated if not justified.

The Department of Finance should maintain the inventory of applications.

The department should also supplement the Teale Data Center time-sharing study to include scientific and engineering applications.

The State Data Processing Officer should evaluate applications for potential consolidation.

AGENCY ACTION

Those applications identified by the agencies as marginal have been eliminated

No action taken.

Recommendation accepted.

These evaluations are performed on an ongoing basis.

ITEM NO. 203S CALIFORNIA ENERGY COMMISSION

REPORT NO. 814.2

IMPROVEMENTS NEEDED IN CONTROLLING CONTRACTS AWARDED BY THE CALIFORNIA ENERGY COMMISSION

SUMMARY OF FINDINGS

The commission inadequately complied with mandates of the California Government Code and directives of the State Administrative Manual regarding contract management.

Specifically, the commission:

- Awarded sole source contracts without adequate justification;
- Allowed some contractors to initiate and complete contracted work prior to control agency approval;
- Failed to prepare and file evaluations on contractor performance;
- Improperly purchased personnel services from outside the civil service system; and
- Failed to develop methods for keeping records.

AUDITOR GENERAL RECOMMENDATIONS TO THE COMMISSION

The commission should give the Administrative Services Division (ASD) greater authority and responsibility for contract processing. ASD should implement and monitor controls for:

- Use of sole source contracts
- Preparation of contract evaluations
- Authorization of contract payments

COMMISSION ACTION

The commission developed new contracting procedures which describe uniform guidelines for contract preparation, processing, and control.

No action taken.

Contract managers have been given responsibility for contract evaluations at the time of final payments.

No action taken.

ITEM NO. 203S CALIFORNIA ENERGY COMMISSION

AUDITOR GENERAL RECOMMENDATIONS
TO THE COMMISSION

- Development, maintenance, and use of bidder lists

- Final approval of contracts by control agencies prior to initiation of work

- Contracts for personnel services without the civil service system

- Contract manager training.

The commission should also prepare and implement an official manual that specifies contract policies and procedures to be used uniformly by all staff. The manual should include contract management procedures which ensure compliance with the California Government Code, State Administrative Manual, and other rules and regulations pertaining to contract management.

Develop procedures and contract management systems that identify clear lines of authority and responsibility for the development, award, and monitoring of contracts. Specifically, the commission should completely detail responsibilities for ASD, division chiefs, contract managers, and other commission offices with contracting functions to prevent duplication of staff efforts.

COMMISSION ACTION

The commission is developing a categorized bidders list which will be purged every two years.

No action taken.

No action taken.

No action taken.

New procedures specify review criteria which must be addressed prior to contracting for work outside the civil service system.

The contracts office has been designated as the single focal point for coordinating and controlling all contract processing.

AUDITOR GENERAL RECOMMENDATIONS
TO THE COMMISSION

Establish and maintain a central system of contract records within ASD. Such records should include but not be limited to (1) authorized contracts and relevant material, (2) correspondence, (3) progress reports and products, and (4) evaluations. ASD should develop policies and procedures for contract record keeping within line divisions. Specifically, ASD should address location of files and contents.

Develop a payment procedure which requires review of contract coordinator. Additionally, contract managers should certify that the contract was performed successfully or within the terms of the contract. A statement of certification as well as a signature by the contract manager should be included.

Develop training programs for all contract managers prior to the assignment of contract management responsibilities. Training should include but not be limited to (1) rules and regulations, (2) systems and procedures, and (3) monitoring techniques.

COMMISSION ACTION

The commission retains all contract documentation in an official file which is maintained in the Administrative Services Division.

The commission implemented a contract payment certification process. Payment is dependent upon the prior receipt of all specified contract procedures and evaluation reports.

A contract manager training program has been implemented which examines policies and procedures in the contract system.

ITEM NO. 205G SOLID WASTE MANAGEMENT BOARD

REPORT NO. 831

FINANCIAL AUDIT REPORT SOLID WASTE MANAGEMENT BOARD
YEAR ENDED JUNE 30, 1977

SUMMARY OF FINDINGS

The audit report on examination of the Solid Waste Management Board's financial statements for the period ended June 30, 1977 contains a qualified opinion. Because of inadequate supporting records, we were unable to obtain sufficient evidence to form an opinion regarding the General Fixed Assets account group at June 30, 1977. Accordingly, we did not express an opinion on the General Fixed Assets account group. In our opinion, except for the General Fixed Assets account group, the financial statements present fairly the financial position of the Solid Waste Management Board as of June 30, 1977 and the results of its operations and changes in operating clearing and fund balance accounts for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We also reviewed the board's accounting procedures and related system of internal accounting control. This review enabled us to suggest improvements which would result in better controls over property and claims for payment.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

Strengthen the internal controls over property and claims for payment.

AGENCY ACTION

Since July 1, 1978, when the board assumed its own administrative responsibilities, it has reported improved controls in these areas.

ITEM NO. 208G STATE AIR RESOURCES BOARD

REPORT NO. 827

FINANCIAL AUDIT REPORT STATE AIR RESOURCES BOARD
YEAR ENDED JUNE 30, 1977

SUMMARY OF FINDINGS

The audit report on examination of the State Air Resources Board's financial statements for the period ended June 30, 1977 contains a qualified opinion. Because of inadequate supporting records, we were unable to obtain sufficient evidence to form an opinion regarding the General Fixed Assets account group at June 30, 1977. Accordingly, we did not express an opinion on the General Fixed Assets account group. In our opinion, except for the General Fixed Assets account group, the financial statements present fairly the financial position of the State Air Resources Board as of June 30, 1977 and the results of its operations and changes in operating clearing and fund balance accounts for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We also reviewed the board's accounting procedures and related system of internal accounting control. This review enabled us to suggest improvements which would result in better controls over cash, personnel transactions, and property.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

Stengthen the internal controls over cash, personnel transactions, and property.

AGENCY ACTION

The department reports that it has strengthened its internal controls in each of these areas.

ITEM NO. 236G DEPARTMENT OF FISH AND GAME

REPORT NO. 810

FINANCIAL AUDIT REPORT DEPARTMENT OF FISH AND GAME
YEAR ENDED JUNE 30, 1978

SUMMARY OF FINDINGS

The audit report on examination of the Department of Fish and Game's financial statements for the period ended June 30, 1978 contains an unqualified opinion. That is, in our opinion, the financial statements present fairly the financial position of the Department of Fish and Game as of June 30, 1978 and the results of operations and changes in operating clearing and fund balances for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We also reviewed the department's accounting procedures and its related system of internal accounting control. The review of accounting procedures and related system of internal accounting control enabled us to suggest improvements which would result in better controls over processing cash receipts, recording appropriation reimbursements, and recording accounts receivable. Other improvements deal with the disposal of licenses and stamps, securities held in trust, and control of disbursements.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

AGENCY ACTION

Initiate within the licensing unit a mail processing procedure that includes prompt opening of mail, pre-listing, and daily deposits of cash receipts. Notify the State Treasurer's Office of deposits totalling over \$100,000.

Adopted.

Record federal funds received as reimbursement of capital outlay expenditures as appropriation reimbursements and disclose these receipts in financial statements.

Adopted.

ITEM NO. 252G CALIFORNIA COASTAL COMMISSION

REPORT NO. 809

FINANCIAL AUDIT REPORT CALIFORNIA COASTAL COMMISSION
YEAR ENDED JUNE 30, 1977

SUMMARY OF FINDINGS

The audit report on examination of the California Coastal Commission's financial statements for the period ended June 30, 1978 contains an unqualified opinion. That is, in our opinion, the financial statements present fairly the financial position of the California Coastal Commission as of June 30, 1977 and the results of operations and changes in operating clearing and fund balances for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We also reviewed the commission's accounting procedures and related system of internal accounting control. This review enabled us to suggest improvements which would result in better controls. Some of the suggested improvements concerned internal controls over personnel documents and property accounting.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

Strengthen the internal controls over personnel documents and property accounting.

AGENCY ACTION

The department has implemented or is implementing controls over both of these areas.

ITEM NO. 262G DIVISION OF EXPOSITION AND STATE FAIR

REPORT NO. 810

A REVIEW OF CAL EXPO OPERATIONS

SUMMARY OF FINDINGS

The California Exposition and State Fair (Cal Expo), the site for the annual California State Fair, is subsidized each year for a net operating loss by appropriations from the General Fund.

In reviewing Cal Expo, we found several areas which need improvement:

- Contract administration evidences a lack of compliance with established regulations;
- Revenue projections from carnival concessions for the 1978 state fair were overstated. Also, implementation of an independent midway has increased costs;
- Personnel practices involving conflict of interest policies, salaries and use of emergency employees, and informal union agreements warrant revision. Also, Cal Expo has exceeded its statutory authority in filling an exempt position;
- A physical inventory of equipment has not been conducted since 1970;
- Special admission passes are not carefully controlled;
- Grounds are poorly maintained;
- The 1978 youth fair was unsuccessful due to poor planning;
- Barn and trailer areas are deficient and unsanitary.

ITEM NO. 262G DIVISION OF EXPOSITION AND STATE FAIR

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

The department analyze and then establish staffing levels of the ground maintenance function.

We further recommend that the department ensure that Cal Expo implement these improvements:

- Cal Expo should competitively bid concession location prior to the fair;

- Analyze costs and benefits of installing permanent electrical service to carnival midway;

- Comply with the department's conflict of interest policies;

AGENCY ACTION

Cal Expo staff is reviewing a report of the maintenance function prepared by Cresap, McCormick and Paget, Inc. (CMP). The report contains staffing recommendations which will be reviewed in terms of State Personnel Board classification and allocation standards. Recommendations will be implemented over the next six months. In the interim, grounds maintenance positions will not be diverted to other functions.

The department reported that carnival concessions are contracted for through Request for Proposals process established for the 1979 fair. The concessions are not bid on a high dollar percentage because there are no available means of monitoring the gross receipts of this type of operation.

Further adjustments to the carnival layout are being studied to determine the feasibility of totally eliminating portable power generation for the 1980 fair carnival.

Recommendation was implemented in February 1979.

ITEM NO. 262G DIVISION OF EXPOSITION AND STATE FAIR

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

- Arrange, in conjunction with the State Personnel Board and the State Controller, to hire appropriately classified seasonal state employees to operate the state fair;

- Ensure that credential admissions be issued only to those people who are necessary to conduct the state fair;

- Close all bank accounts not authorized by the Department of Finance;

- Complete a physical inventory of all property at the facility; Cal Expo should develop and implement inventory control and property disposal procedures as required by the State Administrative Manual;

- Ensure that the Youth Fair is adequately planned;

AGENCY ACTION

On December 5, 1979, Cal Expo's Chief, Administrative Services and the Personnel Manager met with the State Personnel Board staff members to develop a plan and timetable to establish appropriate seasonal civil service classes for use at the State Fair and other events. The department anticipates this project will require up to six months to complete; the date of implementation is June 30, 1980.

To further assure there is no misuse of credentials, a close monitoring and accountability was required of those program staff releasing credentials to participants of the fair.

Checks have been issued to return monies to originating sources. At such time as the checks are cleared through the appropriate banks, the accounts will be closed.

A physical property inventory has been made and the department is reconciling the inventory listing with the actual inspection to identify the shortages. A list of items not found will be surveyed and removed from the inventory control list by February 1, 1980.

There was no attempt to repeat the Youth Fair in 1979.

ITEM NO. 262G DIVISION OF EXPOSITION AND STATE FAIR

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

- Correct its housing deficiencies as noted in the Department of Housing and Community Development's report;

- Provide adequate housing for fair participants at rates commensurate with services provided; and

- Limit its use of exempt entitlements to those authorized by statute.

AGENCY ACTION

Housing rates, rules, areas, and physical facilities have all been revised. Some plant modifications are being made (e.g., broken windows or fixtures); others require budgeting for capital outlay.

Several capital projects to upgrade water, sewage, and drainage facilities and the electrical systems in barns have already been completed or are in progress.

In the trailer park, the rules and regulations have been revised and a formal rental agreement has been prepared. Rental rates have been increased and another increase will take effect on January 1, 1980.

On February 2, 1979 the department requested a formal Attorney General's opinion as to whether the Director of the Department of Parks and Recreation is empowered to appoint an exempt deputy or employee pursuant to Section 3302 of the Food and Agriculture Code on the basis of subdivision (c) of Section 4 of Article VII of the California Constitution. A formal opinion had not been rendered as of December 7, 1979.

ITEM NO. 272G STATE WATER RESOURCES CONTROL BOARD

REPORT NO. 856.1

NEED FOR UNIFORM REGULATORY POLICIES AND PROCEDURES

SUMMARY OF FINDINGS

The Porter-Cologne Water Quality Control Act established a comprehensive statewide program to protect and enhance the quality of all waters of the State. This program is administered by the State Water Resources Control Board (SWRCB) and nine regional water quality control boards.

Our review found that the regional boards do not have uniform procedures for conducting inspections and self-monitoring functions required in regulating persons discharging pollutants into the waters of the State. For example, wide variations exist in self-monitoring report review and follow-up systems. Also, the format and frequency of inspections differ among the boards. State permits for discharging pollutants are not consistently updated and inspected.

Considerable resources have been expended on developing a management information system that is inaccurate and incomplete. Regions maintain duplicate manual systems, some of which are inadequate.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

We recommend that the board establish and enforce:

- Uniform guidelines for self-monitoring formats, policy and procedures for review follow-up and possible reduction of the number of reports;
- Standard inspection policies which indicate minimum frequencies and required formats;
- Revised administrative regulations to specify updating/renewal requirements for state permits.

AGENCY ACTION

The SWRCB is revising its administrative regulations and procedures manual to establish more consistent inspection and self-monitoring review systems. Staff estimate that revised regulations will be published by January 1, 1980.

ITEM NO. 272G STATE WATER RESOURCES CONTROL BOARD

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

We recommend also that the board (1) reevaluate the objectives of the Water Discharger System by considering state and regional needs and (2) develop and implement minimum reporting/utilization requirements.

AGENCY ACTION

Improvements have been made that will increase the accuracy of the Waste Discharger inventory. Even though all regional boards now participate, the state board has failed to establish minimum reporting/utilization requirements. Until these requirements are established, usage policies will vary by region; thus, inconsistent and incomplete information will be available to the state board. This problem has been recognized by staff who have proposed that the board assign a program manager the responsibility and authority to make these decisions.

ITEM NO. 279G DEPARTMENT OF AGING

REPORT NO. 909

DEPARTMENT OF AGING'S PROCESS FOR EVALUATING AND MONITORING
NUTRITION PROJECTS FOR THE ELDERLY NEEDS IMPROVEMENT

SUMMARY OF FINDINGS

Our review indicated that the Department of Aging needs to improve procedures for evaluating and monitoring nutrition projects for the elderly. As a result of deficiencies in the current process, (1) the effectiveness of the nutrition program cannot be determined, (2) there is little assurance that the department is providing quality services in safe environments, and (3) the department may lose federal funds. These conditions have resulted from

- Absence of some project's quarterly assessment reports;
- Inconsistent assessment report formats;
- Failure to ensure project compliance with operating standards.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

AGENCY ACTION

We recommend that the Department of Aging act to improve nutrition project evaluation and monitoring procedures by

- Developing uniform procedures to assess all projects quarterly;
- Implementing policies to monitor and correct compliance violations;
- Providing staff training to assure reporting consistency and effective project monitoring.

All assessment findings and recommendations are currently cited in a standardized and uniform manner.

The Department of Aging has established a procedure to ensure timely compliance with identified violations. In addition, the department is conducting ongoing monitoring of projects.

On June 12, 1979, the assessment staff received one full day of training on standardization of reporting techniques. Additional training is planned on an ongoing basis.

ITEM NO. 308G DEPARTMENT OF REHABILITATION

REPORT NO. 839

A PROGRAM REVIEW OF THE DEPARTMENT OF REHABILITATION

SUMMARY OF FINDINGS

The Department of Rehabilitation is designated as the sole state agency responsible for administering and providing vocational services to the disabled. Although the department successfully rehabilitates many disabled individuals each year, we found these weaknesses:

- The department's effectiveness measurement system does not accurately report the percentage of former clients employed one year after program completion;
- Department guidelines for providing some services to clients are insufficient;
- The department has not followed certain State Administrative Manual contract management provisions.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

The department evaluate the usefulness and reliability of its current effectiveness measurement system. Alternative measurement systems may be more appropriate for assessing program effectiveness. If the current system is returned, the department:

- Modify its follow-up study questionnaire to gather more specific information;
- Initiate necessary actions to gain access to the Employment Development Department records on state withholding tax to adjust survey results for nonresponses to the questionnaire;
- Increase the size of its random sample to obtain a larger response rate;

AGENCY ACTION

The department has agreed to:

- Modify the questionnaire to probe for more useful information;
- Attempt to get supplementary data from EDD;
- Attempt to obtain a larger response rate;

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

- Evaluate the relationship between rehabilitation training and job placements for individual clients rather than for groups of clients.

The department review procedures for awarding services and provide more specific guidelines to assist counselors in consistently awarding services.

The department establish a system to monitor rehabilitation plans that exceed normal expenditures and services.

The department adopt contracting methods based upon competitive process for ensuring equitable selection of contractors. Specifically, the department should:

AGENCY ACTION

- Try to determine during follow-up what steps might be made during and after clients are on the open caseloads to help them get and retain employment;
- Follow up on cases for more than one fiscal year;
- Adjust responses to make more accurate comparisons

The department has revised two sections of its procedures manual and are reviewing other sections. Counselor training programs are being supplemented to consistently educate counselors on policies regarding the award of services.

The department has issued a directive requiring field offices to monitor rehabilitation programs that exceed normal expenditures and services. When services and costs exceed \$30,000, the case must be reviewed and approved by the headquarter's office. The Auditor General takes exception with the limit of \$30,000 and recommends that this parameter be set at \$20,000.

The department has taken the following actions to ensure a competitive contracting process:

ITEM NO. 308G DEPARTMENT OF REHABILITATION

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

- Revise Chapter 7, Rehabilitation Administrative Manual and make the Contracts and Regulations Section responsible for contract management;
- Limit the responsibility of contract administrators to making contract requests, monitoring contract progress, and writing contractor performance evaluations;
- Retain a complete file of each contract, including progress and contractor evaluation reports, within the Contracts and Regulations Section;

AGENCY ACTION

- Chapter 7 of the Rehabilitation Manual was revised to make the Contracts and Regulations Section totally responsible for contract management;
- The responsibility of Contract Administrators in making contract requests, monitoring contract progress, and writing contractor performance evaluations has been clarified and prescribed in both the revised Chapter 7 of the Rehabilitation Administration Manual and Administrative Directive DO 4-79-6 issued June 8, 1979;

The new procedures include a formal contract request form (DR 15) providing for the complete description of services to be performed, names and addresses of prospective bidders, and approvals at appropriate levels within the department's management structure;
- A complete file of each contract, including progress and contractor evaluation reports, is being maintained within the Contracts and Regulations Section;

ITEM NO. 308G DEPARTMENT OF REHABILITATION

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

- Develop a list of potential contractors so that all interested contractors in the State receive announcements of department requests for proposals;

- Increase the Contracts and Regulations Section staffing to absorb and perform additional workload associated with a full service operation.

AGENCY ACTION

- The department has developed a list of potential contractors so that interested contractors receive announcements of department requests for proposals within their particular area of services;

- The Contracts and Regulations Section has been augmented with an additional Staff Services Analyst to perform the added workload associated with a full service operation.

ITEM NO. 309G DEPARTMENT OF SOCIAL SERVICES

REPORT NO. 902

CHILD PROTECTIVE SERVICES

SUMMARY OF FINDINGS

This informational report dealt with three areas:

- Initial effects of Proposition 13 and subsequent state legislation on county administration of foster care and child protective services;
- Mechanisms for coordinating these services; and
- Twenty-four hour response systems for complaints of child abuse and neglect.

Increases in children's protective services caseloads per worker have been partially attributed to the passage of Proposition 13. County representatives informed us that community agencies providing services to children were affected by local funding cutbacks. Also, hiring freezes have contributed to growing caseloads by limiting the number of available caseworkers.

In relation to mechanisms for coordinating children's services, each caseworker usually arranges services informally for the children he or she supervises. In three counties, we found that interagency committees had been formed to coordinate children's services.

Most welfare departments providing 24-hour response use a system in which calls are forwarded to a social worker at home. Two out of five county welfare departments we visited provided this service. A third offered the service through a locally funded community agency. Two counties had no 24-hour response system.

ITEM NO. 316G DEPARTMENT OF EDUCATION

REPORT NO. 832

ATTENDANCE AND ABSENTEEISM IN CALIFORNIA SCHOOLS

SUMMARY OF FINDINGS

In this study, we examined student attendance and absenteeism in a sample of California schools.

We found that actual levels of classroom attendance were 90.8 percent of enrollment in elementary schools, 87.7 percent in junior high schools, and 81.4 percent in senior high schools.

In addition, high schools with over 10 percent of students from families on welfare had attendance levels that averaged 76 percent of student enrollment. Lowest levels of attendance in high schools were found on Fridays and during the afternoon.

The Department of Education has not completely performed its responsibilities in implementing compulsory education laws and attendance accounting procedures. As a result, pupils between the ages of 6 and 18 are not adequately supervised to ensure their continuing attendance. Certain attendance information is not recorded throughout the school day. Also, attendance figures are not recorded in accordance with statutory provisions governing payment of school apportionments.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

We recommend the Department of Education submit to the Legislature a comprehensive plan for addressing problems in administering the State's attendance laws and attendance accounting requirements.

This plan should (a) include estimates of the costs of complying with current legal requirements, (b) identify changes in present statutes which are necessary to establish effective and efficient attendance policies and accounting procedures, and (c) indicate the fiscal implications of any proposed changes.

AGENCY ACTION

In accordance with Supplemental Language to Item 307 of the 1979-80 Budget Act, the Department of Education, in conjunction with a task force, has prepared a plan to address (a) issues identified in the Auditor General report and (b) other factors potentially affecting student attendance patterns--school environment; campus crime, violence, and vandalism; and the functioning of School Attendance Review Boards. The plan, submitted to the Legislature in November of 1979, includes numerous department recommendations for addressing problems related to school absenteeism.

ITEM NO. 316G DEPARTMENT OF EDUCATION

REPORT NO. 735

AUDIT STANDARDS FOR SCHOOL AND COMMUNITY COLLEGE DISTRICTS

SUMMARY OF FINDINGS

This letter report was prepared to inform the Legislature of agencies' efforts in implementing Chapter 936, Statutes of 1977. This legislation requires the Auditor General to cooperate with state agencies in developing audit standards for school and community college districts.

We found many deficiencies in the Department of Education's summary of the 1977-78 fiscal year audit reports of school districts. The methodology developed by the department for reviewing audit reports and for classifying and summarizing the number and nature of audit exceptions did not yield a reliable analysis of district fiscal problems. These problems indicate that the department's reviewers needed financial audit expertise or supervision to develop a system for reviewing district audit reports and summarizing audit exceptions.

In addition, the Chancellor of the California Community Colleges had not reviewed 1977-78 fiscal year district audit reports nor reported to the Legislature as required by statutes.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

AGENCY ACTION

We recommend the Department of Education segregate audit exceptions into the following categories:

- Opinion(s) on financial statements of each of the district's funds;
- Statements on the propriety of district claims filed for reimbursement of federal and state categorical aid programs;
- Statements on the propriety of district reports submitted as a basis for state apportionments and allowances;

The department is developing procedures which will provide information in the specified categories. These procedures will be applied to audit reports due either November 15 or, if extensions are granted, by December 31, 1979.

ITEM NO. 316G DEPARTMENT OF EDUCATION

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

- Specific compliance questions set forth in the audit standards; and
- Management improvement comments and recommendations.

We further recommend that the department's summary of district audit reports and the department's classifications of audit exceptions follow generally accepted audit standards and Department of Finance audit standards. Also, the department should obtain and summarize positive assurances from the opinions and required statements, including audit exceptions, in the district audit reports.

Also, dollar amounts related to audit exceptions should be recorded and summarized (1) to show state, county, or local funds affected and (2) to indicate whether money is due to or due from the districts.

AGENCY ACTION

The department stated in a letter dated August 31, 1979 that it is difficult to provide additional reviewers in a time of staffing reductions. But because of staff transfers, individuals with both financial audit and educational program expertise have been assigned. In addition, the department has established procedures for its internal auditors to review or research audit reports as necessary to provide additional financial audit expertise.

The department will report dollar amounts of audit exceptions showing funds affected and whether money is due to or due from the districts as required by Education Code 41020.6. The department advises that this will be possible only if the auditors' reports identify both fund sources and amounts with precision. The department will summarize and report such data where it is available.

ITEM NO. 316G DEPARTMENT OF EDUCATION

REPORT NO. 860.1

DISTRIBUTION OF FEDERAL VOCATIONAL EDUCATION FUNDS IN CALIFORNIA

SUMMARY OF FINDINGS

In preparing this informational report, we reviewed the procedures of the Department of Education for distributing federal Vocational Education Act (VEA) funds in California. Our study indicates that distribution of these funds shifted significantly among secondary school districts between fiscal years 1977-78 and 1978-79. During 1978-79, large districts at the secondary level received substantially more funding per pupil than did small districts. The study concludes that the Legislature has not been as involved in determining the distribution formulas for federal VEA funds as it has been for other state and federal programs.

ITEM NO. 316G DEPARTMENT OF EDUCATION

REPORT NO. 932

FEE-CHARGING IN CALIFORNIA'S ELEMENTARY, JUNIOR HIGH, AND HIGH SCHOOLS

SUMMARY OF FINDINGS

In conducting this study, we identified two practices of districts and schools--charging students a flat fee for participation in an activity and requiring students to make a purchase to participate in an activity. The predominant practice we found was the required student purchase.

In the 30 district offices and 60 schools we visited, we found that students incurred costs for the following items: paper, pencils, course fees, gym suits, gym shoes, music classes, club participation, special uniforms, athletics, field trips, basic raw materials for certain courses, and summer school programs. The frequency of fee-charging and the cost per student for these items varied considerably.

We found that students incurred costs for items used in curricular and extracurricular activities. The highest instances of fee-charging occurred for these items: in 78 percent of the schools, students purchased their own gym shoes; in 82 percent of the schools, students purchased special uniforms such as cheerleading uniforms; and in 71 percent of the high schools, students incurred costs for participating in athletic programs.

Within the categories of summer school and transportation, we found that four districts offered a fee-based summer school program. Most districts provided free transportation to and from school to students who met district criteria. But most students paid for extracurricular field trips.

Further, we found that pupils in high poverty schools more frequently must purchase pencils and gym suits. Pupils in low poverty schools were charged more frequently for curricular field trips, special uniforms, and athletics. Also, while both high poverty and low poverty districts in our sample offered summer school, only low poverty districts have offered fee-based summer schools. All of the schools identified as low poverty had provisions to assist students who could not pay flat fees or make required purchases.

Although our audit documented the practice of charging fees, the limited size of the sample prohibited us from making projections to all districts in the State or providing statewide statistics regarding the magnitude and nature of fees.

ITEM NO. 316G DEPARTMENT OF EDUCATION

REPORT NO. 860.2

LETTER REPORT ON VOCATIONAL EDUCATION

SUMMARY OF FINDINGS

This informational report notes difficulties in accurately determining the sources and uses of vocational education funds in California. Detailed program accounting for vocational education generally has not existed at the local level; therefore, the expenditures reported to the Department of Education are often incomplete and inaccurate. This limitation prevents an accurate analysis of the sources and uses of vocational education funds.

The report identified the allotments of federal program improvement and supportive services funds for fiscal year 1978-79. Because the projects funded were not yet completed, analyzing their effectiveness was not feasible. Other projects such as research, exemplary and innovative, and curriculum development require time for dissemination and implementation; as a result, these also could not be evaluated.

ITEM NO. 330G DEPARTMENT OF EDUCATION

REPORT NO. 828.2

BILINGUAL EDUCATION--PUPIL ASSESSMENT, PROGRAM EVALUATION, AND
LOCAL PROGRAM IMPLEMENTATION

SUMMARY OF FINDINGS

Our review focused on procedures for identifying, placing, and evaluating limited-English speaking and non-English speaking (LES/NES) pupils. Below are listed several areas in the Department of Education's administration of the bilingual program which need improvement.

- Some local districts are confused concerning procedural requirements for the annual census of LES/NES pupils;
- The department has not provided for collection of all required census information and has not audited census results;
- Also, the department has issued incomplete guidelines for the annual testing of student achievement;
- The department has not issued procedures for determining when pupils are ready to be transferred to the regular classroom;
- Some school districts disagree whether bilingual programs are to be maintenance or transition;
- Local districts are having difficulties meeting requirements for using certified cross-cultural teachers in bilingual programs. Also, schools are experiencing problems in meeting the requirement that at least one-third of pupils in bilingual classes be fluent-English speaking.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

We recommend the department establish specific procedures for carrying out fully its designated responsibilities to provide educational services to LES/NES pupils. In particular, the department should ensure coordination and delegation of authority among units to

- Clarify annual census requirements;
- Audit census data;
- Establish guidelines for the use of reclassification criteria;
- Review local-level evaluation procedures.

AGENCY ACTION

The Department of Education has initiated these actions:

- Clarification of annual census requirements through regional workshops and planned issuance of a complete memorandum summarizing procedures for conducting the annual census and reporting census results;
- Development of audit procedures for reviewing local districts found to have large variances between annual census reports;
- Formation of a committee of experts to study the issue of reclassification criteria, development of guidelines for implementation of reclassification procedures consistent with the committee recommendations, and initiation of a study of the equivalence of the four English proficiency instruments recommended by the department.

No action taken.

ITEM NO. 330G DEPARTMENT OF EDUCATION

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

We also suggest the department identify for the Legislature areas of the present bilingual education statutes which are not feasible for it to administer or which may not be cost-effective at the local level.

AGENCY ACTION

The State Board of Education has identified changes it believes are warranted in the statutes governing bilingual education.

ITEM NO. 335G DEPARTMENT OF EDUCATION

REPORT NO. 843

SPECIAL EDUCATION FINANCING WARRANTS REVIEW

SUMMARY OF FINDINGS

Our review of special education financing in California indicated disparities in statutory funding provisions for special education and problems in the Department of Education's fiscal administration of these programs.

Present statutes provide greater state funding per pupil for special education in districts under the State's Master Plan for Special Education than in districts with traditional special education programs. Traditional districts also report that 11 percent of their handicapped pupils are either unserved or inadequately served. Inadequately serving these pupils could jeopardize federal funding to California under Public Law 94-142 and under other programs serving handicapped children.

The Department of Education's data for fiscal planning and administration of special education programs also needs improvement. The absence of reliable data within the department concerning special education programs has been a major factor hindering financial planning.

AUDITOR GENERAL RECOMMENDATIONS
TO LEGISLATURE

We recommend that the Legislature review special education funding provisions contained in present statutes and consider whether funds presently proposed for Master Plan expansion should be redirected to enable districts statewide to comply with PL 94-142 requirements.

LEGISLATIVE ACTION

The Legislature has conducted interim hearings and the Department of Education is proceeding with its review of financing and delivery of special education services.

ITEM NO. 340G DEPARTMENT OF EDUCATION

REPORT NO. 857.1

IMPROVEMENTS NEEDED IN AWARD AND MANAGEMENT OF CHILD CARE CONTRACTS

SUMMARY OF FINDINGS

In this review, we examined Department of Education contracting procedures for child development services. We found that the Department of Education needs to improve controls for award and management of child development contracts. Because the department lacks a comprehensive and consistent management system for allocating funds available for child care services, it distributes funds to child care agencies without

- Consistently analyzing relative needs for child care services throughout the State;
- Assuring that proposed services are economically sound.

Currently, funds for child care services are not distributed in relation to needs throughout the State. Additionally, because of weak fiscal control procedures, there is no assurance that available funds are used to provide the maximum services possible.

AUDITOR GENERAL RECOMMENDATIONS TO AGENCY

We recommend the department include systematic needs assessments within its procedures for allocating child care funds.

AGENCY ACTION

The Department of Education has participated in a task force to review child care needs assessment and funds allocation procedures, established pursuant to Item 256.1 of the 1979-80 Budget Act. In conjunction with the Task Force effort, the department has re-examined current needs assessment and funding allocation procedures. The department has concluded that major improvements in needs assessments as a basis for funds allocation will require additional data and methods and is examining alternative approaches.

ITEM NO. 340G DEPARTMENT OF EDUCATION

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

AGENCY ACTION

We recommend that in allocating child care funds, the department's Office of Child Development include methods for

- Considering economy in rating applications and in negotiating contracts with all agencies;

- Ensuring that agencies correct audit weaknesses and submit a plan to prevent their recurrence before awarding continuation contracts.

The Department of Education has included some factors related to economic agency management within its ranking of agencies to receive child care funds.

The department has included audit exceptions related to state and federal funds other than child care in its review prior to award of continuation contracts. A plan to correct all audit deficiencies is to be required of agencies, and the department will judge whether an agency with previous audit exceptions warrants continued funding.

ITEM NO. 360G UNIVERSITY OF CALIFORNIA

REPORT NO. 906.1

IMPROVEMENTS NEEDED IN THE UNIVERSITY OF CALIFORNIA'S
FOUNDATION SEED AND PLANT MATERIALS SERVICE

SUMMARY OF FINDINGS

Foundation Seed and Plant Materials Service, Agricultural Experiment Station, is the single administrative unit responsible for foundation seed and plant material activities within the University of California. We found these areas during our review which warrant further attention:

- Members of a growers' association which contributed to research received substantially more superior asparagus seed (UC 157) than did nonmember growers in the same county;
- The operations of the foundation, which should be self-supporting, were augmented by \$31,100 from the State's General Fund in 1978-79;
- The University receives payments in the form of gifts for direct costs incurred in servicing a seed-certifying organization. Had this agreement been formalized, the University could have also recovered indirect costs amounting to as much as \$29,600 in 1978-79.

AUDITOR GENERAL RECOMMENDATIONS

We recommend that Foundation Seed and Plant Materials Service fairly allocate UC 157 asparagus seed to growers in the State.

We also recommend the direct costs of the foundation be supported entirely from its revenues and surpluses without reliance on the State's General Fund.

ACTION TAKEN

The University plans to distribute asparagus seed to individual growers on an acreage basis this year.

The University is devising a system to document expenses directly allocable to University activities and will expend general fund money only on those expenses.

ITEM NO. 360G UNIVERSITY OF CALIFORNIA

AUDITOR GENERAL RECOMMENDATIONS

We recommend the University of California enter into a formal written agreement with the California Crop Improvement Association in which the duties, obligations, and responsibilities of each party are clearly stated. This agreement should comply with University contracting policy by including a provision to reimburse the University for indirect costs.

ACTION TAKEN

The University is in the process of contracting with the California Crop Improvement Association.

ITEM NO. 383G CALIFORNIA MARITIME ACADEMY

REPORT NO. 429

FINANCIAL AUDIT REPORT CALIFORNIA MARITIME ACADEMY
YEAR ENDED JUNE 30, 1978

SUMMARY OF FINDINGS

The audit report on examination of the California Maritime Academy's financial statements for the period ended June 30, 1978 contains a qualified opinion. The financial records of the academy's account in the Special Deposit Fund were incomplete; therefore, we were unable to form an opinion on the academy's accounts in that fund. Also, because of procedures used by the academy, we were unable to obtain supporting evidence to express an opinion on the Midshipman's Loan Fund. In our opinion, except for the Special Deposit Fund and the Midshipman's Loan Fund, the financial statements present fairly the financial position of the California Maritime Academy as of June 30, 1978 and the results of its operations and changes in operating clearing and fund balance accounts for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We also reviewed the academy's accounting procedures and related system of internal accounting control. This review enabled us to suggest improvements which would result in better controls over cash and accounts receivable.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

Strengthen the internal controls over cash and accounts receivable.

AGENCY ACTION

The department has reported improved internal controls in these areas.

ITEM NO. 416G DEPARTMENT OF FOOD AND AGRICULTURE

REPORT NO. 100

FINANCIAL AUDIT REPORT DEPARTMENT OF FOOD AND AGRICULTURE
YEAR ENDED JUNE 30, 1978

SUMMARY OF FINDINGS

The audit report on examination of the Department of Food and Agriculture's financial statements for the period ended June 30, 1978 contains an unqualified opinion. That is, in our opinion, the financial statements present fairly the financial position of the Department of Food and Agriculture as of June 30, 1978 and the results of operations and changes in operating clearing and fund balances for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We also reviewed the department's accounting procedures and related system of internal accounting control. This review enabled us to suggest improvements which would result in better controls over cash, cash-related activities, accounts receivable, claim schedule documentation, revenue recording, and service charges.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

Strengthen internal controls over cash, cash-related activities, claims, equipment, revenues, and accounts receivable. Also, adjust to actual cost monthly service charges to marketing order boards.

AGENCY ACTION

The California Horse Racing Board and the Department of Agriculture have acted upon most of the recommendations. The department, however, disagreed with portions of four findings but is examining related procedures to strengthen its controls.

ITEM NO. 424G DEPARTMENT OF INDUSTRIAL RELATIONS

REPORT NO. 855

CALIFORNIA OCCUPATIONAL SAFETY AND HEALTH ACT--A PROGRAM REVIEW

SUMMARY OF FINDINGS

The Williams-Steiger Occupational Safety and Health Act of 1970 (OSHA) placed primary responsibility for ensuring safe and healthy working conditions at the federal level. The act allowed states the option of either implementing state programs meeting federal criteria or being preempted by the federal OSHA program. California has maintained control of its program and receives about 50 percent federal funding for its OSHA activities.

Our review of the California OSHA (Cal/OSHA) program found that Cal/OSHA operations warrant revision in these areas:

- Cal/OSHA's Consultation Service needs monitoring to ensure it reviews small, high-hazard firms;
- An updated, continuous inspection scheduling system is necessary to target only firms which have realized accidents that inspections would have prevented.

We also reviewed federal OSHA laws and procedures and found that similar employee protection would be available through greater federal administration of the program if the State reduced its participation.

AUDITOR GENERAL RECOMMENDATIONS
TO LEGISLATURE

The Legislature consider whether the contributions of standards unique to California are worth the accompanying annual state cost of \$539,000 for maintaining the Standards Board.

The Legislature consider the potential annual state savings of \$6.8 million which could be realized by withdrawing the state plan and allowing federal preemption of certain OSHA activities.

LEGISLATIVE ACTION

A hearing on the State's Cal/OSHA program was held on March 21, 1979 by the Senate Committee on Industrial Relations. This hearing did not, however, precipitate legislative action.

ITEM NO. 424G DEPARTMENT OF INDUSTRIAL RELATIONS

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

The Consultation Service and the Division of Labor Statistics and Research (DLSR) compile management information according to the size and industrial classification of businesses served so that the effectiveness of the Consultation Service in reaching small, high-hazard firms can be measured.

The Consultation Service adopt a policy exempting firms from compliance citations for nonserious violations found by a consultant when such violations are being corrected.

Cal/OSHA and the Division of Labor Statistics and Research design a current, continuous scheduling system targeting only those firms which have had inspection-preventable accidents.

Cal/OSHA provide a listing of all firms (obtained from the unemployment insurance file) to district offices.

AGENCY ACTION

The division is compiling information on the Consultation Service's effectiveness. It is also increasing its efforts to target consultation activities to small businesses in high-hazard industries.

The Consultation Service's procedure for exempting these firms is awaiting federal OSHA approval.

Cal/OSHA is working on an updated scheduling system. Because of staff limitations, it is using a 50 percent sample and is not sorting by inspection-preventability of accidents.

No action taken.

ITEM NO. 424G DEPARTMENT OF INDUSTRIAL RELATIONS

REPORT NO. 737

DEPARTMENT OF INDUSTRIAL RELATIONS: SCREENING OF DOCKETED
DISCRIMINATION COMPLAINTS

SUMMARY OF FINDINGS

We reviewed the Division of Fair Employment Practices' (DFEP) methods for screening docketed discrimination complaints. We found that DFEP has not consistently applied criteria to ensure that complaints better handled by other entities do not enter its investigation system.

The practice of investigating most of the complaints filed has contributed to (1) wasted investigative effort, (2) a sizeable complaint backlog, (3) delayed resolution of complaints, and (4) many complaints being closed for lack of evidence or administrative reasons, such as lack of jurisdiction.

AUDITOR GENERAL RECOMMENDATIONS
TO LEGISLATURE

We suggest the Legislature consider requiring the division to report to the Senate Industrial Relations Committee and Assembly Labor, Employment, and Consumer Affairs Committee six months after this report's issuance (June 1979) on its progress in preparing and implementing the new standards.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

We recommend the division prepare investigation standards within both the statutory latitude provided by the Legislature and the scope of administrative discretion recognized by the California courts.

We further recommend the division implement a program to ensure that all field personnel are trained to apply the new standards.

LEGISLATIVE ACTION

No action taken.

AGENCY ACTION

The division stated that they have adequate standards.

All division staff attended a week-long training course sponsored by the Federal Government.

ITEM NO. 450S CALIFORNIA HORSE RACING BOARD

REPORT NO. 660

FINANCIAL AUDIT REPORT CALIFORNIA HORSE RACING BOARD
YEAR ENDED JUNE 30, 1978

SUMMARY OF FINDINGS

The audit report on examination of the California Horse Racing Board's General and Special Fund financial statements for the period ended June 30, 1978 contains an unqualified opinion. That is, in our opinion, the financial statements present fairly the financial position of the California Horse Racing Board's General and Special Funds as of June 30, 1978 and the results of operations and changes in operating clearing and fund balances for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We also reviewed the department's accounting procedures and related system of internal accounting control. This review enabled us to suggest improvements which would result in better controls over cash, cash-related activities, payroll, and equipment.

AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

AGENCY ACTION

Strengthen the internal controls over cash, cash-related activities, and payroll.

Adopted.

Reconcile property records, identify equipment, and properly record property activities.

Adopted.

ITEM NO. 450S CALIFORNIA HORSE RACING BOARD*

REPORT NO. 191

FINANCIAL AUDIT REPORT FAIR AND EXPOSITION FUND
YEAR ENDED JUNE 30, 1978

SUMMARY OF FINDINGS

The audit report on examination of the Fair and Exposition Fund's financial statements for the period ended June 30, 1978 contains an unqualified opinion. That is, in our opinion, the financial statements present fairly the financial position of the Fair and Exposition Fund as of June 30, 1978 and the results of operations and changes in operating clearing and fund balances for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We also reviewed the California Horse Racing Board and Department of Food and Agriculture's accounting procedures and related system of internal accounting control. This review enabled us to suggest improvements which would result in better controls over cash and cash-related activities, payroll, equipment, accounts receivable, claims schedules, revenue recording and service charges.



AUDITOR GENERAL RECOMMENDATIONS
TO AGENCY

Strengthen the internal controls over cash, cash-related activities, claims schedules, payrolls, revenues, accounts receivable, and equipment.

AGENCY ACTION

The California Horse Racing Board and the Department of Agriculture have strengthened their internal controls by implementing these improvements.

* This report also applies to Item No. 418S Department of Food and Agriculture.



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