

**NOTICE OF PROPOSED RULEMAKING  
TITLE 2, DIVISION 10: CALIFORNIA CODE OF REGULATIONS  
ADOPT SECTIONS 61000 TO 61024, INCLUSIVE,  
REGARDING STATE HIGH-RISK GOVERNMENT AGENCY AUDIT PROGRAM**

**NATURE OF PROCEEDING**

NOTICE HEREBY IS GIVEN that the California State Auditor (State Auditor) is proposing to adopt the following sections in title 2, division 10 of the California Code of Regulations: 61000 to 61024.

A public hearing on the proposed regulations has been scheduled for November 9, 2015. The hearing will be held at the California State Auditor's Office located at 621 Capitol Mall, Sacramento, California, beginning at 10 a.m. and ending at 12 noon.

Notice also is given that any interested person or his or her duly authorized representative may submit written comments relevant to the proposed regulations to:

Patti Alverson  
California State Auditor's Office  
621 Capitol Mall, Suite 1200  
Sacramento, CA 95814  
Email: StateGovtHighRisk@auditor.ca.gov

All written comments must be received by the California State Auditor's Office (State Auditor's Office) no later than November 9, 2015, the final day of the written comment period, in order for the comments to be considered by the State Auditor.

Following the written comment period, the State Auditor may adopt the proposed regulations substantially as described in this notice. If modifications are made that are sufficiently related to the originally proposed text, the full modified text, with changes clearly indicated, shall be made available to the public for at least 15 days prior to the date on which the State Auditor adopts the resulting regulations. A request for copies of any modified regulations should be made to the contact person named above. The State Auditor will accept written comments on any modified regulation for 15 days after the date on which it is first made available to the public.

**AUTHORITY AND REFERENCE**

Pursuant to the authority vested in the State Auditor by Government Code section 8546, and to implement, interpret, or make more specific Government Code section 8546.5, the State Auditor proposes to adopt the regulations identified under the heading Nature of Proceeding above.

**INFORMATIVE DIGEST/POLICY STATEMENT OVERVIEW**

Government Code section 8546.5 (as added by Senate Bill No. 1437 (2003-2004 Reg. Sess.), Stats. 2004, ch. 251, as subsequently amended by Stats. 2011, ch. 328) contains provisions that do the following:

- Authorize the State Auditor to establish a state high-risk government agency audit program for the purpose of identifying, auditing, and issuing reports on any state agency or statewide issue that the State Auditor identifies as being at high risk of waste, fraud, abuse, or mismanagement, or as having major challenges associated with its economy, efficiency, or effectiveness.
- Authorize the State Auditor, in addition to identifying a state government agency as high risk on the basis of weaknesses identified in audit or investigative reports produced by the State Auditor, to consult with the Legislative Analyst, the Milton Marks “Little Hoover” Commission on California State Government Organization and Economy, the Office of Inspector General within the Department of Corrections and Rehabilitation, the Department of Finance, and other state agencies that have oversight responsibilities over any other state agency for the purpose of identifying state government agencies that are at high risk.
- Require the State Auditor to notify the Joint Legislative Audit Committee whenever the State Auditor identifies a state agency as being at high risk.
- Authorize the State Auditor to issue audit reports with recommendations for improving the state agencies and statewide issues not less frequently than once every two years that are identified as being high risk.
- Authorize the State Auditor to require state agencies identified as high risk, or as responsible for all or a portion of a statewide issue identified as high risk, to report to the State Auditor periodically regarding the status of recommendations for improvement made by the State Auditor’s Office or other state oversight agencies.

## **PROPOSED REGULATIONS**

Government Code section 8546.5 does not prescribe the specific criteria that will be used by the State Auditor to identify state government agencies and statewide issues as being at high risk. To implement Government Code section 8546.5 in a manner that furthers the intent of the California Legislature and that informs state agencies and the general public regarding how the State High-Risk Government Agency Audit Program will operate, the proposed regulations will relate to the following subject areas:

- The definition of key terms that will be used in the administration of the State High-Risk Government Agency Audit Program.
- The manner in which the State Auditor will identify the state agencies and statewide issues that are high risk through the periodic establishment of a State High Risk List.
- The manner in which the State Auditor will perform audits related to high-risk state agencies and statewide issues, issue reports regarding the audits that contain recommendations for improving state government, and follow-up on the recommendations to try to ensure that they are implemented.

## **LOCAL MANDATE**

This proposed regulatory action does not impose a mandate on local agencies or school districts.

## **FISCAL IMPACT ESTIMATES**

This proposed regulatory action does not impose costs on any local agency or school district for which reimbursement would be required pursuant to part 7 (commencing with § 17500) of division 4 of the Government Code. This proposed action also does not impose other nondiscretionary costs or savings on local agencies. This proposed action will not result in any costs or savings in federal funding to the State.

## **EFFECT ON HOUSING COSTS**

This proposed regulatory action will not affect housing costs.

## **COST OR SAVINGS TO STATE AGENCIES**

This proposed regulatory action will not produce additional cost or savings to state agencies. The State Auditor has had the authority to operate a State High-Risk Government Agency Audit Program since 2004 with the enactment of Government Code section 8546.5 and has been performing audit work under the program since 2007. This proposed action merely establishes rules for operating the program and does not impose any additional responsibilities or costs on state agencies.

## **ECONOMIC IMPACT AFFECTING BUSINESS**

The State Auditor has made an initial determination that this proposed regulatory action will have no significant statewide adverse economic impact directly affecting businesses, including the ability of California businesses to compete with businesses in other states. This proposed action does not affect small businesses as defined by Government Code section 11342.610.

## **ECONOMIC IMPACT ASSESSMENT**

The State Auditor has made an initial determination that this proposed regulatory action will not have any impact on the creation of jobs or new businesses or the elimination of jobs or existing businesses or the expansion of businesses in the State of California.

## **COST IMPACTS ON REPRESENTATIVE PERSON OR BUSINESS**

The State Auditor is not aware of any cost impacts that a representative private person or business necessarily would incur in reasonable compliance with this proposed regulatory action.

## **IMPACT ON SMALL BUSINESS**

The State Auditor's determination that this proposed regulatory action will not affect small business is based on the fact that the proposed regulations implement provisions of Government Code section 8546.5 that addresses the problem of high-risk state government agencies and

statewide issues. Based on the limited scope of these regulations, the State Auditor determined that none of the proposed regulations will have a significant adverse economic impact on business.

## **PUBLIC DISCUSSIONS OF PROPOSED REGULATIONS**

The State Auditor has not conducted any pre-rulemaking meetings regarding the proposed regulations with parties who would be subject to the regulations because the proposed regulations are not so complex or large in number that they cannot be reviewed easily during the comment period.

## **ALTERNATIVES CONSIDERED**

The State Auditor has determined that no reasonable alternative considered by the State Auditor or that otherwise has been identified and brought to the attention of the State Auditor would be more effective in carrying out the purpose of this proposed regulatory action, would be as effective and less burdensome to affected private persons, would be more cost-effective to affected private persons, and equally effective in implementing the provisions of law which this regulatory action is intended to implement.

## **CONTACT PERSON**

Inquiries relating to this proposed regulatory action and written comments may be directed to:

Patti Alverson  
California State Auditor's Office  
621 Capitol Mall, Suite 1200  
Sacramento, CA 95814  
Telephone: (916) 445-0255  
Fax: (916) 323-0913  
Email: [StateGovtHighRisk@auditor.ca.gov](mailto:StateGovtHighRisk@auditor.ca.gov)

## **AVAILABILITY OF INITIAL STATEMENT OF REASONS AND INFORMATION**

The State Auditor has prepared an initial statement of reasons for the proposed regulatory action and has available all of the information upon which the proposed action is based, including the express terms of the proposed regulations. The rulemaking file is available for public inspection by making a request to the contact person listed above.

## **TEXT OF PROPOSED REGULATIONS**

Copies of the exact language of the proposed regulations may be obtained by making a request to the contact person listed above. The proposed regulations also may be viewed and downloaded from the State Auditor's website at [www.auditor.ca.gov](http://www.auditor.ca.gov).

If there are substantial changes to the originally proposed regulations, the change(s) will be made available for 15 days prior to their adoption by the State Auditor. You will be able to obtain a copy of the change(s) by making a written request to the contact person listed above.

## **AVAILABILITY AND LOCATION OF THE FINAL STATEMENT OF REASONS AND RULEMAKING FILE**

The express terms, the final statement of reasons, and all of the information upon which the proposed regulations are based will be contained in the final rulemaking file located at 621 Capitol Mall, Suite 1200, Sacramento, California 95814. The final rulemaking file will be available for public inspection by making a request to the contact person listed above. You may obtain a copy of the final statement of reasons once it has been prepared, by making a written request to the contact person listed above.

## **WEBSITE ACCESS**

Materials regarding this proposed regulatory action can be found at [www.auditor.ca.gov](http://www.auditor.ca.gov).