



Joint Legislative Audit Committee

Oversight Hearing:
Implementation of the California State
Auditor's Recommendations

Room 447, State Capitol
Sacramento, California

Presentation by

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COMMITMENT
INTEGRITY
LEADERSHIP

IMPLEMENTATION OF CALIFORNIA STATE AUDITOR'S RECOMMENDATIONS

State Lands Commission

*Because It Has Not Managed Public Lands Effectively,
the State Has Lost Millions in Revenue for the General Fund
(Report 2010-125 August 2011)*

BACKGROUND

The State Lands Commission (commission) is responsible for managing millions of acres of tidelands and submerged lands, and other lands granted to the State for the benefit of public education. The commission manages over 4,000 leases including approximately 900 agricultural, commercial, industrial, right-of-way, and recreational leases; 85 revenue-generating oil and gas, geothermal and mineral leases, and 3,200 rent-free leases. In fiscal year 2010-11, the commission collected roughly \$400 million in rents and royalties; the majority of these revenues were generated by oil leases.

KEY ISSUES IDENTIFIED IN THE AUDIT

Missed Opportunities to Generate Revenue

- Failure to seek payment from delinquent lessees
- Leases expired and are in holdover status
- Failure to conduct prompt rent reviews and appraisals
- Charging outdated rates for certain types of leases

Poor Tracking and Oversight of Leases

- Application Lease Information Database is inaccurate and incomplete
- Inconsistent audits of revenue-generating leases

Insufficient Resources to Address Workload

- Significant staffing reductions in core revenue-producing functions
- No workload analyses for key functions making it difficult to quantify staffing needs
- No succession planning despite significant reliance on staff nearing retirement

Missed Opportunities to Generate Revenue

As of December 2010 the commission showed \$1.2 million in past-due rent for 130 leases; however, that amount is low since it represents only the base annual rental amount. Ten leases we reviewed were delinquent for between five and 22 years and we estimated that the commission lost \$1.6 million (\$1 million in penalties and interest and \$600,000 in principal) for these 10 leases.

Approximately 140 of its nearly 1,000 revenue-generating leases had expired and were in holdover, meaning the lessee continued to pay the rental amount stipulated in the expired lease. For 10 expired leases we reviewed, the commission could have collected an additional \$269,000 in rent had it merely adjusted the leases to reflect the Consumer Price Index.

Of the 35 leases we reviewed, the commission failed to promptly conduct rent reviews for 18 and we estimated that had the commission conducted the rent reviews timely it could have collected an additional \$6.3 million in rent.

Properties are not appraised regularly—of the 35 leases we reviewed, four had not been appraised in 20 years and another nine had not been appraised for at least 10 years. Appraisals can result in significant increases in rent; one property had not been appraised for 18 years but when the commission did complete the appraisal it raised the annual rent from \$319,000 to \$1.3 million annually.

The commission was using a rate to establish rent for pipelines on state property that was more than 30 years old. The commission charges an average of 50 cents per linear foot while other states with similar types of leases charge \$1.90. The commission was using benchmarks that were more than 18 years old to establish rent for some types of leases.

Poor Tracking and Oversight of Leases

The Application Lease Information Database contained incorrect rental amounts, incorrect lease expiration dates, and blank or incorrect tickler dates. Furthermore, the commission could not provide us a current list of leases in holdover.

Even though audits of oil and gas leases can result in millions of dollars in revenue to the State, the commission does not consistently conduct these audits. In 2008 the commission reported to the Legislature that it recovered or saved nearly \$22 million between 2004 and 2007 as a result of audits and reviews for oil and gas leases, yet it had completed only two audits since 2008, neither of which were for oil and gas leases.

Insufficient Resources to Address Workload

Significant reductions in staff have hindered the commission's ability to conduct activities necessary to ensure that the State receives appropriate revenues and that lessees comply with lease terms. However, the commission has not taken sufficient steps to quantify its need for additional staff.

The commission has not adequately analyzed the workload of its staff for many important functions, which makes it difficult to both understand and justify its staffing needs. The commission has not analyzed the appraiser's workload since the late 1980s or early 1990s.

Furthermore, the commission has not developed a succession plan to address its ongoing and future workforce needs, exposing it to further depletion of knowledgeable staff and the continuation of many problems associated with ineffective lease management.

**Implementation of the California State Auditor's Recommendations
State Lands Commission
Report 2010-125 August 2011**

As shown on the following table, of the 27 recommendations we made to the commission, as of August 2012 it had fully implemented 21, partially implement four and had not taken action on two.

**IMPLEMENTATION OF THE CALIFORNIA STATE AUDITOR'S RECOMMENDATIONS
STATE LANDS COMMISSION
REPORT 2010-125 AUGUST 2011**

Recommendation		Status of Recommendation	Commission Action
1.1a	To ensure that it manages delinquent leases in an effective and timely manner and collects all the amounts owed to it, the State Lands Commission (commission) should determine the amount of past due rent that should be included in its accounts receivable account.	Fully implemented as of October 2011	The commission asserted that it identified the amount of past-due rent that should be included in its accounts receivable account and it provided us the list of accounts receivable that included those receivables identified as contingent receivables.
1.1b	To ensure that it manages delinquent leases in an effective and timely manner and collects all the amounts owed to it, the commission should develop and adhere to policies and procedures that incorporate the administrative manual's guidance, including the steps staff should take when a lessee is delinquent, time standards for performing those steps, and a process for consistently tracking the status of delinquent leases between divisions.	Fully implemented as of October 2011	The commission provided draft policies and procedures that specified the steps staff should take when a lessee is delinquent, including time standards and a process for tracking the status of delinquent leases between divisions.
1.1c	To ensure that it manages delinquent leases in an effective and timely manner and collects all the amounts owed to it, the commission should conduct and document cost-benefit analyses when it contemplates either referring a delinquent lessee to the attorney general or pursuing the delinquent lessee through other means.	Fully implemented as of October 2011	The commission's draft procedures regarding delinquent lessees specify that a management team will make a determination regarding pursuing a delinquent lessee after weighing available resources. According to the commission's chief counsel, while its draft procedures did not use the phrase "cost-benefit analysis," the analysis of whether to pursue a trespass or lease compliance issue includes the elements of a cost-benefit analysis in addition to policy and legal considerations.
1.2	When the commission determines that it will pursue delinquent lessees itself, it should use a collection agency or a program such as the Franchise Tax Board's Interagency Intercept Collections Program.	No action taken as of October 2012 – Will not implement	The commission determined that it would need special legislation to obtain individual lessee social security numbers in order to participate in the Franchise Tax Board's Interagency Intercept Collections Program. It also stated that it determined that the liability risks, legal requirements, and obligations to keep such private information safe from disclosure outweigh the potential benefits of obtaining such authority to request that kind of information and would provide little additional opportunity or benefit for the commission to collect on unpaid rent.
1.3a	To ensure that as few leases as possible go into holdover, the commission should continue to implement its newly established holdover reduction procedures and periodically evaluate whether its new procedures are having their intended effect of reducing the number of leases in holdover.	Fully implemented as of October 2011	The commission believes that its new holdover reduction procedures are effective with the result that the number of leases in holdover has decreased by 75 percent. As of August 2012 the commission indicated that 27 of the 32 holdover leases identified in the state auditor's report have been eliminated from holdover status.
1.3b	To ensure that as few leases as possible go into holdover, the commission should consistently assess the 25 percent penalty on expired leases.	Fully implemented as of October 2011	The commission stated that its new holdover reduction policies include a provision to assess the 25 percent penalty.
1.4a	To complete its rent reviews promptly and obtain a fair rental amount for its leases, the commission should consistently notify lessees of impending rent reviews or rental increases within established timelines.	Fully implemented as of August 2012	The commission stated that it updated a rent review checklist and now requires staff to pull lease files one year in advance of the rent review date rather than nine months. It also indicated that it has a process in place that prioritizes rent reviews for high value or otherwise significant issues. Further, the commission requested and received five additional staff for lease compliance purposes and to accommodate the rent review workload.

IMPLEMENTATION OF THE CALIFORNIA STATE AUDITOR'S RECOMMENDATIONS
STATE LANDS COMMISSION
REPORT 2010-125 AUGUST 2011

Recommendation		Status of Recommendation	Commission Action
1.4b	To complete its rent reviews promptly and obtain a fair rental amount for its leases, the commission should establish time standards for each step of the rent review process and ensure that all staff adhere to those time standards.	Fully implemented as of August 2012	The commission provided its rent review policies and procedures that include time standards for each step in the rent review process, including appraisals.
1.4c	To complete its rent reviews promptly and obtain a fair rental amount for its leases, the commission should develop a methodology for prioritizing its workload that focuses its staff on managing the higher revenue-generating leases until such time as it addresses its workload needs.	Fully implemented as of August 2012	The commission provided policies and procedures that instructed staff to focus on managing the higher revenue-generating leases.
1.4d	To complete its rent reviews promptly and obtain a fair rental amount for its leases, the commission should conduct rent reviews on each fifth anniversary as specified in the lease agreements or consider including provisions in its leases that allow for the use of other strategies, such as adjusting rents annually using an inflation indicator.	Fully implemented as of October 2011	The commission stated that it is moving forward with a more expanded use of the Consumer Price Index (CPI) in calculating annual rent revisions. In November 2011, according to the commission, it consolidated and simplified the CPI process by using the California CPI as the sole index where feasible on a going-forward basis. Additionally, the commission received additional staffing that will ensure the five-year rent reviews and appraisals are completed on schedule.
1.5	To ensure that it receives rent from the lessee that reflects the approximate value for the State's property at those times when a lessee disputes a modification to the rental amount after the commission exercises its right to perform a rent review or because the lease expired, the commission should include in its lease agreements a provision that requires lessees to pay the commission's proposed increased rental amount, which would be deposited into an account within the Special Deposit Fund. The increased rental amounts deposited, plus the corresponding interest accrued in the account, should then be liquidated in accordance with the amount agreed to in the final lease agreement.	No action taken as of October 2012 – Will not implement	The commission indicated that the aggressive strategies it has implemented should preclude the need for the use of a Special Deposit Fund. Additionally, the commission stated that implementing this recommendation would undermine the leverage achieved by the 25 percent rental increase for holdover leases.
1.6a	To ensure that it is charging rent based on the most current value of its properties, the commission should appraise its properties as frequently as the lease provisions allow—generally every five years.	Fully implemented as of October 2012	The commission stated that it reorganized its structure to provide for more direct management of appraisal staff. It also updated its appraisal request form and released a memo from management on how to complete the form. The commission believes that these steps have and will continue to improve the coordination and communication between leasing staff and appraisal staff and ensure that appraisals are completed as frequently as the lease provisions allow.
1.6b	To ensure that it is charging rent based on the most current value of its properties, the commission should use the sales comparison method when it establishes values for leases having the greatest revenue potential, and develop policies that specify when and how often it is appropriate to use the other methods of appraising properties. These policies should address the coordination of leasing staff with appraisal staff as part of the process for determining which appraisal method should be used.	Fully implemented as of October 2011	The commission indicated that the Land Management Division (land management) has directed staff to request sales comparison appraisals for all high value leases. Additionally, it indicated that to improve the coordination of leasing and appraisal staff, land management has reorganized its structure to provide for more direct supervision and management of appraisal staff. In December 2011 the commission issued a memo revising the appraisal process.

**IMPLEMENTATION OF THE CALIFORNIA STATE AUDITOR'S RECOMMENDATIONS
STATE LANDS COMMISSION
REPORT 2010-125 AUGUST 2011**

Recommendation		Status of Recommendation	Commission Action
1.7a	To ensure that it does not undervalue certain types of leases, the commission should amend its regulations for establishing pipeline rents on state land as staff recommended in the 2010 survey of methods used by agencies in other states to establish pipeline rents.	Partially implemented; expected implementation by November 2013	commission staff is finalizing a regulation package recommending an increase in the pipeline rents from 2 cents to 5 cents. The commission states that the regulations will be submitted in late October or early November 2012 and a copy of the package will be provided to the State Auditor's Office upon completion. The commission anticipates the regulatory process will take approximately one year.
1.7b	To ensure that it does not undervalue certain types of leases, the commission should implement and follow its plan to regularly update its benchmarks for determining rental amounts.	Partially implemented; expected implementation by June 2013	All recreational benchmarks are up-to-date and will be updated on five-year cycles. commission staff is currently evaluating the need for certain residential benchmarks, including the existing Black Point benchmark and new residential benchmarks for Lake Tahoe and the Colorado River. Because the proposed Lake Tahoe residential benchmark will be a complicated and time-consuming process, it is on hold until the Appraisal Unit is fully staffed with two positions.
1.7c	To ensure that it does not undervalue certain types of leases, the commission should periodically analyze whether collecting oil royalties in cash or in kind would maximize revenues to the State, and use that method to collect its oil royalties.	Fully implemented as of October 2011	The commission requested the city of Long Beach to perform an analysis of the sale of oil from the Long Beach leases. The city of Long Beach determined that it will not collect royalties in kind as such sales would be detrimental to the State. Commission staff conducted an analysis of its non-Long Beach leases and made a similar determination.
2.1a	To improve its monitoring of leases, the commission should create and implement a policy, including provisions for supervisory review, to ensure that the information in the Application Lease Information Database (ALID) is complete, accurate, and consistently entered to allow for the retrieval of reliable lease information. To do so, the commission should consult another public lands leasing entity, such as the Department of General Services, to obtain best practices for a lease-tracking database.	Fully implemented as of October 2012	The commission indicated that the accuracy of the information included in its database continues to improve. According to the commission, it has implemented a quality control process to validate information in ALID and is currently upgrading the database from MS Access to a net web interface to improve accessibility by all staff. The commission also indicated that it participated in a round table discussion with numerous other state agencies that manage significant land holdings and that part of the discussion was devoted to best practices for tracking state properties.
2.1b	To improve its monitoring of leases, the commission should require all of its divisions to use ALID as its one centralized lease-tracking database.	Fully implemented as of October 2012	The commission created five new management reports from information contained in ALID, including four specific reports related to rent reviews, expiring leases, holdover leases, and bond/insurance status, in addition to one master report containing general lease information. The commission asserted that these reports will better assist management in tracking leases and prioritizing lease compliance issues.

**IMPLEMENTATION OF THE CALIFORNIA STATE AUDITOR'S RECOMMENDATIONS
STATE LANDS COMMISSION
REPORT 2010-125 AUGUST 2011**

Recommendation		Status of Recommendation	Commission Action
2.2a	To adequately monitor its revenue-generating oil and gas leases, the commission should track the recoveries and findings identified in its audits and use this information to develop an audit plan that would focus on leases that have historically generated the most revenue and recoveries for the State, as well as those that historically have had the most problems.	Fully implemented as of October 2012	The commission developed an audit plan for all mineral leases that considers a combination of factors, including risk. In addition, the commission tracks and submits quarterly reports to the executive officer on the status of findings for the completed audits. Finally, the commission indicated that it is in the process of hiring auditors and training them in oil and gas operations and the audit process
2.2b	To adequately monitor its revenue-generating oil and gas leases, the commission should work with lessees that entered into a lease with the commission before 1977 to put in place a reasonable time period within which lessees must resolve other types of deduction claims similar to the regulations already in place for dehydration costs.	Fully implemented as of October 2012	The commission stated that staff will continue to work with lessees when the opportunity arises to implement the recommendation where appropriate and when it is in the best interests of the State.
2.2c	To adequately monitor its revenue-generating oil and gas leases, the commission should explore and take advantage of other approaches to fulfill its auditing responsibilities, such as contracting with an outside consulting firm that could conduct some of its audits on a contingency basis.	Fully implemented as of October 2012	The commission is currently contracting with an outside consulting firm to audit one of its oil and gas leases. The commission believes that because this approach has proven to be successful, it will continue to be an option.
2.3	The commission should establish a monitoring program to ensure that the funds generated from granted lands are expended in accordance with the public trust.	Partially implemented; expected implementation by November 2013	To improve the commission's monitoring of the management of public trust lands and assets by the State's grantees, staff has requested summaries of the required Comprehensive Annual Financial Reports to encourage more detailed reporting by grantees and to streamline staff's analysis of the grantees' finances. Additionally, in August 2012, the governor signed AB 2620 (Ch. 206, Stats 2012), which requires the commission, on or before September 1, 2013, to prepare a workload analysis that summarizes the resources necessary for the commission to fulfill its oversight responsibilities related to legislatively granted public trust lands. According to the commission, staff is beginning to prepare its workload analysis and develop a standardized form for the required annual financial statement pursuant to this new law. Staff will be able to develop a monitoring program to ensure that the funds for granted lands are expended in accordance with the public trust. However, the commission states that implementation of the program is dependent on whether the commission's request for additional staff and resources are granted.

**IMPLEMENTATION OF THE CALIFORNIA STATE AUDITOR'S RECOMMENDATIONS
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Recommendation		Status of Recommendation	Commission Action
2.4	To ensure that all of its oil and gas leases have current surety bonds and liability insurance, as required by law and certain lease agreements, the commission should require lessees to provide documentation of their surety bonds and liability insurance. If the commission believes that assessing a monetary penalty will be effective in encouraging lessees to obtain surety bonds or liability insurance, it should seek legislation to provide this authority. Finally, if it obtains this authority, the commission should enforce it.	Partially implemented; expected implementation by November 2013	The commission states that it already requires all of its oil and gas leases to provide documentation of their surety bonds and liability insurance and bondsmen are required to give at least a 90 day notice before they can terminate a bond. Insurance companies appear to be reluctant to name the State as an additional insured and to provide notice of cancellation to the State. In some instances lessees can obtain insurance, but this appears to be an exception that the companies make to retain clients with large insurance portfolios. Staff is currently exploring options including: (1) strengthening the indemnity provisions in the lease language, (2) contacting the insurance industry and educating them on the market for an insurance product that covers recreational piers, and (3) contacting various insurance companies and attempting to create a pilot program providing insurance coverage.
3.1a	To better demonstrate its need for additional staff, the commission should conduct a workload analysis to identify a reasonable workload for its staff and use this analysis to quantify the need for additional staff.	Fully implemented as of October 2012	AB 2620 requires the commission to prepare a workload analysis to ensure that it is fulfilling its oversight responsibilities over legislatively granted public trust lands, codifies trustee duties in connection with granted lands, and requires the annual financial statement filed with the commission to be accompanied by a standardized form developed by the commission. The commission conducted the workload analysis that it included as part of its request for additional staff.
3.1b	To better demonstrate its need for additional staff, the commission should quantify the monetary benefits of its staff's duties other than processing lease applications, and consider billing lessees for those activities.	Fully implemented as of October 2012	The commission asserted that it has been able to secure a management fee in certain oil, gas, and geothermal producers as well as larger industrial leases to recoup actual costs. It also stated that it is conducting a workload analysis to quantify staff duties as part of its foundational research to establish new minimum rent levels. The commission indicated that the goal in establishing minimum rents based on this methodology is to ensure that most of the lease maintenance costs not currently captured would at least be offset by annual rents and make administration of these leases cost neutral to the State's General Fund.
3.1c	To better demonstrate its need for additional staff, the commission should ensure that the workload analysis takes into consideration the additional responsibilities and staffing needs that the commission will receive if the section of the state law that provides for rent free leases is repealed.	Fully implemented as of October 2011	The section of the state law that provided for rent-free leases was repealed during this past legislative session. The commission stated that it identified additional staffing needs in its enrolled bill report.
3.2	To better address current and potential future staffing shortages, as well as the impending loss of institutional knowledge, the commission should create a succession plan.	Fully implemented as of October 2012	The commission has developed a draft succession plan and it stated that the succession plan will be updated upon completion of its strategic plan by the end of the year.

IMPLEMENTATION OF CALIFORNIA STATE AUDITOR'S RECOMMENDATIONS

University of California

Although the University Maintains Extensive Financial Records, It Should Provide Additional Information to Improve Public Understanding of Its Operations

(Report 2010-105 July 2011)

BACKGROUND

Providing higher education to over 230,000 students at its 10 campuses, the University of California (university) is administered by a 26-member independent governing board—the Regents of the University of California (regents)—and led by a president. The university's Office of the President is the systemwide headquarters of the university and its many responsibilities include managing the university's fiscal and business operations, while a chancellor at each campus manages campus operations. Funding for the university comes from both public and private sources. Public funding includes government appropriations and contracts, student-paid tuition and fees, and revenues generated by auxiliary enterprises—noninstructional programs within the university that operate like commercial businesses and offer goods or services for sale such as student housing, dining, and parking.

KEY ISSUES IDENTIFIED IN THE AUDIT

- **University Revenues and Expenses Increased**
- **Funding Provided Through the Budget Varied Among the Campuses**
- **The University Needs To Improve the Transparency of Its Budget Process**
- **The University Could Provide More Information Regarding Its Financial Operations**

University Revenues and Expenses Increased

During the five fiscal years we reviewed, 2005-06 through 2009-10, revenue increased each fiscal year with the exception of a one-year decline during fiscal year 2008-09. Over the five fiscal years revenues increased a total of 25 percent from \$9.2 billion to \$11.6 billion. Revenues increased across several categories, however, revenue from tuition and fees grew the most in dollar amount than any single fund category (47 percent). The increased revenue from tuition and fees was the result of increased enrollment and higher tuition rates.

University expenses rose by 50 percent, from \$8.2 billion to \$12.3 billion. However, when certain retirement costs were excluded, expenses grew by \$1.2 billion, or 15 percent. Annual expenses related to employee retirement increased by \$3 billion due to a change in accounting rules regarding health benefits and due to updated actuarial valuations.

Funding Provided Through the Budget Varied Among the Campuses

The university uses an incremental budgeting process. This means that the majority of the revenues distributed by the Office of the President are permanently budgeted for the campuses and are

considered the base budget. The university then makes incremental adjustments to the base budget. This incremental budget process results in higher-than-average amounts budgeted per student for certain campuses while other campuses received much lower levels per student.

Although we found no evidence that the Office of the President considered the racial or ethnic makeup of the campuses' enrollments as part of its budget process, the process resulted in lower-than-average per-student base budgets for the four campuses that have a higher proportion of students from underrepresented racial or ethnic groups. These four campuses are Merced, Riverside, Santa Barbara, and Santa Cruz.

The Office of the President indicated that several factors contribute to the differences in per-student amounts among the campuses and provided information related to four of them: research and public service programs budgeted separately from instruction, the size of a campus's health sciences program, historical variations in the amount of support provided for graduate students, and historical variations in the level of state support.

Although the explanations it provided for the variances in per-student amounts appear reasonable, the Office of the President has not been able to fully quantify the differences in the per-student allocation. Because the university has not quantified the differences in the base budget provided per student among the campuses and does not have an agreed-upon methodology for comparing per-student calculations, stakeholders cannot be assured that the state funding that is the primary component of the base budget is being equitably distributed to the various campuses.

The Office of the President acknowledged that for strategic reasons it has chosen not to reevaluate the base budget allocations for the campuses in more than 20 years. In 2008 the university began a process for a comprehensive review of its budget allocation practices and in implementing changes during fiscal year 2011-12. The university indicated that a committee had been formed to reevaluate the base budget amounts for campuses. The evaluation will include a review of per-student amounts for the campuses, taking into account differences in student levels and programs. The evaluation will also include a determination of the funding provided for specific research and public service programs. The committee planned to provide recommendations to the university president. If approved, any recommendations of the committee could be implemented in the 2012-13 academic year.

The University Needs To Improve the Transparency of Its Budget Process

Although the Office of the President has taken steps to make its budget more transparent in recent years, it could do more to improve the transparency of the processes by making available more information about its budget policies and the amounts and calculations for campus budgets.

In recent years, the Office of the President's budget letters to the campuses' chancellors have included more details about how it calculated budget amounts than in prior years. The Office of the President also stated that it presented information on the budget process to the campuses. However, the budget process and methodologies for determining budget amounts are not readily available to stakeholders among the general campus community.

A further issue is that the Office of the President has not fully documented its budget policies. According to the director of operating budget, the university formerly had a manual for its budgeting process, but it became outdated as more authority was transferred from the Office of the President to the campus chancellors.

According to the director of operating budget, the university has been faced with rapidly shifting circumstances over the years, requiring adjustments to allocation policies and methodologies on a frequent basis. Because of these rapidly changing circumstances, he stated that the university has relied on annual allocation letters from the president to the chancellors to explain methodologies and clarify policies. Without a current budget manual, staff at the Office of the President lack formal criteria for determining campus budgets.

The University Could Provide More Information Regarding Its Financial Operations

Although the university maintains extensive financial information, which it publishes in its annual campus financial schedules, it could improve transparency by providing additional information and providing it more consistently.

Although the university's financial statements and campus financial schedules present a significant amount of financial information, they are not sufficiently detailed or presented in a format to enable a reader to determine the financial performance of individual components of the university.

Further, the campus financial schedules do not present information consistently in a way that allows for comparison. For example, the Office of the President reports revenues for auxiliary enterprises using categories that do not always match the categories used for auxiliary enterprise expenses. A change in policy in 2010 gave campuses the authority to subsidize auxiliary enterprises with funding from other revenue including public funding. Because of this change, greater transparency in reporting financial operations of auxiliary enterprises would better allow stakeholders to hold the university accountable for this new use of funding.

Finally, the Office of the President does not have detailed records of how the university spent about one-fourth of its noncompensation expenses. Instead, it uses a single expense code—Miscellaneous Services—that included nearly \$6 billion for the five fiscal years from 2005-06 through 2009-10.

As shown on the following table, as of March 2013 the university had fully implemented two of the eight recommendations we made. Further, it had partially implemented four other recommendations, had one pending and had not taken action on one.

IMPLEMENTATION OF CALIFORNIA STATE AUDITOR'S RECOMMENDATIONS

UNIVERSITY OF CALIFORNIA

REPORT NUMBER 2010-105, ISSUED JULY 2011

Recommendation		Status of Recommendation	University Action
2.1*	To address the variations in per-student funding of its campuses, the University of California (university) should complete its reexamination of the base budget to the campuses and implement appropriate changes to its budget process.	Partially implemented as of October 2012	The university stated it will implement recommendations made by a systemwide work group over a multi-year period. Date of completion is unknown.
2.2a	To help improve accountability in the university's budget process, and to help minimize the risk of unfair damage to its reputation, the Office of the President should continue to implement the proposed revisions to its budget process.	Fully implemented in July 2012	The university stated that it implemented proposed revisions to its budget process for fiscal year 2011-12, which resulted in individual campuses retaining all student tuition and fee revenue, all research indirect cost recovery funds, and all other campus-generated funds.
2.2b	To help improve accountability in the university's budget process, and to help minimize the risk of unfair damage to its reputation, the Office of the President should update its budget manual to reflect current practices and make its revised budget manual, including relevant formulas and other methodologies for determining budget amounts, available on its Web site.	Partially implemented as of October 2012	According to the university, completion of the budget manual was delayed due to the passage of Proposition 30 and understaffing. The university states that it should be completed during fiscal year 2013-14.
2.2c	To help improve accountability in the university's budget process, and to help minimize the risk of unfair damage to its reputation, the Office of the President should continue its efforts to increase the transparency of its budget process beyond campus administrators to all stakeholders, including students, faculty, and the general public.	Fully implemented in July 2012	The university recently expanded its online links to ensure easy access to the wide variety of budgetary and other information about the university.
3.1	To increase the transparency of university funds, the Office of the President should make available annually financial information regarding its funds, including beginning and ending balances; revenues, expenses, and transfers; and the impact of these transactions on the balances from year to year.	Pending	The university states that the campus financial schedules for the year ending June 30, 2013, will contain the recommended data and the reports will be published in November 2013.
3.2	To ensure that the campus financial information published by the Office of the President can be better evaluated by interested stakeholders, the university should disclose instances in which campuses subsidize auxiliary enterprises with revenues from other funding sources and should disclose the sources of that funding.	Partially implemented as of October 2012	The university states that it has developed a model for collecting the recommended data and expects to publish it by December 31, 2012.
3.3	To improve the transparency of its expenses, the university should identify more specific categories for expenses that are recorded under the Miscellaneous Services accounting code and should implement object codes that account for these expenses in more detail.	Partially implemented as of October 2012; full implementation expected by June 2013.	The university states that the information system changes were completed prior to June 30, 2012, and data is being gathered in the correct accounts for fiscal year 2012-13.
3.4	To ensure that campuses do not inappropriately use revenues generated from student fees imposed by referenda, the university should ensure that it, the regents, and the campuses do not expand the uses for such revenues beyond those stated in the referenda.	No action taken – Will not implement	The university continues to disagree with this recommendation and strongly disputes the State Auditor's conclusion that revenue generated by a campus-based student fee was inappropriately identified to fund two capitol projects on the Los Angeles Campus.

***NOTE: The recommendation numbers are based on chapter numbers from the original report in which we made the recommendation. Because we did not make any recommendations in Chapter 1 of the original report, the numbering begins with 2.1**

IMPLEMENTATION OF CALIFORNIA STATE AUDITOR'S RECOMMENDATIONS

Commission on Teacher Credentialing

Despite Delays in Discipline of Teacher Misconduct, the Division of Professional Practices Has Not Developed an Adequate Strategy or Implemented Processes That Will Safeguard Against Future Backlogs

(Report 2010-119 April 2011)

BACKGROUND

The Commission on Teacher Credentialing (commission) was created in 1970 with the responsibility of ensuring excellence in education by establishing high standards for the preparation and licensing of public school educators. In addition to teaching credentials, the commission issues credentials, certificates, and permits for positions such as school administrators, activity supervisors, and educators working in specialized teaching areas. The commission appoints the members of an advisory committee, known as the Committee on Credentials (committee), which, among other things, reviews allegations of misconduct and makes recommendations to the commission regarding probable cause and the appropriate disciplinary action to take against a credential holder. The Division of Professional Practices (division) conducts investigations on behalf of the committee. The focus of our audit was on the role that the commission plays in taking appropriate adverse action regarding teaching credentials.

KEY ISSUES IDENTIFIED IN THE AUDIT

- **Workload Backlogs and Delayed Processing of Reports of Misconduct**
- **Processes for Reviewing and Tracking Reports of Misconduct Need Improvement**
- **Familial Relationships Contribute to Employees' Negative Perception of the Commission**

Workload Backlogs and Delayed Processing of Reports of Misconduct

In the summer of 2009, the executive director acknowledged a backlog of 12,600 unprocessed Reports of Arrests and Prosecutions (RAP sheets)—nearly three times the number of RAP sheets and other reports of educator misconduct the division typically processes each year.

The commission sometimes took significant periods of time to accomplish certain critical steps. For 11 of the 29 cases we reviewed, the division took more than 80 days to open a case after receiving a report of misconduct, with one case taking almost two years and another almost three years.

The division often delayed seeking information needed to review reports of misconduct. Additionally, the division does not always investigate school reports of misconduct while criminal investigations are unresolved. Because it relies on the prosecution of criminal charges rather than contemporaneously pursuing all available sources of information, when an individual is not convicted the division may not be able to get the information necessary to effectively investigate because some witnesses—students, teachers, and administrators—may no longer be accessible.

The division did not always immediately suspend or revoke credentials where the law requires it to do so. For two of 23 such cases, the division took one and a half months and six months, respectively, to revoke the credentials after being notified by the court the holder was convicted of the crime charged.

Processes for Reviewing and Tracking Reports of Misconduct Need Improvement

State law requires that each allegation of misconduct for which a credential holder or applicant may be subject to adverse action be presented to the committee. State law also delegates to the commission's executive director any power, function, or duty that may be lawfully delegated.

Although the division opens roughly 5,000 cases a year, the committee can review only about 50 to 60 cases each month. To streamline the committee's review of reports of misconduct, the commission allows division staff to use their discretion to decide which reports to forward to the committee for its review and which require no disciplinary action—a practice we believe constitutes an unlawful delegation of discretionary authority.

The division lacks comprehensive written procedures for reviewing reported misconduct and the database it uses for tracking cases of reported misconduct does not always contain complete and accurate information.

The division has not developed and implemented procedures to account for all reports of misconduct it receives. In addition, recent reports and processes intended to better manage workload and to track cases lack the information necessary to make them efficient case-tracking and management tools. Many of the new reporting tools lack information pertaining to case status and the case tracking reports do not track the commission's statute-based time limitations for investigating reports of misconduct.

Familial Relationships Contribute to Employees' Negative Perception of the Commission

We administered a survey to 188 commission employees, of whom 136 (72 percent) responded. Forty percent of the respondents indicated that they felt the commission's hiring and promotion practices were compromised by familial relationships or employee favoritism, and half of those responded that this was often a problem.

Many surveyed employees reported that they were not aware of the commission's grievance process or Equal Employment Opportunity (EEO) policy—33 percent were unaware of the grievance process and 20 percent were unaware of the EEO policy. Of the employees who responded to our survey, 43 percent indicated that they would have some fear of retaliation if they were to file either a grievance or an EEO complaint.

As seen on the following table, the commission had implemented all of our recommendations as of August 2012.

IMPLEMENTATION OF CALIFORNIA STATE AUDITOR'S RECOMMENDATIONS
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Recommendation		Status of Recommendation	Commission Action
1.1	To comply with the law and reduce unnecessary workload, the Division of Professional Practices (division) should continue to notify the California Department of Justice (Justice) of Reports of Arrests and Prosecutions (RAP sheets) for individuals in whom the division is no longer interested, so Justice will no longer notify the division of criminal activity for these individuals.	Fully implemented as of March 2012	The Commission on Teacher Credentialing (commission) continues to notify Justice of the RAP sheets it is no longer interested in receiving and began an automated process of returning RAP sheets to Justice as of March 2012.
2.1	The commission should revise its strategic plan to identify the programmatic, organizational, and external challenges that face the division and the Committee on Credentials (committee), and determine the goals and actions necessary to accomplish its mission.	Fully implemented as of March 2012	The commission adopted an amendment to its 2007 strategic plan at its March 2012 meeting.
2.2	To ensure that it can effectively process its workload in the future, the commission should collect the data needed to identify the staffing levels necessary to accommodate its workload.	Fully implemented as of August 2012	The commission states that its Credentialing Automation System Enterprise now tracks every case assignment to staff.
2.3	The commission should seek a legal opinion from the attorney general to determine the legal authority and extent to which the committee may delegate to the division the discretionary authority to close investigations of alleged misconduct without committee review, and take all necessary steps to comply with the attorney general's advice.	Fully implemented as of August 2012	At its August 2012 meeting, the division informed the commission that since May 2011 it has been presenting all cases to the committee and that the practice was working. As a result, the commission adopted a policy whereby all matters under the investigative jurisdiction of the committee shall be presented to the committee.
2.4	Once the commission has received the attorney general's legal advice regarding the extent to which the committee may delegate case closures to the division, the commission should undertake all necessary procedural and statutory changes to increase the number of cases the committee can review each month.	Fully implemented as of August 2012	See above.
2.5	The division should develop and formalize comprehensive written procedures to promote consistency in, and conformity with, management's policies and directives for reviews of reported misconduct.	Fully implemented as of October 2011	The commission states that it developed and posted on its intranet a procedures manual that generally indicates revised dates of April and May 2011, and it plans to update the procedures manual as the procedures are fine tuned or new rules are developed.
2.6	The division should provide the training and oversight, and should take any other steps needed, to ensure that the case information in its database is complete, accurate, and consistently entered to allow for the retrieval of reliable case management information.	Fully implemented as of August 2012	The commission provided its newly developed policy and procedures for reviewing data to ensure its accuracy. The commission also stated that it performed an audit on the accuracy of its data and plans to complete this data audit annually.
2.7	The commission should continue to implement its new procedures related to deleting cases from its database to ensure that all such proposed deletions are reviewed by management for propriety before they are deleted and a record is kept of the individuals to which each such deleted case record pertains. Further, the commission should develop and implement policies and procedures related to managing changes and deletions to its database.	Fully implemented as of August 2012	The commission developed a deletion management process and created a policy and procedures related to managing changes and deletions in its database. The policy requires the chief counsel to audit the data on an annual basis which, according to the commission, will occur after the new management team is in place.

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2.8	To ensure that the division promptly and properly processes the receipt of all the various reports of educator misconduct it receives, such as RAP sheets, school reports, affidavits, and self-disclosures of misconduct, it should develop and implement procedures to create a record of the receipt of all these reports that it can use to account for them. In addition, the process should include oversight of the handling of these reports to ensure that case files for the reported misconduct are established in the commission's database to allow for tracking and accountability.	Fully implemented as of October 2011	The commission has developed and implemented an intake document database to ensure that staff promptly log-in and assign a number to all reports of educator misconduct, such as school reports, affidavits, and self-disclosures, it receives.
2.9a	To adequately address the weaknesses in its processing of reports of misconduct, the division should revisit management's reports and processes for overseeing the investigations of misconduct to ensure that the reports and practices provide adequate information to facilitate reduction of the time elapsed to perform critical steps in the review process.	Fully implemented as of August 2012	The commission developed a variety of case aging reports designed to show the age of cases and to provide management with the information necessary to oversee and monitor the investigation of all reports of misconduct. Additionally, the committee reviewed a plan for setting performance measures for critical stages of the division's business processes, including proposed targets to perform vital tasks and a proposed report on performance measures. According to the plan, these measurements will be displayed in a data dashboard, an executive level information display that is designed to be easy to read.
2.9b	The division should adequately track the reviews of reports of misconduct that may require mandatory action by the commission to ensure the timely revocation of the credentials for all individuals whose misconduct renders them unfit for the duties authorized by their credential.	Fully implemented as of August 2012	The commission has developed or enhanced reports to track and monitor the progress of cases involving mandatory offenses and it provided examples of these reports.
2.9c	The division should ensure that its reports and practices provide adequate information to facilitate prompt requests for information surrounding reports of misconduct from law enforcement agencies, the courts, schools, and knowledgeable individuals.	Fully implemented as of August 2012	The commission indicates that it developed and is using two dashboards to provide data about the promptness of handling cases. According to the commission, one dashboard is for the commission's use in exercising its oversight responsibilities for discipline cases and measures three key stages of the division's workload and provides three critical measurements. The second dashboard focuses on key areas within the intake unit, which experiences the highest volume of work, to provide managers and staff with an easy to view method of seeing progress and problems.

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2.9d	The division should ensure that its reports and practices provide adequate information to facilitate an understanding of the reasons for delays in investigating individual reports of misconduct without having to review the paper files for the cases.	Fully implemented as of August 2012	The commission modified its database to include a "Cause for Delay" activity and it incorporated this activity into three of the reports its database generates. According to the commission, this will allow management to determine whether a case is delayed, whether the delay is caused by an external agency, and the reason for the delay. The commission developed procedures on the activities staff will perform to track the "Cause for Delay" in the database, conducted training related to these procedures and, according to the commission staff began entering the reasons for delays as they reviewed cases. The commission stated that its information technology section developed a report on causes for delay.
2.9e	The division should provide clear evidence of management review of reports intended to track the division's progress in its investigations of misconduct.	Fully implemented as of October 2011	According to the commission, beginning in October 2011, it has held a weekly management meeting that includes the chief counsel, assistant chief counsel, supervising special investigator, and the acting staff services manager, and it plans to include new managers as they are recruited. The commission stated that the weekly meeting focuses on issues facing the division, including staffing issues, case work issues, and case delays, as well as spending some time to review various reports. The commission indicated that the management team does not review every type of report at each meeting, but all reports are provided to each manager as they are developed.
2.9f	The division should clearly track the dates at which the commission will lose its jurisdiction over the case as a result of the expiration of statute-based time frames for investigating the misconduct.	Fully implemented as of August 2012	The commission stated it modified its database to include statute of limitation dates to show when it will lose jurisdiction to investigate a case. The commission developed a monthly report for the purpose of alerting management about any cases that are within six months of the statute of limitations, created procedures for staff on how to enter the statute of limitations date into the database, and trained staff on the process.
2.10	The division should develop and implement procedures to track cases after they have been assigned to the investigative process.	Fully implemented August 2012	The commission stated that it developed procedures, modified the database, and developed and implemented the "COC Assigned and Pending Cases" report to track cases after they are assigned to the investigative process. In addition, the commission provided training on the investigative process.
3.1a	To better ensure that its hiring decisions are fair and that employment opportunities are equally afforded to all eligible candidates, and to minimize employees' perceptions that its practices are compromised by familial relationships or employee favoritism, the commission should prepare and/or formally adopt a comprehensive hiring manual that clearly indicates hiring procedures and identifies the parties responsible for carrying out various steps in the hiring process.	Fully implemented as of June 2011	The commission adopted a hiring handbook in June 2011, which was developed with assistance from the State Personnel Board and approved by the commission's senior managers. The commission also indicated that it is consulting with the State Personnel Board to develop best practices in the commission's office of human resources.

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3.1b	To better ensure that its hiring decisions are fair and that employment opportunities are equally afforded to all eligible candidates, and to minimize employees' perceptions that its practices are compromised by familial relationships or employee favoritism, the commission should maintain documentation for each step in the hiring process. Documentation should be consistently maintained by a designated responsible party.	Fully implemented as of June 2011	According to the commission, it held a training session for all supervisors and managers on June 22, 2011. The training included an overview of the documentation that managers and supervisors must submit to the commission's office of human resources for each step in the hiring process.
3.1c	To better ensure that its hiring decisions are fair and that employment opportunities are equally afforded to all eligible candidates, the commission should ensure hiring managers provide to the commission's office of human resources documentation supporting their appointment decisions, and the office of human resources should maintain this documentation so that it can demonstrate that the hiring process was based on merit and the candidate's fitness for the job.	Fully implemented as of October 2011	The commission indicated that its office of human resources monitors all hiring processes and maintains documentation for each hiring and examination process, including applications received, notes related to interviews, reference checks, and hiring justification.
3.2a	To ensure that employees understand their right to file either an Equal Employment Opportunity (EEO) complaint or a grievance, and to reduce any associated fear of retaliation, the commission should include in its EEO policy a statement informing staff members that they may make complaints without fear of retaliation.	Fully implemented as of May 2011	On May 9, 2011, the commission provided its staff an updated EEO policy, which states that employees may make complaints without fear of reprisal. In addition, the commission's EEO handbook informs staff that retaliation and intimidation is not allowed.
3.2b	The commission should actively notify employees annually of its EEO complaint and grievance processes, including the protection from retaliation included in both.	Fully implemented as of October 2011	The commission stated that it plans to remind all staff members annually of the EEO and Sexual Harassment Prevention Policy and that staff will be required to certify that they have reviewed the policy.
3.2c	The commission should conduct training on its EEO complaint process on a periodic basis.	Fully implemented as of October 2011	According to the commission, all managers and supervisors participated in a training workshop on workplace retaliation provided by the Department of Fair Employment and Housing in August 2011. The commission also provided EEO training to the rank and file employees and a separate training for all supervisors and managers during September and October 2011. According to the commission, it plans to continue to provide this training on a biennial basis.