



CALIFORNIA STATE AUDITOR

ELAINE M. HOWLE
STATE AUDITOR

STEVEN M. HENDRICKSON
CHIEF DEPUTY STATE AUDITOR

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Honorable Fred Keeley, Chair
Joint Legislative Audit Committee
State Capitol, Room 3152
Sacramento, California 95814

Dear Assemblymember Keeley:

As requested, we have reviewed the Department of Finance's (Finance) approach and methodology in implementing Control Section 31.60 of the budget act for fiscal year 2002-03 (control section). Our review found that Finance used a reasonable approach to identify 6,129 positions for abolishment for a savings of \$300.4 million, exceeding the 6000 positions and \$300 million in savings required by the control section. Although we found that the number of positions and the savings reported by Finance exceeded the minimums, we are unable to conclude with certainty that Finance fully complied with the control section. Specifically, Finance included 560 correctional officer positions in the 6,129 slated for abolishment even though the control section states that Finance will not abolish positions directly involved in public safety. Finance believes that because these positions had been and would continue to be held vacant, they should not be considered public safety positions for purposes of the control section. However, some if not all of the related funds have been used historically to fund other correctional officers' wages and overtime costs. Thus unless the funds are restored, the abolishment of these positions could have a negative impact on public safety—a result not intended by the control section. These 560 positions represent \$23.5 million of \$300.4 million in savings. Additionally we could not determine whether the abolished positions included any that had been eliminated by other provisions of law. However, Finance assures us that any such positions will be identified and corrected as part of its normal budget process. In the remainder of this letter, we discuss our review and its results in more detail.

THE CONTROL SECTION TARGETS SAVINGS OF \$300 MILLION

The control section requires that Finance abolish at least 6,000 permanent vacant positions identified from all departments, with certain exclusions. The savings attributable to these savings must total at least \$300 million. The control section directs Finance, in conjunction with the departments, to select the vacant positions to be abolished from a report of positions vacant on June 30, 2002, prepared by the State Controller (Controller). However, it states that the positions to be abolished should not include any positions directly involved in public safety or providing 24-hour care. Additionally, it implies that these positions should not include positions already eliminated by other provisions of law, such as the fiscal year 2002 Budget Bill Act

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(budget bill cuts). The control section allows Finance and the departments to correct any errors in the Controller's report. The listing of vacant positions from which Finance selects those to be abolished must be at least 50 percent of the positions reported by the Controller. In addition, the control section states that Finance shall provide the Joint Legislative Budget Committee and the appropriations committee from each house of the Legislature, a listing of all the vacant positions to be abolished.

Because its final report was not available when we started our review, we conducted our review of Finance's approach and implementation of the control section in two phases. The first phase entailed a number of steps and focused on the Finance's overall approach, the reports submitted by the departments, and the schedules prepared by Finance in support of its final report. To gain an understanding of Finance's responsibilities under the control section and the process it used to meet these responsibilities, we first read the control section and interviewed program budget staff and managers. We also reviewed instructions Finance provided department staff on how to report their vacant positions to Finance. To verify the accuracy and reasonableness of the schedule of vacant positions Finance prepared, we checked its mathematical accuracy and vouched the total number of vacant positions to the June 30, 2002, report of vacant positions prepared by the Controller. Also, from a sample of departments with significant numbers of adjustments to the Controller's report of vacant positions, we reviewed a sample of positions from each of three types of adjustments Finance and the departments made to the Controller's report—public safety and 24-hour care positions, technical adjustments, and budget bill cuts. We reviewed the documentation supporting the adjustments. In addition, we conducted interviews with Finance staff and managers involved in the decisions to retain or abolish positions. Further, we verified that Finance included vacant positions from all departments affected by the control section. Finally, for our sample departments we scanned the positions Finance recommended for abolishment to determine whether they included any exempt positions. The table on the following page summarizes the information we reviewed during the first phase of our review. On November 1, 2002, we met with Finance to discuss the results of the first phase of our review.

The second phase of our review involved examining the final report, which was released on November 14, 2002, to make sure that Finance had corrected the problems we noted during the first phase. We also checked the accuracy of the position count and computation of cost savings contained in the final report.

FINANCE DIRECTED DEPARTMENTS TO IDENTIFY VACANT POSITIONS

On July 1, 2002, Finance sent a letter to all departments with instructions for identifying vacant positions for abolishment. Starting with the Controller's June 30, 2002, report of vacant positions, Finance instructed the departments to deduct all public safety and 24-hour care positions, positions that the control section exempted. Finance also instructed the departments to correct any errors they identified in the Controller's report such as typographical errors or errors related to unprocessed paperwork, and deduct any positions already abolished by the 2002 budget act. The departments were to rank the remaining positions in order of importance—those that were easiest to eliminate to those that were most difficult to eliminate.

When complete, the departments submitted this information to Finance. Finance then reviewed the data for accuracy, contacting departments for additional information and making corrections to the data as necessary. After making these adjustments, Finance's management reviewed the remaining positions to determine which should be abolished and which should be retained.

Table
STATEWIDE VACANT POSITIONS

| Budget Areas | Vacant Positions from 6/30/02 Controller's Report | Adjustments for Public Safety and 24-Hour Care Positions | Technical Adjustments | Adjustments for Budget Bill Cuts | Adjusted Number of Vacant Positions | Positions Retained Through Management Discretion* | Positions to Be Abolished |
|--|---|--|-----------------------|----------------------------------|-------------------------------------|---|---------------------------|
| Personnel Administration, Finance | 60.0 | 0.0 | 17.0 | 13.0 | 30.0 | 12.0 | 18.0 |
| Budget Operations Support, Fiscal Systems, CALSTARS | 145.0 | 0.0 | 16.0 | 2.0 | 127.0 | 45.0 | 82.0 |
| Business, Transportation and Housing | 3,451.0 | 308.0 | 545.7 | 506.0 | 2,091.3 | 615.3 | 1,476.0 |
| Corrections, Criminal Justice, State & Consumer Services, General Government | 8,122.0 | 3,169.3 | 550.6 | 440.6 | 3,961.5 | 1,960.5 | 2,001.0 |
| Education | 450.0 | 0.0 | 190.5 | 33.0 | 226.5 | 77.0 | 149.5 |
| Health and Human Services | 5,454.0 | 2,592.0 | 337.0 | 135.0 | 2,390.0 | 1,138.7 | 1,251.3 |
| Resources, Environment | 2,185.0 | 438.0 | 174.0 | 155.0 | 1,418.0 | 371.0 | 1,047.0 |
| Totals | 19,867.0 | 6,507.3 | 1,830.8 | 1,284.6 | 10,244.3** | 4,219.5** | 6,024.8** |

Source: Department of Finance. This is the information Finance provided to us October 22, 2002, for the first phase of our review.

* The control section authorizes Finance to select the vacant positions to be abolished from the lists of vacant positions prepared by the departments. The only restriction it imposes is that Finance not abolish positions directly involved in public safety or providing 24-hour care. See page 5 for a description of the criteria Finance used in its decision-making.

**In Finance's final report these amounts are 10,376, 4,247 and 6,129, respectively.

THE RESULTS OF OUR REVIEW

Our review of the schedules of vacant positions prepared by the Finance and the departments reveals that they appropriately began with the 19,867 positions reported by the Controller as vacant on June 30, 2002. Additionally, the adjustments they made are of the types allowed by the control section. However, the first phase of our review revealed issues in each of these adjustments, as described below.

Adjustments for Public Safety and 24-Hour Care Positions

One type of adjustment made to the positions in the Controller's report consisted of removing public safety and 24-hour care positions reported by the departments. We reviewed these adjustments for 10 of the reporting departments and found that for 3 of the departments, accounting for 710 of the 6,507.3 total adjustments, Finance staff had not verified with the departments that the positions qualified as public safety or 24-hour care positions. Although this condition alone does not significantly affect Finance's ability to identify at least 6,000 vacant positions to be abolished, it could have resulted in Finance incorrectly including some public safety or 24-hour care positions in the final list of positions to be abolished. In fact, we noticed 7 positions for one department that appeared to be public safety positions on Finance's list of positions to be abolished. When we asked the responsible Finance budget analyst why those positions were not excluded, he provided an explanation for only 2 of them.

On November 1, 2002, we recommended that Finance review its final list of positions to be abolished to ensure it does not contain any public safety or 24-hour care positions. Finance agreed to do so. Except for the correctional officer positions discussed below, we did not identify any other public safety or 24-hour care positions in the final list of positions to be abolished.

During the first phase of our review we also found that Finance and Corrections included more than 500 correctional officer positions in those to be abolished. As part of its Institutional Vacancy Plan (vacancy plan), Corrections held these along with other correctional officer positions vacant in an attempt to achieve salary savings and to make up for shortfalls in the funding for correctional officers. According to its director of operations, Finance accepted Corrections' inclusion of these positions in the list of positions to be abolished because historically they have been held vacant by mutual agreement between Corrections' management and its employees, so the related funds could be used for other higher priorities. Finance further agreed that because the positions in the vacancy plan were not going to be filled, no safety staff reductions would occur. Thus their abolishment would be much the same as eliminating other vacancies throughout the State. Based on our July 2002 report titled, *California Department of Corrections: A Shortage of Correctional Officers, Along With Costly Labor Agreement Provisions, Raises Both Fiscal and Safety Concern and Limits Management's Control*, we agree that Corrections will not fill these correctional officer positions in the foreseeable future. In addition, the abolishment of these positions will not have a negative impact on public safety, provided a sufficient amount of funding is redirected to Corrections to pay the wages and overtime costs of public safety positions—costs typically paid with the funding generated through its vacancy plan. Section 31.70 of the budget act for fiscal year 2002-03 authorizes Finance to restore some of the funding that was eliminated pursuant to the control section. Finance states that it is confident that it will be able to restore at least part, and possibly all, of the funding related to these positions; however, it has not yet completed its analysis to determine how much that might be. Thus it is too early to tell what impact the elimination of these positions will ultimately have on the funding available for positions that are directly involved in public safety. Thus we question whether their elimination is consistent with the intent of the control section. Moreover, these positions are covered under Correction's current labor agreement and their elimination will be subject to a potentially lengthy negotiation process.

Although Finance and Corrections believe that the negotiations will be successful, it seems reasonable to assume that the success of the negotiations will be affected by the amount of related funding Finance is able to restore.

We discussed our concerns with Finance on November 1, 2002, and recommended that it reevaluate its decision to abolish the correctional officer positions. However, Finance decided to include 560 correctional officer positions on its final list of positions to be abolished.

Technical Adjustments

We also reviewed the technical adjustments Finance made to the Controller's report of vacant positions and found that Finance did not treat part-time positions in a consistent manner when counting the number of positions to be abolished. For example, eleven of the 12 departments we reviewed had part-time positions. Although Finance converted the part-time positions to their full-time equivalent for four of them, it did not do so for the remaining seven.

When we brought this issue to its attention, Finance agreed that positions should be reported in a consistent manner with each part-time and full-time position being reflected as an individual position—a method that is consistent with the State Controller's report of vacant positions. It agreed to review the list of positions to be abolished and correct the listing to reflect each position individually. We reviewed Finance's final report and found that Finance had in fact corrected the count for all but one half-time position.

Adjustments for Budget Bill Cuts

The final adjustment relates to vacant positions eliminated by other sections of the budget act. Overall, the departments reported to Finance nearly 1,284.6 positions eliminated through budget bill cuts. We reviewed the budget bill cuts for 14 departments and found that for 5 of those departments, Finance had not verified 210 positions reported as budget bill cuts nor did it ensure they had reported all of their positions that were eliminated through budget bill cuts. As a result, the positions to be abolished could contain an unidentified number of positions that have already been eliminated.

We recommended that Finance determine if any of the positions it identified for abolishment had already been eliminated through other budget bill cuts and replace those positions with other vacant positions, if necessary, so that it abolishes 6,000 positions. However Finance responded that such errors, if any, would be caught and adjusted in the normal budget reconciliation process it engages in as part of its base budget calculations for each department. Nonetheless Finance subsequently reviewed the list and stated that it is confident that it has not duplicated any position reductions.

After making the adjustments described above to the vacant positions reported by the Controller, Finance and the departments ultimately identified a pool of 10,376 vacant positions that could be abolished. This group meets the requirement of the control section that Finance select the

positions to be abolished from at least 50 percent of positions determined by the Controller to be vacant on June 30, 2002. Finance management decided to retain 4,247 vacant positions, and selected 6,129 to be abolished. According to the assistant director for operations, Finance management based these decisions on three conditions:

- Finance management considered whether the positions were critical to a department, even though they were not specifically public safety or 24-hour care positions. Examples of these retained positions might be those in support of public safety or 24-hour care. It also considered how long the positions were vacant, with a view that a position that has been vacant for a significant period of time is not critical to a department.
- Finance chose to retain positions that are exempt from civil service requirements. Examples of these positions are Governor's appointees, board members, and commission members.
- Finally, Finance management considered appeals made by department directors on position abolishment decisions made by Finance staff and managers earlier in the vacant position analysis process. In the view of the department directors, many of these positions are career executive appointments, program managers, or other positions critical to a specific program or operation.

Because the control section gives Finance broad discretion in deciding which of the 10,376 positions are retained or abolished, we did not review or evaluate Finance's decisions on these positions.

In addition to the unresolved issues discussed above, our review of the final report revealed errors in the summary spreadsheets accompanying the list of positions to be abolished. Finance reports it will abolish 6,129 positions with associated cost savings totaling \$300.4 million. However, we determined that Finance actually understated the abolished positions by 39 and understated the total cost savings by about \$6.7 million as a result of clerical and computational errors in its summary spreadsheets. Because Finance intends to reduce each department's budget using the identified cost savings, the State will not receive the savings from all of the positions if Finance does not correct its schedules of abolished positions.

RECOMMENDATIONS

Although Finance has taken steps to adequately correct three of the five issues we raised during the first phase of our review, some work is required to ensure it corrects the remaining issues. To ensure that it has met the requirements of the control section, we recommend that Finance restore to Corrections the funding needed to ensure that public safety is not adversely affected by its abolishment of the correction officer positions contained in its final report. In addition, through the course of its fiscal year 2003-04 budget activity Finance should determine if any of the positions it identified for abolishment in its final report were also eliminated through other budget bill cuts and ensure that such positions are replaced with other vacant positions, if

necessary. Finally, to ensure that the State achieves the full cost savings associated with the positions it abolishes, Finance should correct its calculation of cost savings and ensure that reductions to department's budgets reflect the dollar amounts for all positions abolished.

Respectfully submitted,



ELAINE M. HOWLE

State Auditor

cc: B. Timothy Gage, Director
Department of Finance
Senator Richard Alarcon, Vice Chair
Senator Ray Haynes, Member
Senator Bill Morrow, Member
Senator Kevin Murray, Member
Senator Steve Peace, Member
Senator Charles Poochigian, Member
Senator Jackie Speier, Member
Assemblymember Rebecca Cohn, Member
Assemblymember Lynn Daucher, Member
Assemblymember Hannah-Beth Jackson, Member
Assemblymember Christine Kehoe, Member
Assemblymember Bill Leonard, Member
Assemblymember Rod Pacheco, Member