



*Improving Government Operations
Amid Challenging Times*

CALIFORNIA STATE AUDITOR BIENNIAL REPORT

Fiscal Years Ending June 30, 2001 and 2002

ELAINE M. HOWLE • STATE AUDITOR

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A Message From the California State Auditor

The past two fiscal years presented California's government leaders with unprecedented challenges. In late 2000 and most of 2001, problems in the State's electricity market grew into a crisis. Energy prices rose to all-time highs, residents throughout the State encountered blackouts, and California's largest investor-owned utility companies teetered on the verge

Amid these challenges, the Legislature called upon the Bureau of State Audits (bureau) to play a critical role in helping the State by providing independent, unbiased, accurate, and timely assessments of the issues at hand and making recommendations designed to improve operations and promote positive change. Historically, we have identified issues and proposed solutions that save



The 75 audit reports we issued in the last two fiscal years and our continued attention to issues we raised in prior years

“We estimate that our recommendations for fiscal years 2000–01 and 2001–02, if implemented, could save the State nearly \$250 million. That means for every dollar spent on our audits, the recommendations we make could return more than \$11.50 to the State.”

of bankruptcy. The terrorist attacks on September 11, 2001, deepened the weakening economy and heightened the concerns of economic uncertainty in the State and the nation. These and other issues contributed to the largest budget deficit in California's history.

taxpayers millions of dollars. We estimate that our recommendations for fiscal years 2000–01 and 2001–02, if implemented, could save the State nearly \$250 million. That means for every dollar spent on our audits, the recommendations we make could return more than \$11.50 to the State.

are proof of our dedication to government accountability and improvement. We published 57 performance audit reports during this biennial period that included comprehensive statewide performance reviews, government program evaluations, and assessments of

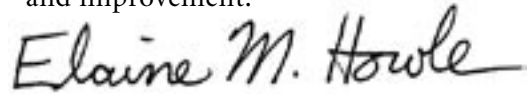
the State's energy policies and contracting practices. These audits established benchmarks and measured performance, determined whether goals were met, reviewed compliance with laws, and analyzed contracts. The 14 financial and compliance audits we reported on assessed financial viability, evaluated fee-setting structures, or opined on the State's financial position and its compliance with state and federal laws. We also completed 4 reports summarizing the results of investigations that exposed fraud, waste, and abuse in a variety of areas, such as falsifying claims and personal use of state resources.

We measure the success of our audits, not by the number of findings we have identified but in the nature and the value of the improvements in government programs and taxpayer savings

we have stimulated. We have a long tradition of providing recommendations that lead to monetary benefits, such as cost savings, increased revenue, and cost recovery, for the State. Since 1982, we have identified more than \$1 billion in savings to the State or other government entities. Not only do our audits identify monetary benefits, they also lead to new legislation to improve government operations. For fiscal years 2000–01 and 2001–02, the Legislature made reference to our audit work for 21 chaptered bills.

Our staff take great pride in the success they have had in assisting government leaders and decision makers in their efforts to promote efficient and effective management of public funds and programs that benefit all Californians. The results generated from our reports during this biennial

period provide strong evidence that the bureau's work has had a significant impact on public policy in California. I trust that as you read through this biennial report and our audit reports, you too will agree that the bureau continues to meaningfully contribute to government accountability and improvement.



ELAINE M. HOWLE
State Auditor



Highlights at a Glance

Given the \$100 billion that California spends on government programs and entities in the State each year, the Legislature continually looks to the bureau to find ways to improve operations and save money. Towards that end, the bureau conducts performance, financial, compliance, and investigative audits to promote the efficient and effective management of programs and the use of public funds. Our audits, whether they are requested by members of the Legislature or included in legislation, serve to ensure that government entities' operations and programs are in place and working as intended.

As shown in Figure 1, we issued 75 audit reports during the biennial period covering fiscal

years 2000–01 and 2001–02. Of this total, 57 audits pertained to performance reviews of statewide issues, state departments, or other entities; 12 were financial including reviews of the State's financial position; 2 were compliance reviews of federal funds that fulfilled requirements by the federal government;

and 4 investigated charges such as claims of fraud and misuse of public funds.

Regardless of the type of audit, we continuously look for ways an entity can accomplish its goals more efficiently and effectively. In some cases, our work identifies significant cost savings or other types of monetary benefits, such as cost recovery and increased revenue for the State. We estimate that monetary benefits from our audit reports for this biennial period will reach nearly \$250 million if the entities we audit implement our recommendations—a return of more than \$11.50 for every dollar of audit costs.

Fiscal Year Ending June 30			
Recommendations	2001	2002	Totals
Presented to auditees	307	347	654
Implemented or pending	275	321	596
Success rate*	89.6%	92.5%	91.1%

Table 1 Implementation of Recommendations by Entities We Audit

* Success rate includes recommendations fully, or partially implemented, and those pending implementation.

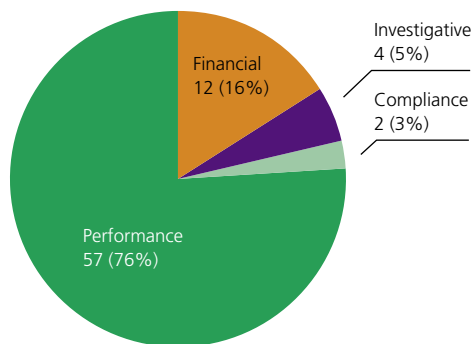


Figure 1 Distribution of the 75 Audit Reports Issued for Fiscal Years 2000–01 and 2001–02

Despite the importance of monetary benefits, we also measure the value of our work by the impact it has on those organizations we audit and the Legislature. For example, during the previous two fiscal years, auditees implemented more than 91 percent of our recommendations, as shown in Table 1 on the previous page. In addition, during the 2001–02 session, the Legislature passed—and the governor signed—21 bills due, in some part, to our recommendations.

In addition, we also conduct the State’s annual single audit, which consists of both financial and compliance audit work. For the single audit, we evaluate and issue an opinion on the condition of the State’s financial statements. The federal government requires

Type of Corrective Action	Instances
Referrals for criminal prosecution	2
Convictions	2
Job terminations	4
Pay reductions	1
Suspensions without pay	2
Reprimands	11

**Table 2 Corrective Actions Resulting From Investigations
July 1, 2000 Through June 30, 2002**

that an annual single audit be conducted to oversee the State’s administration of the more than \$50 billion it provides each year in federal assistance including cash, noncash awards, and loans. For the fiscal year ended June 30, 2001, we reviewed 38 major federal programs covering 95 percent of the total funds received by the State.

Our investigative reports have identified improper governmental activities totaling \$11 million

since 1993, \$1.3 million in the past two years. These improper activities include theft of state property, false claims, conflicts of interest, and personal use of state resources. As illustrated in Table 2, corrective actions taken by agencies have led to prosecution, convictions, terminations, pay reductions, suspensions, and reprimands. ■

Background

In 1993, the Legislature created the Bureau of State Audits (bureau) under the direction of the California State Auditor (state auditor). The bureau replaced the Office of the Auditor General, which served the citizens of California for 37 years before it was closed due to cuts made to the Legislature's budget. The bureau's mission is to promote the efficient and effective management of public funds and programs by providing to citizens and government independent, objective, accurate, and timely evaluations of state and local governments' activities. To accomplish this mission, the bureau performs audits that are mandated by law and audits that are requested by legislators and approved by the Joint Legislative Audit Committee (audit committee).

In addition, our audit work serves an important role in the State's system of checks and balances by examining the financial and operational aspects of state and local entities to ensure that government provides the essential services to the public in the most efficient and effective manner and that programs established by the executive and legislative

branches of government are in place and working as intended. We are nationally recognized as a leader in the field of government auditing, and our timely and

We embrace the following goals:

- * Promoting the efficient operation of government through independent, objective audits.
- * Making recommendations that improve government, streamline operations, avoid costs, or save money.
- * Providing relevant information to government leaders on the effectiveness of programs, laws, and rules and regulations.
- * Providing assurance to creditors and the federal government that the State's financial position is fairly presented.
- * Continually reassessing the bureau's operations and fostering a professional, competent, and motivated team environment to ensure the excellence of the services we provide.

relevant reports have improved government operations and saved millions of dollars each year.

Independence Is a Critical Element of Our Credibility

The California Government Code (government code) explicitly requires that we have the independence necessary to meet government auditing standards set forth by the United States General Accounting Office and those promulgated by the American Institute of Certified Public Accountants. In addition, the government code specifically provides that we be free of influence of existing state control agencies that could be the subject of our audits. State law precludes us from conducting audits of the Legislature, its members, or staff.

Special Access to Records and Other Powers Allow Us to Effectively Fulfill Our Mission

The government code directs the state auditor to conduct performance, financial, compliance, and investigative audits. To undertake these audits, the state auditor has complete access to all records of state and local agencies, special districts, public contractors, school districts, and other public entities. If absolutely necessary, the

state auditor may also subpoena records and compel testimony. Auditees who fail or refuse to permit access to records as required by law are guilty of a misdemeanor.

Members of the Legislature Direct Our Workload

Audits come to the bureau in one of two ways: mandated by law or requested by any of the 120 members of the Legislature. The majority of our workload is requested by the Legislature; these audits are considered discretionary. Members of the Legislature may request a discretionary audit of any state agency or city, county, school, or special district by submitting requests to the chair of the audit committee.¹ This 14-member committee, consisting of seven senators and seven assembly members, is responsible for approving and prioritizing requests for audits.

The bureau also performs audits mandated by law, such as those creating or amending a program or entity, or incorporated in the annual Budget Act. These audits generally receive a high priority. For example, statutes mandate that the bureau annually conduct the State's single audit, which is a combination of a financial and compliance audit, and issue an opinion on the overall financial condition of the State.

The California Whistleblower Protection Act

We also investigate allegations related to improper activities by state employees or agencies. To fulfill our investigative responsibilities under the California Whistleblower Protection Act, we operate a toll-free telephone hotline (1 800 952-5665) and conduct confidential investigations of allegations concerning gross

misconduct, incompetence, or inefficiency perpetrated by state agencies or employees. All investigations are confidential, and the bureau never reveals the identity of a whistleblower unless he or she permits us to do so. The bureau releases investigative reports of substantiated allegations to the public when the state auditor determines it is in the best interest of the State to do so. We believe that publicly releasing investigative reports provides a deterrent to similar misconduct by others. ■

¹ This report refers to requests made by members of the Legislature and approved by the Joint Legislative Audit Committee as requests made by the Legislature.

Organizational Structure

Our Most Valuable Asset— Our Staff

The California State Auditor's Office has a dynamic audit force, adept at performing a myriad of audits, whether performance, financial, compliance, or investigative. Since no two audits are alike, our auditors must keep abreast of best industry practices and remain current with the ever-changing public and private environments. Our auditors are successful in quickly learning, understanding, and adapting to

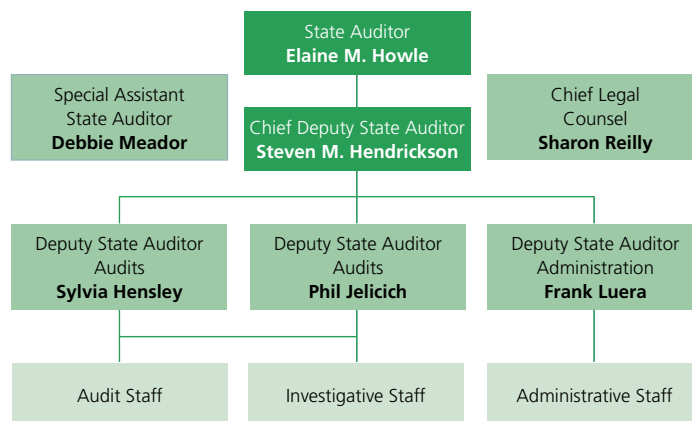


Figure 2 Bureau of State Audits' Organizational Chart

the challenges of each task. They offer innovative approaches to resolve issues, reengineer business

processes, provide assurance, investigate allegations, and opine on financial soundness. Without a doubt, our most valuable asset is our staff.



Individuals from left to right: front row: Sharon Reilly, Elaine Howle, Debbie Meador; back row: Frank Luera, Phil Jelich, Sylvia Hensley, Steven Hendrickson.

As of June 30, 2002, we had a total of 115 employees, consisting of 86 audit and executive staff, 23 administrative staff, and 6 investigative staff. As Table 3 on the following page shows, our employees hold different types of professional certifications, most commonly the Certified Public Accountant license. Many of our staff also have post-baccalaureate degrees, such as masters degrees in public administration, public policy, or business administration,

and doctorates. Clearly, our success is due to our employees' professionalism, dedication, and spirit. We reach out for those individuals who possess the integrity, demeanor, and

to attract high-caliber candidates with such qualities, we implement a very proactive, targeted recruiting strategy and a rigorous hiring process.

media increases the likelihood that we will identify more qualified candidates. Our recruiting strategy includes the use of the following media:

- Career fairs
- Information sessions
- Presentations
- Panel discussions
- Internet job sites
- Bureau Web site
(www.bsa.ca.gov/bsa/)

The end result of our efforts is a diverse group of employees with different skills, perspectives, learning experiences, and insights. These differences ultimately add strength and perspective to our audits.

To ensure each employee's continued success and career development, we have an extensive training program. In fact, new employees begin their careers with the bureau with two weeks of specialized training. Our general training curriculum is structured so employees receive specialized training courses tailored to their particular level in the organization, from new employees to managers. The training is geared to prepare employees for new responsibilities and promotion.

Individuals interested in employment opportunities may contact us at 1 800 555-5207 or recruiter@bsa.ca.gov ■

Education/Certification	Number Held
Professional Certifications	51
Certified Public Accountant	32
Certified Government Financial Manager	7
Certified Internal Auditor	4
Others*	8
Bachelor of Arts/Science Degrees	96
Master's Degrees	35
Business Administration	13
Public Administration	10
Arts	5
Others†	7
Doctorate Degrees	2
Ph.D.	1
Juris Doctorate	1

Table 3 Staff Profile as of June 30, 2002

* Other certifications include Certified Fraud Examiner, Certified Financial Manager, Certified Information Systems Auditor, State Bar, and Certified Management Accountant.

† Other Master's degrees include Public Policy and Science.

talent necessary to be successful auditors. Consequently, our employees are comfortable at assessing the diverse situations and questions we are asked to address, conducting the appropriate analyses, and drafting necessary recommendations to prevent recurring problems. To ensure that the bureau continues

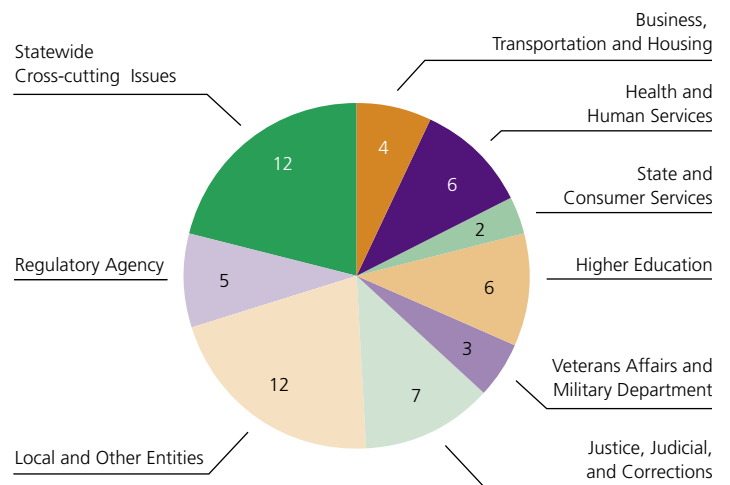
Our recruiting strategy recognizes that the process of recruiting employees has evolved to a multi-dimensional approach that includes Web site job postings combined with face-to-face interaction. The key to this dynamic approach is "access" to potential candidates. Attracting candidates through a variety of

Performance Audits and Evaluations

Representing 76 percent of our workload, the most common type of audit we conduct is performance. Performance auditing is an objective and systematic examination of evidence to provide an independent assessment of a government organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision making by parties with responsibility for overseeing or initiating corrective action. The issues that performance audits consider vary and may address any of the following concerns:

- The performance of management in achieving program or organizational goals and objectives.
- The cost-effectiveness of alternative methods of service delivery and goal attainment.
- The reliability of information that management provides.
- The efficient allocation and use of resources.
- The results of programs and activities and their impact on recipients.

To facilitate legislative oversight of audited agencies, we provide legislative committees at the beginning of the annual budget cycle with a summary of each audit report issued during the most recent two year period in a report titled *Implementation of State Auditor's Recommendations*. We anticipate releasing our next summary report in February 2003.



**Figure 3 Performance Audit Reports by Category
Fiscal Years 2000-01 and 2001-02**

We also ask each auditee to respond to us within 60 days, 6 months, and 1 year on its efforts to implement the recommendations we make that are within its statutory authority. This information is used to determine the need for a follow-up review or, in some cases, the need for a legislative committee hearing.

During the past two fiscal years, our performance audits consisted of a myriad of topics. As illustrated in Figure 3, our work stretches to all types of state entities and programs. We assisted decision makers with audit work relating to energy matters, information technology, fiscal operations, and state security, to name just a few. We discuss specific examples of topics and entities on the following pages.



The Energy Crisis Impacted the Entire State

When California took the national lead in the move toward electricity deregulation in 1996, proponents promised lower retail prices and expanded power services. Yet less than five years later, consumers faced rolling blackouts and two of the State's three investor-owned utilities teetered on the edge of bankruptcy. The Legislature asked us to conduct a series of audits in this area. Our first report assessed the structure and operation of the Power Exchange and the Independent System Operator (ISO).² We found that a complex combination of factors contributed to the failure of electricity deregulation. For example, the imposition of price caps may have contributed to escalating prices. We recommended that if the ISO is unsuccessful in limiting spot market purchases to very small amounts, it should use price caps only if markets are noncompetitive and supply is being withheld to force prices higher. The ISO has since reported to us that the Federal Energy Regulatory Commission approved its market stabilization plan, which includes new forward energy markets and resource-based bid caps tied to the cost of specific generation resources.

In another report we assessed the operations of the State Energy Resources Conservation and Development Commission (Energy Commission) and the California Public Utilities Commission.³

We concluded that a growing demand for electricity, the failure of true competition to develop, and a lack of new power plant construction proposals all contributed to the State's 2001 energy crisis. We recommended that as a condition of program participation, the Energy Commission should require participants in its commercial building program to meet specified compliance levels for reducing certain energy usage or face penalties. The Energy Commission reported to us that the utilities will and the ISO may assess penalties if building operators do not provide contracted reductions in energy usage. The Energy Commission reports that in response to another recommendation, it is preparing an assessment of the projected supply and demand for electricity and natural gas for the 10-year period of 2002 through 2012, and will share the information with the recently created California Power Authority.

Legislative concerns about the Energy Commission's inability to approve applications for the siting of power plants in a timely manner led us to review the process.⁴ In this report we concluded that although the Energy Commission was not always timely with its approval, the delays were due to factors outside its control. Further, its process appeared reasonable and comparable to four of five

² 2000-134.1 *Energy Deregulation: The Benefits of Competition Were Undermined by Structural Flaws in the Market, Unsuccessful Oversight, and Uncontrollable Competitive Forces* (March 2001)

³ 2000-134.2 *Energy Deregulation: The State's Energy Balance Remains Uncertain but Could Improve With Changes to Its Energy Programs and Generation and Transmission Siting* (May 2001)

⁴ 2001-118 *California Energy Commission: Although External Factors Have Caused Delays in Its Approval of Sites, Its Application Process Is Reasonable* (August 2001)

states we surveyed. We did, however, present the Energy Commission with ideas on how to speed up its process.

The energy crisis triggered the passage of a number of bills, including Assembly Bill 1X of the 2001–02 First Extraordinary Session, which directed us to conduct a financial and performance audit of the implementation of the State’s power-purchasing program administered by the Department of Water Resources (Water Resources).⁵ We made numerous recommendations for ways to improve Water Resources’ policies, portfolio planning and management, and long- and short-term power-purchasing transactions.

In response to one of our recommendations, Water Resources reports that it performed a systematic review of the contracts in its \$42.6 billion energy portfolio and in October 2001 commenced development of a renegotiation strategy. By October 2002, Water Resources had renegotiated 10 of its 57 long-term power contracts. Water Resources reports that the renegotiations could save the State \$3.4 billion. However, the savings could be less when considering other factors, such as the cost of replacement power. The State is continuing to renegotiate some of the remaining contracts.

We also recommended that the department undertake actions to anticipate and manage legal risk in its energy contracts. Water Resources reported to us that it added new legal counsel members to its team. Again, Water Resources reports that following our recommendations it has commenced a program to assure the timely transition of its power-purchasing role to others. Water Resources assumes that once the investor-owned utilities become creditworthy, the utilities will resume the purchasing of needed electricity.

In March 2003, we will issue a second report on Water Resources’ management of the power-purchasing program.

⁵ 2001-009 *California Energy Markets: Pressures Have Eased, but Cost Risks Remain* (December 2001)



The State's Handling of Information Technology Issues Needs to Improve

In an ongoing effort to furnish the leadership, guidance, and oversight needed to protect the State's investment in information technology, the Legislature created the Department of Information Technology (DOIT) in 1995. In response to our report issued in June 2001 on the State's management of information technology, DOIT reported to us that it established an advisory work group of chief information officers to devise a statewide information technology plan and promote coordination of projects between departments.⁶ In implementing another recommendation from this report, DOIT developed a checklist and evaluated information technology plans for 46 departments and informed 28 other departments that they had not submitted either a plan or certification that their information technology plans had not changed.

In another instance, the Legislature asked us to conduct an audit of the contracting practices used by the Department of General Services (General Services) and DOIT for a recent contract with Oracle Corporation (Oracle). In May 2001, the State signed a six-year enterprise licensing agreement (licensing agreement) worth almost \$95 million with Oracle for use of its database software. We found, however, that a preliminary survey two months earlier by DOIT of 127 state

departments strongly suggested that relatively few state workers might need or want any new Oracle products.⁷ Each of the three state entities involved in the purchase—the departments of Information Technology, General Services, and Finance—failed to assess the State's actual need for the contract.

Logicon Inc., a reseller of Oracle products that had side agreements with the software developer under which it would benefit significantly from the contract, presented data showing the contract would save the State millions of dollars over the life of the contract. However, our review of Logicon's proposal and data indicates that rather than saving money by entering into the licensing agreement, the State stood to spend almost \$6 million more on Oracle database licenses and maintenance than it would without the contract if it exercises its four-year maintenance option, and almost \$41 million more if it terminates the contract after its normal six-year term. We recommended that General Services work closely with the attorney general to examine the validity of the contract.

Concerned about our findings regarding this licensing agreement, the Legislature held numerous hearings inquiring about events surrounding the contract. The state auditor and other senior management staff testified in those hearings to

⁶ 2000-118 *Information Technology: The State Needs to Improve the Leadership and Management of Its Information Technology Efforts* (June 2001)

⁷ 2001-128 *Enterprise Licensing Agreement: The State Failed to Exercise Due Diligence When Contracting With Oracle, Potentially Costing Taxpayers Millions of Dollars* (April 2002)

supplement the information in our report. In the end, the State and Oracle agreed to rescind the contract. We estimate this will save the State an average of \$8.1 million each year from fiscal years 2002–03 through 2006–07.

In July 2002, DOIT’s authority to operate was not renewed and most of its responsibilities were transferred to the Department of Finance. We are currently working on a request from the Legislature to identify the reforms needed to allow the State to use best practices that will better meet its information technology needs.

Enterprise Licensing Agreement, 2001-128

Selected Audit Highlights . . .

On May 31, 2001, the State entered into a six-year enterprise licensing agreement (licensing agreement), a contract worth almost \$95 million, to authorize up to 270,000 state employees to use Oracle database software and to provide maintenance support.

Our audit of this acquisition revealed the following:

- The State proceeded with this procurement even though a survey of departments disclosed limited demand for new Oracle products.*
- In spite of such limited interest, the Department of Information Technology made no further efforts to assess the State’s need for Oracle software.*
- The departments of General Services, Information Technology, and Finance approved the licensing agreement without validating Logicon’s cost savings projections; unfortunately these projections proved to be significantly overstated.*
- Nearly 10 months after the licensing agreement was approved, no state departments had acquired new licenses under the licensing agreement, which may be due to the fact that General Services had not issued instructions to state departments on how to do so.*
- General Services used an inexperienced negotiating team and limited the involvement of legal counsel in the licensing agreement contract, and as a result, many contract terms and conditions necessary to protect the State are vague or missing altogether.*
- Finally, our legal consultant has advised us that a court might conclude that the licensing agreement with Oracle is not enforceable as a valid state contract because it may not fall within an exception to the State’s competitive bidding requirements.*



Our Recommendations Can Help Ease the State's Budget Deficit

Although dollars and cents are not the only measurement of success for our audits, the State can avoid costs and save money when using the results of our research, analyses, and reporting efforts. Some of the audits we conducted over the last two years could reduce state spending significantly if our recommendations are implemented; others are aimed at reducing government waste.

In 2001, the Legislature asked us to review claims filed by school districts under the School Bus Safety II mandate, which was the result of new safety laws enacted between 1994 and 1997.⁸ We found that the Commission on State Mandates (commission) issued unspecific guidelines for filing such claims, leading school districts to submit claims that are estimated to be 67 times higher than what the Legislature had expected. In response to our report, the Legislature directed the commission to amend the parameters and guidelines of the School Bus Safety II mandate to clarify that costs associated with the implementation of transportation plans, activities that accounted for most of the costs that school districts claimed, are not reimbursable under this mandate. We estimate that by implementing our recommendations, the

State will save \$235.8 million in fiscal year 2001–02 for prior years' costs and \$44.3 million annually in fiscal years thereafter.

The Legislature also requested an audit concerning the fiscal practices and internal controls of the California Department of Corrections (Corrections).⁹ We found that Corrections could reduce its budget shortfall by at least \$42 million by replacing costly overtime expenditures with regular time pay when possible. Corrections reported to us that following our recommendations, it is aggressively recruiting to fill vacant positions and reducing the comparatively high cost of overtime.

Another assignment the Legislature gave us in 2001 was to ascertain why vacant positions in state employment continue to increase in number and how departments are spending the dollars that were originally targeted for their positions.¹⁰ The government code mandates the State Controller's Office (Controller's Office) to abolish positions annually that have been continuously vacant for six consecutive monthly pay periods within a fiscal year. Although the Controller's Office significantly increased the number of vacancies it abolished from 94 in fiscal year 1999–2000

⁸ 2001-120 *School Bus Safety II: State Law Intended to Make School Bus Transportation Safer Is Costing More Than Expected* (March 2002)

⁹ 2001-108 *California Department of Corrections: Its Fiscal Practices and Internal Controls Are Inadequate to Ensure Fiscal Responsibility* (November 2001)

¹⁰ 2001-110 *Vacant Positions: Departments Have Circumvented the Abolishment of Vacant Positions, and the State Needs to Continue Its Efforts to Control Vacancies* (March 2002)

to 536 in fiscal year 2000–01, it was seriously hindered in abolishing many other vacant positions by departmental efforts to preserve them. We recommended the Controller’s Office modify its position control system and eliminate all positions open for six consecutive monthly pay periods, regardless of whether the vacancy falls within a single fiscal year. Our findings contributed to the enactment of Assembly Bill 3000 in September 2002, which authorizes the Controller’s Office to do as we suggested.

The Legislature also requested that we review 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), wherein Finance identified 6,129 state government positions for abolishment for a savings of \$300.4 million.¹¹ We were unable to conclude with certainty that Finance fully complied with the control section because it included 560 correctional officer positions slated for abolishment even though the control section required Finance not to abolish positions directly involved in public safety. We recommended to Finance that it restore to Corrections the funding needed to ensure that public safety is not adversely affected by its abolishment of the correctional officer positions contained in its final report.

School Bus Safety II, 2001-120 Audit Highlights . . .

Our review of the School Bus Safety II mandate found that:

- ☑ *The costs for the mandate are substantially higher than what was initially expected.*
- ☑ *The costs claimed by seven school districts varied significantly depending upon the approach taken by their consultants.*
- ☑ *The different approaches appear to result from the lack of clarity in the guidelines adopted by the Commission on State Mandates (commission).*
- ☑ *Most of the school districts we reviewed lacked sufficient support for the amounts they claimed.*
- ☑ *The commission could have avoided delays totaling more than 14 months when determining whether a state mandate existed and in developing a cost estimate.*

¹¹ 2001-110.1 *Analysis of the Department of Finance’s Implementation of Control Section 31.60 of the Budget Act for Fiscal Year 2002–03* (November 2002)



California Has Heightened State Security Awareness

Prior to the terrorist attacks on September 11, 2001, the Legislature requested that we evaluate certain state security measures, such as controls over identity fraud and emergency response. Concerned over the potential for individuals to obtain fraudulent driver licenses through the Department of Motor Vehicles (Motor Vehicles), the Legislature requested that we evaluate the effectiveness of measures implemented by Motor Vehicles to prevent the issuance of fraudulent driver licenses.¹² We concluded that a major weakness in Motor Vehicles' ability to crack down on identity fraud is that it cannot use the computer-mapped finger images it collects to verify the identity of all applicants for driver licenses and identification cards. Motor Vehicles also cannot accurately quantify the effect of its new procedures aimed at detecting or reducing fraud.

To address the latter issue, we recommended that Motor Vehicles establish mechanisms to measure the effectiveness of its recent and future reforms because until it does, it cannot determine how successful the reforms have been in reducing identify fraud. Motor Vehicles is in the process of identifying performance measures that will quantify the effects of its fraud reforms. In its one-year response to us, Motor Vehicles reported that

by developing performance measures, changing procedures, improving training, and developing and modifying automated systems, it has significantly increased its controls related to identity fraud.

The Legislature also requested that we evaluate the readiness of the California National Guard (Guard) to respond to state emergencies and other disasters.¹³ Our audit concluded, among other things, that delays in receiving helicopter parts and a shortage of staff contributed to high percentages of grounded helicopters that may impair the Army Guard's ability to respond to state emergencies and disasters. We also found that because it lacks an effective system to report only eligible troops to the U.S. Department of the Army (U.S. Army), it may have overstated its personnel readiness levels, making it appear as though some troop units are more ready for war or other federal duties than the troop units are.

To address these issues, we recommended that the Guard improve its data tracking and collection to determine why helicopters are not operational and then act to correct the problems. We also recommended that it strengthen the procedures it uses to report personnel readiness data to the U.S. Army. In its six-month response to us, the

¹²2001-103 *Department of Motor Vehicles: Although Unable to Measure the Extent of Identity Fraud and the Effect of Recent Reforms, It Should Improve Its Technology, Procedures, and Staffing Further* (September 2001)

¹³2001-111.2 *California National Guard: To Better Respond to State Emergencies and Disasters, It Can Improve Its Aviation Maintenance and Its Processes of Preparing for and Assessing State Missions* (February 2002)

Guard indicated that its helicopter readiness rate has been improved by the hands-on efforts of its top and middle management team. In addition, it stated that it now directs field units to work closely with staff at headquarters to capture and accurately report personnel availability.

The events of September 11, 2001, have heightened the awareness of state security among members of the Legislature. Since these events occurred, the Legislature has asked us to conduct two more audits relating to emergency response in the State. These audits require us to assess the ability of the Governor's Office of Emergency Services (Emergency Services) and local affiliates to coordinate and respond to a multi-jurisdictional emergency under the Standardized Emergency Management System and, separately, to evaluate the readiness of the Guard and Emergency Services to respond to terrorism in California.

National Guard, 2001-111.2 Audit Highlights . . .

The California National Guard (Guard) can improve its aviation maintenance and its process to prepare for and assess state missions:

- The Army Guard's ability to perform state missions may be compromised by delays in receiving helicopter parts and a shortage of qualified aircraft mechanics.*
- The Army Guard does not ensure that personnel readiness reports exclude ineligible troops; however, because the Office of Emergency Services typically does not request full troop strength, the Army Guard's personnel readiness has no bearing on its ability to assist the State.*
- The Guard needs to make certain that personnel in its Joint Operations Center who coordinate the Guard's state mission response receive requisite training.*
- The Guard does not annually review and update its various emergency plans nor ensure that it implements recommendations from past mission assessments.*



Health Care Affects Every Californian

The availability of adequate health care affects everyone, so it is not surprising that expenditures for health and human services accounts for over one-quarter of the State's total spending. Health care issues are important to the Legislature, and as a result we are called on to assess various health care programs.

Childhood lead poisoning is an ongoing concern in California. Even relatively small amounts of lead in children's blood can result in learning disabilities, behavioral problems, and lower IQ scores. Chapter 540, Statutes of 2000, required us to follow up on our 1999 audit to determine the progress the Department of Health Services (Health Services) had made in protecting children in the State from lead poisoning.¹⁴ We found that Health Services does not ensure that all those children it has identified with lead poisoning receive proper medical care and are protected from further exposure. Our latest report contributed to the enactment of Senate Bill 460 in September 2002, which authorizes Health Services to enforce provisions related to lead hazards. The bill also requires an enforcement agency to take action as soon as it finds lead hazards in a building.

In response to our finding that it has not yet adequately identified all children with lead poisoning, Health Services reported to us that it has increased its efforts to recruit labs to voluntarily

report all blood-lead tests and estimates it now receives approximately 50 percent of all such tests performed on California children. Further, Health Services reported that it is working with Child Health and Disability Prevention providers to obtain screening data from their information systems.

Medi-Cal is a \$27 billion-a-year program, which is nearly one-third of the State's estimated fiscal year 2001–02 budget. The Legislature asked us to review the Medi-Cal provider enrollment process at Health Services because it was concerned that delays may be caused by a large backlog of applications.¹⁵ We found that Health Services cannot accurately determine the size of its backlog and we recommended that it improve the reliability of its provider database and develop management reports to monitor its operation. Additionally, because we found that in its efforts to reduce the backlog, Health Services inappropriately stopped reviewing disclosure statements for certain applications or providers, we recommended that Health Services identify all providers whose disclosure statements were not reviewed and review these statements in accordance with federal requirements. Health Services subsequently reported to us that among other things it implemented new procedures to determine the length of time an application is in process, track the status of high and low risk provider types, and determine the average processing time for both.

¹⁴ 2000-013 Department of Health Services: *Additional Improvements Are Needed to Ensure Children Are Adequately Protected From Lead Poisoning* (May 2001)

¹⁵ 2001-129 Department of Health Services: *It Needs to Significantly Improve Its Management of the Medi-Cal Provider Enrollment Process* (May 2002)

The cost of providing drugs for the five state agencies that most frequently purchase them rose by more than 200 percent from fiscal years 1996–97 to 2000–01. Chapter 127, Statutes of 2000, required the bureau to report to the Legislature on trends in state costs for drugs for incarcerated offenders.¹⁶ Our report concludes that the State’s procurement process for drugs and medical supplies still requires significant improvement. For example, the Department of General Services, the primary purchaser for the State, needs to increase its efforts to solicit bids from drug manufacturers and to more fully explore contracting directly with group purchasing organizations to ensure that the State is purchasing drugs at the lowest available price.

The Legislature has requested that we conduct two additional Medi-Cal audits. We issued one of these reports in December 2002 concerning the purchasing and contracting practices for durable medical goods, medical equipment, and medical supplies. We anticipate issuing the other report relating to fee-for-service pharmaceutical expenditures and related costs in early 2003.

Health Services, 2000-013 **Audit Highlights . . .**

Our follow-up audit of the Childhood Lead Poisoning Prevention Program (program) revealed that the Department of Health Services (Health Services) made only limited progress in implementing our recommendations. As a result, Health Services still:

- Does not ensure California’s children identified with lead poisoning receive the proper medical care and are protected from further exposure.*
- Is unable to determine the full extent of lead poisoning in California— having identified only about 10 percent of the estimated 38,000 children needing services.*
- Lacks the enforcement authority needed to reduce or eliminate lead hazards.*

Additionally, Health Services needs to address staffing shortages and projected funding shortfalls to avoid potential cutbacks in program operations.

¹⁶2001-012 *State of California: Its Containment of Drug Costs and Management of Medications for Adult Inmates Continue to Require Significant Improvements* (January 2002)



Employment Practices in Higher Education Systems

Given the substantial amount of money spent on higher education, it should be no surprise that employment issues in higher education loom large in the Legislature's concern. Therefore, we reviewed the professorial hiring practices at the University of California (UC) to determine if they adversely affect employment opportunities for women.¹⁷ UC's hiring data for the past five years show that a significant disparity appears to exist between the proportion of female professors hired by UC and the overall proportion of female doctorate recipients nationwide (the measure typically used as the comparable labor pool). We recommended that all UC campuses consider gender parity concerns early in the hiring process. The likelihood of obtaining a male or female professor is strongly influenced by a department's decision to fill a position at the more senior levels (for example, associate or full professor) or from various disciplines or specialized fields of study that tend to be predominately male. UC reported that it has now incorporated this recommendation into its Affirmative Action Guidelines for Recruitment and Retention of Faculty and reports that campuses are implementing the practice. UC has also reported that it included our recommendation to perform summary-level salary reviews to avoid improper salary disparities in its guidelines.

Another employment issue the Legislature requested us to examine was UC's policies regarding the use of casual rather than career employees.¹⁸ We concluded that UC offered casual employees more limited retirement and health benefits than it offered career employees, even though some casual employees were employed in the same occupational groups and may have worked the same number of hours for a limited time. UC reported that, in response to our recommendation, it clarified its policies by introducing training sessions for campus administrators and established a Web site to aid campus administrators in understanding and implementing the new policies. UC also reported it was modifying its payroll and corporate personnel systems to comply with its new rules.

In another instance of employee hiring, the Legislature requested that we review the process the Los Angeles Community College District (district) used for selecting the presidents for its nine campuses.¹⁹ We found that although the district encouraged open meetings on campus to present the candidates to college employees, students, and residents of the community, open meetings were not always held. We recommended to the district that it consider making open meetings on campus

¹⁷ 2000-131 *University of California: Some Campuses and Academic Departments Need to Take Additional Steps to Resolve Gender Disparities Among Professors* (May 2001)

¹⁸ 2000-130 *University of California: New Policies Should Make Career Appointments Available to More Employees and Make Campus Practices More Consistent* (April 2001)

¹⁹ 99134 *Los Angeles Community College District: It Has Improved Its Procedures for Selecting College Presidents* (August 2000)

a standard practice unless it has compelling reasons why such meetings should not be held. The district reports that it now requires open meetings to present presidential finalists to district residents and the college community. We also found that the district's contract with its search consultant did not clearly specify the tasks to which the district and the consultant agreed. The district reports that following our recommendation it now includes in its requests for proposal a detailed statement of the tasks it expects executive search consultants to perform so the district may gauge their progress and value.

University of California, 2000-131 Audit Highlights . . .

Regarding the University of California (UC) and its hiring of assistant, associate, and full professors:

- Hiring data for the past 5 years indicate that a significant disparity appears to exist between the proportion of female professors hired and the proportion of female doctorate recipients nationwide.*
- Certain types of decisions made by academic departments effectively reduced the proportion of women in the available labor pool from 46 percent to 33 percent. The UC hired 29 percent female professors during that same 5-year period.*
- Analyses of the hiring practices used on each UC campus reveal weaknesses such as using search committees that are either all male or predominantly male.*
- Although the starting salaries for female professors averaged from 90 percent to 92 percent of male professors' salaries, more in-depth analyses point out that factors other than gender may be the cause.*



Management Concerns Surround the Department of Veterans Affairs

The Department of Veterans Affairs (Veterans Affairs) assists eligible veterans and their families in obtaining federal and state benefits and provides low-cost home and farm loans to qualifying veterans. Veterans Affairs also provides the State's aged or disabled veterans with rehabilitative, residential, and medical care and services in a home-like environment through its three facilities located in Yountville, Barstow, and Chula Vista. During the past two years, the Legislature requested us to conduct two audits concerning Veterans Affairs—one on its cash flow management and another on its management of the life and disability insurance program (insurance program), which is a component of its Farm and Home Purchase Program.

We received the first assignment because the Legislature was concerned that Veterans Affairs suffered cash shortages from not promptly billing for services it provided that are reimbursable by the Medicare and Medi-Cal programs.²⁰ We found that its poor billing practices have resulted in a large decline in the reimbursements Veterans Affairs has collected for services provided by its veterans homes. Also, Veterans Affairs lacked adequate

knowledge of the data in its billing management information system and thus could not accurately estimate the amount of unbilled claims available for reimbursement. Because Veterans Affairs' flawed billing practices prevented it from collecting reimbursements to which it was entitled, additional funds from the General Fund were needed to replenish cash shortfalls.

To address these concerns, we presented several recommendations to Veterans Affairs. For example, to ensure it is submitting claims promptly, we recommended it focus on clearing its backlog of claims and ensuring that staff perform all tasks related to billing. In addition, we recommended that it analyze the costs and benefits of continuing to hire consultants to prepare billings for prior-year charges. We also recommended that Veterans Affairs investigate accounts with no charges to determine whether it can submit claims or should delete these accounts.

We conducted another audit on the Veterans Affairs' insurance program.²¹ The Legislature was concerned about the management of the insurance program, including the use of funds, the amount of

²⁰2001-113 *Department of Veterans Affairs: Weak Management and Poor Internal Controls Have Prevented the Department From Establishing an Effective Cash Collection System* (December 2001)

²¹2000-132 *California Department of Veterans Affairs: Its Life and Disability Insurance Program, Financially Weakened by Past Neglect, Offers Reduced Insurance Benefits to Veterans and Faces an Uncertain Future* (March 2001)

premiums paid and coverage received by veterans, and future options for the program. We discovered that changes Veterans Affairs made in 1996 to the insurance program, aimed at reducing its financial liabilities, also reduced disability benefit payments for most veterans. Additionally, the methodology Veterans Affairs uses to estimate its liability for the self-funded plan does not adequately address changes in actuarial assumptions such as death rates. Therefore, we recommended that Veterans Affairs revise its method for annually determining its liabilities and develop a long-term strategy to set aside sufficient cash to meet future liabilities for the self-funded plan. Veterans Affairs has since reported that it is actively seeking to pay the loan balances of permanently disabled veterans who will accept payoff in lieu of ongoing monthly benefits, thereby reducing its future liabilities.

The Legislature has assigned us another audit that pertains to the California Veterans Board's oversight and guidance of Veterans Affairs. This audit will also examine corrective action taken by Veterans Affairs as a result of recommendations we made in previous reports.

Veterans Affairs, 2001-113 **Audit Highlights . . .**

Our review of the Department of Veterans Affairs' (Veterans Affairs) cash management for itself and its three homes for veterans revealed that:

- Since the Department of Health Services decertified Veterans Affairs' Barstow home, Veterans Affairs estimates that this home lost \$5.7 million in federal and state funds through June 2001.*
- Despite its cash flow difficulties, Veterans Affairs has not taken full advantage of all cash sources available to it, and has been slow to bill a substantial number of Medicare claims.*
- Veterans Affairs lacks an understanding of the data in its system, in addition to adequate tools and resources, to allow it to effectively manage the fiscal operations of its veterans homes.*
- Veterans Affairs' August 2001 report of its cash flow needs for fiscal year 2001-02 does not meet the requirements in the Legislature's request, and its December report may also be insufficient.*



The Legislature Questioned Insurance Settlement Practices

The Legislature asked us to review the settlement practices of the Department of Insurance (DOI) because it was concerned whether payments ordered by settlement agreements with insurance companies were ever made.²² The requestor of this audit stated that the insurance commissioner settled with 26 insurers from August 1997 to June 2000 that were directed to pay more than \$19 million to either nonprofit foundations or private vendors as a condition of the settlement. We found that the former insurance commissioner abused his discretionary authority in the settlement of enforcement actions and DOI did not effectively manage its enforcement activities.

We recommended that the Legislature consider a change to the Insurance Code forbidding the insurance commissioner from requiring that payments be made to nonprofit organizations, foundations, or vendors as part of the settlement agreement. Chapter 1091, Statutes of 2000 (Senate Bill 2107), addresses this concern by prohibiting the commissioner from agreeing to let an insurer make settlement payments in an administrative action to a nonprofit entity or to direct funds outside the state treasury system.

We also recommended that DOI include as part of any public settlement agreement the date each type of payment is due, provisions listing the alleged violations, an order to cease and desist from such activities, and any other pertinent terms of the agreement. In a follow-up response to our audit, DOI reported that it has implemented a policy whereby standardized language, which includes the monetary amounts to be paid, the time frame within which payment is due, and, where applicable, cease and desist orders, will be used in settlement agreements.

²² 2000-123 *Department of Insurance: Recent Settlement and Enforcement Practices Raise Serious Concerns About Its Regulation of Insurance Companies* (October 2000)



Intellectual Property Awareness Needs to Be Heightened

Intellectual property typically consists of copyrights, trademarks, patents, and trade secrets. Because this is a relatively new policy area for the State, the Legislature requested us to conduct an audit of the intellectual property owned, managed, or controlled by state entities because it was concerned whether state entities had policies and procedures to identify, manage, and protect intellectual property.²³ We found that many state agencies are not sufficiently knowledgeable about the intellectual property they own, thereby increasing the risk that such agencies could fail to act against those who use the State's intellectual property inappropriately and who profit from products developed at state expense.

This audit provided decision makers with groundbreaking analysis and heightened the awareness of intellectual property within state entities.

Intellectual Property, 2000-110 Audit Highlights . . .

Our review of the administration of state-owned intellectual property disclosed the following:

- ☑ *A lack of sufficient knowledge by state agencies of the intellectual property they own can hamper the State's protection of its interests.*
- ☑ *Not only is state-level direction for administering intellectual property limited, but state agencies have either no or incomplete policies for its management.*
- ☑ *Although our survey of state agencies and other work we performed identified more than 113,000 items of state-owned intellectual property, the State likely owns more.*

²³2000-110 *State-Owned Intellectual Property: Opportunities Exist for the State to Improve Administration of Its Copyrights, Trademarks, Patents, and Trade Secrets* (November 2000)



The State Often Has an Interest in the Actions of Local Entities

The Legislature sometimes requests audits of local entities because of public safety issues or to protect the State's interests. For example, in 2001 the Legislature, concerned about bus and rail driver fatigue, asked us to examine the Los Angeles Metropolitan Transportation Authority's (MTA) management and monitoring of its bus and rail driver hours.²⁴ The MTA serves as the main transportation designer, builder, and operator for one of the country's largest, most populous counties. Because driver fatigue is a clear safety risk, both federal and state regulations restrict bus drivers' time behind the wheel. However, the MTA does not accurately track or consistently monitor its bus drivers' on-duty hours, and cannot ensure that its drivers are obeying the on-duty time restrictions. The MTA has since reported that it plans to complete an upgrade of its tracking system, as we recommended. We also recommended that the MTA more closely track the number of hours its drivers work for other employers, as state regulations require. The MTA reported it now uses a revised secondary employment form for its drivers that includes some of the information we recommended it gather.

In another audit request, the Legislature asked us to determine if the low-performing schools of the Los Angeles Unified School District (school district) are affected by the quality and quantity

of their textbooks.²⁵ Although, we found no direct relationship between textbook shortages and school performance, we did conclude that the district needs to improve its control and management over textbook purchases and inventories. We determined that the school district can better manage its textbook resources by enforcing a state law that requires publishers of textbooks to treat schools fairly, by providing free instructional materials to any school district purchasing textbooks in California to the same extent as they provide them to school districts elsewhere in the United States. The school district notified publishers of this, and subsequently, one publisher promised to provide free instructional items worth \$300,000.

The Legislature also requested that we conduct an audit of the Port of Oakland (port) to generate information to measure the efficiency of its operations and to evaluate the public's return on investment of the port's capital projects.²⁶ The port stated that because of our recommendation, it is continuing to look for ways to improve the profitability of its real estate division. It also reported that it will transfer four of its buildings in Jack London Square and the corresponding operations to a third party in an effort to increase revenues and decrease costs associated with managing port assets. ■

²⁴2001-101 *Los Angeles County Metropolitan Transportation Authority: It Can Increase Its Efforts to Ensure the Safe Operation of Its Buses* (August 2001)

²⁵2001-124 *Los Angeles Unified School District: Outdated, Scarce Textbooks at Some Schools Appear to Have a Lesser Effect on Academic Performance Than Other Factors, but the District Should Improve Its Management of Textbook Purchasing and Inventory* (June 2002)

²⁶2001-107 *Port of Oakland: Despite Its Overall Financial Success, Recent Events May Hamper Expansion Plans That Would Likely Benefit the Port and the Public* (October 2001)

Financial and Compliance Audits

California's financial system is very large and complex, with a \$100 billion annual budget. One of the primary audits we conduct each year is the single audit of the State. Although this is formally called the single audit, it includes both our review of the State's comprehensive financial statements and the State's compliance with federal funding requirements, which are reported on separately. We perform the single audit to satisfy the Legislature, governor,

and citizens that the State's financial statements are presented fairly and that significant deficiencies in its fiscal systems are identified and corrected. We also conduct this audit to fulfill the federal government's mandate to audit the more than \$50 billion it provides the State each year. Because underwriters, bond rating companies, and potential investors may rely upon these statements and opinions, the audit work we perform represents a critical element in the State's financial

system. Figure 4 shows the distribution of federal assistance for the fiscal year ending June 30, 2001.

We Issue Financial and Financial Related Audits and Evaluations

Financial auditing includes financial statement and financial related audits. We design our financial statement audits to provide reasonable assurance that an entity is presenting fairly its financial position, results of operations, and cash flow in conformity with generally accepted accounting principles. Financial related audits include determining whether an entity presents its financial information in accordance with established or stated criteria or whether it suitably designs and implements its internal control structure over financial reporting and safeguarding assets to achieve the control objectives. During the course of a financial statement or financial related audit, we may issue a letter to the auditee's management identifying any weaknesses and recommend corrective actions.

Our financial reports conform to generally accepted accounting principles. During the period

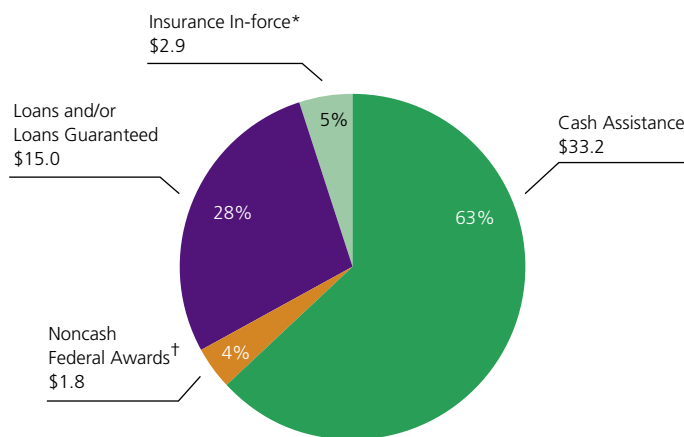


Figure 4 Federal Assistance for the Fiscal Year Ended June 30, 2001 (Dollars in Billions)

Source: 2001–002 *State of California: Internal Control and State and Federal Compliance Audit Report for the Fiscal Year Ended June 30, 2001* (March 2002)

* Insurance In-force represents all insurance claims that have been paid by the federal government for which the State still has a continuing compliance requirement.

† Noncash federal awards include items such as free rent, food stamps, food commodities, donated property, and donated surplus property.

covered in this biennial report, we issued two statewide comprehensive financial reports for the fiscal years ending June 30, 2000, and June 30, 2001. We issued unqualified opinions and did not identify any material weaknesses for internal control over financial reporting. However, we did identify reportable conditions that are not considered to be material weaknesses. The following are highlights from these two reports:

- The State's General Fund ended with a fund balance of approximately \$8.4 billion for the fiscal year ending June 30, 2000, and \$7.6 billion for the fiscal year ending June 30, 2001.
- Financial statements show that the General Fund had revenues and other financing sources of approximately \$10 billion more than it spent for the fiscal year ending June 30, 2000; for the fiscal year ending June 30, 2001, the General Fund had revenues and other financing sources that were approximately \$789 million less than expenditures and other financial uses.
- For the fiscal year ending June 30, 2001, we reported that the State is involved in certain lawsuits and regulatory proceedings relating to the Department of Water Resources entering into contracts and arrangements for the purchase and sale of electric power. However, because of the early stage of the legal and regulatory proceedings, the ultimate outcome of these matters could not be determined.

We anticipate releasing our next statewide comprehensive financial report covering the fiscal year ending June 30, 2002, in January 2003.

Compliance Audits Ensure Continued Funding

As a condition of receiving more than \$50 billion of federal assistance each year, we conduct compliance audits on behalf of the federal government to determine whether the recipients of these funds are

following required provisions of laws, regulations, and contractual grant or loan agreements. During compliance audits, we identify and seek corrective action for significant instances of noncompliance. We audited approximately 95 percent of the funds the State received from the federal government for the fiscal year ending June 30, 2001, by reviewing 38 major federal programs.

We issued unqualified opinions for each of the two federal compliance reports. We did, however, identify some weaknesses in the State's internal control structure, signifying that the State has not always fully complied with some state and federal regulations. Despite these weaknesses, none of the problems we identified were material to the State's financial statements or the federal programs it administers. We have selected highlights from each of our federal compliance reports.

For fiscal year ending June 30, 2000, we noted the following:

- The California Department of Education (Education) does not have adequate procedures for recovering cash advances in a timely manner from Child and Adult Care Food Program participants who are no longer entitled to these funds. As a result of this weakness, it took between 5 months and 38 months for Education to generate invoices to recover funds from nine participants after it declared them ineligible.
- The Department of Alcohol and Drug Programs spent more than \$2.5 million of Safe and Drug-Free Schools and Communities—State Grants program funds after the periods of availability for three of its grants ended. Additionally, it does not have adequate controls to ensure that its requests for federal funds agree with the grant expenditures for the program.

For fiscal year ending June 30, 2001, we found the following:

- The Department of Health Services (Health Services) does not always apply the correct federal rate for Medicaid claims. For \$582.6 million in claims filed during fiscal year 2000–01 for services provided between October 1, 2000, and June 30, 2001, Health Services applied a rate of 51.67 percent rather than the approved rate of 51.25 percent. Consequently, it overcharged the federal government nearly \$2.4 million for its share of the claims. Health Services used the incorrect rate because its staff neglected to update the rate at the start of the new federal fiscal year, and management’s review did not identify the discrepancy.
- The Office of Emergency Services did not reconcile the receipts and disbursements reported in its federal cash transaction reports to its official accounting records. As a result, we could not determine whether the receipts and disbursements reported in the quarterly federal cash transaction reports agreed with its accounting records. ■

Investigations

Under the California Whistleblower Protection Act (Whistleblower Act), the Legislature declared that all state employees should be free to report waste, fraud, abuse of authority, violations of law, or threat to public health without fear of retribution. The Whistleblower Act defines an improper governmental activity as any activity by a state agency or state employee during the employee's official duties that violates any state or federal law or regulation; is economically wasteful; or involves gross misconduct, incompetence, or inefficiency. To comply with this act, we receive and investigate allegations related to improper governmental activities by state employees or agencies. These allegations come mainly from our toll-free Whistleblower Hotline (1 800 952-5665) for reporting fraud and abuse in state government. Since its inception in 1980, the hotline has received tens of thousands of calls spurring investigations that have uncovered serious and costly violations of state laws and

regulations. An investigation may also result when our auditors, while on another assignment, become aware of inappropriate or suspicious activity falling under the Whistleblower Act.

Our investigative reports have identified improper governmental activities totaling over \$11 million since 1993, \$1.3 million of which occurred in this biennial period. These improper activities include theft of state property, false claims, conflicts of interest, and personal use of state resources. Our investigations also have substantiated improper activities that cannot be quantified in dollars but have had a negative social impact. Examples of these activities include violations of fiduciary trust, failure to perform mandated duties, and abuse of authority.

Although we investigate improper governmental activities, we do not have enforcement powers. After we substantiate an allegation, we report the details to the head of the state entity or to the appointing authority responsible

The most common types of improper government activities that may be reported to the state auditor include:

- * Illegal acts, such as theft, fraud, or conflicts of interest by state employees.
- * Misuse or abuse of state time by state employees; or state property, including state vehicles, buildings, or equipment.
- * Gross misconduct, incompetence, or inefficiency by state employees.

for taking corrective action. The Whistleblower Act also requires an employing agency or appropriate appointing authority to report to us any corrective action, including disciplinary action, it takes in response to an investigative report not later than 30 days after the report is issued. If it has not completed its corrective action within 30 days, the agency or authority must report to us monthly until it completes that action.

Type of Corrective Action	July 2000 Through June 2002	July 1993 Through June 2002
Referrals for criminal prosecution	2	73
Convictions	2	7
Job terminations	4	44
Demotions	0	8
Pay reductions	1	10
Suspensions without pay	2	12
Reprimands	11	134

Table 4 Corrective Actions Resulting From Investigations

We may also report improper governmental activities to other authorities, such as law enforcement agencies or other entities with jurisdiction over the activities. As shown in Table 4, since the bureau opened in 1993, many departments took corrective action on cases leading to prosecutions, convictions, terminations, resignations, demotions, pay reductions, suspensions, or reprimands.

Our investigations division received almost 9,000 calls and opened 707 new cases from July 2000 through June 2002. As Figure 5 illustrates, most of the cases we opened stemmed from our hotline. We also receive new cases from individuals by mail or who walk into our office with information for us to examine.

In recent months, the number of allegations of improper activities has grown considerably. During the months of May, June, and July 2002, we opened 189 new cases compared with 86 cases opened during that same period last year. This is mainly due to Senate Bill 413, enacted by the Legislature in October 2001.

This legislation requires us to prepare for distribution to each state agency a written explanation of the Whistleblower Act, including how to contact us by mail or telephone.

In July 2002, state departments and universities reported to us they had notified 274,000 (78 percent) of their 352,000 employees by e-mail about the Whistleblower Act. Although many state employees do not have access to e-mail, the departments reported they displayed 7,000 posters at their sites throughout the State. Based on the increase in allegations we have received, it appears that many state employees are responding to the information provided to them as a result of this legislation.

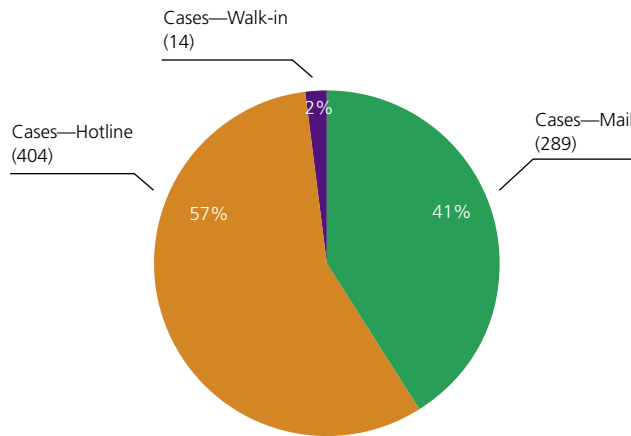


Figure 5 Distribution of the 707 Investigative Cases Opened During Fiscal Years 2000–01 and 2001–02

We issue two semi-annual reports on investigative activities each calendar year. These reports contain the results of our investigations and include the relevant agency's response. We have included highlights from three of our investigations below.

Contracting Improprieties at the Office of Emergency Services

An executive and a contract manager in the Disaster Assistance Division of the Office of Emergency Services (Emergency Services) engaged in the following improper activities:²⁷

- Falsely claimed that they had made reasonable attempts to identify alternative and competitive sources of training services and that they had verified references for their preselected contractor. Ultimately, this improperly awarded contract totaled \$77,500, and Emergency Services paid the contractor for some work not provided.
- Apparently misled their deputy director about the subject matter of training to be provided on a \$36,985 contract to obtain her approval. Then they exceeded their authority

by changing the scope of the contract without proper approval. Ultimately, the contract was amended to total \$90,588.

Conflict of Interest and Abuse of Authority

A California Department of Transportation (Caltrans) employee engaged in these improper activities:²⁸

- Had a conflict of interest when he participated in making Caltrans' decisions that benefited a company owned by his wife.
- Misused his state position to influence Caltrans' contractors and other private businesses to do business with his wife's company.
- Used state resources to solicit work for his private consulting business.

Caltrans did not require this employee, nor does it require others in similar classifications, to file annual statements of economic interest to assist it in identifying and preventing conflicts of interest.

Improper Use of State Resources and Equipment

A state employee used state equipment, another state employee, and courier services paid for by the State for activities related to his private arbitration and mediation business.²⁹ Although the cost to the State was nominal, the state employee benefited in that he did not have to use any of the \$18,000 he earned from his business from June 1998 through August 2001 to pay for these services. ■

²⁷ I2001-2 *Investigations of Improper Activities by State Employees: February Through June 2001* (September 2001)

²⁸ I2001-1 *Investigations of Improper Activities by State Employees: July 2000 Through January 2001* (April 2001)

²⁹ I2002-1 *Investigations of Improper Activities by State Employees: July 2001 Through February 2002* (June 2002)

Awards and Recognition

Over the past several years, the bureau has received numerous awards on a national level. We have received awards from two national organizations: the National Legislative Program Evaluation Society (NLPES)—affiliated with the National Conference of State Legislators (NCSL)—and the Association of Government Accountants (AGA). The NLPES has recognized our work with awards six times since 1985. We received their award for

“Excellence in Evaluation” twice—the first time in 1985 and again in 1998—recognizing our many achievements and innovative means to provide information to the Legislature. We also received the NLPES’ Impact Award four times—in 1997, 1998, 2000, and 2002.

The most recent impact award was for an audit we issued in August 2000 regarding the licensing practices of the

California Department of Social Services (Social Services).³⁰ For this audit, we assessed Social Services’ policies and practices for licensing and monitoring child care facilities. Among other things, this report concluded that state law gives the department wide discretion to decide if people with criminal histories should care for or have contact with children—wider discretion than the criminal background check standards set



³⁰ 2000-102 Department of Social Services: To Ensure Safe, Licensed Child Care Facilities, It Needs to More Diligently Assess Criminal Histories, Monitor Facilities, and Enforce Disciplinary Decisions (August 2000)

for public school teachers. In 1999 alone, the department granted criminal history exemptions to 95 percent of those individuals who requested one. Based on our review, Social Services needs to exercise greater caution when using its discretion to grant criminal history exemptions.

To ensure that Social Services does not grant criminal history exemptions to individuals who may pose a risk to children, we recommended the following:

- The Legislature should assess Social Services' level of discretion to exempt individuals with criminal histories. Additionally, to make child care criminal history standards comparable to those used for public school teachers, the Legislature should consider pursuing laws to increase the range of crimes that automatically deny a criminal history exemption.
- Social Services should continue its new criminal history exemptions review procedures and expand this process to include a periodic review of a representative sample of all exemptions granted.
- Social Services should exercise more caution when granting exemptions and

actively consider all available information. Social Services should also seek any statutory changes it believes it needs to appropriately carry out its responsibilities in this area.

As an example of the corrective action taken by Social Services from our audit work, it reported to us in its final response to our recommendations, that it requires supervisory review of all felony exemption cases and its supervisors are reviewing 10 percent of all other exemption requests. In addition, Social Services reported that its staff now consider all available information, not just rap sheets, when deciding on an exemption request.

Not only did this report receive an award, but it also raised enough questions that the Legislature held subsequent hearings to discuss child care safety with responsible parties, introduced new legislation, and directed us to conduct a new audit pertaining to Social Services' practices for licensing foster and adult care homes and facilities. Clearly, we are proud of this audit because it demonstrates the significant impact our reports can have, not only in the State, but at the national level as well.

In 2000, we earned the AGA's "Achievement of the Year Award" for our audit report, number 98112, titled: *California's Drinking Water: State and Local Agencies Need to Provide Leadership to Address Contamination of Groundwater by Gasoline Components and Additives* (issued December 1998). This award recognized our efforts in improving fiscal and program oversight for protection of California's drinking water. ■

Appendix A

Legislation Resulting From Our Recommendations During the 2001–02 Legislative Session

Report Number	Report Title	Legislative Action
96041	<i>California State University: While Its System of Direct Vendor Payments Should Continue, Its Credit Card Program Could Benefit From Better Controls (July 2000)</i>	Chapter 169, Statutes of 2001 (Assembly Bill 1689), deletes the time limitation on the authority of the California State University (CSU) to make payments directly to vendors, thereby bypassing the State Controller's Office. Our audit found few problems with CSU's direct payments to vendors and recommended that the legislation that allows CSU to pay its vendors directly continue beyond December 31, 2001.
98117	<i>Department of Health Services: Has Made Little Progress in Protecting California's Children From Lead Poisoning (April 1999)</i>	Chapter 524, Statutes of 2001 (Assembly Bill 945), requires that a qualified certified industrial hygienist or other qualified certified professional shall be eligible to provide environmental investigation services as a part of case management services under the Childhood Lead Poisoning Prevention Program. In our report, we noted that improvements were needed in efforts to ensure that sources of lead poisoning were eliminated or reduced.
99108	<i>California Public Utilities Commission: Its Decisions About Deregulating the State's Telecommunications Industry Will Not Affect Residents Immediately and the Long-Term Effects of Policy Changes Are Unknown (November 1999)</i>	Chapter 903, Statutes of 2001 (Assembly Bill 140), establishes a grant program for the construction of telecommunications infrastructure to serve those in remote or unserved communities. We reported that an estimated 112,000 people live in areas where traditional wire line telephone service is not offered.
99116	<i>Water Replenishment District of Southern California: Weak Policies and Poor Planning Have Led to Excessive Water Rates and Questionable Expenses (December 1999)</i>	Chapter 888, Statutes of 2001 (Assembly Bill 1834), imposes restrictions on the operations of the Water Replenishment District of Southern California (district), including a prohibition of incurring indebtedness, an annual limitation on increases in water replenishment assessments, and the formation of a technical advisory committee to advise the district on capital improvement projects. Our report identified numerous flaws in the district's practices for setting its water replenishment assessments, its capital projects program, and its controls over administrative functions and spending. Chapter 829, Statutes of 2001 (Senate Bill 883), places requirements on the district's procedures for procuring supplies and services.
99120	<i>Child Protective Services: Agencies Are Limited in Protecting Children From Abuse by Released Inmates (December 1999)</i>	Chapter 470, Statutes of 2001 (Senate Bill 432), requires that notice of the scheduled release of inmates who were incarcerated for an act of domestic violence be given to a county child welfare services agency that requests notification. Among other things, our audit report recommended that state law be amended so that Child Protection Services agencies receive information regarding the scheduled release of inmates convicted of crimes against children.

Report Number	Report Title	Legislative Action
99124	<i>San Francisco Public Utilities Commission: Its Slow Pace for Assessing Weaknesses in Its Water Delivery System and for Completing Capital Projects Increases the Risk of Service Disruptions and Water Shortages (February 2000)</i>	<p>Chapter 841, Statutes of 2002 (Assembly Bill 1823), requires the city and county of San Francisco (city), which oversees the San Francisco Public Utilities Commission (commission) to adopt a program of capital improvement projects designed to restore and improve the San Francisco regional water system. This audit reported that the commission had been slow to assess and upgrade its water delivery system and made little progress in completing capital projects aimed at improving system reliability and meeting increased demand in the future.</p> <p>Chapter 844, Statutes of 2002 (Assembly Bill 2058), provides for the formation of the Bay Area Water Supply and Conservation Agency to allow the public entities that rely on water from the commission to establish a multi-county agency to plan for and acquire water and assist in the financing of repairs and improvements to the regional water system. Our audit reported that because the commission had been slow to assess and upgrade its water delivery system, the nearly 2.4 million customers in four Bay Area counties who rely on it for their drinking water are at greater risk of disruptions and water shortages if an emergency or a drought occurs.</p> <p>Chapter 849, Statutes of 2002 (Senate Bill 1870), provides for the San Francisco Bay Area Regional Water System Financing Authority, consisting of San Francisco, public entities that purchase water from San Francisco, Stanford University, and the California Water Service Company, to secure funds necessary to implement prompt repairs and improvements of the regional water system.</p>
99139	<i>California Department of Veterans Affairs: Changing Demographics and Limited Funding Threaten the Long-Term Viability of the Cal-Vet Program While High Program Costs Drain Current Funding (May 2000)</i>	<p>Resolution Chapter 116, Statutes of 2001 (Assembly Joint Resolution 17), urges the Congress of the United States to amend the Internal Revenue Code (Code) to redefine a qualifying veteran to expand the funds available to wartime veterans under the Cal-Vet program. Our audit recommended that the Legislature consider using state funds to help veterans purchase farms and homes who did not qualify for this program because of a requirement in the code that stipulated veterans had to serve prior to January 1, 1977, to receive reduced-cost loans funded through federal income-tax-exempt general obligations. Many veterans who served in conflicts such as Grenada, Panama, and the Gulf War are ineligible for this program due to this stipulation.</p>
2000-013	<i>Department of Health Services: Additional Improvements Are Needed to Ensure Children Are Adequately Protected From Lead Poisoning (May 2001)</i>	<p>Chapter 931, Statutes of 2002 (Senate Bill 460), authorizes the Department of Health Services and local agencies to enforce the provisions relating to the abatement of lead hazards. Our report concluded that the State lacks enforcement authority to reduce or eliminate sources of childhood lead exposure.</p>
2000-016	<i>Water Replenishment District of Southern California: Although the District Has Eliminated Excessive Water Rates, It Has Depleted Its Reserve Funds and Needs to Further Improve Its Administrative Practices (May 2002)</i>	<p>Chapter 94, Statutes of 2002 (Assembly Bill 1163), requires the Water Replenishment District of Southern California (district) to develop a capital improvement program. The bill further requires the district to consult with a technical advisory committee, made up of local professionals with expertise relating to water, when selecting capital improvements. Our audit revealed that the district lacked adequate planning for its capital improvement projects. Proper planning can be important for giving the district's ratepayers a clear view of the long-term direction of the district and a better understanding of its ongoing needs for revenue to fund these projects.</p>
2000-101	<i>California's Wildlife Habitat and Ecosystem: The State Needs to Improve Its Land Acquisition Planning and Oversight (June 2000)</i>	<p>Chapter 8, Statutes of 2002 (Assembly Bill 1414), requires the Resources Agency, in conjunction with each department, board, conservancy, and commission within that agency, to develop and maintain a database of land and easements the agency has acquired. Our audit found that although various entities acquire land for ecosystem restoration and wildlife habitat preservation, the State did not have a comprehensive inventory system to facilitate statewide land use planning.</p>

Report Number	Report Title	Legislative Action
2000-109	<i>California Integrated Waste Management Board: Limited Authority and Weak Oversight Diminish Its Ability to Protect Public Health and the Environment (December 2000)</i>	Chapter 587, Statutes of 2002 (Assembly Bill 467), establishes the Landfill Closure Loan Program to provide financial assistance to operators of older-technology, unlined landfills who want to pursue early landfill closure in order to mitigate potential environmental problems. Our audit recommended that the California Integrated Waste Management Board (board) seek legislation that would offer loans or grants to landfill operators in need of financial assistance to close landfills. Also, Chapter 1003, Statutes of 2002 (Senate Bill 1542), requires the board to provide local jurisdictions and private businesses with information and models to assist with consideration of fair treatment of all races, cultures, and incomes when complying with certain requirements relating to development and revision of countywide siting elements for solid waste disposal facilities. Our audit recommended that the board track demographic information on the communities in which solid waste facilities are located and make this information available to the public.
2001-012	<i>State of California: Its Containment of Drug Costs and Management of Medications for Adult Inmates Continue to Require Significant Improvements (January 2002)</i>	Chapter 483, Statutes of 2002 (Senate Bill 1315), authorizes the Department of General Services (General Services) to enter into contracts with manufacturers and suppliers of drugs and pharmaceutical benefits managers or similar entities to obtain discounts, rebates, or refunds. General Services is authorized to explore additional strategies for managing drug costs. Our audit identified that General Services and the Department of Corrections could do more to control the State's drug expenditures, which exceeded \$135 million in fiscal year 2000–01.
2001-102	<i>Department of Insurance Conservation and Liquidation Office: Stronger Oversight Is Needed to Properly Safeguard Insurance Companies' Assets (July 2001)</i>	Chapter 630, Statutes of 2001 (Senate Bill 80), provides that the employees and contractors of the Conservation and Liquidation Office (CLO) are subject to the same conflict-of-interest requirements that would apply if they were employees of the Department of Insurance and that the department must adopt a conflict-of-interest code. This audit found that the CLO has never established a comprehensive conflict-of-interest policy for its employees and contractors to follow.
2001-110	<i>Vacant Positions: Departments Have Circumvented the Abolishment of Vacant Positions, and the State Needs to Continue Its Efforts to Control Vacancies (March 2002)</i>	This audit recommended that if feasible, the 6 consecutive monthly pay periods for which a position is vacant before abolishment be considered without regard to fiscal year. Chapter 1124, Statutes of 2002, (AB 3000) specifies that the 6 consecutive monthly pay periods need not occur within a single fiscal year.
2001-113	<i>Department of Veterans Affairs: Weak Management and Poor Internal Controls Have Prevented the Department From Establishing an Effective Cash Collection System (December 2001)</i>	This audit recommended to the Legislature that it should consider clarifying state law so that the inspector general has appropriate access to all department records. Chapter 977, Statutes of 2002 (Senate Bill 1858), provides the inspector general access to all documents and employees of the Department of Veterans Affairs.
2001-120	<i>School Bus Safety II: State Law Intended to Make School Bus Transportation Safer Is Costing More Than Expected (March 2002)</i>	Chapter 1167, Statutes of 2002 (Assembly Bill 2781), requires that the Commission on State Mandates amend the parameters and guidelines of the School Bus Safety II mandate to specify that costs associated with the implementation of transportation plans are not reimbursable. Our audit recommended that the Legislature amend the parameters and guidelines to more clearly define the school bus safety cost activities that are reimbursable to local school districts.
2001-126	<i>Department of Managed Health Care: Assessments for Specialized and Full-Service HMOs Do Not Reflect Its Workload and Have Disparate Financial Impacts (May 2002)</i>	Chapter 790, Statutes of 2002 (Senate Bill 686), limits the amounts health care service plans must pay to support the administrative costs of the Department of Managed Health Care (department) and removes the director's authority to require a health care service plan to pay an additional assessment to provide the department with sufficient revenue. Our audit found that the annual assessments paid by two classes of health maintenance organizations to support the operations of the department are not distributed equitably, in that they do not reflect the different levels of effort the department devotes to each class.

Appendix B

*Audit Report Listing For Fiscal Years 2000–01 and 2001–02**

No.	Date Report Issued	Report Number	Report Title	Performance	Financial	Compliance	Investigative
1	07/06/00	96041	California State University: While Its System of Direct Vendor Payments Should Continue, Its Credit Card Program Could Benefit From Better Controls	1			
2	07/06/00	2000-001.3	CAL-Card Program: It Has Merits, but It Has Not Reached Its Full Potential	1			
3	07/17/00	99101	Office of the Attorney General: It Diligently Investigated the Legality of Downey Community Hospital Foundation's Transactions, but Questions Remain About Sound Business Practices	1			
4	08/01/00	2000-009	Department of Health Services: Drug Treatment Authorization Requests Continue to Increase	1			
5	08/02/00	2000-102	Department of Social Services: To Ensure Safe, Licensed Child Care Facilities, It Needs to More Diligently Assess Criminal Histories, Monitor Facilities, and Enforce Disciplinary Decisions	1			
6	08/24/00	I2000-2	Investigations of Improper Activities by State Employees: January Through June 2000				1
7	08/29/00	99134	Los Angeles Community College District: It Has Improved Its Procedures for Selecting College Presidents	1			
8	09/28/00	2000-010	Department of Transportation: Seismic Retrofit Expenditures Are in Compliance With the Bond Act		1		
9	10/11/00	2000-122	Department of Health Services: A Conflict of Interest Did Not Cause the Fresno District's Inadequate Oversight of Skilled Nursing Facilities	1			
10	10/12/00	2000-103	California Community Colleges: Poor Oversight by the Chancellor's Office Allows Districts to Incorrectly Report Their Level of Spending on Instructor Salaries	1			
11	10/19/00	2000-123	Department of Insurance: Recent Settlement and Enforcement Practices Raise Serious Concerns About Its Regulation of Insurance Companies	1			
12	10/31/00	2000-126	San Diego International Airport at Lindbergh Field: Local Government, Including the San Diego Unified Port District, Can Improve Efforts to Reduce the Noise Impact Area and Address Public Dissatisfaction	1			
13	11/14/00	2000-012	Department of Justice: Recent Improvements in Its Monitoring, Staffing, and Accounting of the California Witness Protection Program Meet Our Previous Recommendations	1			
14	11/16/00	2000-110	State-Owned Intellectual Property: Opportunities Exist for the State to Improve Administration of Its Copyrights, Trademarks, Patents, and Trade Secrets	1			

* Audit reports issued from 1993 to present are available on our Web site at www.bsa.ca.gov/bsa/.

No.	Date Report Issued	Report Number	Report Title	Performance	Financial	Compliance	Investigative
15	11/21/00	2000-001.4	State of California: Unnecessary Administrative Fees Increase the State's Cost of Contracting With California State Universities	1			
16	11/22/00	2000-111	Department of Consumer Affairs: Lengthy Delays and Poor Monitoring Weaken Consumer Protection	1			
17	11/30/00	2000-108	Standardized Tests: Although Some Students May Receive Extra Time on Standardized Tests That Is Not Deserved, Others May Not Be Getting the Assistance They Need	1			
18	12/04/00	2000-002.1*	Department of Health Services: Safe Drinking Water State Revolving Fund Financial and Federal Compliance Audit Report for the Fiscal Year Ended June 30, 2000		1		
19	12/11/00	2000-109	California Integrated Waste Management Board: Limited Authority and Weak Oversight Diminish Its Ability to Protect Public Health and the Environment	1			
20	12/14/00	2000-127	Department of Transportation: Inadequate Strategic Planning Has Left the State Route 710 Historic Properties Rehabilitation Project Nearly Without Funds and Less Than Half Finished	1			
21	12/19/00	99138	California Public Employees' Retirement System: Its Policies for Foreign Investing Are Consistent With Its Mission and With Legal Guidelines	1			
22	12/22/00	2000-001	State of California: Financial Report Year Ended June 30, 2000		1		
23	12/26/00	2000-006	State of California: Treasurer's Cash Count as of June 30, 2000		1		
24	01/30/01	2000-117	The State's Real Property Assets: The State Has Identified Surplus Real Property, but Some of Its Property Management Processes Are Ineffective	1			
25	02/28/01	2000-133	California Earthquake Authority: It Has Taken Steps to Control High Reinsurance Costs, but As Yet Its Mitigation Program Has Had Limited Success	1			
26	03/22/01	2000-134.1	Energy Deregulation: The Benefits of Competition Were Undermined by Structural Flaws in the Market, Unsuccessful Oversight, and Uncontrollable Competitive Forces	1			
27	03/28/01	2000-132	California Department of Veterans Affairs: Its Life and Disability Insurance Program, Financially Weakened by Past Neglect, Offers Reduced Insurance Benefits to Veterans and Faces an Uncertain Future	1			
28	03/29/01	2000-002	State of California: Internal Control and State and Federal Compliance Audit Report for the Fiscal Year Ended June 30, 2000			1	
29	04/03/01	I2001-1	Investigations of Improper Activities by State Employees: July 2000 Through January 2001				1
30	04/19/01	2000-115	Central Basin Municipal Water District: Its Poorly Planned Recycled-Water Project Has Burdened Taxpayers but May Be Moving Toward Self-Sufficiency	1			
31	04/25/01	99030	State Bar of California: It Has Improved Its Disciplinary Process, Stewardship of Members' Fees, and Administrative Practices, but Its Cost Recovery and Controls Over Expenses Need Strengthening	1			
32	04/26/01	2000-130	University of California: New Policies Should Make Career Appointments Available to More Employees and Make Campus Practices More Consistent	1			

* The 2000-002.1 audit report is classified as financial even though it includes both financial and federal compliance audit work.

No.	Date Report Issued	Report Number	Report Title	Performance	Financial	Compliance	Investigative
33	05/01/01	2000-013	Department of Health Services: Additional Improvements Are Needed to Ensure Children Are Adequately Protected From Lead Poisoning	1			
34	05/02/01	2000-131	University of California: Some Campuses and Academic Departments Need to Take Additional Steps to Resolve Gender Disparities Among Professors	1			
35	05/03/01	2000-129	Department of Housing and Community Development: Poor Administration of Certain Aspects of the California Natural Disaster Assistance Program for Loma Prieta Earthquake Victims Could Result in Inappropriate Loan Forgiveness	1			
36	05/10/01	2000-128	Alameda County Probation Department: It Generally Addresses the Needs and Safety of Juveniles, but It Must Tackle Problems With the Juvenile Hall Facility and Improve Controls Over Administration of Grant Funds	1			
37	05/21/01	2000-134.2	Energy Deregulation: The State's Energy Balance Remains Uncertain but Could Improve With Changes to Its Energy Programs and Generation and Transmission Siting	1			
38	06/07/01	2001-008	State of California: Statement of Securities Accountability of the State Treasurer's Office December 31, 2000		1		
39	06/14/01	2001-005	State of California: Treasurer's Cash Count as of December 31, 2000		1		
40	06/19/01	99020	Department of Rehabilitation: The Business Enterprises Program for the Blind Is Financially Sound, but It Has Not Reached Its Potential		1		
41	06/27/01	2000-118	Information Technology: The State Needs to Improve the Leadership and Management of Its Information Technology Efforts	1			
42	07/10/01	99031	Employment Development Department: Although New Telephone Services Have Enhanced Customer Access to the Department's Unemployment and Disability Insurance Programs, Customers Encounter Difficulties During Peak Calling Periods	1			
43	07/12/01	2000-125	Los Angeles Unified School District: It Has Made Some Progress in Its Reorganization but Has Not Ensured That Every Salary Level It Awards Is Appropriate	1			
44	07/31/01	2001-102	Department of Insurance Conservation and Liquidation Office: Stronger Oversight Is Needed to Properly Safeguard Insurance Companies' Assets	1			
45	08/14/01	2001-101	Los Angeles County Metropolitan Transportation Authority: It Can Increase Its Efforts to Ensure the Safe Operation of Its Buses	1			
46	08/20/01	2001-118	California Energy Commission: Although External Factors Have Caused Delays in Its Approval of Sites, Its Application Process Is Reasonable	1			
47	08/29/01	2001-104	Department of Corrections: Though Improving, the Department Still Does Not Identify and Serve All Parolees Needing Outpatient Clinic Program Services, but Increased Caseloads Might Strain Clinic Resources	1			
48	09/06/01	I2001-2	Investigations of Improper Activities by State Employees February Through June 2001				1

No.	Date Report Issued	Report Number	Report Title	Performance	Financial	Compliance	Investigative
49	09/11/01	2001-111.1	Blackout Preparedness: The Office of Emergency Services and the California National Guard Each Have Weaknesses in Their Blackout Preparations	1			
50	09/27/01	2001-103	Department of Motor Vehicles: Although Unable to Measure the Extent of Identity Fraud and the Effect of Recent Reforms, It Should Improve Its Technology, Procedures, and Staffing Further	1			
51	10/23/01	2001-107	Port of Oakland: Despite Its Overall Financial Success, Recent Events May Hamper Expansion Plans That Would Likely Benefit the Port and the Public	1			
52	11/17/01	2001-006	State of California: Treasurer's Cash Count as of June 30, 2001		1		
53	11/27/01	2001-108	California Department of Corrections: Its Fiscal Practices and Internal Controls Are Inadequate to Ensure Fiscal Responsibility	1			
54	12/04/01	2001-002.1*	Department of Health Services: Safe Drinking Water State Revolving Fund Financial and Federal Compliance Audit Report for the Fiscal Year Ended June 30, 2001		1		
55	12/05/01	2001-113	Department of Veterans Affairs: Weak Management and Poor Internal Controls Have Prevented the Department From Establishing an Effective Cash Collection System	1			
56	12/13/01	2001-115	Technology, Trade and Commerce Agency: Its Strategic Planning Is Fragmented and Incomplete, and Its International Division Needs to Better Coordinate With Other Entities, but Its Economic Development Division Customers Generally Are Satisfied	1			
57	12/18/01	2001-010	Department of Transportation: Its Seismic Retrofit Expenditures Generally Comply With the Bond Act, and It Has Begun to Reimburse the Interim Funding for Fiscal Years 1994-95 and 1995-96		1		
58	12/20/01	2001-009	California Energy Markets: Pressures Have Eased, but Cost Risks Remain	1			
59	12/21/01	2001-013	Department of Justice: It Continues to Use the Improvements It Made to the California Witness Protection Program	1			
60	12/31/01	2001-001	State of California: Financial Report Year Ended June 30, 2001		1		
61	01/09/02	2001-012	State of California: Its Containment of Drug Costs and Management of Medications for Adult Inmates Continue to Require Significant Improvements	1			
62	02/14/02	2001-111.2	California National Guard: To Better Respond to State Emergencies and Disasters, It Can Improve Its Aviation Maintenance and Its Processes of Preparing for and Assessing State Missions	1			
63	02/21/02	2001-117	Superior Courts: The Courts Are Moving Toward a More Unified Administration; However, Diverse Service, Collection, and Accounting Systems Impede the Accurate Estimation and Equitable Distribution of Undesignated Fee Revenue	1			
64	03/12/02	2001-110	Vacant Positions: Departments Have Circumvented the Abolishment of Vacant Positions, and the State Needs to Continue Its Efforts to Control Vacancies	1			

* The 2001-002.1 audit report is classified as financial even though it includes both financial and federal compliance audit work.

No.	Date Report Issued	Report Number	Report Title	Performance	Financial	Compliance	Investigative
65	03/22/02	2001-002	State of California: Internal Control and State and Federal Compliance Audit Report for the Fiscal Year Ended June 30, 2001			1	
66	03/28/02	2001-120	School Bus Safety II: State Law Intended to Make School Bus Transportation Safer Is Costing More Than Expected	1			
67	04/16/02	2001-128	Enterprise Licensing Agreement: The State Failed to Exercise Due Diligence When Contracting With Oracle, Potentially Costing Taxpayers Millions of Dollars	1			
68	04/30/02	2001-116	San Diego Unified Port District: It Should Change Certain Practices to Better Protect the Public's Interests in Port-Managed Resources	1			
69	05/21/02	2002-005	State of California: Treasurer's Cash Count as of December 31, 2001		1		
70	05/22/02	2001-129	Department of Health Services: It Needs to Significantly Improve Its Management of the Medi-Cal Provider Enrollment Process	1			
71	05/23/02	2000-016	Water Replenishment District of Southern California: Although the District Has Eliminated Excessive Water Rates, It Has Depleted Its Reserve Funds and Needs to Further Improve Its Administrative Practices	1			
72	05/28/02	2001-126	Department of Managed Health Care: Assessments for Specialized and Full-Service HMOs Do Not Reflect Its Workload and Have Disparate Financial Impacts	1			
73	05/30/02	2001-119	Los Angeles County Department of Health Services: Current Proposals Will Not Resolve Its Budget Crisis, and Without Significant Additional Revenue It May Be Forced to Limit Services	1			
74	06/18/02	12002-1	Investigations of Improper Activities by State Employees July 2001 Through February 2002				1
75	06/26/02	2001-124	Los Angeles Unified School District: Outdated, Scarce Textbooks at Some Schools Appear to Have a Lesser Effect on Academic Performance Than Other Factors, but the District Should Improve Its Management of Textbook Purchasing and Inventory	1			
TOTALS				57	12	2	4

Appendix C



National State Auditors Association

October 1, 2002

Ms. Elaine Howle
State Auditor
California State Auditor's Office
555 Capital Mall, Suite 300
Sacramento, CA 95814

Dear Ms. Howle:

We have reviewed the system of quality control of the State of California, Office of the State Auditor, Bureau of State Audits (the office) in effect for the period July 1, 2001 through June 30, 2002. A system of quality control encompasses the office's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with government auditing standards. The design of the system and compliance with it are the responsibility of the office. Our responsibility is to express an opinion on the design of the system, and the office's compliance with the system based on our review.

We conducted our review in accordance with the policies and procedures for external quality control reviews established by the National State Auditors Association (NSAA). In performing our review, we obtained an understanding of the office's system of quality control for audits conducted in accordance with government auditing standards. In addition, we tested compliance with the office's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the office's policies and procedures on selected engagements. Because our review was based on selective tests, it would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it.

Because there are inherent limitations in the effectiveness of any system of quality control, departures from the system may occur and not be detected. Also, projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control of State of California, Office of the State Auditor, Bureau of State Audits in effect for the period July 1, 2001 through June 30, 2002 has been suitably designed and was complied with during the period to provide reasonable assurance of conforming with government auditing standards.


Team Leader
National State Auditors Association
External Quality Control Review Team


Concurring Reviewer
National State Auditors Association
External Quality Control Review Team

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