

# CALIFORNIA STATE AUDITOR

Bureau of State Audits

## Implementation of State Auditor's Recommendations

Audits Released in January 2011 Through December 2012

Special Report to  
*Assembly and Senate  
Standing/Policy Committees*



February 2013 Report 2013-406

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# CALIFORNIA STATE AUDITOR

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February 12, 2013

2013-406

The Governor of California  
Members of the Legislature  
State Capitol  
Sacramento, California 95814

Dear Governor and Members of the Legislature:

The California State Auditor presents this special report for the legislative standing/policy committees, which summarizes audits and investigations we issued from January 2011 through December 2012. This report includes the major findings and recommendations along with the corrective actions entities reportedly have taken to implement our recommendations. In the reports issued during the past two years, we made 609 recommendations, of which these entities asserted that they have fully implemented 269 and partially implemented 130; however, for the remaining 210 recommendations, we determined that entities have taken no action for 95, and corrective action is pending for 115 recommendations. To facilitate use of this report, we have included two tables (tables 2 and 3) that summarize the status of each entity's implementation efforts by audit report.

Our audit efforts bring the greatest return when the entity acts upon our findings and recommendations. This report includes another table (Table 1) that summarizes the monetary value associated with certain findings from reports we issued during the period January 1, 2005, through December 31, 2012. We have indicated the nature of the monetary value in the following categories: cost recovery, cost savings, cost avoidance, increased revenue, and wasted funds. We estimate that if entities implemented our recommendations contained in these reports, they could realize more than \$1.5 billion in monetary benefits.

The information in the report will also be available in 10 special reports specifically tailored for each Assembly and Senate budget subcommittee on our Web site at [www.auditor.ca.gov](http://www.auditor.ca.gov). We believe the State's budget process is a good opportunity for the Legislature to explore these issues and, to the extent necessary, reinforce the need for corrective action. Finally, we notify all affected entities of the release of these special reports.

Respectfully submitted,



ELAINE M. HOWLE, CPA  
State Auditor



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## Introduction

This report summarizes the major recommendations from audit and investigative reports that the California State Auditor (state auditor) issued from January 2011 through December 2012. The purpose of this report is to identify what actions, if any, these entities have taken in response to our findings and recommendations. We have placed this symbol  in the margin of the entity's action to identify areas of concern or issues that we believe have not been adequately addressed.

This report is organized by policy areas that generally correspond to the Assembly and Senate standing committees. Under each policy area we have included report summaries that relate to an area's jurisdiction. Because an audit may involve more than one issue or because it may cross the jurisdictions of more than one standing committee, a report summary could be included in more than one policy area. For example, the California's Mutual Aid System report summary is listed under two policy areas—Government Organization and Housing and Community Development.

As shown in the Figure, the state auditor made 609 recommendations in audit and investigative reports that were issued from January 2011 through December 2012.<sup>1</sup> Of those recommendations, entities asserted that they have fully implemented 269 and partially implemented 130; however, for the remaining 210 recommendations, we determined that entities have taken no action for 95, and corrective action is pending for 115 recommendations. Our audit and investigative efforts bring the greatest return when entities act upon our findings and recommendations. As a result, we will continue to monitor these entities' efforts to implement the recommendations that have not been fully implemented.

**Figure**  
Overview of Recommendation Status

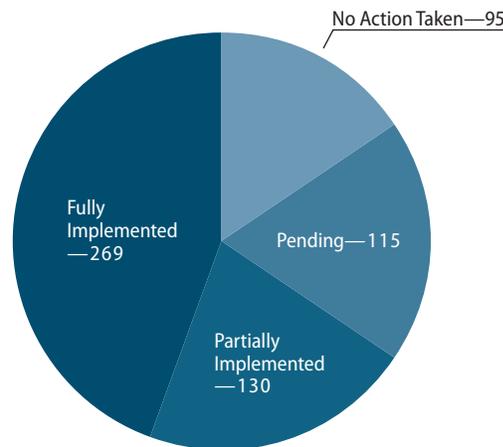


Table 1, beginning on page 3, summarizes the monetary value associated with certain findings from reports we issued during the period January 1, 2005, through December 31, 2012. We have indicated the nature of the monetary value in the following categories: cost recovery, cost savings, cost avoidance, increased revenue, and wasted funds. We estimate that if entities implemented our recommendations contained in these reports, they could realize more than \$1.5 billion in monetary value either by reducing costs, increasing revenues, or avoiding wasteful spending. For example, our August 2012 report on the California Department of Transportation's (Caltrans) management of State Route 710 (SR 710) extension project properties found that Caltrans charges the majority of the SR 710 property tenants

<sup>1</sup> This total does not include recommendations directed to the Legislature, nor do legislative recommendations appear in Table 2. However, we discuss the status of these recommendations in the body of this report.

rents that are, on average, 43 percent below market rate. By doing so, we estimate that Caltrans has foregone \$22 million in rental income between July 1, 2007, and December 31, 2011. Based on assertions from various Caltrans staff and documents we obtained, it appears that a former Caltrans director suspended all rent increases in 2002 after communicating with a member of the Legislature. In 2007 Caltrans' Division of Right of Way and Land Surveys (ROW headquarters division) sought approval from the former Governor's Office to raise the tenants' rents. However, according to the chief of the ROW headquarters division, Caltrans did not receive a response to this request and it is the division's current policy not to raise rents without instruction from Caltrans' director. We estimate that beginning in fiscal year 2013–14, Caltrans could collect at least \$3.8 million more per year if it began charging fair market rents. This estimate is conservative because it was based on Caltrans' latest fair market rent determinations and these determinations were, on average, over four years old. We recommended that Caltrans adjust the tenants' rents for SR 710 properties to fair market value after providing them with proper notice.

The state auditor's policy requests that the entities provide a written response to the audit findings and recommendations before the audit report is initially issued publicly. As a follow-up, state law requires the entity to provide updates on their implementations of audit recommendations. The state auditor requests these updates at 60 days, six months, and one year after the public release of the audit report. However, we may request that an entity provide a response beyond one year or initiate a follow-up audit if deemed necessary. For investigations, California Government Code, Section 8547.7, subdivision (a), requires that within 60 days of receiving an investigative report, an entity shall report any actions it has taken or intends to take to implement the recommendations made in the report. The entity also is required to file subsequent reports on a monthly basis until it has completed all of the actions it intends to take in response to the recommendations. In addition, California Government Code, Section 8548.9 requires us to produce an annual report regarding recommendations that state entities have not fully implemented within a year of issuance.<sup>2</sup> Accordingly, we will follow up with every state entity that we determine has not fully implemented one or more recommendations within one year of the issuance of an audit or investigative report to request an update on the entity's plans to implement the outstanding recommendations.

The investigative reports that we issue describe improper governmental activities by state entities and employees that we have substantiated through an investigation. The publicly reported investigations during 2011 and 2012 identified improper activities, including wasteful spending, improper overtime payments, improper gifts, and mismanagement of state resources and funds. The financial impact to the State of the activities totalled more than \$4.2 million. For example, an investigation we conducted at the California State Athletic Commission (commission) revealed that it overpaid nearly \$119,000 to 18 athletic inspectors from January 2009 through December 2010 because it inappropriately paid them at an hourly overtime rate rather than an hourly straight-time rate for the work they performed. We, therefore, recommended that the commission immediately cease paying the 18 athletic inspectors an overtime rate for the work they perform, and inform all athletic inspectors that it will compensate them at the classification's straight-time rate unless their work meets a federal law's criteria for receiving overtime. As another example, an investigation we conducted at the Natural Resources Agency (Resources) found that from January 2009 through June 2011, an executive with Resources circumvented state travel regulations by improperly reimbursing an official and an employee \$47,944 in state funds for commuting between their homes and headquarters. In addition, Resources improperly reimbursed the official \$209 for lodging and meal expenses incurred near the Resources headquarters. We consequently recommended that Resources discontinue improperly reimbursing employees for their commute-related expenses and for lodging and meal expenses incurred within 50 miles of their headquarters.

By making recommendations to shore up control weaknesses that facilitate harm to the State, such as the losses uncovered through our investigations, it is our intent that state entities will avoid wasting state funds and resources in the future.

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<sup>2</sup> The state auditor released its annual report on the status of recommendations not fully implemented after one year in January 2013. This report covers audits issued between November 2005 and October 2011, which had outstanding recommendations as of the agency's one-year response and provides the status of these recommendations as of December 2012.

Unless otherwise noted, we have not performed any type of review or validation of the corrective actions reported by the entities. All corrective actions noted in this report were generally based on responses received by our office as of December 31, 2012. Table 2, beginning on page 17, summarizes the status of entities' efforts to implement our recommendations based on the most recent response received from each one. Because an audit report's recommendations may apply to several policy areas, the status of an entity's implementation of our recommendations may be represented in Table 2 more than once, as previously discussed. Table 3, beginning on page 27, summarizes the status of each entity's efforts to implement recommendations that we made to ensure accountability and address control weaknesses related to the improper governmental activities identified in our investigative reports.

**Table 1**  
**Monetary Values**  
**January 1, 2005, Through December 31, 2012**

| AUDIT NUMBER<br>(DATE RELEASED)  | AUDITEE*/ REPORT TITLE/<br>BASIS OF MONETARY VALUE  | MONETARY VALUE         |
|--|---|------------------------|
| <b>Total for January 1, 2005, Through December 31, 2012</b>                |   | <b>\$1,526,823,000</b> |
| <b>Total for July 1, 2012, Through December 31, 2012</b>                   |   | <b>\$75,891,000</b>    |
| <b>Total One-Time Benefits for July 1, 2012, Through December 31, 2012</b> |   | <b>\$20,152,000</b>    |
| 2011-120 (August 2012)   | <p><i>California Department of Transportation: Its Poor Management of State Route 710 Extension Project Properties Costs the State Millions of Dollars Annually, Yet State Law Limits the Potential Income From Selling the Properties</i></p> <p>Increased Revenue—The California Department of Transportation (Caltrans) charged the majority of the State Route 710 (SR 710) property tenants rents that are, on average, 43 percent below market rate. Caltrans' rental of the SR 710 properties at below-market values constitutes a gift of public funds, which is prohibited by the California Constitution unless such rentals serve a public purpose. If it charged market rates for the 345 SR 710 properties, Caltrans could potentially generate as much as \$3.8 million more per year in rental income. We expect this benefit to begin in fiscal year 2013–14.</p> |                        |
| 2010-102 (December 2012 Update)  | <p><i>Administrative Office of the Courts: The Statewide Case Management Project Faces Significant Challenges Due to Poor Project Management</i></p> <p>Cost Recovery—In February 2011 we issued a report regarding the Administrative Office of the Courts' (AOC) California Court Case Management System (CCMS). We found that the AOC inadequately planned the project since 2003 and has consistently failed to develop accurate cost estimates or timelines for the projects. Subsequently, the Legislature did not provide additional funds for the deployment of CCMS. The Judicial Counsel voted to halt deployment of CCMS in March 2012 and Deloitte Consulting agreed to repay \$16 million to compensate for delays caused by numerous quality issues.</p>  | 16,000,000             |
| 2012-105 (November 2012)   | <p><i>Departments of Public Health and Social Services: Weaknesses in the Administration of the Child Health and Safety Fund and the State Children's Trust Fund Limit Their Effectiveness</i></p> <p>Cost Recovery—The Department of Public Health (Public Health) did not provide proper oversight of the research foundation's 2007 contract. In our review of the payroll information for 14 research foundation invoices paid under that contract, we found that Public Health may have been overcharged by roughly \$12,000 because the research foundation did not apply the allocation percentage stated in its original contract and adjust the allocation percentage for the subsequent amendments to the salaries of two individuals who were listed in the budgets.</p>   | 12,000                 |
| I2012-1 (December 2012) (Allegation I2009-0634)                            | <p><i>Franchise Tax Board and Office of the Secretary of State: Investigations of Improper Activities by State Employees</i></p> <p>Cost Recovery—A Franchise Tax Board (board) employee, an Office of the Secretary of State (secretary) employee, and a courier service owner engaged in an elaborate scheme that enabled the courier service owner to steal nearly a quarter of a million dollars from the State. The three individuals were convicted of bribery and ordered to pay a total of approximately \$227,000 in restitution to the secretary and the board. The failure of these agencies to maintain adequate controls contributed to the individuals' ability to perpetrate fraud.</p>  | 227,000                |

| AUDIT NUMBER<br>(DATE RELEASED)                    | AUDITEE*/ REPORT TITLE/<br>BASIS OF MONETARY VALUE   | MONETARY VALUE |
|--|--|----------------|
| I2012-1 (December 2012)<br>(Allegation I2008-1217) | <i>Employment Development Department: Investigations of Improper Activities by State Employees</i><br><br>Cost Recovery—A former Employment Development Department (EDD) accounting technician and two accomplices were convicted of conspiracy to commit mail fraud for executing a scheme to redirect unemployment insurance (unemployment) benefits from the State to ineligible recipients. During the duration of their scheme, the two accomplices illicitly received nearly \$93,000 in unemployment claims for wages to which they were not entitled using U.S. mail to deliver their benefits from August 2008 through October 2010.  | 93,000         |
| I2012-1 (December 2012)<br>(Allegation I2009-1341) | <i>California State Athletic Commission: Investigations of Improper Activities by State Employees</i><br><br>Wasted Funds/Cost Recovery—The California State Athletic Commission (Commission) overpaid approximately \$119,000 to 18 of its athletic inspectors from January 2009 through December 2010 because it inappropriately paid them an hourly overtime rate rather than an hourly straight-time rate for work they performed—only about \$25,000 of that amount can be collected due to the three-year limitation for recovering overpayments.  | 94,000         |
|  | Wasted Funds—We identified \$29,000 in costs incurred over a two-year period that could have been avoided if the Commission had not employed as athletic inspectors persons who already were employed full-time by the State in classifications that are similar to the athletic inspector classification and thus were entitled to receive compensation at an overtime rate. If the Commission carries out all of our recommendations, regarding the payment and hiring of athletic inspectors, we estimate \$59,350 in continuing annual savings through cost avoidance.   | 29,000         |
| I2012-1 (December 2012)<br>(Allegation I2009-1218) | <i>Department of Fish and Game†: Investigations of Improper Activities by State Employees</i><br><br>Wasted Funds—A supervisor with the Department of Fish and Game improperly implemented an agricultural lease agreement. He directed the lessee to use the state funds derived from the lease to purchase about \$54,000 in goods and services that did not provide the improvements and repairs the lease required.  | 54,000         |
| I2012-1 (December 2012)<br>(Allegation I2009-0689) | <i>California Correctional Health Care Services and Department of Corrections and Rehabilitation: Investigations of Improper Activities by State Employees</i><br><br>Wasted Funds—A manager with California Correctional Health Care Services improperly allowed Department of Corrections and Rehabilitation (Corrections) employees to use rental cars and receive mileage reimbursements for commutes that Corrections approved improperly. The manager also allowed these employees to receive reimbursements for improper expenses they incurred near their homes and headquarters, and Corrections inappropriately approved the payment. As a result, the State paid 23 employees a total of \$55,000 over 18 months in travel benefits to which they were not entitled. Assuming that this would have continued to occur going forward without our recommendations, we estimate \$37,000 in continued annual cost savings. | 55,000         |
| I2012-1 (December 2012)<br>(Allegation I2009-1321) | <i>Natural Resources Agency: Investigations of Improper Activities by State Employees</i><br><br>Wasted Funds—From January 2009 through June 2011, an executive with the Natural Resources Agency (Resources) circumvented state travel regulations by improperly reimbursing an official and an employee approximately \$48,000 in state funds for commutes between their homes and headquarters. If this pattern continued to occur, we estimate \$19,000 in continued annual savings through cost avoidance as a result of our recommendations.   | 48,000         |
| I2012-1 (December 2012)<br>(Allegation I2010-1151) | <i>California Correctional Health Care Services and Department of Corrections and Rehabilitation: Investigations of Improper Activities by State Employees</i><br><br>Cost Recovery—A supervising registered nurse at the California Training Facility in Soledad (facility) falsely claimed to have worked 183 hours of regular, overtime, and on-call hours that have resulted in overpayments and ultimately overpaid the nurse about \$9,000. Staff at the facility's personnel office reported that they have begun the process to collect the overpayments identified in this report.  | 9,000          |
| I2012-1 (December 2012)<br>(Allegation I2010-1022) | <i>University of California, Office of the President: Investigations of Improper Activities by State Employees</i><br><br>Wasted Funds—We found that the University of California (university) reimbursed an official in the university's Office of the President approximately \$6,000 for wasteful travel expenses he incurred from July 2008 through July 2011. We also ascertained that although the university increased its monitoring of the official's travel expenses, its absence of defined limits for lodging expenses led to some of these wasteful expenditures.   | 6,000          |

| AUDIT NUMBER<br>(DATE RELEASED)  | AUDITEE*/ REPORT TITLE/<br>BASIS OF MONETARY VALUE   | MONETARY VALUE       |
|--|--|----------------------|
| I2005-2<br>(December 2012 Update)<br>(Allegations I2004-0649,<br>I2004-0681, I2004-0789) | <i>Department of Corrections and Rehabilitation: Investigations of Improper Activities by State Employees</i><br><br>Cost Recovery—Issued in September 2005, this investigation revealed that the Department of Corrections and Rehabilitation (Corrections) failed to properly account for the time that employees used when released from their regular job duties to perform union-related activities. In June 2010 Corrections notified us that it had initiated litigation against the union to recover unreimbursed costs for all Corrections employees on full-time union leave. In January 2012 Corrections reached an agreement with the union that requires the union pay the State a total of \$3.5 million for all Corrections employees on full-time union leave through annual payments beginning that same month and continuing until the entire amount is paid.  | 3,500,000            |
| <b>Annualized Carry Forward for July 1, 2012, Through December 31, 2012</b>              |  | <b>\$55,739,000</b>  |
| 2002-009 (April 2003)  | California Energy Markets  | 14,500,000           |
| 2003-125 (July 2004)   | Department of Corrections and Rehabilitation   | 10,350,000           |
| 2003-124 (August 2004)   | Department of Health Services <sup>‡</sup>   | 2,300,000            |
| I2004-2 (September 2004)   | Department of Health Services <sup>‡</sup>   | 4,500                |
| I2004-2 (September 2004)   | California Military Department   | 32,000               |
| 2004-105 (October 2004)  | Department of Corrections and Rehabilitation   | 145,000              |
| I2005-1 (March 2005)   | Department of Corrections and Rehabilitation   | 59,500               |
| 2004-113 (July 2005)   | Department of General Services   | 18,000               |
| 2004-134 (July 2005)   | California State Athletic Commission   | 16,500               |
| 2004-125 (August 2005)   | Department of Health Services <sup>‡</sup>   | 5,150,000            |
| I2005-2 (September 2005)   | Department of Corrections and Rehabilitation   | 96,500               |
| I2006-1 (March 2006)   | Department of Fish and Wildlife  | 4,150,000            |
| 2007-037 (September 2007)  | Department of Housing and Community Development  | 19,000               |
| I2008-1 (April 2008)   | Department of Corrections and Rehabilitation   | 25,000               |
| I2008-1 (April 2008)   | Department of Social Services  | 6,500                |
| 2007-122 (June 2008)   | Department of Health Care Services   | 6,500,000            |
| 2008-103 (November 2008)   | California Unemployment Insurance Appeals Board  | 30,500               |
| 2009-043 (November 2009)   | Board of Pilot Commissioners For the Bays of San Francisco, San Pablo and Suisun   | 19,000               |
| 2009-030 (July 2009)   | State Bar of California  | 142,500              |
| 2009-112 (May 2010)  | Department of Health Care Services   | 2,350,000            |
| 2010-108 (June 2010)   | Department of Public Health  | 1,783,000            |
| 2009-118 (August 2010)   | Department of Developmental Services   | 7,500,000            |
| I2011-1 (August 2011)  | Department of State Hospitals  | 19,000               |
| 2010-124 (September 2011)  | Department of Corrections and Rehabilitation   | 522,500              |
| <b>Total for July 1, 2011, Through June 30, 2012</b>                                     |  | <b>\$184,189,000</b> |
| <b>Total One-Time Benefits for July 1, 2011, Through June 30, 2012</b>                   |  | <b>\$15,794,000</b>  |
| 2010-125 (August 2011)   | <i>State Lands Commission: Because It Has Not Managed Public Lands Effectively, the State Has Lost Millions in Revenue for the General Fund</i><br><br>Increased Revenue—The State Lands Commission (commission) has not always managed its more than 4,000 leases in the States' best interest and has missed opportunities to generate at least millions of dollar in revenues for the State's General Fund. About 140 of the commission's 1,000 revenue-generating leases had expired and for 10 expired leases we reviewed, the commission had lost \$269,000 because lessees were paying the rent established by an old appraisal rather than the property's current value. Also, the commission failed to promptly conduct rent reviews causing it to lose \$6.3 million in increased rent it may have been able to collect. Other leases were delinquent and for a sample of delinquent leases we reviewed, we estimated losses totaling \$1.6 million. Further, the commission uses a rate to establish rent for pipelines on state property that is more than 30 years old. | 4,160,000            |

| AUDIT NUMBER<br>(DATE RELEASED)   | AUDITEE*/ REPORT TITLE/<br>BASIS OF MONETARY VALUE   | MONETARY VALUE       |
|---|--|----------------------|
| I2011-1 (August 2011)<br>(Allegation I2009-0644)                        | <i>Department of Mental Health<sup>S</sup>: Investigations of Improper Activities by State Employees</i><br>Cost Savings—A senior official with the Department of Mental Health (Mental Health) improperly was paid for activities that either were taken on behalf of a nonstate organization or did not serve a state purpose. Mental Health should evaluate the need for the senior official's position.  | 38,000               |
| I2011-1 (August 2011)<br>(Allegation I2010-0844)                        | <i>California Energy Commission: Investigations of Improper Activities by State Employees</i><br>Cost Recovery—An employee and personnel specialist at the California Energy Commission (Energy Commission) falsified time and attendance records to enable the employee, at the time of her retirement, to receive a payment for unused annual leave that was higher than the amount to which she was entitled. The Energy Commission should seek to recover the amount it improperly paid the retiring employee for unused annual leave hours.   | 7,000                |
| I2011-1 (August 2011)<br>(Allegation I2009-0601)                        | <i>Department of Fish and Game<sup>T</sup>: Investigations of Improper Activities by State Employees</i><br>Cost Recovery—A manager at the Department of Fish and Game (Fish and Game) improperly directed an employee to use a state vehicle for commuting between her home and work locations during a nine-month period. In addition, the employee improperly requested, and the manager improperly approved, reimbursement for lodging and meal expenses incurred by the employee near her headquarters. Fish and Game should initiate repayment from the manager for the costs—totaling \$9,000—associated with the misuse of the state vehicle and seek recovery of the improper lodging and meal reimbursements that were paid to the employee. | 9,000                |
| I2011-1 (August 2011)<br>(Allegation I2009-1476)                        | <i>State Controller's Office: Investigations of Improper Activities by State Employees</i><br>Cost Recovery—An employee of the State Controller's Office failed to report an estimated 322 hours of absences over an 18-month period. The State Controller's Office should seek reimbursement from the employee for the wages she did not earn.  | 7,000                |
| 2010-124 (September 2011)   | <i>Department of Corrections and Rehabilitation: The Benefits of Its Correctional Offender Management Profiling for Alternative Sanctions Program Are Uncertain</i><br>The Department of Corrections and Rehabilitation's (Corrections) use of the Correctional Offender Management Profiling for Alternative Sanctions Program (COMPAS) is, at best, uncertain, and we found problems with the deployment of COMPAS that negatively affect its usefulness. We recommend that Corrections suspend its use of the COMPAS core and reentry assessments until it has issued regulations, updated its operations manual, and has demonstrated to the Legislature that it has a plan to measure and report COMPAS' effect on reducing recidivism.           | 1,045,000            |
| 2011-111 (March 2012)   | <i>Federal Workforce Investment Act: More Effective State Planning and Oversight Is Necessary to Better Help California's Job Seekers Find Employment</i><br>Lost Revenue—The Employment Development Department (EDD) missed opportunities to receive up to \$10.5 million from six federal grants available for workforce investment, and thus it is not availing itself of additional funds the State can use to help job seekers obtain employment. Because EDD does not have a grant review and approval process that documents its identification of grant opportunities and its final decisions related to such opportunities, we were unable to substantiate EDD's reasons for foregoing grant opportunities.                                   | 10,500,000           |
| 2011-119 (June 2012)  | <i>Physical Therapy Board of California: Although It Can Make Improvements, It Generally Processes Complaints and Monitors Conflict-of-Interest Requirements Appropriately</i><br>Cost Savings—One of the Physical Therapy Board of California's (physical therapy board) expert consultants has served as the in-house consultant since approximately 2003, performing cursory reviews of certain complaints before they may be referred to other expert consultants in the field. We believe that the physical therapy board may be able to save approximately \$28,000 to \$35,000 annually if it can hire a state physical therapy consultant at existing state rates to perform the same work as its in-house consultant.                         | 28,000               |
| <b>Annualized Carry Forward for July 1, 2011, Through June 30, 2012</b> |  | <b>\$168,395,000</b> |
| 2002-101 (July 2002)  | Department of Corrections and Rehabilitation   | 58,000,000           |
| 2002-009 (April 2003)   | California Energy Markets  | 29,000,000           |
| 2003-125 (July 2004)  | Department of Corrections and Rehabilitation   | 20,700,000           |
| 2003-124 (August 2004)  | Department of Health Services <sup>‡</sup>   | 4,600,000            |
| I2004-2 (September 2004)  | Department of Health Services <sup>‡</sup>   | 9,000                |
| I2004-2 (September 2004)  | California Military Department   | 64,000               |
| 2004-105 (October 2004)   | Department of Corrections and Rehabilitation   | 290,000              |
| I2005-1 (March 2005)  | Department of Corrections and Rehabilitation   | 119,000              |

| AUDIT NUMBER<br>(DATE RELEASED)  | AUDITEE*/ REPORT TITLE/<br>BASIS OF MONETARY VALUE  | MONETARY VALUE       |
|--|---|----------------------|
| 2004-113 (July 2005)   | Department of General Services  | 36,000               |
| 2004-134 (July 2005)   | California State Athletic Commission  | 33,000               |
| 2004-125 (August 2005)   | Department of Health Services <sup>‡</sup>  | 10,300,000           |
| I2005-2 (September 2005)   | Department of Corrections and Rehabilitation  | 193,000              |
| I2006-1 (March 2006)   | Department of Fish and Wildlife   | 8,300,000            |
| 2007-037 (September 2007)  | Department of Housing and Community Development   | 38,000               |
| I2008-1 (April 2008)   | Department of Corrections and Rehabilitation  | 50,000               |
| I2008-1 (April 2008)   | Department of Social Services   | 13,000               |
| 2007-122 (June 2008)   | Department of Health Care Services  | 13,000,000           |
| 2008-103 (November 2008)   | California Unemployment Insurance Appeals Board   | 61,000               |
| 2009-043 (November 2009)   | Board of Pilot Commissioners For the Bays of San Francisco, San Pablo and Suisun  | 38,000               |
| 2009-030 (July 2009)   | State Bar of California   | 285,000              |
| 2009-112 (May 2010)  | Department of Health Care Services  | 4,700,000            |
| 2010-108 (June 2010)   | Department of Public Health   | 3,566,000            |
| 2009-118 (August 2010)   | Department of Developmental Services  | 15,000,000           |
| <b>Total for July 1, 2010, Through June 30, 2011</b>                   |   | <b>\$390,054,000</b> |
| <b>Total One-Time Benefits for July 1, 2010, Through June 30, 2011</b> |   | <b>\$209,059,000</b> |
| 2009-114 (July 2010)   | <i>Department of General Services: It No Longer Strategically Sources Contracts and Has Not Assessed Their Impact on Small Businesses and Disabled Veteran Business Enterprises</i><br><br>Cost Savings and Recovery—We recommended that the Department of General Services (General Services) determine if there are further opportunities to achieve savings for consultant-recommended categories of goods and services contracts. Also, General Services should follow procedures for identifying strategic sourcing opportunities and work to obtain comprehensive and accurate data on the specific items that state agencies are purchasing. Finally, General Services should implement standard procedures to recover identified overcharges. The potential savings to the State is currently unknown, but if General Services implements our recommendation, the savings will be quantifiable in the future. The report concludes that documents indicate that as a result of its initial strategic sourcing efforts, the State accrued at least \$160 million in net savings from 33 contracts through June 30, 2007. | Unknown              |
| 2003-106 (August 2010 Update)  | <i>State Mandates: The High Level of Questionable Costs Claimed Highlights the Need for Structural Reform of the Process</i><br><br>Cost Recovery—We recommended that the State Controller's Office (Controller's Office) audit Peace Officers Procedural Bill of Rights (POBOR) claims that had been paid. In 2010 the Controller's Office informed the California State Auditor that it had audited \$225 million in POBOR Program claims and identified \$194 million (86 percent of claims reviewed) in unallowable costs had been claimed.   | 194,000,000          |
| 2009-118 (August 2010)   | <i>Department of Developmental Services: A More Uniform and Transparent Procurement and Rate-Setting Process Would Improve the Cost-Effectiveness of Regional Centers</i><br><br>Cost Recovery—We found that the Department of Developmental Services (Developmental Services) did not generally examine how regional centers established rates or selected particular vendors. Our review found that the manner in which some regional centers established payment rates and selected vendors had the appearance of favoritism or fiscal irresponsibility. Based on our review of Developmental Services' recent fiscal audits, it has recovered roughly \$15 million as a direct result of our recommendations and findings. If Developmental Services continues to carry out our recommendations, we estimate \$15 million in continued annual savings through a combination of cost recovery and cost avoidance.  | 15,000,000           |
| 2010-106 (November 2010)   | <i>Dymally-Alatorre Bilingual Services Act: State Agencies Do Not Fully Comply With the Act, and Local Governments Could Do More to Address Their Clients' Needs</i><br><br>Cost Savings—Some state agencies are not maximizing opportunities to reduce their costs to provide bilingual services by leveraging California Multiple Award Schedules contracts for interpretation and translation services.  | 47,000               |
| I2010-2 (January 2011)<br>(Allegation I2008-1024)                      | <i>Department of General Services: Investigations of Improper Activities by State Employees</i><br><br>Cost Recovery—A manager with the Department of General Services (General Services) improperly used state vehicles for his daily commute for nine years. General Services should seek reimbursement from the manager for costs associated with his misuse of state vehicles.  | 12,000               |

| AUDIT NUMBER<br>(DATE RELEASED)   | AUDITEE*/ REPORT TITLE/<br>BASIS OF MONETARY VALUE   | MONETARY VALUE                 |
|---|--|--------------------------------|
| <b>Annualized Carry Forward for July 1, 2010, Through June 30, 2011</b> |  | <b>\$180,995,000</b>           |
| 2002-101 (July 2002)  | Department of Corrections and Rehabilitation   | 58,000,000                     |
| 2002-009 (April 2003)   | California Energy Markets  | 29,000,000                     |
| 2002-118 (April 2003)   | Department of Health Services <sup>‡</sup>   | 20,000,000                     |
| 2003-106 (October 2003)   | State Mandates   | 7,600,000                      |
| 2003-125 (July 2004)  | Department of Corrections and Rehabilitation   | 20,700,000                     |
| 2003-124 (August 2004)  | Department of Health Services <sup>‡</sup>   | 4,600,000                      |
| I2004-2 (September 2004)  | Department of Health Services <sup>‡</sup>   | 9,000                          |
| I2004-2 (September 2004)  | California Military Department   | 64,000                         |
| 2004-105 (October 2004)   | Department of Corrections and Rehabilitation   | 290,000                        |
| I2005-1 (March 2005)  | Department of Corrections and Rehabilitation   | 119,000                        |
| 2004-113 (July 2005)  | Department of General Services   | 36,000                         |
| 2004-134 (July 2005)  | California State Athletic Commission   | 33,000                         |
| 2004-125 (August 2005)  | Department of Health Services <sup>‡</sup>   | 10,300,000                     |
| I2005-2 (September 2005)  | Department of Corrections and Rehabilitation   | 193,000                        |
| I2006-1 (March 2006)  | Department of Fish and Wildlife  | 8,300,000                      |
| 2007-037 (September 2007)   | Department of Housing and Community Development  | 38,000                         |
| I2008-1 (April 2008)  | Department of Corrections and Rehabilitation   | 50,000                         |
| I2008-1 (April 2008)  | Department of Social Services  | 13,000                         |
| 2007-122 (June 2008)  | Department of Health Care Services   | 13,000,000                     |
| 2008-103 (November 2008)  | California Unemployment Insurance Appeals Board  | 61,000                         |
| 2009-043 (November 2009)  | Board of Pilot Commissioners For the Bays of San Francisco, San Pablo and Suisun   | 38,000                         |
| 2009-030 (July 2009)  | State Bar of California  | 285,000                        |
| 2009-112 (May 2010)   | Department of Health Care Services   | 4,700,000                      |
| 2010-108 (June 2010)  | Department of Public Health  | 3,566,000                      |
| <b>Total for July 1, 2009, Through June 30, 2010</b>                    |  | <b>\$195,429,000</b>           |
| <b>Total One-Time Benefits for July 1, 2009, Through June 30, 2010</b>  |  | <b>\$23,023,000</b>            |
| 2009-112 (May 2010)   | <i>Department of Health Care Services: It Needs to Streamline Medi-Cal Treatment Authorizations and Respond to Authorization Requests Within Legal Time Limits</i>   | 4,700,000                      |
|   | Cost Avoidance—If the Department of Health Care Services performed cost-benefit analyses on treatment authorization requests (TAR) with very low denial rates, it could ascertain which TAR's administrative costs equaled or exceeded its savings. By performing this analysis, we estimate that it could save \$4.7 million annually by identifying which TARs are not cost-effective to process and remove authorization requirements for these services.   |                                |
| 2010-108 (June 2010)  | <i>Department of Public Health: It Reported Inaccurate Financial Information and Can Likely Increase Revenues for the State and Federal Health Facilities Citation Penalties Accounts</i>  | 70,000                         |
|   | Increased Revenue—The Department of Public Health (Public Health) inappropriately granted a 35 percent reduction to health facility penalties totaling \$70,000. This error was largely because the database that Public Health uses to calculate penalty reductions was not programmed to reflect the correct dates to calculate penalties. Also, Public Health could have generated \$95,000 if it had assessed interest on penalties stalled in the appeals process. It also could have increased revenue by \$3.3 million during the period of fiscal year 2003–04 through March 2010 if it had updated the monetary penalties amounts based on inflation rates. Finally, Public Health could have generated \$101,220 if it had included certain accounts in the Surplus Money Investment Fund as opposed to the Pooled Money Investment Account. | 95,000<br>3,300,000<br>101,000 |
| I2010-1 (June 2010)<br>(Allegation I2008-1066)                          | <i>Department of Industrial Relations: Investigations of Improper Activities by State Employees</i>  | 70,000                         |
|   | Cost Recovery—An inspector at the Department of Industrial Relations, Division of Occupational Safety and Health, misused state resources and improperly engaged in dual employment during her state work hours, for which she received \$70,105 in inappropriate payments.  |                                |

| AUDIT NUMBER<br>(DATE RELEASED)                | AUDITEE*/ REPORT TITLE/<br>BASIS OF MONETARY VALUE  | MONETARY VALUE  |
|--|---|-----------------|
| I2010-1 (June 2010)<br>(Allegation I2008-0920) | <i>Department of Corrections and Rehabilitation: Investigations of Improper Activities by State Employees</i>   | 111,000         |
|  | Wasted Funds—A supervisor at Heman G. Stark Correctional Facility misused the time of two psychiatric technicians by assigning them to perform the tasks of a lower-paid classification. This misuse of the employees' time resulted in a loss to the State of \$110,797.   |                 |
|  | Cost Savings—A supervisor at Heman G. Stark Correctional Facility misused the time of two psychiatric technicians by assigning them to perform clerical and administrative tasks. When these employees returned to their normal duties, the Department of Corrections and Rehabilitation did not hire any other employees to perform the clerical and administrative tasks, resulting in a cost savings to the State of \$75,824.   | 76,000          |
| I2010-1 (June 2010)<br>(Allegation I2008-1037) | <i>California State University, Northridge: Investigations of Improper Activities by State Employees</i>  | 21,000          |
|  | Cost Recovery—An employee of California State University, Northridge (Northridge), improperly allowed a business owner and associates to use a university laboratory facility, equipment, and supplies without compensating Northridge. After this investigation, Northridge received payment of \$20,709 from the business owner.  |                 |
| 2009-030 (July 2009)                           | <i>State Bar of California: It Can Do More to Manage Its Disciplinary System and Probation Processes Effectively and to Control Costs</i>   | 850,000         |
|  | Lost Revenue/Increased Revenues—The State Bar of California (State Bar) has not updated the formula it uses to bill disciplined attorneys, although the discipline costs have increased 30 percent during the last five years. We estimate that if it had updated the billing formula, it could have billed an additional \$850,000 for the past three years. Additionally, if the State Bar updates the formula, we estimate that it could increase revenue in future years by approximately \$285,000 annually. |                 |
| 2009-101 (November 2009)                       | <i>Department of Social Services: For the CalWORKs and Food Stamp Programs, It Lacks Assessments of Cost-Effectiveness and Misses Opportunities to Improve Counties' Antifraud Efforts</i>  | 12,450,000      |
|  | Cost Recovery—Since December 2003 counties have received millions of dollars in overpayments recovered from food stamp recipients. However, the Department of Social Services (Social Services) has been delayed in taking the steps needed to claim its share of these overpayments—approximately \$12.45 million. As a result of the six-year delay in addressing this issue, we estimate Social Services lost approximately \$1.1 million in interest on its share of the funds.                               | 1,100,000       |
| I2009-0702 (November 2009)                     | <i>Department of Corrections and Rehabilitation: Its Poor Internal Controls Allowed Facilities to Overpay Employees for Inmate Supervision</i>  | 35,000          |
|  | Cost Recovery—We identified almost \$35,000 in overpayments made to 23 employees, and we recommended that the Department of Corrections and Rehabilitation recupereate the overpayments from the employees.   |                 |
| 2009-043 (November 2009)                       | <i>Board of Pilot Commissioners For the Bays of San Francisco, San Pablo and Suisun: It Needs to Develop Procedures and Controls Over Its Operations and Finances to Ensure That It Complies With Legal Requirements</i>  | 9,000           |
|  | Increased Revenue—The Board of Pilot Commissioners (board) did not receive all revenues for the surcharge to fund training new pilots, as required by law. By collecting these fees, we calculated that the board will collect an additional \$8,640 annually based on the current surcharge of \$9 per trainee.  |                 |
|  | Cost Savings—The board offers free parking to employees, which may constitute a misuse of state resources. By cancelling its lease for parking, the board will save the total value of the lease—\$4,760 over the course of a year. Additionally, if the board ceases reimbursing pilots for business-class airfare when they fly for training, we believe that it will incur a savings in the future. We believe these future savings will be approximately \$30,000 annually.                                   | 5,000<br>30,000 |

**Annualized Carry Forward for July 1, 2009, Through June 30, 2010** **\$172,406,000**

|                          |  |            |
|--------------------------|--|------------|
| 2002-101 (July 2002)     | Department of Corrections and Rehabilitation | 58,000,000 |
| 2002-009 (April 2003)    | California Energy Markets                    | 29,000,000 |
| 2002-118 (April 2003)    | Department of Health Services <sup>‡</sup>   | 20,000,000 |
| 2003-106 (October 2003)  | State Mandates                               | 7,600,000  |
| 2003-125 (July 2004)     | Department of Corrections and Rehabilitation | 20,700,000 |
| 2003-124 (August 2004)   | Department of Health Services <sup>‡</sup>   | 4,600,000  |
| I2004-2 (September 2004) | Department of Health Services <sup>‡</sup>   | 9,000      |
| I2004-2 (September 2004) | California Military Department               | 64,000     |
| 2004-105 (October 2004)  | Department of Corrections and Rehabilitation | 290,000    |
| I2005-1 (March 2005)     | Department of Corrections and Rehabilitation | 119,000    |

| AUDIT NUMBER<br>(DATE RELEASED)  | AUDITEE*/ REPORT TITLE/<br>BASIS OF MONETARY VALUE   | MONETARY VALUE       |
|--|--|----------------------|
| 2004-113 (July 2005)   | Department of General Services   | 36,000               |
| 2004-134 (July 2005)   | California State Athletic Commission   | 33,000               |
| 2004-125 (August 2005)   | Department of Health Services <sup>‡</sup>   | 10,300,000           |
| I2005-2 (September 2005)   | Department of Corrections and Rehabilitation   | 193,000              |
| I2006-1 (March 2006)   | Department of Fish and Wildlife  | 8,300,000            |
| 2007-037 (September 2007)  | Department of Housing and Community Development  | 38,000               |
| I2008-1 (April 2008)   | Department of Corrections and Rehabilitation   | 50,000               |
| I2008-1 (April 2008)   | Department of Social Services  | 13,000               |
| 2007-122 (June 2008)   | Department of Health Care Services   | 13,000,000           |
| 2008-103 (November 2008)   | California Unemployment Insurance Appeals Board  | 61,000               |
| <b>Total for July 1, 2008, Through June 30, 2009</b>                   |  | <b>\$175,426,000</b> |
| <b>Total One-Time Benefits for July 1, 2008, Through June 30, 2009</b> |  | <b>\$1,931,000</b>   |
| 2007-040 (September 2008)  | <i>Department of Public Health: Laboratory Field Services' Lack of Clinical Laboratory Oversight Places the Public at Risk</i><br>Increased Revenue—The Department of Public Health (Public Health) incorrectly adjusted the fees it charged to clinical laboratories, resulting in more than \$1 million in lost revenue. Public Health should adjust fees in accordance with the budget act.   | 1,020,000            |
| I2008-2 (October 2008)<br>(Allegation I2006-0826)                      | <i>Department of Corrections and Rehabilitation: Investigations of Improper Activities by State Employees</i><br>Cost Recovery—The Department of Corrections and Rehabilitation improperly paid nine office technicians a total of \$16,530 for supervising inmates when the technicians did not qualify to receive the money.   | 17,000               |
| I2008-2 (October 2008)<br>(Allegation I2008-0678)                      | <i>California Environmental Protection Agency: Investigations of Improper Activities by State Employees</i><br>Cost Recovery—The California Environmental Protection Agency paid an employee for 768 hours for which she was not at work and for which no leave balance was charged or used.   | 23,000               |
| I2008-2 (October 2008)<br>(Allegation I2007-1049)                      | <i>Department of Housing and Community Development: Investigations of Improper Activities by State Employees</i><br>Cost Recovery—A full-time employee of the Department of Housing and Community Development simultaneously worked full-time at a nonprofit organization for a year, along with other time and attendance abuses.   | 35,000               |
| I2008-2 (October 2008)<br>(Allegation I2007-0917)                      | <i>Department of Corrections and Rehabilitation: Investigations of Improper Activities by State Employees</i><br>Cost Recovery—The Department of Corrections and Rehabilitation improperly compensated two physicians for 3,025 hours of work on a time-and-a-half basis rather than on an hour-for-hour basis.  | 108,000              |
| I2008-2 (October 2008)<br>(Allegation I2007-0771)                      | <i>State Personnel Board<sup>¶</sup>: Investigations of Improper Activities by State Employees</i><br>Wasted Funds—The State Personnel Board approved contracts with a retired annuitant and a retired employee without providing reasonable justification for the contract or the contract amount.  | 14,000               |
| 2008-103 (November 2008)   | <i>California Unemployment Insurance Appeals Board: Its Weak Policies and Practices Could Undermine Employment Opportunity and Lead to the Misuse of State Resources</i><br>Cost Savings—We identified parking spaces maintained by the Unemployment Insurance Appeals Board (board) for which the board had little assurance were being used for their intended and allowable purposes. In March 2009 the board eliminated 31 of its 35 parking spaces, which will save \$61,000 annually. We are showing a benefit of \$20,000 for the remainder of fiscal year 2008–09. | 20,000               |
| I2009-1 (April 2009)<br>(Allegation I2006-1125)                        | <i>Department of Fish and Game<sup>†</sup>, Office of Spill Prevention and Response: Investigations of Improper Activities by State Employees</i><br>Cost Recovery—A high level official formerly with the Office of Spill Prevention and Response of the Department of Fish and Game incurred \$71,747 in improper travel expenses she was not entitled to receive.   | 72,000               |
| I2009-1 (April 2009)<br>(Allegation I2007-0909)                        | <i>State Compensation Insurance Fund: Investigations of Improper Activities by State Employees</i><br>Cost Recovery—An employee of the State Compensation Insurance Fund (State Fund) failed to report 427 hours of absences. Consequently, State Fund did not charge the employee's leave balances for these absences, and it paid her \$8,314 for hours she did not work.  | 8,000                |

| AUDIT NUMBER<br>(DATE RELEASED)   | AUDITEE* / REPORT TITLE/<br>BASIS OF MONETARY VALUE  | MONETARY VALUE       |
|---|--|----------------------|
| I2009-1 (April 2009)<br>(Allegation I2007-0891)                         | <i>Department of Corrections and Rehabilitation and Department of General Services: Investigations of Improper Activities by State Employees</i>   | 580,000              |
|   | Wasted Funds—The departments of Corrections and Rehabilitation and General Services wasted \$580,000 in state funds by continuing to lease 5,900 square feet of office space that was left unoccupied for more than four years.  |                      |
| 2009-042 (May 2009)   | <i>Children's Hospital Program: Procedures for Awarding Grants Are Adequate, but Some Improvement Is Needed in Managing Grants and Complying With the Governor's Bond Accountability Program</i>   | 34,000               |
|   | Lost Revenue—We identified interest revenues totaling \$34,000 the California Health Facilities Financing Authority (authority) did not recover from grantees on advanced funds. The authority can recover a currently unidentifiable amount of revenue if it requires grantees to place future advances of funds in interest bearing accounts. The amount of future funds that will be advanced, as opposed to disbursed for reimbursement expenditures, as well as the associated interest earnings are not predictable. |                      |
| <b>Annualized Carry Forward for July 1, 2008, Through June 30, 2009</b> |  | <b>\$173,495,000</b> |
| 2002-101 (July 2002)  | Department of Corrections and Rehabilitation   | 58,000,000           |
| 2002-009 (April 2003)   | California Energy Markets  | 29,000,000           |
| 2002-118 (April 2003)   | Department of Health Services <sup>‡</sup>   | 20,000,000           |
| 2003-106 (October 2003)   | State Mandates   | 7,600,000            |
| 2003-125 (July 2004)  | Department of Corrections and Rehabilitation   | 20,700,000           |
| 2003-124 (August 2004)  | Department of Health Services <sup>‡</sup>   | 4,600,000            |
| I2004-2 (September 2004)  | Department of Health Services <sup>‡</sup>   | 9,000                |
| I2004-2 (September 2004)  | California Military Department   | 64,000               |
| 2004-105 (October 2004)   | Department of Corrections and Rehabilitation   | 290,000              |
| I2005-1 (March 2005)  | Department of Corrections and Rehabilitation   | 119,000              |
| 2004-113 (July 2005)  | Department of General Services   | 1,186,000            |
| 2004-134 (July 2005)  | California State Athletic Commission   | 33,000               |
| 2004-125 (August 2005)  | Department of Health Services <sup>‡</sup>   | 10,300,000           |
| I2005-2 (September 2005)  | Department of Corrections and Rehabilitation   | 193,000              |
| I2006-1 (March 2006)  | Department of Fish and Wildlife  | 8,300,000            |
| 2007-037 (September 2007)   | Department of Housing and Community Development  | 38,000               |
| I2008-1 (April 2008)  | Department of Corrections and Rehabilitation   | 50,000               |
| I2008-1 (April 2008)  | Department of Social Services  | 13,000               |
| 2007-122 (June 2008)  | Department of Health Care Services   | 13,000,000           |
| <b>Total for July 1, 2007, Through June 30, 2008</b>                    |  | <b>\$161,199,000</b> |
| <b>Total One-Time Benefits for July 1, 2007, Through June 30, 2008</b>  |  | <b>\$14,155,000</b>  |
| I2007-2 (September 2007)<br>(Allegation I2006-1099)                     | <i>Department of Mental Health<sup>§</sup>: Investigations of Improper Activities by State Employees</i>   | 19,000               |
|   | Wasted Funds—The Department of Mental Health misused state funds designated to purchase two vehicles for law enforcement purposes by improperly using the vehicles for non-law enforcement purposes, including commuting.  |                      |
| 2007-037 (September 2007)   | <i>Department of Housing and Community Development: Awards of Housing Bond Funds Have Been Timely and Complied With the Law, but Monitoring of the Use of Funds Has Been Inconsistent</i>  | 38,000               |
|   | Lost Revenue—Excessive advances are provided without consideration for interest earnings the State could receive. Without corrective action, this loss could continue for the life of the program.   |                      |
| I2007-2 (September 2007)<br>(Allegation I2007-0715)                     | <i>California Highway Patrol: Investigations of Improper Activities by State Employees</i>   | 882,000              |
|   | Cost Avoidance—The California Highway Patrol (CHP) spent \$881,565 for 51 vans it had not used for their intended purposes. We calculated that the CHP lost \$90,385 in interest because it bought the vans two years prior to when it needed them.  | 90,000               |
| 2007-109 (November 2007)  | <i>DNA Identification Fund: Improvements Are Needed in Reporting Fund Revenues and Assessing and Distributing DNA Penalties, but Counties and Courts We Reviewed Have Properly Collected Penalties and Transferred Revenues to the State</i>   | 32,000               |
|   | Increased Revenue—Counties did not always assess and collect all required DNA penalties.   |                      |

| AUDIT NUMBER<br>(DATE RELEASED)   | AUDITEE*/ REPORT TITLE/<br>BASIS OF MONETARY VALUE   | MONETARY VALUE          |
|---|--|-------------------------|
| I2008-1 (April 2008)<br>(Allegation I2006-0665)                         | <i>Department of Corrections and Rehabilitation: Investigations of Improper Activities by State Employees</i><br>Wasted Funds—The Department of Corrections and Rehabilitation leased 29 parking spaces at a private parking facility but did not use them.  | 50,000                  |
| I2008-1 (April 2008)<br>(Allegation I2006-1040)                         | <i>Department of Social Services: Investigations of Improper Activities by State Employees</i><br>Cost Recovery—The Department of Social Services (Social Services) improperly paid contractors for overhead costs that violated state policy.<br>Cost Savings—Social Services also will avoid these improper payments totaling about \$13,000 annually in the future.   | 13,000<br>13,000        |
| I2008-1 (April 2008)<br>(Allegation I2007-0958)                         | <i>Department of Justice: Investigations of Improper Activities by State Employees</i><br>Cost Recovery—The Department of Justice paid compensation to five employees that they may not have earned over a nine-month period.  | 18,000                  |
| 2007-122 (June 2008)  | <i>Department of Health Care Services: Although Notified of Changes in Billing Requirements, Providers of Durable Medical Equipment Frequently Overcharge Medi-Cal</i><br>Cost Recovery—The Department of Health Care Services (department) has identified overbilling to Medi-Cal by equipment providers. We estimated the department has overpaid providers by approximately \$13 million during the period from October 2006 through September 2007. This is a one-time cost recovery to the department if they collect all overpayments.<br>Cost Savings—If the department implements our recommendation to identify more feasible Medi-Cal reimbursement monitoring and enforcement, we estimate that it could continue to avoid \$13 million in overpayments annually. | 13,000,000              |
| <b>Annualized Carry Forward for July 1, 2007, Through June 30, 2008</b> |  | <b>\$147,044,000</b>    |
| 2002-101 (July 2002)  | Department of Corrections and Rehabilitation   | 43,500,000              |
| 2002-009 (April 2003)   | California Energy Markets  | 29,000,000              |
| 2002-118 (April 2003)   | Department of Health Services <sup>‡</sup>   | 20,000,000              |
| 2003-106 (October 2003)   | State Mandates   | 7,600,000               |
| 2003-125 (July 2004)  | Department of Corrections and Rehabilitation   | 20,700,000              |
| 2003-124 (August 2004)  | Department of Health Services <sup>‡</sup>   | 4,600,000               |
| I2004-2 (September 2004)  | Department of Health Services <sup>‡</sup>   | 9,000                   |
| I2004-2 (September 2004)  | California Military Department   | 64,000                  |
| 2004-105 (October 2004)   | Department of Corrections and Rehabilitation   | 290,000                 |
| I2005-1 (March 2005)  | Department of Corrections and Rehabilitation   | 119,000                 |
| 2004-113 (July 2005)  | Department of General Services   | 2,336,000 <sup>††</sup> |
| 2004-134 (July 2005)  | California State Athletic Commission   | 33,000                  |
| 2004-125 (August 2005)  | Department of Health Services <sup>‡</sup>   | 10,300,000              |
| I2005-2 (September 2005)  | Department of Corrections and Rehabilitation   | 193,000                 |
| I2006-1 (March 2006)  | Department of Fish and Wildlife  | 8,300,000               |
| <b>Total for July 1, 2006, Through June 30, 2007</b>                    |  | <b>\$154,575,000</b>    |
| <b>Total One-Time Benefits for July 1, 2006, Through June 30, 2007</b>  |  | <b>\$6,111,000</b>      |
| I2006-2 (September 2006)<br>(Allegation I2006-0663)                     | <i>Department of Forestry and Fire Protection: Investigations of Improper Activities by State Employees</i><br>Cost Recovery—Between January 2004 and December 2005 an employee with the Department of Forestry and Fire Protection improperly claimed and received \$17,904 in wages for 672 hours he did not work in violation of state law.   | 18,000                  |
| 2006-035 (February 2007)  | <i>Department of Health Services<sup>‡</sup>: It Has Not Yet Fully Implemented Legislation Intended to Improve the Quality of Care in Skilled Nursing Facilities</i><br>Cost Recovery—A contractor consultant authorized long-term care Medi-Cal duplicate payments. Health Services will recoup approximately \$5.3 million from facilities that received duplicate payments and an additional \$780,000 for duplicate or overlapping payments made to one or more different provider entities. Since authorization for the duplicate payments occurred because of a flawed procedure, the error may have caused other duplicate payments outside those we identified.  | 5,300,000<br>780,000    |

| AUDIT NUMBER<br>(DATE RELEASED)   | AUDITEE*/ REPORT TITLE/<br>BASIS OF MONETARY VALUE  | MONETARY VALUE                |
|---|---|-------------------------------|
| I2007-1 (March 2007)<br>(Allegation I2006-0945)                         | <i>California Exposition and State Fair: Investigations of Improper Activities by State Employees</i><br>Cost Recovery—An official within the California Exposition and State Fair (Cal Expo) sold his personal vehicle to Cal Expo. Because he was involved in the decision to make this purchase while acting in his official capacity and because he derived a personal financial benefit, this official violated the Political Reform Act of 1974 and Section 1090 of the California Government Code. Cal Expo has indicated that it has reversed the transaction regarding the vehicle, resulting in the reimbursement of \$5,900 to Cal Expo and the return of the vehicle to the prior owner.  | 6,000                         |
| I2007-1 (March 2007)<br>(Allegation I2006-0731)                         | <i>Department of Health Care Services: Investigations of Improper Activities by State Employees</i><br>Cost Recovery—An employee of the Department of Health Care Services violated regulations covering travel expense reimbursements and payment of commuting expenses resulting in overpayments totaling \$7,453.  | 7,000                         |
| <b>Annualized Carry Forward for July 1, 2006, Through June 30, 2007</b> |   | <b>\$148,464,000</b>          |
| 2001-128 (April 2002)   | Enterprise Licensing Agreement  | 8,120,000                     |
| 2002-101 (July 2002)  | Department of Corrections and Rehabilitation  | 29,000,000                    |
| 2002-009 (April 2003)   | California Energy Markets   | 29,000,000                    |
| 2002-118 (April 2003)   | Department of Health Services <sup>‡</sup>  | 20,000,000                    |
| 2003-106 (October 2003)   | State Mandates  | 7,600,000                     |
| 2003-125 (July 2004)  | Department of Corrections and Rehabilitation  | 20,700,000                    |
| 2003-124 (August 2004)  | Department of Health Services <sup>‡</sup>  | 4,600,000                     |
| I2004-2 (September 2004)  | Department of Health Services <sup>‡</sup>  | 9,000                         |
| I2004-2 (September 2004)  | California Military Department  | 64,000                        |
| 2004-105 (October 2004)   | Department of Corrections and Rehabilitation  | 290,000                       |
| I2005-1 (March 2005)  | Department of Corrections and Rehabilitation  | 119,000                       |
| 2004-033 (May 2005)   | Pharmaceuticals   | 7,800,000**                   |
| 2004-113 (July 2005)  | Department of General Services  | 2,336,000 <sup>††</sup>       |
| 2004-134 (July 2005)  | California State Athletic Commission  | 33,000                        |
| 2004-125 (August 2005)  | Department of Health Services <sup>‡</sup>  | 10,300,000                    |
| I2005-2 (September 2005)  | Department of Corrections and Rehabilitation  | 193,000                       |
| I2006-1 (March 2006)  | Department of Fish and Wildlife   | 8,300,000                     |
| <b>Total for July 1, 2005, Through June 30, 2006</b>                    |   | <b>\$133,750,000</b>          |
| <b>Total One-Time Benefits for July 1, 2005, Through June 30, 2006</b>  |   | <b>\$20,948,000</b>           |
| 2004-113 (July 2005)  | <i>Department of General Services: Opportunities Exist Within the Office of Fleet Administration to Reduce Costs</i><br>Cost Savings/Avoidance—The Department of General Services (General Services) expects that the new, more competitive contracts it awarded for January 2006 through December 2008 should save the State about \$2.3 million each year. Cost savings reflect six months—January through June 2006.<br>Increased Revenue—General Services identified 49 parkers it was not previously charging. By charging these parkers, General Services will experience increased revenue totaling \$36,000 per year.<br>Cost Recovery—General Services reports it has recovered or established a monthly payment plan to recover \$45,000 in previously unpaid parking fees. | 1,115,000<br>36,000<br>45,000 |
| 2004-134 (July 2005)  | <i>State Athletic Commission: The Current Boxers' Pension Plan Benefits Only a Few and Is Poorly Administered</i><br>Increased Revenue—If the State Athletic Commission raises the ticket assessment to meet targeted pension contributions as required by law, we estimate it will collect an average of \$33,300 more per year.   | 33,000                        |

| AUDIT NUMBER<br>(DATE RELEASED)   | AUDITEE*/ REPORT TITLE/<br>BASIS OF MONETARY VALUE   | MONETARY VALUE         |
|---|--|------------------------|
| 2004-125 (August 2005)  | <i>Department of Health Services<sup>‡</sup>: Participation in the School-Based Medi-Cal Administrative Activities Program Has Increased, but School Districts Are Still Losing Millions Each Year in Federal Reimbursements</i><br>Increased Revenue—We estimate that California school districts would have received at least \$53 million more in fiscal year 2002–03 if all school districts had participated in the program and an additional \$4 million more if certain participating schools had fully used the program. A lack of program awareness was among the reasons school districts cited for not participating. By stepping up outreach, we believe more schools will participate in the program and revenues will continue to increase. However, because participation continued to increase between fiscal years 2002–03 and 2004–05, the incremental increase in revenue will be less than it was in fiscal year 2002–03. Taking into account this growth in participation and using a trend line to estimate the resulting growth in revenues, we estimate that revenues will increase by about \$10.3 million per year beginning in fiscal year 2005–06. | 10,300,000             |
| 2004-126 (August 2005)  | <i>Off-Highway Motor Vehicle Recreation Program: The Lack of a Shared Vision and Questionable Use of Program Funds Limits Its Effectiveness</i><br>Cost Recovery—Of the \$566,000 in grant advances we identified as outstanding from Los Angeles County, the division reports receiving a \$226,000 refund and determining that the remaining \$340,000 was used in accordance with grant guidelines.   | 226,000                |
| 12005-2 (September 2005)<br>(Allegation 12004-0710)                             | <i>California Military Department: Investigations of Improper Activities by State Employees</i><br>Cost Recovery—A supervisor at the California Military Department embezzled \$132,523 in public funds; a court has subsequently ordered restitution of these funds.  | 133,000                |
| 12005-2 (September 2005)<br>(Allegations 12004-0649,<br>12004-0681, 12004-0789) | <i>Department of Corrections<sup>††</sup>: Investigations of Improper Activities by State Employees</i><br>Cost Recovery—The Department of Corrections and Rehabilitation (Corrections) failed to properly account for the time that employees used when released from their regular job duties to perform union-related activities. In addition to recovering past payments totaling \$365,500, Corrections can save \$192,500 annually by discontinuing this practice.   | 558,000                |
| 12006-1 (March 2006)<br>(Allegation 12005-0781)                                 | <i>Department of Corrections and Rehabilitation: Investigations of Improper Activities by State Employees</i><br>Cost Recovery—The Department of Corrections and Rehabilitation failed to exercise its management controls, resulting in gifts of public funds of \$70,255 in leave not charged.   | 70,000                 |
| 12006-1 (March 2006)<br>(Allegations 12005-0810,<br>12005-0874, 12005-0929)     | <i>Department of Forestry and Fire Protection: Investigations of Improper Activities by State Employees</i><br>Cost Recovery—Several employees of the Department of Forestry and Fire Protection received \$61,466 in improper overtime payments.  | 61,000                 |
| 12006-1 (March 2006)<br>(Allegations 12004-0983,<br>12005-1013)                 | <i>Victim Compensation and Government Claims Board: Investigations of Improper Activities by State Employees</i><br>Cost Recovery—The Department of Corrections and Rehabilitation (Corrections) improperly awarded payments to a physician at Corrections totaling \$25,950.  | 26,000                 |
| 12006-1 (March 2006)<br>(Allegation 12004-1057)                                 | <i>Department of Fish and Game<sup>†</sup>: Investigations of Improper Activities by State Employees</i><br>Increased Revenue—The Department of Fish and Game allowed several state employees and volunteers to reside in state-owned homes without charging them rent, consequently providing gifts of public funds. A subsequent housing review conducted by the Department of Personnel Administration <sup>11</sup> demonstrated that all 13 state departments that own employee housing may be underreporting or failing to report housing fringe benefits. As a result, the State could increase revenues as much as \$8.3 million by charging fair-market rents.  | 8,300,000              |
| 2005-120 (April 2006)   | <i>California Student Aid Commission: Changes in the Federal Family Education Loan Program, Questionable Decisions, and Inadequate Oversight Raise Doubts About the Financial Stability of the Student Loan Program</i><br>Cost Savings/Avoidance—We recommended that the Student Aid Commission amend its operating agreement to require EDFUND to establish a travel policy that is consistent with the State's policy and that it closely monitor EDFUND expenses paid out of the Operating Fund for conferences, workshops, all-staff events, travel, and the like. By implementing policy changes as recommended, we estimate EDFUND could save a minimum of \$45,000 annually.   | 45,000 <sup>\$\$</sup> |
| <b>Annualized Carry Forward for July 1, 2005, Through June 30, 2006</b>         |  | <b>\$112,802,000</b>   |
| 2001-128 (April 2002)   | Enterprise Licensing Agreement   | 8,120,000              |
| 2002-101 (July 2002)  | Department of Corrections and Rehabilitation   | 14,500,000             |
| 2002-009 (April 2003)   | California Energy Markets  | 29,000,000             |
| 2002-118 (April 2003)   | Department of Health Services <sup>‡</sup>   | 20,000,000             |
| 2003-106 (October 2003)   | State Mandates   | 7,600,000              |
| 2003-125 (July 2004)  | Department of Corrections and Rehabilitation   | 20,700,000             |

| AUDIT NUMBER<br>(DATE RELEASED)  | AUDITEE*/ REPORT TITLE/<br>BASIS OF MONETARY VALUE  | MONETARY VALUE             |
|--|---|----------------------------|
| 2003-124 (August 2004)   | Department of Health Services <sup>‡</sup>  | 4,600,000                  |
| I2004-2 (September 2004)   | Department of Health Services <sup>‡</sup>  | 9,000                      |
| I2004-2 (September 2004)   | Military Department   | 64,000                     |
| 2004-105 (October 2004)  | Department of Corrections and Rehabilitation  | 290,000                    |
| I2005-1 (March 2005)   | Department of Corrections and Rehabilitation  | 119,000                    |
| 2004-033 (May 2005)  | Pharmaceuticals   | 7,800,000**                |
| <b>Total for January 1, 2005, Through June 30, 2005</b>                            |   | <b>\$40,310,000</b>        |
| <b>Total One-Time Benefits for January 1, 2005, Through June 30, 2005</b>          |   | <b>\$7,950,000</b>         |
| I2005-1 (March 2005)<br>(Allegation I2003-0834)                                    | <i>Department of Corrections<sup>‡‡</sup>: Investigations of Improper Activities by State Employees</i><br><br>Cost Recovery/Cost Savings—In violation of state regulations and employee contract provisions, the Department of Corrections (Corrections) paid 25 nurses at four institutions nearly \$238,200 more than they were entitled to receive between July 1, 2001, and June 30, 2003. In addition to recovering past overpayments, Corrections can save \$119,000 annually by discontinuing this practice. Although Corrections now contends that the payments to 10 of the 25 nurses were appropriate, despite repeated requests, it has not provided us the evidence supporting its contention. Thus, we have not revised our original estimate.  | 357,000                    |
| 2005-030 (April 2005)  | <i>State Bar of California: It Should Continue Strengthening Its Monitoring of Disciplinary Case Processing and Assess the Financial Benefits of Its New Collection Enforcement Authority</i><br><br>Cost Recovery—As a result of our recommendation that it prioritize its cost recovery efforts to focus on attorneys who owe substantial amounts, the State Bar of California sent demand letters to the top 100 disciplined attorneys and has received \$24,411 as of April 2006.   | 24,000                     |
| 2004-033 (May 2005)  | <i>Pharmaceuticals: State Departments That Purchase Prescription Drugs Can Further Refine Their Cost Savings Strategies</i><br><br>Cost Savings/Avoidance—In a prior audit, we had noted that opportunities existed for the Department of General Services (General Services) to increase the amount of purchases made under contract with drug companies, and we recommended in this audit that General Services continue its efforts to obtain more drug prices on contract by working with its contractor to negotiate new and renegotiate existing contracts with certain manufacturers. General Services reports that it has implemented contracts that it estimates will save the State \$5.1 million annually.<br><br>Cost Recovery—As we recommended, the Department of Health Services <sup>‡</sup> identified and corrected all of the drug claims it paid using an incorrect pricing method. It expects to recoup the nearly \$2.5 million in net overpayments that resulted from its error.   | 5,100,000<br><br>2,469,000 |
| <b>Annualized Carry Forward for January 1, 2005, Through June 30, 2005</b>         |   | <b>\$32,360,000</b>        |
| 2001-128 (April 2002)  | Enterprise Licensing Agreement  | 4,060,000                  |
| 2002-009 (April 2003)  | California Energy Markets   | 14,500,000                 |
| 2002-118 (April 2003)  | Department of Health Services <sup>‡</sup>  | 10,000,000                 |
| 2003-106 (October 2003)  | State Mandates  | 3,800,000                  |
| <b>Benefits Identified Prior to 2005, but Have Annualized Carry Forward Values</b> |   |                            |
| 2001-128 (April 2002)  | <i>Enterprise Licensing Agreement: The State Failed to Exercise Due Diligence When Contracting With Oracle, Potentially Costing Taxpayers Millions of Dollars</i><br><br>Cost Savings—The State and Oracle agreed to rescind the contract in July 2002. As a result, we estimate the State will save \$8,120,000 per year for five years starting in fiscal year 2002–03.   |                            |
| 2002-101 (July 2002)   | <i>California Department of Corrections<sup>‡‡</sup>: A Shortage of Correctional Officers, Along With Costly Labor Agreement Provisions, Raises Both Fiscal and Safety Concerns and Limits Management's Control</i><br><br>Cost Savings—We estimate that the Department of Corrections and Rehabilitation (Corrections) could save \$58 million if it reduces overtime costs by filling unmet correctional officer needs. This estimate includes the \$42 million we identified in our November 2001 report (2001-108). Corrections stated in its six-month response to this audit that, following our recommendation to increase the number of correctional officer applicants, it has submitted a proposal to restructure its academy to allow two additional classes each year. This action could potentially allow Corrections to graduate several hundred more correctional officers each year, thereby potentially contributing to a reduction in its overtime costs. However, any savings from this action would be realized in future periods. We estimate that Corrections could realize savings of \$14.5 million beginning in fiscal year 2005–06, with savings increasing each year until reaching \$58 million in fiscal year 2008–09. |                            |

| AUDIT NUMBER<br>(DATE RELEASED) | AUDITEE*/ REPORT TITLE/<br>BASIS OF MONETARY VALUE  | MONETARY VALUE |
|---------------------------------|---|----------------|
| 2002-009 (April 2003)           | <p><i>California Energy Markets: The State's Position Has Improved, Due to Efforts by the Department of Water Resources and Other Factors, but Cost Issues and Legal Challenges Continue</i></p> <p>Cost Savings—In response to an audit recommendation, the Department of Water Resources (Water Resources) renegotiated certain energy contracts. Water Resources' consultant estimates that the present value of the potential cost savings due to contract renegotiation efforts as of December 31, 2002, by Water Resources and power suppliers, when considering replacement power costs, to be \$580 million. For the purpose of this analysis, we have computed the average annual cost savings by dividing the \$580 million over the 20-year period the savings will be realized, which results in \$29 million annually.</p> |                |
| 2002-118 (April 2003)           | <p><i>Department of Health Services<sup>‡</sup>: Its Efforts to Further Reduce Prescription Drug Costs Have Been Hindered by Its Inability to Hire More Pharmacists and Its Lack of Aggressiveness in Pursuing Available Cost-Saving Measures</i></p> <p>Cost Savings—The Department of Health Services estimated that it could save \$20 million annually by placing the responsibility on the pharmacists to recover \$1 copayments they collect from each Medi-Cal beneficiary filling a prescription. We estimate the State could begin to receive these savings each year beginning in fiscal year 2003–04.</p>  |                |

\* This table covers an eight-year span and several departments have undergone name changes. To be consistent, we use each department's current name throughout the table.

† As of January 1, 2013, the Department of Fish and Game became the Department of Fish and Wildlife.

‡ On July 7, 2007, the Department of Health Services was reorganized and became two departments—the Department of Health Care Services and the Department of Public Health.

§ As of July 1, 2012, the California Department of Mental Health became the Department of State Hospitals.

|| On July 1, 2012, the State Personnel Board and the Department of Personnel Administration were combined to create the California Department of Human Resources.

\*\* Based on our follow-up work (Report 2007-501), we will discontinue claiming \$7.8 million as of fiscal year 2007–08 because the Department of General Services' two new pharmaceutical contracts will expire November 2007. This monetary value was previously listed at \$5.1 million. However, according to General Services, its strategic sourcing contractor assisted it in negotiating two new pharmaceutical contracts for the period of November 2005 to November 2007 that General Services believed would result in increased savings to the State. Our follow-up report indicates that the State appears to have achieved savings of \$7.8 million during the first 10 months of these two new contracts. See report number 2007-501 (June 2007).

†† Based on our follow-up audit 2007-502, issued May 2007, we reduced General Services' expected \$3 million of cost savings we reported in 2005 to \$2.3 million of potential savings.

‡‡ On July 1, 2005, the governor reorganized all departments under the Youth and Adult Correctional Agency, including the Department of Corrections, into the California Department of Corrections and Rehabilitation.

§§ We will discontinue claiming \$45,000 as of this fiscal year. Recent changes to state law may impact the role previously performed by the Student Aid Commission (commission). Senate Bill 89, an emergency measure enacted as Chapter 182, Statutes of 2007, and signed by the governor on August 24, 2007, took effect immediately, and may affect the ownership of EDFUND, and impact the commission's oversight role.

**Table 2**  
**Recommendation Status Summary**

|   | FOLLOW-UP RESPONSE* |        |           |          | STATUS OF RECOMMENDATION |                       |         |                 | PAGE NUMBER |
|---|---------------------|--------|-----------|----------|--------------------------|-----------------------|---------|-----------------|-------------|
|   | INITIAL RESPONSE    | 60-DAY | SIX-MONTH | ONE-YEAR | FULLY IMPLEMENTED        | PARTIALLY IMPLEMENTED | PENDING | NO ACTION TAKEN |             |
| <b>Banking and Finance</b>  |                     |        |           |          |                          |                       |         |                 |             |
| <b>California Health Facilities Financing Authority</b><br>Conduit Bond Issuers<br>Report 2011-118 / 2011-613       |                     | ●      |           |          | 1                        |                       |         |                 | 31          |
| <b>California Housing Finance Agency</b><br>Affordable Housing Solvency<br>Report 2010-123                          |                     |        | ●         |          | 2                        |                       |         |                 | 29          |
| <b>California Municipal Finance Authority</b><br>Conduit Bond Issuers<br>Report 2011-118 / 2011-613                 |                     | ●      |           |          | 1                        |                       | 2       |                 | 31          |
| <b>California Statewide Communities Development Authority</b><br>Conduit Bond Issuers<br>Report 2011-118 / 2011-613 |                     | ●      |           |          | 1                        | 1                     | 2       |                 | 31          |
| <b>Fair Political Practices Commission</b><br>Conduit Bond Issuers<br>Report 2011-118 / 2011-613                    |                     | ●      |           |          | 1                        |                       |         |                 | 31          |
| <b>Business, Professions, and Consumer Protection</b>   |                     |        |           |          |                          |                       |         |                 |             |
| <b>California Energy Commission</b><br>Intellectual Property<br>Report 2011-106                                     |                     |        |           | ●        | 2                        |                       |         |                 | 35          |
| <b>California Department of Transportation</b><br>Intellectual Property<br>Report 2011-106                          |                     |        |           | ●        | 1                        |                       |         |                 | 35          |
| <b>Department of Consumer Affairs</b><br>Physical Therapy Board<br>Report 2011-119                                  |                     |        | ●         |          |                          | 1                     |         |                 | 49          |
| <b>Department of Food and Agriculture</b><br>Intellectual Property<br>Report 2011-106                               |                     |        |           | ●        | 2                        |                       |         |                 | 35          |
| <b>Department of General Services</b><br>School Construction Projects<br>Report 2011-116.1                          |                     |        |           | ●        | 2                        | 10                    | 2       |                 | 39          |
| Division of the State Architect<br>Report 2011-116.2  |                     |        | ●         |          | 3                        | 3                     | 4       |                 | 45          |
| <b>Department of Health Care Services</b><br>Intellectual Property<br>Report 2011-106                               |                     |        |           | ●        |                          |                       |         | 1               | 35          |
| <b>Physical Therapy Board of California</b><br>Physical Therapy Board<br>Report 2011-119                            |                     |        | ●         |          | 2                        |                       | 1       |                 | 49          |

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|  | FOLLOW-UP RESPONSE* |        |           |          | STATUS OF RECOMMENDATION |                       |         |                 | PAGE NUMBER |
|--|---------------------|--------|-----------|----------|--------------------------|-----------------------|---------|-----------------|-------------|
|  | INITIAL RESPONSE    | 60-DAY | SIX-MONTH | ONE-YEAR | FULLY IMPLEMENTED        | PARTIALLY IMPLEMENTED | PENDING | NO ACTION TAKEN |             |
| <b>Education</b>   |                     |        |           |          |                          |                       |         |                 |             |
| <b>California Department of Education</b>                    |                     |        |           |          |                          |                       |         |                 |             |
| High School Graduation and Dropout Data Report 2011-117      |                     |        | ●         |          | 2                        | 1                     |         |                 | 59          |
| <b>Commission on Teacher Credentialing</b>                   |                     |        |           |          |                          |                       |         |                 |             |
| Discipline of Teacher Misconduct Report 2010-119             |                     |        |           | ●        | 22                       |                       |         |                 | 51          |
| <b>Department of General Services</b>                        |                     |        |           |          |                          |                       |         |                 |             |
| School Construction Projects Report 2011-116.1               |                     |        |           | ●        | 2                        | 10                    | 2       |                 | 39          |
| Division of the State Architect Report 2011-116.2            |                     |        | ●         |          | 3                        | 3                     | 4       |                 | 45          |
| <b>Los Angeles Unified School District</b>                   |                     |        |           |          |                          |                       |         |                 |             |
| Child Abuse Allegations Report 2012-103                      | ●                   |        |           |          |                          | 1                     | 2       |                 | 61          |
| <b>Governmental Organization</b>                             |                     |        |           |          |                          |                       |         |                 |             |
| <b>Amador County</b>   |                     |        |           |          |                          |                       |         |                 |             |
| Indian Gaming Special Distribution Fund Report 2010-036      |                     |        |           | ●        | 2                        | 2                     |         | 1               | 65          |
| <b>California Department of Forestry and Fire Protection</b> |                     |        |           |          |                          |                       |         |                 |             |
| California's Mutual Aid System Report 2011-103               |                     |        | ●         |          | 1                        |                       | 1       |                 | 71          |
| <b>California Emergency Management Agency</b>                |                     |        |           |          |                          |                       |         |                 |             |
| California's Mutual Aid System Report 2011-103               |                     |        | ●         |          | 2                        | 1                     | 5       |                 | 71          |
| <b>Humboldt County</b>                                       |                     |        |           |          |                          |                       |         |                 |             |
| Indian Gaming Special Distribution Fund Report 2010-036      |                     |        |           | ●        |                          |                       |         | 3               | 65          |
| <b>Riverside County</b>                                      |                     |        |           |          |                          |                       |         |                 |             |
| Indian Gaming Special Distribution Fund Report 2010-036      |                     |        |           | ●        |                          | 1                     | 2       | 1               | 65          |
| <b>San Diego County</b>                                      |                     |        |           |          |                          |                       |         |                 |             |
| Indian Gaming Special Distribution Fund Report 2010-036      |                     |        |           | ●        | 2                        | 1                     |         |                 | 65          |
| <b>Santa Barbara County</b>                                  |                     |        |           |          |                          |                       |         |                 |             |
| Indian Gaming Special Distribution Fund Report 2010-036      |                     |        |           | ●        |                          |                       |         | 6               | 65          |
| <b>Shasta County</b>   |                     |        |           |          |                          |                       |         |                 |             |
| Indian Gaming Special Distribution Fund Report 2010-036      |                     |        |           | ●        |                          | 1                     | 2       | 2               | 65          |
| <b>Yolo County</b>   |                     |        |           |          |                          |                       |         |                 |             |
| Indian Gaming Special Distribution Fund Report 2010-036      |                     |        |           | ●        | 1                        | 1                     |         | 2               | 65          |

|   | FOLLOW-UP RESPONSE* |        |           |          | STATUS OF RECOMMENDATION |                       |         |                 | PAGE NUMBER |
|---|---------------------|--------|-----------|----------|--------------------------|-----------------------|---------|-----------------|-------------|
|   | INITIAL RESPONSE    | 60-DAY | SIX-MONTH | ONE-YEAR | FULLY IMPLEMENTED        | PARTIALLY IMPLEMENTED | PENDING | NO ACTION TAKEN |             |
| <b>Health</b>   |                     |        |           |          |                          |                       |         |                 |             |
| <b>California Health Facilities Financing Authority</b><br>Children's Hospital Program Report 2012-042              |                     | ●      |           |          |                          |                       | 4       |                 | 89          |
| <b>Department of Consumer Affairs</b><br>Physical Therapy Board Report 2011-119                                     |                     |        | ●         |          |                          | 1                     |         |                 | 49          |
| <b>Department of Health Care Services</b><br>Medi-Cal Managed Care Program Report 2011-104                          |                     |        |           | ●        | 2                        |                       | 2       |                 | 77          |
| <b>Department of Managed Health Care</b><br>Medi-Cal Managed Care Program Report 2011-104                           |                     |        |           | ●        | 3                        |                       |         |                 | 77          |
| <b>Department of Public Health</b><br>Child Health and Safety Fund/Children's Trust Fund Report 2012-105            | ●                   |        |           |          |                          |                       | 8       |                 | 91          |
| <b>Department of Social Services</b><br>Child Health and Safety Fund/Children's Trust Fund Report 2012-105          | ●                   |        |           |          |                          |                       | 10      | 4               | 91          |
| <b>Physical Therapy Board of California</b><br>Physical Therapy Board Report 2011-119                               |                     |        | ●         |          | 2                        |                       | 1       |                 | 49          |
| <b>Salinas Valley Memorial Healthcare System</b><br>Executive Compensation and Conflict of Interest Report 2011-113 |                     |        | ●         |          | 11                       | 3                     | 1       |                 | 81          |
| <b>Higher Education</b>   |                     |        |           |          |                          |                       |         |                 |             |
| <b>Academy of Art University, San Francisco</b><br>Crime Disclosure Report 2012-032                                 |                     | ●      |           |          | 1                        | 1                     |         |                 | 103         |
| <b>California State University, Northridge</b><br>Crime Disclosure Report 2012-032                                  |                     | ●      |           |          | 2                        |                       |         |                 | 103         |
| <b>Laney College, Oakland</b><br>Crime Disclosure Report 2012-032   |                     | ●      |           |          |                          |                       | 4       |                 | 103         |
| <b>San Bernardino Valley College</b><br>Crime Disclosure Report 2012-032  |                     | ●      |           |          |                          |                       | 4       |                 | 103         |
| <b>San Diego City College</b><br>Crime Disclosure Report 2012-032   |                     | ●      |           |          | 1                        | 2                     | 1       |                 | 103         |
| <b>University of California</b><br>Financial Records Report 2010-105  |                     |        |           | ●        | 1                        | 4                     | 2       | 1               | 99          |
| <b>University of the Pacific, Stockton</b><br>Crime Disclosure Report 2012-032                                      |                     | ●      |           |          |                          |                       | 4       |                 | 103         |

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|   | FOLLOW-UP RESPONSE* |        |           |          | STATUS OF RECOMMENDATION |                       |         |                 | PAGE NUMBER |
|---|---------------------|--------|-----------|----------|--------------------------|-----------------------|---------|-----------------|-------------|
|   | INITIAL RESPONSE    | 60-DAY | SIX-MONTH | ONE-YEAR | FULLY IMPLEMENTED        | PARTIALLY IMPLEMENTED | PENDING | NO ACTION TAKEN |             |
| <b>Housing and Community Development</b>  |                     |        |           |          |                          |                       |         |                 |             |
| <b>California Department of Forestry and Fire Protection</b><br>California's Mutual Aid System Report 2011-103                      |                     |        | ●         |          | 1                        |                       | 1       |                 | 71          |
| <b>California Emergency Management Agency</b><br>California's Mutual Aid System Report 2011-103                                     |                     |        | ●         |          | 2                        | 1                     | 5       |                 | 71          |
| <b>California Health Facilities Financing Authority</b><br>Conduit Bond Issuers Report 2011-118 / 2011-613                          |                     | ●      |           |          | 1                        |                       |         |                 | 31          |
| <b>California Housing Finance Agency</b><br>Affordable Housing Solvency Report 2010-123   |                     |        | ●         |          | 2                        |                       |         |                 | 29          |
| <b>California Municipal Finance Authority</b><br>Conduit Bond Issuers Report 2011-118 / 2011-613                                    |                     | ●      |           |          | 1                        |                       | 2       |                 | 31          |
| <b>California Statewide Communities Development Authority</b><br>Conduit Bond Issuers Report 2011-118 / 2011-613                    |                     | ●      |           |          | 1                        | 1                     | 2       |                 | 31          |
| <b>Department of Finance</b><br>Housing Bonds Report 2012-037   |                     | ●      |           |          | 1                        |                       |         |                 | 107         |
| <b>Department of Housing and Community Development</b><br>Housing Bonds Report 2012-037   |                     | ●      |           |          | 4                        | 2                     |         |                 | 107         |
| <b>Fair Political Practices Commission</b><br>Conduit Bond Issuers Report 2011-118 / 2011-613                                       |                     | ●      |           |          | 1                        |                       |         |                 | 31          |
| <b>Human Services</b>   |                     |        |           |          |                          |                       |         |                 |             |
| <b>Department of Public Health</b><br>Child Health and Safety Fund/Children's Trust Fund Report 2012-105                            | ●                   |        |           |          |                          |                       | 8       |                 | 91          |
| <b>Department of Social Services</b><br>Foster Family Home and Small Family Home Insurance Fund Report 2010-121                     |                     |        |           | ●        | 4                        |                       | 3       |                 | 111         |
| Child Welfare Services Report 2011-101.1  |                     |        |           | ●        | 9                        | 2                     | 1       | 8               | 115         |
| Child Health and Safety Fund/Children's Trust Fund Report 2012-105  | ●                   |        |           |          |                          |                       | 10      | 4               | 91          |
| <b>Los Angeles County Department of Children and Family Services</b><br>Los Angeles County Child Welfare Services Report 2011-101.2 |                     |        | ●         |          | 3                        | 2                     | 2       | 2               | 123         |

|   | FOLLOW-UP RESPONSE* |        |           |          | STATUS OF RECOMMENDATION |                       |         |                 |             |
|---|---------------------|--------|-----------|----------|--------------------------|-----------------------|---------|-----------------|-------------|
|   | INITIAL RESPONSE    | 60-DAY | SIX-MONTH | ONE-YEAR | FULLY IMPLEMENTED        | PARTIALLY IMPLEMENTED | PENDING | NO ACTION TAKEN | PAGE NUMBER |
| <b>Insurance</b>  |                     |        |           |          |                          |                       |         |                 |             |
| <b>Department of Social Services</b><br>Foster Family Home and Small Family Home Insurance Fund Report 2010-121 |                     |        |           | ●        | 4                        |                       | 3       |                 | 111         |
| <b>California Technology Agency</b><br>Unemployment Program Report 2010-112                                     |                     |        |           | ●        | 1                        |                       |         |                 | 127         |
| <b>Employment Development Department</b><br>Unemployment Program Report 2010-112                                |                     |        |           | ●        | 4                        | 1                     |         | 4               | 127         |
| <b>Jobs, Economic Development, and the Economy</b>  |                     |        |           |          |                          |                       |         |                 |             |
| <b>Administrative Office of the Courts<sup>†</sup></b><br>Statewide Case Management Project Report 2010-102     |                     |        |           | ●        | 17                       | 4                     |         |                 | 131         |
| <b>California Department of Transportation</b><br>Intellectual Property Report 2011-106                         |                     |        |           | ●        | 1                        |                       |         |                 | 35          |
| <b>California Energy Commission</b><br>Intellectual Property Report 2011-106                                    |                     |        |           | ●        | 2                        |                       |         |                 | 35          |
| <b>California Labor and Workforce Development Agency</b><br>Federal Workforce Investment Act Report 2011-111    |                     |        | ●         |          |                          | 1                     |         |                 | 147         |
| <b>California Workforce Investment Board</b><br>Federal Workforce Investment Act Report 2011-111                |                     |        | ●         |          |                          | 2                     |         |                 | 147         |
| <b>Department of Food and Agriculture</b><br>Intellectual Property Report 2011-106                              |                     |        |           | ●        | 2                        |                       |         |                 | 35          |
| <b>Department of Health Care Services</b><br>Intellectual Property Report 2011-106                              |                     |        |           | ●        |                          |                       |         | 1               | 35          |
| <b>Employment Development Department</b><br>Federal Workforce Investment Act Report 2011-111                    |                     |        | ●         |          | 2                        |                       | 2       |                 | 147         |
| <b>Judiciary</b>  |                     |        |           |          |                          |                       |         |                 |             |
| <b>Administrative Office of the Courts<sup>†</sup></b><br>Statewide Case Management Project Report 2010-102     |                     |        |           | ●        | 17                       | 4                     |         |                 | 131         |
| <b>State Bar of California</b><br>Lawyer Assistance Program Report 2011-030                                     |                     |        |           | ●        | 2                        | 1                     |         |                 | 165         |
| <b>Superior Court of California, County of Marin</b><br>Sacramento and Marin Superior Courts Report 2009-109    |                     |        |           | ●        | 14                       |                       |         |                 | 151         |

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|  | FOLLOW-UP RESPONSE* |        |           |          | STATUS OF RECOMMENDATION |                       |         |                 | PAGE NUMBER |
|--|---------------------|--------|-----------|----------|--------------------------|-----------------------|---------|-----------------|-------------|
|  | INITIAL RESPONSE    | 60-DAY | SIX-MONTH | ONE-YEAR | FULLY IMPLEMENTED        | PARTIALLY IMPLEMENTED | PENDING | NO ACTION TAKEN |             |
| <b>Superior Court of California, County of Sacramento</b><br>Sacramento and Marin Superior Courts<br>Report 2009-109 |                     |        |           | ●        | 31                       | 2                     |         | 8               | 151         |
| <b>Labor and Employment</b>  |                     |        |           |          |                          |                       |         |                 |             |
| <b>California Labor and Workforce Development Agency</b><br>Federal Workforce Investment Act<br>Report 2011-111      |                     |        | ●         |          |                          | 1                     |         |                 | 147         |
| <b>California Technology Agency</b><br>Unemployment Program<br>Report 2010-112                                       |                     |        |           | ●        | 1                        |                       |         |                 | 127         |
| <b>California Workforce Investment Board</b><br>Federal Workforce Investment Act<br>Report 2011-111                  |                     |        | ●         |          |                          | 2                     |         |                 | 147         |
| <b>Employment Development Department</b><br>Unemployment Program<br>Report 2010-112                                  |                     |        |           | ●        | 4                        | 1                     |         | 4               | 127         |
| Federal Workforce Investment Act<br>Report 2011-111  |                     |        | ●         |          | 2                        |                       | 2       |                 | 147         |
| <b>Local Government</b>  |                     |        |           |          |                          |                       |         |                 |             |
| <b>Amador County</b><br>Indian Gaming Special Distribution Fund<br>Report 2010-036                                   |                     |        |           | ●        | 2                        | 2                     |         | 1               | 65          |
| <b>California Department of Forestry and Fire Protection</b><br>California's Mutual Aid System<br>Report 2011-103    |                     |        | ●         |          | 1                        |                       | 1       |                 | 71          |
| <b>California Department of Transportation</b><br>State Route 710 Extension Properties<br>Report 2011-120            |                     | ●      |           |          |                          | 23                    | 2       | 1               | 167         |
| <b>California Emergency Management Agency</b><br>California's Mutual Aid System<br>Report 2011-103                   |                     |        | ●         |          | 2                        | 1                     | 5       |                 | 71          |
| <b>California Health Facilities Financing Authority</b><br>Conduit Bond Issuers<br>Report 2011-118 / 2011-613        |                     | ●      |           |          | 1                        |                       |         |                 | 31          |
| <b>California Municipal Finance Authority</b><br>Conduit Bond Issuers<br>Report 2011-118 / 2011-613                  |                     | ●      |           |          | 1                        |                       | 2       |                 | 31          |
| <b>California Statewide Communities Development Authority</b><br>Conduit Bond Issuers<br>Report 2011-118 / 2011-613  |                     | ●      |           |          | 1                        | 1                     | 2       |                 | 31          |
| <b>City of San José</b><br>Retirement Costs<br>Report 2012-106   |                     | ●      |           |          |                          |                       | 1       |                 | 199         |

|  | FOLLOW-UP RESPONSE* |        |           |          | STATUS OF RECOMMENDATION |                       |         |                 |             |
|--|---------------------|--------|-----------|----------|--------------------------|-----------------------|---------|-----------------|-------------|
|  | INITIAL RESPONSE    | 60-DAY | SIX-MONTH | ONE-YEAR | FULLY IMPLEMENTED        | PARTIALLY IMPLEMENTED | PENDING | NO ACTION TAKEN | PAGE NUMBER |
| <b>City of Vernon</b>  |                     | ●      |           |          | 1                        | 4                     | 13      | 21              | 189         |
| Financial Stability Report 2011-131                                  |                     |        |           |          |                          |                       |         |                 |             |
| <b>Department of General Services</b>                                |                     | ●      |           |          |                          | 10                    | 1       | 4               | 167         |
| State Route 710 Extension Properties Report 2011-120                 |                     |        |           |          |                          |                       |         |                 |             |
| <b>Department of Health Care Services</b>                            |                     |        |           | ●        | 2                        |                       | 2       |                 | 77          |
| Medi-Cal Managed Care Program Report 2011-104                        |                     |        |           |          |                          |                       |         |                 |             |
| <b>Department of Managed Health Care</b>                             |                     |        |           | ●        | 3                        |                       |         |                 | 77          |
| Medi-Cal Managed Care Program Report 2011-104                        |                     |        |           |          |                          |                       |         |                 |             |
| <b>Department of Social Services</b>                                 |                     |        |           | ●        | 9                        | 2                     | 1       | 8               | 115         |
| Child Welfare Services Report 2011-101.1                             |                     |        |           |          |                          |                       |         |                 |             |
| <b>Fair Political Practices Commission</b>                           |                     | ●      |           |          | 1                        |                       |         |                 | 31          |
| Conduit Bond Issuers Report 2011-118 / 2011-613                      |                     |        |           |          |                          |                       |         |                 |             |
| <b>Humboldt County</b>   |                     |        |           | ●        |                          |                       |         | 3               | 65          |
| Indian Gaming Special Distribution Fund Report 2010-036              |                     |        |           |          |                          |                       |         |                 |             |
| <b>Los Angeles County Department of Children and Family Services</b> |                     |        | ●         |          | 3                        | 2                     | 2       | 2               | 123         |
| Los Angeles County Child Welfare Services Report 2011-101.2          |                     |        |           |          |                          |                       |         |                 |             |
| <b>Los Angeles County</b>  |                     | ●      |           |          | 2                        | 1                     |         |                 | 179         |
| Probationers' Domestic Violence Payments Report 2011-121             |                     |        |           |          |                          |                       |         |                 |             |
| <b>Riverside County</b>  |                     |        |           | ●        |                          | 1                     | 2       | 1               | 65          |
| Indian Gaming Special Distribution Fund Report 2010-036              |                     |        |           |          |                          |                       |         |                 |             |
| <b>Sacramento County</b>   |                     | ●      |           |          | 3                        |                       |         | 1               | 179         |
| Probationers' Domestic Violence Payments Report 2011-121             |                     |        |           |          |                          |                       |         |                 |             |
| <b>Salinas Valley Memorial Healthcare System</b>                     |                     |        | ●         |          | 11                       | 3                     | 1       |                 | 81          |
| Executive Compensation and Conflict of Interest Report 2011-113      |                     |        |           |          |                          |                       |         |                 |             |
| <b>San Diego County</b>  |                     |        |           | ●        | 2                        | 1                     |         |                 | 65          |
| Indian Gaming Special Distribution Fund Report 2010-036              |                     |        |           |          |                          |                       |         |                 |             |
| Probationers' Domestic Violence Payments Report 2011-121             |                     | ●      |           |          | 2                        | 2                     |         |                 | 179         |
| <b>Santa Barbara County</b>  |                     |        |           | ●        |                          |                       |         | 6               | 65          |
| Indian Gaming Special Distribution Fund Report 2010-036              |                     |        |           |          |                          |                       |         |                 |             |

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|  | FOLLOW-UP RESPONSE* |        |           |          | STATUS OF RECOMMENDATION |                       |         |                 | PAGE NUMBER |
|--|---------------------|--------|-----------|----------|--------------------------|-----------------------|---------|-----------------|-------------|
|  | INITIAL RESPONSE    | 60-DAY | SIX-MONTH | ONE-YEAR | FULLY IMPLEMENTED        | PARTIALLY IMPLEMENTED | PENDING | NO ACTION TAKEN |             |
| <b>Santa Clara County</b>                                    |                     |        |           |          |                          |                       |         |                 |             |
| Probationers' Domestic Violence Payments Report 2011-121     |                     | ●      |           |          | 1                        | 4                     |         |                 | 179         |
| <b>Shasta County</b>   |                     |        |           |          |                          |                       |         |                 |             |
| Indian Gaming Special Distribution Fund Report 2010-036      |                     |        |           | ●        |                          | 1                     | 2       | 2               | 65          |
| <b>Superior Court of California, County of Los Angeles</b>   |                     |        |           |          |                          |                       |         |                 |             |
| Probationers' Domestic Violence Payments Report 2011-121     |                     | ●      |           |          | 2                        |                       |         |                 | 179         |
| <b>Superior Court of California, County of San Diego</b>     |                     |        |           |          |                          |                       |         |                 |             |
| Probationers' Domestic Violence Payments Report 2011-121     |                     | ●      |           |          | 1                        | 3                     | 2       |                 | 179         |
| <b>Yolo County</b>   |                     |        |           |          |                          |                       |         |                 |             |
| Indian Gaming Special Distribution Fund Report 2010-036      |                     |        |           | ●        | 1                        | 1                     |         | 2               | 65          |
| <b>Natural Resources</b>                                     |                     |        |           |          |                          |                       |         |                 |             |
| <b>Department of Fish and Game<sup>‡</sup></b>               |                     |        |           |          |                          |                       |         |                 |             |
| Oil Spill Prevention and Administration Fund Report 2011-123 |                     | ●      |           |          | 3                        |                       | 2       |                 | 211         |
| <b>Office of Spill Prevention and Response</b>               |                     |        |           |          |                          |                       |         |                 |             |
| Oil Spill Prevention and Administration Fund Report 2011-123 |                     | ●      |           |          | 1                        |                       | 2       |                 | 211         |
| <b>State Lands Commission</b>                                |                     |        |           |          |                          |                       |         |                 |             |
| Public Lands Report 2010-125                                 |                     |        |           | ●        | 21                       | 5                     |         | 1               | 201         |
| Oil Spill Prevention and Administration Fund Report 2011-123 |                     | ●      |           |          | 1                        |                       |         |                 | 211         |
| <b>Public Employees, Retirement and Social Security</b>      |                     |        |           |          |                          |                       |         |                 |             |
| <b>City of San José</b>                                      |                     |        |           |          |                          |                       |         |                 |             |
| Retirement Costs Report 2012-106                             |                     | ●      |           |          |                          |                       | 1       |                 | 199         |
| <b>Public Safety</b>   |                     |        |           |          |                          |                       |         |                 |             |
| <b>Board of State and Community Corrections</b>              |                     |        |           |          |                          |                       |         |                 |             |
| Juvenile Justice Realignment Report 2011-129                 |                     | ●      |           |          |                          |                       | 3       | 5               | 229         |
| <b>California Prison Industry Authority</b>                  |                     |        |           |          |                          |                       |         |                 |             |
| Inmate Employment Report 2010-118                            |                     |        |           | ●        | 5                        |                       | 3       |                 | 219         |

|  | FOLLOW-UP RESPONSE* |        |           |          | STATUS OF RECOMMENDATION |                       |         |                 |             |
|--|---------------------|--------|-----------|----------|--------------------------|-----------------------|---------|-----------------|-------------|
|  | INITIAL RESPONSE    | 60-DAY | SIX-MONTH | ONE-YEAR | FULLY IMPLEMENTED        | PARTIALLY IMPLEMENTED | PENDING | NO ACTION TAKEN | PAGE NUMBER |
| <b>Department of Corrections and Rehabilitation</b>  |                     |        |           |          |                          |                       |         |                 |             |
| Sex Offender Commitment Program Report 2010-116  |                     |        |           | ●        | 1                        |                       |         | 1               | 215         |
| Inmate Employment Report 2010-118  |                     |        |           | ●        |                          |                       | 3       |                 | 219         |
| Correctional Offender Management Profiling for Alternative Sanctions Program Report 2010-124 |                     |        |           | ●        | 2                        | 2                     |         | 3               | 223         |
| Juvenile Justice Realignment Report 2011-129   |                     | ●      |           |          |                          |                       |         | 1               | 229         |
| <b>Department of Justice</b>   |                     |        |           |          |                          |                       |         |                 |             |
| Juvenile Justice Realignment Report 2011-129   |                     | ●      |           |          |                          | 1                     | 1       | 1               | 229         |
| <b>Department of Mental Health<sup>S</sup></b>   |                     |        |           |          |                          |                       |         |                 |             |
| Sex Offender Commitment Program Report 2010-116  |                     |        |           | ●        | 1                        | 2                     | 1       | 1               | 215         |
| <b>Los Angeles County</b>  |                     |        |           |          |                          |                       |         |                 |             |
| Probationers' Domestic Violence Payments Report 2011-121                                     |                     | ●      |           |          | 2                        | 1                     |         |                 | 179         |
| <b>Los Angeles Unified School District</b>   |                     |        |           |          |                          |                       |         |                 |             |
| Child Abuse Allegations Report 2012-103  | ●                   |        |           |          |                          | 1                     | 2       |                 | 61          |
| <b>Sacramento County</b>   |                     |        |           |          |                          |                       |         |                 |             |
| Probationers' Domestic Violence Payments Report 2011-121                                     |                     | ●      |           |          | 3                        |                       |         | 1               | 179         |
| <b>San Diego County</b>  |                     |        |           |          |                          |                       |         |                 |             |
| Probationers' Domestic Violence Payments Report 2011-121                                     |                     | ●      |           |          | 2                        | 2                     |         |                 | 179         |
| <b>Santa Clara County</b>  |                     |        |           |          |                          |                       |         |                 |             |
| Probationers' Domestic Violence Payments Report 2011-121                                     |                     | ●      |           |          | 1                        | 4                     |         |                 | 179         |
| <b>Superior Court of California, County of Los Angeles</b>                                   |                     |        |           |          |                          |                       |         |                 |             |
| Probationers' Domestic Violence Payments Report 2011-121                                     |                     | ●      |           |          | 2                        |                       |         |                 | 179         |
| <b>Superior Court of California, County of San Diego</b>                                     |                     |        |           |          |                          |                       |         |                 |             |
| Probationers' Domestic Violence Payments Report 2011-121                                     |                     | ●      |           |          | 1                        | 3                     | 2       |                 | 179         |
| <b>Revenue and Taxation</b>  |                     |        |           |          |                          |                       |         |                 |             |
| <b>City of Vernon</b>  |                     |        |           |          |                          |                       |         |                 |             |
| Financial Stability Report 2011-131  |                     | ●      |           |          | 1                        | 4                     | 13      | 21              | 189         |

|  | FOLLOW-UP RESPONSE* |        |           |          | STATUS OF RECOMMENDATION |                       |         |                 | PAGE NUMBER |
|--|---------------------|--------|-----------|----------|--------------------------|-----------------------|---------|-----------------|-------------|
|  | INITIAL RESPONSE    | 60-DAY | SIX-MONTH | ONE-YEAR | FULLY IMPLEMENTED        | PARTIALLY IMPLEMENTED | PENDING | NO ACTION TAKEN |             |
| <b>Transportation</b>                                |                     |        |           |          |                          |                       |         |                 |             |
| <b>California Department of Transportation</b>       |                     |        |           |          |                          |                       |         |                 |             |
| Capital Outlay Support Program Report 2010-122       |                     |        |           | ●        | 4                        | 5                     | 2       |                 | 235         |
| State Route 710 Extension Properties Report 2011-120 |                     | ●      |           |          |                          | 23                    | 2       | 1               | 167         |
| <b>Department of General Services</b>                |                     |        |           |          |                          |                       |         |                 |             |
| State Route 710 Extension Properties Report 2011-120 |                     | ●      |           |          |                          | 10                    | 1       | 4               | 167         |
| High-Speed Rail Authority Follow-Up Report 2011-504  |                     |        | ●         |          | 1                        |                       |         |                 | 241         |
| <b>High-Speed Rail Authority</b>                     |                     |        |           |          |                          |                       |         |                 |             |
| High-Speed Rail Authority Follow-Up Report 2011-504  |                     |        | ●         |          | 15                       | 5                     | 2       | 1               | 241         |
| <b>Water, Parks and Wildlife</b>                     |                     |        |           |          |                          |                       |         |                 |             |
| <b>Department of Finance</b>                         |                     |        |           |          |                          |                       |         |                 |             |
| Oversight of Bond Expenditures Report 2010-117       |                     |        |           | ●        |                          | 1                     |         | 2               | 249         |
| <b>Department of Water Resources</b>                 |                     |        |           |          |                          |                       |         |                 |             |
| Oversight of Bond Expenditures Report 2010-117       |                     |        |           | ●        | 1                        |                       |         | 1               | 249         |

\* For audits issued between January 1, 2011, and October 31, 2011, this table generally reflects the agencies' one-year response. The California State Auditor's report 2012-041, *Recommendations Not Fully Implemented After One Year, the Omnibus Accountability Act of 2006*, released in January 2013, reflects these agencies' subsequent responses.

† Sixteen of the original 37 recommendations are no longer relevant as the Judicial Council voted to halt deployment of the Court Case Management System in March 2012.

‡ As of January 1, 2013, the Department of Fish and Game became the Department of Fish and Wildlife.

§ As of July 1, 2012, the Department of Mental Health became the Department of State Hospitals.

**Table 3**  
**Investigative Reports**

|   | REPORT ISSUED | DATE OF LAST RESPONSE | STATUS OF RECOMMENDATION |                       |         |                 | PAGE NUMBER |
|---|---------------|-----------------------|--------------------------|-----------------------|---------|-----------------|-------------|
|   |               |                       | FULLY IMPLEMENTED        | PARTIALLY IMPLEMENTED | PENDING | NO ACTION TAKEN |             |
| <b>California Conservation Corps</b>  |               |                       |                          |                       |         |                 |             |
| Failure to Follow State Contracting Laws<br>Investigations Report I2010-2,<br>Allegation I2008-1021                               | January 2011  | April 2011            | 4                        |                       |         |                 | 253         |
| <b>California Correctional Health Care Services (Receiver)</b>  |               |                       |                          |                       |         |                 |             |
| Improper Travel Expenses<br>Investigations Report I2012-1,<br>Allegation I2009-0689   | December 2012 | December 2012         |                          | 1                     | 1       |                 | 275         |
| False Claims, Inefficiency, Inexcusable Neglect of Duty<br>Investigations Report I2012-1,<br>Allegation I2010-1151                | December 2012 | December 2012         |                          | 2                     |         |                 | 277         |
| <b>California Department of Education</b>   |               |                       |                          |                       |         |                 |             |
| Misuse of State Resources, Inexcusable Neglect of Duty<br>Investigations Report I2012-1,<br>Allegation I2011-1083                 | December 2012 | December 2012         | 2                        | 1                     |         | 1               | 279         |
| <b>California Department of Transportation</b>  |               |                       |                          |                       |         |                 |             |
| Inexcusable Neglect of Duty<br>Investigations Report I2011-1,<br>Allegation I2008-0731  | August 2011   | January 2012          | 4                        |                       |         |                 | 261         |
| <b>California Energy Commission</b>   |               |                       |                          |                       |         |                 |             |
| Falsification of Time and Attendance Records<br>Investigations Report I2011-1,<br>Allegation I2010-0844                           | August 2011   | December 2011         | 4                        |                       |         |                 | 263         |
| <b>California State Athletic Commission</b>   |               |                       |                          |                       |         |                 |             |
| Improper Overtime Payments<br>Investigations Report I2012-1,<br>Allegation I2009-1341   | December 2012 | December 2012         | 1                        |                       | 1       |                 | 281         |
| <b>Department of Corrections and Rehabilitation</b>   |               |                       |                          |                       |         |                 |             |
| Improper Overtime Reporting<br>Investigations Report I2010-2,<br>Allegation I2007-0887  | January 2011  | December 2010         |                          |                       |         | 2               | 255         |
| Delay in Reassigning an Incompetent Psychiatrist, Waste of State Funds<br>Investigations Report I2010-2,<br>Allegation I2009-0607 | January 2011  | November 2011         | 3                        |                       |         |                 | 257         |
| Misuse of State Resources<br>Investigations Report I2011-1,<br>Allegation I2009-1203  | August 2011   | November 2012         | 3                        |                       |         |                 | 265         |
| Improper Travel Expenses<br>Investigations Report I2012-1,<br>Allegation I2009-0689   | December 2012 | December 2012         | 2                        |                       |         |                 | 275         |
| False Claims, Inefficiency, Inexcusable Neglect of Duty<br>Investigations Report I2012-1,<br>Allegation I2010-1151                | December 2012 | December 2012         |                          | 5                     |         |                 | 277         |

continued on next page . . .

|  | REPORT ISSUED | DATE OF LAST RESPONSE | STATUS OF RECOMMENDATION |                       |         |                 | PAGE NUMBER |
|--|---------------|-----------------------|--------------------------|-----------------------|---------|-----------------|-------------|
|  |               |                       | FULLY IMPLEMENTED        | PARTIALLY IMPLEMENTED | PENDING | NO ACTION TAKEN |             |
| <b>Department of Fish and Game*</b>  |               |                       |                          |                       |         |                 |             |
| Misuse of a State Vehicle, Improper Travel Reimbursements<br>Investigations Report I2011-1,<br>Allegation I2009-0601                                 | August 2011   | September 2012        | 1                        | 1                     |         | 2               | 267         |
| Improper Use of Lease Proceeds<br>Investigations Report I2012-1,<br>Allegation I2009-1218  | December 2012 | December 2012         |                          |                       |         | 3               | 283         |
| <b>Department of General Services</b>  |               |                       |                          |                       |         |                 |             |
| Misuse of State Resources<br>Investigations Report I2010-2,<br>Allegation I2008-1024   | January 2011  | June 2011             | 2                        |                       |         |                 | 259         |
| <b>Department of Industrial Relations</b>  |               |                       |                          |                       |         |                 |             |
| Failure to Monitor Adequately<br>Employee's Time Reporting<br>Investigations Report I2011-1,<br>Allegation I2008-0902                                | August 2011   | September 2011        | 1                        |                       |         |                 | 269         |
| <b>Department of Mental Health†</b>  |               |                       |                          |                       |         |                 |             |
| Waste of State Funds,<br>Misuse of State Resources<br>Investigations Report I2011-1,<br>Allegation I2009-0644  | August 2011   | June 2011             | 4                        |                       |         |                 | 271         |
| <b>Employment Development Department</b>   |               |                       |                          |                       |         |                 |             |
| Conspiracy to Commit Mail Fraud<br>Investigations Report I2012-1,<br>Allegation I2008-1217   | December 2012 | October 2012          | 1                        |                       |         |                 | 285         |
| <b>Natural Resources Agency</b>  |               |                       |                          |                       |         |                 |             |
| Improper Travel Expenses<br>Investigations Report I2012-1,<br>Allegation I2009-1321  | December 2012 | October 2012          | 2                        |                       |         |                 | 289         |
| <b>State Controller's Office</b>   |               |                       |                          |                       |         |                 |             |
| Failure to Report Absences, Failure to Monitor<br>Adequately an Employee's Time Reporting<br>Investigations Report I2011-1,<br>Allegation I2009-1476 | August 2011   | September 2011        | 3                        |                       |         |                 | 273         |
| <b>University of California</b>  |               |                       |                          |                       |         |                 |             |
| Waste of State Funds<br>Investigations Report I2012-1,<br>Allegation I2010-1022  | December 2012 | December 2012         |                          | 1                     | 4       |                 | 291         |

\* As of January 1, 2013, the Department of Fish and Game became the Department of Fish and Wildlife.

† As of July 1, 2012, the Department of Mental Health became the Department of State Hospitals.

# California Housing Finance Agency

## Most Indicators Point to Continued Solvency Despite Its Financial Difficulties Created, in Part, by Its Past Decisions

### REPORT NUMBER 2010-123, ISSUED FEBRUARY 2011

This report concludes that, although the California Housing Finance Agency (CalHFA) will continue to face significant risks, its major housing programs and the fund it uses to pay its operating expenses should remain solvent under most foreseeable circumstances. The report also concludes that past decisions by CalHFA, such as its decisions to significantly increase its use of variable-rate bonds and interest-rate swap agreements, and to launch new mortgage products that were easier for borrowers to qualify for, but that eventually proved to have high delinquency rates, contributed to its current difficulties. These decisions revealed the need for changes in how its board of directors (board) governs the agency. In particular, CalHFA's board should approve any new debt-issuance strategy or mortgage product prior to its implementation, which is something it had not always done in the past, and should include language in its annual resolutions delegating authority to CalHFA staff restricting staff's actions to the debt strategies and mortgage products specified in the annual delegations themselves, approved business plans, or subsequent board resolutions.

In the report, the California State Auditor (state auditor) made the following recommendations to CalHFA. The state auditor's determination regarding the current status of recommendations is based on CalHFA's response to the state auditor as of August 2011.

#### **Recommendation 2.1—See page 50 of the audit report for information on the related finding.**

To ensure that CalHFA's business plans and strategies are thoroughly vetted by an experienced and knowledgeable board, the Legislature should consider amending the statute that specifies the composition of CalHFA's board to include appointees with specific knowledge of housing finance agencies, single-family mortgage lending, bonds and related financial instruments, interest-rate swaps, and risk management.

#### ***Legislative Action: Partially implemented.***

Chapter 408, Statutes of 2011 (Assembly Bill 1222), allows individuals affiliated with the housing, banking, insurance, and other specified industries to serve on the CalHFA board, even though they may have a conflict of interest, provided they publicly disclose the interest and do not attempt to influence or participate in the decision in which they have an interest.

#### **Recommendation 2.2—See pages 49, 50, 58, and 59 of the audit report for information on the related finding.**

To provide better oversight of CalHFA, its board should issue a policy stating that it must approve any new debt-issuance strategy or mortgage product prior to its implementation, either directly or by inclusion in CalHFA's annual business plan. The board should, where appropriate, prescribe limits on how much of the debt portfolio can be fixed- or variable-rate bonds, and what proportion of the loans it purchases can consist of mortgage products it identifies as riskier than other mortgage products.

#### ***CalHFA's Action: Fully implemented.***

A board resolution approved May 2011 requires staff to present new financing strategies and new loan products for full discussion and approval by majority vote of the board prior to implementation by CalHFA. This resolution also specifies that proposed annual business plans submitted to the board by CalHFA staff shall address limitations on the use of variable rate debt and identification of loan products that CalHFA identifies as involving higher levels of risk than traditional CalHFA loan products.

**Recommendation 2.3—See pages 49, 50, 58, and 59 of the audit report for information on the related finding.**

Within its annual resolutions delegating authority to CalHFA staff, the CalHFA board should include language restricting staff's actions regarding debt strategies and mortgage products to those specified in the annual delegations themselves, the approved business plans, or subsequent board resolutions.

***CalHFA's Action: Fully implemented.***

Board resolutions approved in January 2011 and amended in March 2011 include restrictions on actions CalHFA staff may take regarding debt strategies and mortgage products. When taken together with the May 2011 board resolution (mentioned above), these actions restrict CalHFA staff to implementing only financing strategies and loan products approved by the board.

## Conduit Bond Issuers

### Issuers Complied With Key Bond Requirements, but Two Joint Powers Authorities' Compensation Models Raise Conflict-of-Interest Concerns

#### REPORT NUMBER 2011-118/2011-613, ISSUED AUGUST 2012

This report concludes that it may be helpful for the Legislature or the Fair Political Practices Commission (FPPC), as appropriate, to provide clear policy direction regarding whether contingency fees paid to private employers of consultants participating in financing decisions should be permissible under California's conflict-of-interest laws. Both California Statewide Communities Development Authority (California Communities) and California Municipal Finance Authority (Municipal Finance) are staffed entirely by private consulting firms. For their work, the consulting firms receive a percentage of the fees associated with each conduit revenue bond the joint powers authorities issue. During July 2006 through June 2011, California Communities and Municipal Finance paid their consultants roughly \$50 million and \$4.6 million, respectively. These amounts represent 59 percent of total revenues generated for California Communities and 49 percent for Municipal Finance. This method of compensation raises a concern under the Political Reform Act of 1974 (political reform act), which prohibits public officials—including consultants performing the work of public officials—from making, participating in, or attempting to influence certain governmental decisions in which they have a material economic interest. In explaining why they believe the compensation model does not violate the political reform act, consultants who advise the public entities rely on an advice letter issued by the FPPC to a different entity. However, neither the FPPC nor a court of appropriate jurisdiction have considered the applicability of the reasoning set out in that advice letter to the specific circumstances described in this audit report.

The joint powers authorities' use of consultants also raises a concern under California Government Code, Section 1090 (Section 1090). This state law prohibits public officials and employees from having a financial interest in any public contract whose formation or approval they participate in, which includes the issuance of conduit revenue bonds. Although there is some case law that suggests that consultants who contract with public agencies may be paid on a contingency fee basis for their services without violating Section 1090, no court has squarely addressed the specific question presented here and we therefore cannot reach a definitive legal conclusion.

This report also concludes that the joint powers authorities could improve their contracting practices to better ensure the services they receive are reasonably priced. The boards of directors for California Communities and Municipal Finance have not required the consulting firms staffing the joint powers authorities to compete against other firms since the joint powers authorities were formed in 1988 and 2004, respectively. By not periodically bidding out the contracts for these services, the joint powers authorities have less assurance that they are getting the best value from their consultants. However, notwithstanding the potential problems described above, during 2006 through 2011 California Communities and Municipal Finance met bond issuance requirements and generally fulfilled reporting obligations, including those established in 2010 under Senate Bill 99. Similarly, the California Health Facilities Financing Authority (Health Financing Authority) also met these requirements.

In the report, the California State Auditor (state auditor) made the following recommendations to California Communities, Municipal Finance, and the Health Financing Authority. The state auditor's determination regarding the current status of recommendations is based on these agencies' responses to the state auditor as of October 2012 and additional information California Communities and Municipal Finance provided in November 2012.

**Recommendation 1.1—See pages 18—23 of the audit report for information on the related finding.**

If the Legislature believes that the compensation model is appropriate, whereby the private firms that employ consultants are paid a percentage of the fees associated with bond issuances, the Legislature should enact legislation that creates a clearly stated exemption from Section 1090. On the other hand, if the Legislature believes that this compensation model is not appropriate, it should enact legislation that clearly proscribes, or limits, such a model.

***Legislative Action: Unknown.***

The state auditor is not aware of any action taken by the Legislature as of December 18, 2012.

**Recommendation 1.2—See pages 20—23 of the audit report for information on the related finding.**

The FPPC should adopt regulations that clarify whether the analysis in the *McEwen* advice letter is intended to apply to the factual circumstances presented in this audit.

***FPPC's Action: Fully implemented.***

In October 2012 the FPPC informed the California State Treasurer that, pursuant to its *McEwen* advice letter and other advice letters it has issued in the past, the compensation models of the joint powers authorities included in the audit (California Communities and Municipal Finance) do not violate the political reform act.

**Recommendation 1.3—See pages 18—23 of the audit report for information on the related finding.**

To be better informed about the compensation of their consultants, including any potential conflicts of interest, California Communities and Municipal Finance should require the consulting firms that staff their organizations to disclose the amount and structure of compensation provided to individual consultants, including disclosing whether any of this compensation is tied to the volume of bond sales.

***California Communities' Action: Partially implemented.***

California Communities indicated that its commission considered requiring HB Capital Resources, Ltd. (HB Capital) to disclose the amount of compensation paid to each of its employees. However, the commission concluded that it does not have discretion over such compensation. Instead, California Communities amended its contract with HB Capital in October 2012 to require HB Capital not to compensate its employees providing services directly or indirectly to the joint powers authority on a commission basis or pursuant to any other method of compensation that is based on the dollar amount or volume of bonds issued by the joint powers authority.

***Municipal Finance's Action: Pending.***

Municipal Finance stated that a subcommittee of its board members is reviewing proposed contract language that will prohibit its consultants from compensating their employees on a commission basis or any other method that is based on the volume of bonds sales. Municipal Finance indicated that the proposed contract language will also require all consultants to disclose the amount of compensation provided to individual employees.

**Recommendation 1.4—See page 28 of the audit report for information on the related finding.**

In implementing its January 2012 contracting policy, California Communities should either periodically subject existing contracts to competitive bidding or perform some other price comparison analysis to ensure that the public funds it oversees are used effectively.

***California Communities' Action: Pending.***

California Communities stated that the term of its contract with HB Capital does not expire until June 2015, and that the contract automatically extends for another two years unless California Communities gives written notice to HB Capital prior to May 2013 that it does not desire to extend the contract. California Communities indicated that at the beginning of 2013, its commission will consider whether to provide such notice and conduct a competitive bid process for selecting a program manager for a term commencing in July 2015. California Communities added that at the beginning of 2013, its commission will be reviewing each of its other consultant contracts to determine whether it would be timely to conduct a competitive bid process for one or more of these contracts.

**Recommendation 1.5—See pages 28 and 29 of the audit report for information on the related finding.**

Municipal Finance should follow its July 2012 policy that describes how it will select contractors and periodically review existing contractors' services and prices to ensure the public funds it oversees are used effectively.

***Municipal Finance's Action: Fully implemented.***

In July 2012 Municipal Finance's board compared Sierra Management's services and prices to other conduit bond issuers and concluded that it is receiving the best value for the public funds it oversees. Municipal Finance also sought competitive bids for issuer/special counsel services in November 2012, which it stated was a result of its review of the services it was receiving. Municipal Finance affirmed that it will continue to follow its July 2012 policy, stating that for any engagement for professional services with a duration of at least one year, its board will conduct a review on a periodic basis to assess and evaluate the performance of the service provider. It added that it expects to conduct a review on an annual basis each January.

**Recommendation 1.6—See pages 26 and 28 of the audit report for information on the related finding.**

As suggested by the Government Finance Officers Association guidance, California Communities and Municipal Finance should include provisions in their contracts prohibiting consultants from engaging in activities on behalf of the issuers that produce a direct or indirect financial gain to the consultants, other than the agreed-upon compensation, without the issuer's informed consent.

***California Communities' Action: Fully implemented.***

In October 2012 California Communities amended its contract with HB Capital to prohibit HB Capital from receiving any additional compensation, payment, or other financial benefit from any person in connection with the issuance of bonds by the joint powers authority, except for the compensation authorized by its contract.

***Municipal Finance's Action: Pending.***

Municipal Finance indicated that it is reviewing proposed contract language that would prohibit its consultants from engaging in activities on its behalf that produces a direct or indirect financial gain to the consultants without its informed consent. Municipal Finance added further that Sierra Management voluntarily restricts itself to serve Municipal Finance and no other financing authority.

**Recommendation 1.7—See pages 30 and 31 of the audit report for information on the related finding.**

Once the Securities and Exchange Commission (SEC) finalizes its definition of *municipal advisor*, California Communities should have its legal counsel review whether HB Capital should register with the Municipal Securities Rulemaking Board.

***California Communities' Action: Pending.***

California Communities noted that the SEC has not finalized the definition of municipal advisors, and has extended the temporary definition until September 2013. California Communities stated that its legal counsel will continue to monitor SEC communications for when the definition is finalized and conduct an independent review.

**Recommendation 2.1—See pages 34 and 35 of the audit report for information on the related finding.**

To provide more accessible venues for citizens to understand the financing of projects and to voice their opinions, the Health Financing Authority should either hold local approval hearings in each jurisdiction in which a project will be built or create a cost-effective technological solution (streaming video, teleconference, etc.) to provide more public accessibility.

***Health Financing Authority's Action: Fully implemented.***

The Health Financing Authority indicated that it will now provide telephone access for all of its local approval hearings so members of the public may participate via a toll-free phone call. The Health Financing Authority demonstrated its new process using an October 2012 hearing for the city of Hope. The Health Financing Authority published notices for this hearing in both *The Sacramento Bee* and in the *Los Angeles Times*. These notices included the date and time of the hearing, an address for members of the public who wished to attend in person, and a toll-free number and participation code for members of the public who wished to participate remotely.

**Recommendation 2.2—See page 39 of the audit report for information on the related finding.**

To ensure that all issuers of conduit revenue bonds make their activities sufficiently transparent to the public, the Legislature should consider amending state law to provide deadlines for issuers to post the information SB 99 requires on their Web sites and to specify how long issuers must keep this information posted.

***Legislative Action: Unknown.***

The state auditor is not aware of any action taken by the Legislature as of December 18, 2012.

# Intellectual Property

## An Effective Policy Would Educate State Agencies and Take Into Account How Their Functions and Property Differ

### REPORT NUMBER 2011-106, ISSUED NOVEMBER 2011

Intellectual property typically consists of copyrights, trademarks, patents, and trade secrets. In November 2000, the California State Auditor (state auditor) issued a report titled *State-Owned Intellectual Property: Opportunities Exist for the State to Improve Administration of its Copyrights, Trademarks, Patents, and Trade Secrets*—report number 2000-110 (2000 audit report). The 2000 audit report recommended the Legislature take steps to help state agencies manage and protect the State's intellectual property.

This report concludes that the State has not enacted a statutory framework, nor has it implemented the recommendations made in the 2000 audit report or otherwise provided guidance to state agencies regarding the management and protection of intellectual property. The four state control agencies we spoke to—the Department of Finance, the Department of General Services (General Services), the State Controller's Office, and the California Technology Agency—generally do not provide policies or guidance to other state agencies regarding the management and protection of intellectual property because they do not believe that they are responsible for providing this type of guidance. However, more than half of the state agencies that responded to our survey about intellectual property stated that the State should establish statewide guidance for managing and protecting intellectual property. Moreover, the four state agencies we visited—the Department of Transportation (Caltrans), Department of Food and Agriculture (Food and Agriculture), California Energy Commission (Energy Commission), and Department of Health Care Services (Health Care Services)—had only limited written policies and instead generally relied on informal practices to manage and protect their intellectual property. To move forward, the State will need to clearly articulate the goals of any policy related to intellectual property. We believe that an effective policy would educate state agencies on their intellectual property rights and would be flexible and take into account that state agencies perform different functions and work with different types of intellectual property.

In the report, the state auditor made the following recommendations to Caltrans, Food and Agriculture, Energy Commission, Health Care Services, the Legislature, and the governor. The state auditor's determination regarding the current status of recommendations is based on the agencies' responses to the state auditor as of November 2012.

#### **Recommendation 1.1—See pages 19—21, 31—32, and 35—40 of the audit report for information on the related finding.**

Caltrans, the Energy Commission, Food and Agriculture, and Health Care Services should put in writing those policies and procedures related to intellectual property that they believe are necessary and appropriate to enable their staff to identify, manage, and protect their intellectual property.

#### ***Caltrans' Action: Fully implemented.***

In June 2012 Caltrans issued a written policy related to ownership and use of its intellectual property. Further, Caltrans stated that it issued interim guidelines in October 2012 to assist its managers and employees to better manage and protect Caltrans' intellectual property. Finally, Caltrans stated that it will modify its interim guidelines as its program develops and General Services issues direction per Assembly Bill 744 (AB 744) [Chapter 463, Statutes of 2012], which was signed by the governor in September 2012.

***Energy Commission's Action: Fully implemented.***

The Energy Commission updated its policies and procedures to educate staff about intellectual property and how to protect it. It completed the policies and procedures in January 2012, and the Energy Commission stated that it made the information available to all staff on its intranet.

***Food and Agriculture's Action: Fully implemented.***

Food and Agriculture issued intellectual property policy and guidelines in July 2012.

***Health Care Services' Action: No action taken.***

- ➔ Health Care Services indicated that it has not yet implemented the recommendation because of other high priority projects and staff vacancies. However, Health Care Services stated that pursuant to AB 744 it will coordinate with General Services to track and manage its intellectual property.

**Recommendation 1.2—See page 20 of the audit report for information on the related finding.**

Food and Agriculture should ensure that it has developed intellectual property terms and conditions that are appropriate for the types of agreements into which its contracts office enters.

***Food and Agriculture's Action: Fully implemented.***

Food and Agriculture issued intellectual property policy and guidelines in July 2012. The policy specifies responsibility for developing and registering Food and Agriculture's intellectual property including language in contracts that is appropriate and necessary.

**Recommendation 1.3—See pages 21 and 22 of the audit report for information on the related finding.**

The Energy Commission should take the necessary steps to strengthen its royalty process to ensure that it receives the proper amounts from all contractors that owe it royalties.

***Energy Commission's Action: Fully implemented.***

The Energy Commission stated that it has modified its annual Public Interest Energy Research (PIER) royalty letter to require a response and added language to its PIER solicitations indicating that bidders who have not responded to the royalty repayment letter may be screened out from participating in future PIER funding opportunities. The Energy Commission also stated that it amended a contract with the State Controller's Office to include review of PIER royalty payments and that those reviews are underway. The Energy Commission stated it has drafted new PIER terms and conditions, which require certification that the royalty amount paid is correct. Finally, the Energy Commission stated that it hired a contractor to perform follow-up calls and independent market assessment on PIER researchers who might have sold intellectual property products and not yet paid royalties and to identify current PIER researchers that will be required to pay future royalties. The Energy Commission expected work on this contract to begin in December 2012.

**Recommendation 1.4.a—See pages 25—28 of the audit report for information on the related finding.**

The Legislature and the governor should consider developing a statewide intellectual property policy that educates state agencies on their intellectual property rights without creating an administrative burden. Specifically, this policy should provide guidance to agencies that will give them the understanding necessary to identify when potential intellectual property may exist, including when contractors' work may result in intellectual property, and that will provide them with specific information on intellectual property protections.

***Legislative Action: Legislation partially implemented.***

AB 744 requires General Services to develop an outreach campaign informing state agencies of their rights and abilities concerning intellectual property. However, the outreach campaign requirement is specific to intellectual property state employees create and does not mention contractors.

**Recommendation 1.4.b—See pages 25—28 of the audit report for information on the related finding.**

The Legislature and the governor should consider developing a statewide intellectual property policy that educates state agencies on their intellectual property rights without creating an administrative burden. Specifically, this policy should recognize that not all agencies have the same needs and that a one-size-fits-all approach may not be feasible. An effective policy should provide agencies with flexibility regarding ownership of intellectual property rights.

***Legislative Action: Legislation enacted.***

AB 744 requires General Services to develop various samples and other information for state agencies to consider for owning and managing intellectual property. AB 744 does not require General Services to develop a strict policy that state agencies must follow and in that respect provides the flexibility called for.

**Recommendation 1.4.c—See pages 25—28 of the audit report for information on the related finding.**

The Legislature and the governor should consider developing a statewide intellectual property policy that educates state agencies on their intellectual property rights without creating an administrative burden. Specifically, this policy should have as one of its primary goals the promotion of the greatest possible public benefit from intellectual property the State creates or funds.

***Legislative Action: Legislation enacted.***

AB 744 requires General Services to develop various samples and other information for state agencies to consider for owning and managing intellectual property. In passing AB 744, the Legislature declared its intent that the rights of state agencies and departments to track and manage intellectual property created with any state funds shall be interpreted so as to promote the benefit to the public.

**Recommendation 1.4.d—See pages 25—28 of the audit report for information on the related finding.**

The Legislature and the governor should consider developing a statewide intellectual property policy that educates state agencies on their intellectual property rights without creating an administrative burden. Specifically, this policy should recognize that although additional revenue may be a potential benefit of the State's intellectual property, it is not the only benefit, nor should it be the driving force behind a state policy. However, the policy should provide guidance for identifying valuable intellectual property and how to commercialize it, if appropriate.

***Legislative Action: Legislation enacted.***

AB 744 requires General Services to develop an outreach campaign to educate state agencies about their rights and abilities concerning intellectual property, to develop factors that state agencies should consider when deciding whether to sell their intellectual property or license it, and to develop sample invention assignment agreements to secure the rights to potentially patentable intellectual property.

**Recommendation 1.4.e—See pages 25—28 of the audit report for information on the related finding.**

The Legislature and the governor should consider developing a statewide intellectual property policy that educates state agencies on their intellectual property rights without creating an administrative burden. Specifically, this policy should establish the minimum rights agencies should obtain for intellectual property developed by its contractors.

***Legislative Action: Unknown.***

The state auditor is not aware of any action taken by the Legislature as of December 18, 2012.

**Recommendation 1.5—See pages 28 and 43—51 of the audit report for information on the related finding.**

If the Legislature and governor believe it would be valuable to understand the amount of intellectual property the State holds on an ongoing basis, they should consider establishing a mechanism to track the State's intellectual property.

***Legislative Action: Legislation enacted.***

AB 744 requires General Services, beginning January 2015, to track intellectual property generated by state employees or with state funding. General Services must develop a database to track intellectual property that includes certain information, such as date of creation and sources of funding. General Services is to update the database every three years.

## Department of General Services

### The Division of the State Architect Lacks Enforcement Authority and Has Weak Oversight Procedures, Increasing the Risk That School Construction Projects May Be Unsafe

#### REPORT NUMBER 2011-116.1, ISSUED DECEMBER 2011

This report concludes that the Department of General Services' (General Services) Division of the State Architect (division) is unable to certify that a large number of completed school construction projects meet requirements in the Field Act, a law designed to protect the safety of pupils, teachers, and the public. The division reports that over 16,000 projects remain uncertified. Elements of the act hamper the division's ability to enforce the certification requirements. For example, the act allows school districts to occupy uncertified projects and does not give the division the express authority to penalize school districts that do not comply with certification requirements. Further, the division infrequently uses its authority to stop construction of projects when it determines there is a risk to public safety. In addition, the division lacks a clear system for classifying uncertified projects, increasing the risk that it will miscommunicate the true risks associated with uncertified projects and that efforts to strategically follow up on these projects will be impeded.

We also found that the division's oversight of project construction is not effective. The division lacks a process for planning oversight it will perform, and in some cases could not demonstrate that it provided adequate field oversight. We found examples of projects with an estimated cost of up to \$2.2 million that had no evidence of a visit by the division's field staff. Further, the division relies on project inspectors to ensure that projects are constructed according to approved plans, but these inspectors are employees or contractors of the school districts, which increases the risk of improper influence and the division has not implemented robust strategies to mitigate this risk. Additionally, the division is not always able to approve project inspectors for work before the beginning of construction as the Field Act requires. Also, the division does not complete field oversight of school construction in the areas of fire and life safety and accessibility, raising the risk that safety issues in these areas will go uncorrected. Finally, the division lacks performance measures that could help it to improve its field oversight and certification of efforts.

In the report, the California State Auditor (state auditor) made the following recommendations to General Services and the Legislature. The state auditor's determination regarding the current status of recommendations is based on General Services' response to the state auditor as of December 2012.

#### **Recommendation 1.1.a—See pages 16—18 of the audit report for information on the related finding.**

To ensure public safety and provide public assurance that school districts construct projects in accordance with approved plans, the department, in conjunction with the division, should pursue legislative changes to the Field Act that would prohibit occupancy in cases in which the division has identified significant safety concerns.

#### ***General Services' Action: Pending.***

According to General Services, the State Architect determined that the division could achieve the objective of this recommendation through an inspection card system similar to one used in municipalities throughout the State. It indicated that such a system would allow for the verification of structural integrity and fire and life safety at the completion of each phase of a project and should result in timely certification upon completion of project construction. The division expects to implement the inspection card system in April 2013.

**Recommendation 1.1.b—See pages 16—18 of the audit report for information on the related finding.**

To ensure public safety and provide public assurance that school districts construct projects in accordance with approved plans, the Legislature should consider implementing additional penalties for school districts that do not provide all required documents.

***Legislative Action: Legislation proposed.***

Senate Bill 1271 (as amended) of the 2011–12 Regular Legislative Session, if enacted, would have required General Services to convene a workgroup or continue to use an existing workgroup to develop and adopt standards regarding the seismic safety of schools, make recommendations to the Legislature on ways to amend the Field Act to make it more effective, and report the recommendations of the workgroup to the Senate Select Committee on Earthquake and Disaster Preparedness, Response and Recovery by July 1, 2013. The bill was held in the Assembly Committee on Appropriations.

**Recommendation 1.2—See pages 18—20 of the audit report for information on the related finding.**

To better use the enforcement tools at its disposal, the division should continue and expand its use of both orders to comply and stop work orders, as defined in its regulations. The division should also develop performance measures to assess the success of any efforts it makes to address safety concerns and reduce the number of uncertified projects.

***General Services' Action: Partially implemented.***

The division updated its policies for stop work orders and orders to comply and conducted trainings for staff on the new policies in the fall of 2012. According to General Services, the new policies will be effective January 1, 2013, and at that time the division's regional office managers will be required to record the issuance of stop work orders and their resolution, and the division's headquarters staff will be required to monitor regional office data entries and activities with respect to stop work orders.

**Recommendation 1.3—See pages 20—23 of the audit report for information on the related finding.**

To ensure that it clearly justifies the reasons a project's noted issues merit a particular classification, the division should either modify its current policies regarding classifying types of uncertified projects or develop new policies, including requiring documentation of the rationale behind project-specific classifications. It should use its classifications to prioritize its efforts to follow up on uncertified projects based on risk and to better inform the public regarding the reasons it has not certified projects.

***General Services' Action: Partially implemented.***

In December 2012 the division conducted training for staff on changes to its procedures for project certification letters, which will be effective January 2013. In that training, the division outlined three certification letters it will use: one to indicate certified projects, a second to indicate projects not receiving certification because the division needs additional documentation, and a third to indicate projects not receiving certification because the division has noted deficiencies in the project. General Services said that for projects that cannot be certified due to missing documentation, the division will specify in its letter the required documents and the steps required to obtain certification. In addition, the division will no longer close project files for projects with outstanding noncompliance issues and will monitor the projects until these noncompliant conditions are resolved. General Services' response did not outline how the division would use these new classifications to prioritize follow-up efforts or inform the public.

**Recommendation 1.4—See pages 23 and 24 of the audit report for information on the related finding.**

To reduce the number of uncertified projects, the division should implement initiatives to follow up with school districts on uncertified projects. Those initiatives should include, at a minimum, regularly sending each district a list of its uncertified projects and assessing the success of the division's follow-up efforts.

***General Services' Action: Partially implemented.***

General Services stated that the division has implemented an outreach plan that includes regular communication with school districts about uncertified projects. In April 2012 the State Architect sent school superintendents a letter that advised them of the outreach effort. According to that letter, the State Architect plans to send letters to all school districts with uncertified school construction projects. The letter also said that each notification will include the names of the uncertified projects and the original closing letters that state why the State Architect was unable to certify the projects. According to General Services, beginning on June 1, 2012, the division sent out copies of the original closing letters for more than 9,000 uncertified projects and will continue with outreach efforts for the remaining uncertified projects. The division also plans to develop correspondence procedures that ensure regular follow-up with districts that have uncertified projects. The division stated it would develop correspondence procedures by June 2013 and provide districts with original closing letters by September 2013. Finally, according to General Services, the division's outreach efforts have resulted in the reduction of uncertified projects from 16,386 to 14,334, and the division has conducted site visits of each uncertified project that has evidence of unresolved safety deficiencies.

**Recommendation 2.1.a—See page 28 of the audit report for information on the related finding.**

To ensure it is providing adequate oversight of school district construction projects, the division should develop robust procedures for monitoring inspectors' submission of semi-monthly reports. The division should also maintain all semi-monthly reports in its project files.

***General Services' Action: Partially implemented.***

The division updated its project-tracking system to record the date of the most recent semi-monthly report and conducted staff training on the procedures for receiving, reviewing, and documenting the filing of semi-monthly reports in November 2012. The division also issued revised guidance in December 2012 to inspectors on filing semi-monthly reports, including a list of who must receive the report and a report template. Finally, the division indicated that there will be additional training in January 2013 on monitoring the filing of semi-monthly reports.

**Recommendation 2.1.b—See pages 28 and 29 of the audit report for information on the related finding.**

To ensure it is providing adequate oversight of school district construction projects, the division should develop and document an overall strategy that establishes specific expectations for conducting site visits and monitoring construction. The division should then record and compare its actual visits and monitoring efforts to its planned actions. The division should document explanations for any deviations from its plans.

***General Services' Action: Partially implemented.***

The division conducted training in November 2012 on its objectives for conducting site visits based on project characteristics. For example, for new building construction the division expects to visit a project inspector every four to eight weeks. Additionally, the division has developed a monitoring tool in order to record actual site visits completed by its field engineers and to allow it to compare those visits to the number of site visits expected. According to General Services, the division is developing a two-phase staff training program that will include using the monitoring system to generate data on field activities and procedures for ensuring that site visit goals are met using the available data. The division expects to conduct the training in the first quarter of 2013.

**Recommendation 2.1.c—See pages 29 and 30 of the audit report for information on the related finding.**

To ensure it is providing adequate oversight of school district construction projects, the division should establish consistent criteria for entering data into its database on key aspects of projects, such as the dates for the start and end of construction.

***General Services' Action: Fully implemented.***

The division developed standard criteria for documenting the start and end dates of school construction projects and accordingly updated its guidelines for project inspectors in December 2012. The guidelines state, for example, that the inspector will use as the construction start date the date the contractor mobilizes on the project site to begin construction.

**Recommendation 2.2—See pages 31 and 32 of the audit report for information on the related finding.**

To mitigate risks arising from the relationship between inspectors, school districts, and project managers, the division should develop formal procedures and explicit directions for field engineers to ensure that they establish a presence on project sites and provide adequate oversight of inspectors during construction.

***General Services' Action: Partially implemented.***

In August 2012 the division conducted training on monitoring project inspector recordkeeping. A second training in November 2012 focused on documentation of field oversight activities, including site visit goals. According to General Services, additional training sessions will be completed by February 2013. These sessions will outline procedures for generating field status data to ensure adequate oversight of active construction projects.

**Recommendation 2.3—See pages 32 and 33 of the audit report for information on the related finding.**

To ensure that it approves inspectors prior to the start of project construction, the division should streamline its approval process by reviewing inspectors' workloads and past experience using the data it already maintains.

***General Services' Action: Partially implemented.***

General Services stated that the division has updated its electronic project-tracking system to report on inspector workloads and experience. According to General Services, the updates allow division field engineers to obtain data on an inspector's current workload and that information can inform decisions regarding inspector approval. General Services stated that the division is developing procedures for statewide staff training on this system update scheduled for the first quarter of 2013.

**Recommendation 2.4—See pages 33 and 34 of the audit report for information on the related finding.**

To ensure that certified inspectors are knowledgeable about current code requirements, the division should not excuse inspectors from required trainings and should improve its process for identifying expired certification exam scores. Further, the division should consistently follow and document its procedures for verifying the past employment of inspector applicants.

***General Services' Action: Fully implemented.***

In January 2012 the division updated its written policies regarding inspector certification. These policies directly state the specific training required for inspectors who are taking the certification exam and also state the number of years for which a partial exam score is valid. In addition, in January 2012 the division issued an updated policy regarding the verification and documentation

of an inspector candidate's past experience. The policy directs certification unit staff to verify a candidate's experience and indicates the way to document that experience. The division has developed experience verification forms that feature "Verified By" and "Date Verified" fields for completion by staff.

**Recommendation 2.5—See pages 35—37 of the audit report for information on the related finding.**

To ensure that it formally monitors inspectors' performance, the division should reestablish a process for evaluating inspectors that provides consistent documentation of performance. The division should make this information accessible to appropriate staff.

*General Services' Action: Partially implemented.*

General Services outlines a number of actions the division has taken to track inspector performance, including establishing a process for reviewing inspector recordkeeping, and enhancing its automated tracking system to allow field engineers to document project inspectors' completion of reporting duties throughout the duration of projects. Although these changes provide the division with additional information on inspector performance, General Services did not indicate when it would reestablish an inspector evaluation process.

**Recommendation 2.6—See pages 37 and 38 of the audit report for information on the related finding.**

To address areas in which its staff do not currently have expertise, the division should finalize its field pilot and take subsequent steps to ensure it has qualified staff to provide oversight of accessibility; fire and life safety; and the mechanical, electrical, and plumbing aspects of construction.

*General Services' Action: Partially implemented.*

General Services stated that the division revisited the results of the field pilot and determined that, based on the current statutory-based fee structure, sufficient resources are available only for oversight of structural safety, fire and life safety, and accessibility issues. General Services also said that to achieve the field pilot's objectives for enhanced oversight, the division is developing a training program that will increase the expertise of its field engineers in the fire and life safety elements of construction as well as accessibility compliance. Training is planned for the first quarter of 2013.

**Recommendation 2.7—See pages 38 and 39 of the audit report for information on the related finding.**

To better manage its construction oversight and close-out functions, the division should develop measures to assess those functions and it should periodically report the results to the public on its Web site.

*General Services' Action: Pending.*

General Services stated that the division has developed measurements and reporting for its field oversight program, including site visit activities and the rate of project certification. It also said, however, that the division is in the process of evaluating the data reported and correlating reporting procedures between offices to ensure consistent statewide reporting. Subsequently, the division will develop external reporting based on the results of this evaluation. General Services did not provide a timeline for completing these actions.

**Recommendation 2.8—See pages 40 and 41 of the audit report for information on the related finding.**

To address possible staffing problems, the division should use documented workload metrics to perform an assessment of its current staffing levels and determine its staffing needs. It should revisit the field pilot and make necessary changes to reflect its understanding of its current staffing situation.

***General Services' Action: Partially implemented.***

According to General Services, the division developed an automated statewide metric to measure its field oversight workload. The division used the metric to conduct an assessment of its staffing level which, according to General Services, is commensurate with the division's site visit goals. The division will conduct this review on a regular basis to reassess its staffing needs for oversight. Further, according to General Services, the division determined that, based on the current statutory-based fee structure, sufficient resources are available only for oversight of structural safety, fire and life safety, and accessibility issues. The division did not provide evidence of its staffing assessment.

## Department of General Services

### Strengthening the Division of the State Architect's Workload Management and Performance Measurements Could Help It Avoid Delays in Processing Future Increases in Workload

#### REPORT NUMBER 2011-116.2, ISSUED MAY 2012

This report concludes that the Division of the State Architect (division), within the Department of General Services (department) has been able to keep the amount of time plans wait for review—bin time—under six weeks primarily due to a decrease in workload. Should the division's workload return to previous levels, it will likely struggle to maintain this goal. Recently, the division was prevented from contracting for plan review and instead drew on staff from its construction oversight activities. Further, although the division has a goal for keeping bin time below six weeks, it does not have goals for how long it should take to review plans. Without a plan review time goal, the division has less assurance that it is reviewing plans efficiently and school districts' design professionals have little certainty about how long they should expect to wait for the division to return plans to them for correction.

Also, the division's monthly performance reports on the length of each phase of the plan approval process do not report clear or accurate information. For example, the division includes in its reports some projects for which no plan review activity has occurred because the applications were incomplete, counting the length of time it took to complete each phase as zero days. Finally, the division cannot provide assurance that it has received and approved all plan changes before the start of related construction. After the division approves plans, districts must submit changes to the division for review and approval before undertaking related construction. However, the division does not have a process to ensure that it has received and approved all relevant plan changes. If the division does not approve plan changes before construction, construction may not comply with building standards and risks being unsafe.

In the report, the California State Auditor (state auditor) made the following recommendations to the division. The state auditor's determination regarding the current status of recommendations is based on the division's response to the state auditor as of December 2012.

#### **Recommendation 1.1—See pages 21—23 of the audit report for information on the related finding.**

To better gauge the timeliness of its plan review and better communicate with design professionals, the division should develop goals for the time spent on the plan review phase, in the style of those used by the Office of Statewide Health Planning and Development, and measure and report its success at meeting these goals.

#### ***Division's Action: Pending.***

According to the department, the division is actively developing reports that measure anticipated and actual plan review finish dates. The department stated that the division is reviewing data to ensure the validity of the information and is preparing metrics on the success of meeting plan review goals. The division plans to publish this information in January 2013.

#### **Recommendation 1.2—See pages 23—25 of the audit report for information on the related finding.**

In order to avoid delays in plan review, the division should develop a policy that defines when it will expedite plan review using its statutory authority to contract for additional plan review resources.

***Division's Action: Partially implemented.***

On November 30, 2012, the division published a policy to provide guidance regarding when it will use consultants to conduct plan review of school projects. The policy states that the division will use consultants for plan review when the division is unable to meet the project owner's need for turnaround time, plan review cannot be accommodated in some other way, such as by transferring plans to another region, and resources exist for consultants. The policy outlines some steps the division will take to determine whether to use consultants, however, according to the division, it does not typically request that districts provide a turnaround time for projects. Further, the policy does not tie the division's use of consultants to any kind of metric, such as that which will be developed according to Recommendation 1.1.

**Recommendation 1.3.a—See pages 25—27 of the audit report for information on the related finding.**

To more accurately report on its plan review activities to stakeholders and provide relevant information to management, the division should provide current information on its performance, by phase, at the time of the reporting period.

***Division's Action: Pending.***

According to the department, the division will change its methodology to capture relevant information upon completion of each plan review phase in January 2013.

**Recommendation 1.3.b—See pages 25—27 of the audit report for information on the related finding.**

To more accurately report on its plan review activities to stakeholders and provide relevant information to management, the division should exclude zero values from its calculations related to projects that did not have activity in a particular phase.

***Division's Action: Fully implemented.***

The division no longer issues monthly plan review workload reports, but its monthly plan review scorecard excludes zero values by design. The report includes only projects with approved plans and thus every plan in the report will have completed each phase of the plan review process.

**Recommendation 1.3.c—See pages 25—27 of the audit report for information on the related finding.**

To more accurately report on its plan review activities to stakeholders and provide relevant information to management, the division should exclude projects from client phase calculations that were not returned to the division for back check within the division's deadlines.

***Division's Action: Pending.***

According to the department, the division changed its calculation of plan review processing times to use a maximum of 365 days for projects that have not been returned for back check. It said the division would begin using the new calculation in its November 2012 metrics' reports. However, the division's November 2012 plan review scorecard still included projects that had not begun back check within the division's one-year deadline.

**Recommendation 1.4.a—See pages 27—29 of the audit report for information on the related finding.**

To appropriately oversee changes to approved plans, the division should develop policies and procedures to ensure that it receives all relevant plan changes.

***Division's Action: Partially implemented.***

The division issued a revised interpretation of its regulations regarding construction changes. That interpretation outlined a process for design professionals to submit certain construction changes to the division for approval prior to the start of construction. However, the interpretation did not describe how the division intends to ensure it receives all relevant construction changes. According to the division, it is implementing a process for electronic submittal of construction change documents that will allow all involved parties access to information on the project. Additionally, the division states it is implementing a process to audit project inspector records, in part to ensure the division has received all construction changes requiring approval.

**Recommendation 1.4.b—See pages 27—29 of the audit report for information on the related finding.**

To appropriately oversee changes to approved plans, the division should develop policies and procedures to ensure that it reviews and approves all relevant plan changes before the start of related construction.

***Division's Action: Partially implemented.***

In a procedure adopted in November 2012, the division outlined its process for recording approval of plan changes. Specifically, the division's policy states it will retain a copy of approved changes as will the project inspector. The division will also require design professionals to attest to the fact that all changes to structural, access, or fire and life safety portions of a project have received division approval. Additionally, the division will require that project inspectors monitor changes to plans and notify design professionals if any changes appear to require division approval. However, as described in Recommendation 1.4.a, the division has not yet completed a process to ensure it receives all relevant construction changes prior to the start of related construction.

**Recommendation 1.4.c—See pages 27—29 of the audit report for information on the related finding.**

To appropriately oversee changes to approved plans, the division should develop policies and procedures to ensure that it documents its approval of all relevant plan changes.

***Division's Action: Fully implemented.***

In a procedure adopted in November 2012, the division outlined its process for recording approval of plan changes. Specifically, the division's policy states it will retain a copy of approved changes, as will project inspectors.

**Recommendation 1.5—See pages 29 and 30 of the audit report for information on the related finding.**

To ensure that the division performs a final review in all disciplines, the division should require and provide a means for recording final plan review of fire and life safety and access compliance-related work in the database.

***Division's Action: Pending.***

According to the department, the division is working with information technology staff to develop additional fields in its project database to capture final review dates. The division estimates it will complete this task in June 2013.

**Recommendation 1.6—See page 30 of the audit report for information on the related finding.**

To ensure that staff are current on building standards, the division should document its staff's participation in building standards update trainings by maintaining attendance rosters.

***Division's Action: Fully implemented.***

The division submitted to the state auditor instructions provided to staff via e-mail informing them that the division requires an attendance sheet be kept as a record of who attends trainings and that the division maintains this sheet in training records. Additionally, the division submitted an example of the attendance sheet used at a recent training.

# Physical Therapy Board of California

## Although It Can Make Improvements, It Generally Processes Complaints and Monitors Conflict-of-Interest Requirements Appropriately

### REPORT NUMBER 2011-119, ISSUED JUNE 2012

This report concludes that one of the Physical Therapy Board of California's (physical therapy board) expert consultants has served as the in-house consultant since approximately 2003, performing cursory reviews of certain complaints before they may be referred to other expert consultants in the field. Although this individual has served in this capacity for approximately nine years, the physical therapy board has not tried to hire a state employee to fulfill this function at a reduced cost. We believe that the physical therapy board may be able to save approximately \$28,000 to \$35,000 annually if it can hire a state physical therapy consultant at existing state rates to perform the same work as its in-house consultant. The physical therapy board also lacks a process to formally evaluate its in-house or other expert consultants' performance, which limits its ability to demonstrate that it maximized the efficacy of the nearly \$95,000 it spent on expert consultants in fiscal year 2010–11.

In addition, we found that the Department of Consumer Affairs (Consumer Affairs) does not ensure that members of its boards participate in required board member orientation, nor does it ensure all necessary employees attend required ethics training. We also found that two former board members submitted their statements of economic interests significantly after state deadlines. When board members do not submit these statements in a timely manner, the public and the board members themselves may be unaware of potential conflicts of interest that may disqualify the board members from dealing with particular issues that come before the board.

However, our testing indicates that the physical therapy board appropriately investigates complaints and imposes discipline. In addition, we found that the physical therapy board's relationships with professional organizations are appropriate. Finally, we found that the physical therapy board complies with the agenda, public-comment, and closed-session requirements of the Bagley-Keene Open Meeting Act.

In the report, the California State Auditor (state auditor) made the following recommendations to Consumer Affairs and the physical therapy board. The state auditor's determination regarding the current status of recommendations is based on Consumer Affairs' and the physical therapy board's responses to the state auditor as of December 2012.

#### **Recommendation 1.1—See pages 17—20 of the audit report for information on the related finding.**

The physical therapy board should explore the feasibility of establishing a state position to perform the duties of its current in-house consultant at a reduced cost.

#### ***Physical Therapy Board's Action: Pending.***

The physical therapy board reported that it is attempting to establish a civil service position to perform the duties of its current in-house consultant. However, the physical therapy board stated that this is an involved and lengthy process that it does not expect to complete until July 2015. As an interim solution, the physical therapy board stated that it is considering negotiating a new contract at a reduced rate when the current contract with the in-house consultant expires in March 2013.

#### **Recommendation 1.2—See pages 20 and 21 of the audit report for information on the related finding.**

To make certain that it provides effective services to consumers, the physical therapy board should develop a means of formally evaluating its expert consultants against performance measures and benchmarks. Furthermore, the physical therapy board should conduct these evaluations regularly and document them fully.

***Physical Therapy Board's Action: Fully implemented.***

The physical therapy board developed formal policies and procedures to evaluate the performance of its in-house and other expert consultants in December 2012 and July 2012, respectively. These procedures were designed to evaluate expert consultants' productivity and quality of work product, among other attributes. The policies require the in-house consultant to be evaluated at least annually and other expert consultants to be evaluated every time they provide a service.

**Recommendation 1.3—See pages 22—24 of the audit report for information on the related finding.**

Consumer Affairs should establish procedures for ensuring that board members attend board member orientation and that those individuals and other designated employees receive all required ethics training. In addition, Consumer Affairs should adhere to the record retention period of five years specified by law for the certificates documenting that designated employees received ethics training.

***Consumer Affairs' Action: Partially implemented.***

Consumer Affairs agrees with this recommendation and reported that it is currently implementing an ongoing process of reviewing its files to confirm that its board members attend board member orientation and that those individuals and other designated employees receive all required ethics training. If Consumer Affairs does not have documentation that board members and other designated employees completed all applicable training, it will notify those individuals that they need to comply with the mandatory training requirements or provide evidence that they have already attended all applicable training. Consumer Affairs also reported that it will retain documentation that designated employees received all mandatory training, including ethics training, for five years.

**Recommendation 1.4—See pages 24 and 25 of the audit report for information on the related finding.**

To ensure that board members disclose in a timely manner potential conflicts of interest on their Form 700s, the physical therapy board should notify Consumer Affairs' filing officer promptly when board members are appointed or when they indicate that they intend to leave office.

***Physical Therapy Board's Action: Fully implemented.***

The physical therapy board has developed procedures that direct its personnel liaison to notify Consumer Affairs' filing officer within 10 business days of board members assuming or leaving office.

# Commission on Teacher Credentialing

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

### REPORT NUMBER 2010-119, ISSUED APRIL 2011

This report concludes that, according to Commission on Teacher Credentialing (commission) management, as of the summer of 2009 the Division of Professional Practices (division) had accumulated a backlog of about 12,600 unprocessed reports of arrest and prosecution (RAP sheets), resulting from an insufficient number of trained staff, ineffective and inefficient processes, and a lack of an automated system for tracking the division's workload. These conditions appear to have resulted in delayed processing of alleged misconduct and potentially allowed educators of questionable character to retain a credential. Some of the more extreme cases involved allegations that credential holders distributed obscene material to a student, demonstrated recurring misconduct such as prostitution and petty theft, kissed a student, and made inappropriate sexual comments to female students.

The division needs further improvement in its processing of reports of misconduct. For example, the division and the Committee of Credentials (committee) have not addressed some of the important challenges to promptly reviewing reports of misconduct and making recommendations to the commission regarding discipline for the credential holders. Specifically, the division receives more reports each month than the committee can review. To streamline the committee's workload, the division will close or decide not to open cases if it believes the committee would not choose to recommend disciplinary action against the credential holder; however, we question the division's legal authority to do so.

Additionally, the division lacks written procedures for processing reported misconduct, adequate performance data regarding the time needed to review reports, accurate and complete data regarding its caseload, and adequate management reports to facilitate tracking of its caseload.

Finally, 40 percent of the commission employees who responded to our survey indicated that familial relationships or employee favoritism compromised the commission's hiring and promotion practices. In addition, the commission does not have a complete set of approved hiring procedures that it uses consistently, nor do its managers and staff consistently document their steps in the hiring process or their justification for selecting candidates. Consequently, the commission is vulnerable to allegations that its hiring decisions are unfair and that employment opportunities are not afforded equally to all candidates.

In the report, the California State Auditor (state auditor) made the following recommendations to the commission. The state auditor's determination regarding the current status of the recommendation is based on the commission's responses to the state auditor as of April, June, and August 2012.

#### **Recommendation 1.1—See pages 38 and 39 of the audit report for information on the related finding.**

To comply with the law and reduce unnecessary workload, the division should continue to notify the California Department of Justice (Justice) of RAP sheets for individuals in whom the division is no longer interested, so Justice will no longer notify the division of criminal activity for these individuals.

#### ***Commission's Action: Fully implemented.***

The commission has continued to notify Justice of the RAP sheets it no longer is interested in receiving. The commission also stated that as of March 5, 2012, it began an automated process of returning RAP sheets to Justice. Further, the commission stated it promulgated a regulation governing the expiration of fingerprints so that as a person's fingerprints expire under the proposed regulation, the commission's database will automatically notify Justice that it should no longer send RAP sheets for that person.

**Recommendation 2.1—See pages 48 and 49 of the audit report for information on the related finding.**

The commission should revise its strategic plan to identify the programmatic, organizational, and external challenges that face the division and the committee, and determine the goals and actions necessary to accomplish its mission.

***Commission's Action: Fully implemented.***

The commission adopted an amendment to its 2007 strategic plan at its March 2012 meeting. The amendment adds to the current strategic plan a goal 7: "Effectively, efficiently, and fairly monitor the fitness of all applicants and credential holders to work with California students." The amendment also identifies five objectives and the major activities that need to take place in order to implement the objectives. According to the commission, the focus of the first two objectives is the remediation of the issues identified by the state auditor in its report. Finally, the commission also indicated that it held a one-day retreat for strategic planning to consider commission-wide issues and challenges.

**Recommendation 2.2—See page 50 of the audit report for information on the related finding.**

To ensure that it can effectively process its workload in the future, the commission should collect the data needed to identify the staffing levels necessary to accommodate its workload.

***Commission's Action: Fully implemented.***

According to the commission, its Credentialing Automation System Enterprise (database) now captures every case assignment to staff, every common activity completed by staff, and each change in staff assignment as a case moves through the review process. The commission also stated that it standardized and implemented changes to its work processes, reorganized the staff of the division, restructured the management team to narrow the span of control and increase accountability, and submitted numerous policies regarding cases to the commission for its decision. Further, according to the commission, because of serious budget constraints caused by its decrease in revenue, any increase in staffing levels must be achieved through the redirection of existing resources within the commission or increasing the efficiencies within the division. Although the commission indicated that the data collected within the division will support a workload study, it has yet to perform one.

**Recommendation 2.3—See page 51 of the audit report for information on the related finding.**

The commission should seek a legal opinion from the attorney general to determine the legal authority and extent to which the committee may delegate to the division the discretionary authority to close investigations of alleged misconduct without committee review, and take all necessary steps to comply with the attorney general's advice.

***Commission's Action: Fully implemented.***

The commission submitted a request to the attorney general on May 2, 2011. However, in its one-year response, the commission indicated that it was not waiting for the attorney general's opinion to begin increasing the number of cases presented to the committee. It stated that it had taken steps to increase the number of cases the committee was reviewing from 50-60 cases to 100 cases each month by May 2012 to determine if that workload was possible for the committee.

At its August 2012 meeting, the division informed the commission that since May 2011 it has been presenting all cases to the committee and that the practice was working. As a result, the commission adopted the following policy: All matters where the committee has jurisdiction to investigate shall be presented to the committee. Any exceptions to this policy shall only be made where the commission has explicitly granted staff specific authority to take such an action with sufficient clarity that the staff's action is a ministerial duty. Since this policy made the commission's request for a formal opinion from the attorney general unnecessary, it also approved the withdrawal of the request at its August 2012 meeting.

**Recommendation 2.4—See pages 49 and 50 of the audit report for information on the related finding.**

Once the commission has received the attorney general's legal advice regarding the extent to which the committee may delegate case closures to the division, the commission should undertake all necessary procedural and statutory changes to increase the number of cases the committee can review each month.

***Commission's Action: Fully implemented.***

This recommendation was resolved by the commission's actions described under recommendation 2.3.

***Legislative Action: No longer necessary.***

**Recommendation 2.5—See pages 51—54 of the audit report for information on the related finding.**

The division should develop and formalize comprehensive written procedures to promote consistency in, and conformity with, management's policies and directives for reviews of reported misconduct.

***Commission's Action: Fully implemented.***

As indicated in its six-month response, the commission developed and posted on its intranet a procedures manual that generally indicates revised dates of April and May 2011. According to the commission, it plans to update the procedures manual as the procedures are fine tuned or new rules are developed. It also indicated that the new general counsel will initiate a review of the current manual and establish time frames for annually reviewing and updating the manual to ensure it remains current.

**Recommendation 2.6—See pages 54 and 55 of the audit report for information on the related finding.**

The division should provide the training and oversight, and should take any other steps needed, to ensure that the case information in its database is complete, accurate, and consistently entered to allow for the retrieval of reliable case management information.

***Commission's Action: Fully implemented.***

As indicated in its six-month response, the commission provided training to its staff to ensure that they consistently and accurately enter information into the database. Additionally, in its one-year response, the commission stated that most of the management and supervisory team in the division were replaced and it is in the process of recruiting a new management team. According to the commission, management duties will include routine or scheduled reviews of data.

In an August 2012 update, the commission provided its newly developed policy and procedures for reviewing data to ensure its accuracy. The commission also stated that it selected a random sample of 60 case files and reviewed 23 key data points for each file, creating a possibility of 1,380 errors. According to the commission, it developed, completed, and saved documentation of this review, during which it found a very low rate of error—only seven errors in total. Finally, in keeping with the procedures that the division developed, the commission plans to complete this data audit annually.

**Recommendation 2.7—See pages 55 and 56 of the audit report for information on the related finding.**

The commission should continue to implement its new procedures related to deleting cases from its database to ensure that all such proposed deletions are reviewed by management for propriety before they are deleted and a record is kept of the individuals to which each such deleted case record pertains. Further, the commission should develop and implement policies and procedures related to managing changes and deletions to its database.

***Commission's Action: Fully implemented.***

The commission developed a deletion management process and created a policy and procedures related to managing changes and deletions in its database. In addition, the policy requires the chief counsel to audit the data on an annual basis which, according to the commission, will occur after the new management team is in place.

**Recommendation 2.8—See pages 56—59 of the audit report for information on the related finding.**

To ensure that the division promptly and properly processes the receipt of all the various reports of educator misconduct it receives, such as RAP sheets, school reports, affidavits, and self-disclosures of misconduct, it should develop and implement procedures to create a record of the receipt of all these reports that it can use to account for them. In addition, the process should include oversight of the handling of these reports to ensure that case files for the reported misconduct are established in the commission's database to allow for tracking and accountability.

***Commission's Action: Fully implemented.***

As indicated in its six-month response, the commission developed and implemented an intake document database to ensure that staff promptly log-in and assign a number to all reports of educator misconduct, such as school reports, affidavits, and self-disclosures, it receives. The commission indicated that the intake system allows the division to track complaints that do not become cases, link complaints to a case and an individual, and can generate reports that assist management to monitor the status of the complaints.

**Recommendation 2.9.a—See pages 59—62 of the audit report for information on the related finding.**

To adequately address the weaknesses we discuss in its processing of reports of misconduct, the division should revisit management's reports and processes for overseeing the investigations of misconduct to ensure that the reports and practices provide adequate information to facilitate reduction of the time elapsed to perform critical steps in the review process.

***Commission's Action: Fully implemented.***

As indicated in its one-year response, the commission developed a variety of case aging reports designed to show the age of cases and to provide management with the information necessary to oversee and monitor the investigation of all reports of misconduct. These reports appear to include information about critical steps in the review process. Additionally, the committee recently reviewed a plan on setting performance measures for critical stages of the division's business processes. The plan also presents proposed targets to perform vital tasks and a proposed report on performance measures, with targets, cycle time, and volume. According to the plan, these measurements will be displayed in a data dashboard, an executive level information display that is designed to be easy to read. However, the commission stated that to implement the dashboard requires revisions to the database, which will not be completed until the summer of 2012. In an August 2012 update, the commission stated that it has implemented the dashboard, which is described more fully under recommendation 2.9.c.

**Recommendation 2.9.b—See pages 59—62 of the audit report for information on the related finding.**

The division should adequately track the reviews of reports of misconduct that may require mandatory action by the commission to ensure the timely revocation of the credentials for all individuals whose misconduct renders them unfit for the duties authorized by their credential.

***Commission's Action: Fully implemented.***

The commission has developed or enhanced reports to track and monitor the progress of cases involving mandatory offenses and it provided examples of these reports. According to the commission, these reports provide the tools needed by management to monitor the workload involving mandatory offenses and to ensure timely revocation or denial of credentials.

**Recommendation 2.9.c—See pages 59—62 of the audit report for information on the related finding.**

The division should ensure that its reports and practices provide adequate information to facilitate prompt requests for information surrounding reports of misconduct from law enforcement agencies, the courts, schools, and knowledgeable individuals.

***Commission's Action: Fully implemented.***

In its one-year response, the commission stated that at its January 2012 meeting, it reviewed a “dashboard measurement” tool for setting performance measures for critical stages of the division’s business processes. It also presented proposed targets to perform vital tasks, such as for requesting documents related to the misconduct from the appropriate entities, as well as a sample report on performance measures that displays targets, cycle times, and volumes. However, the commission stated that to implement the dashboard requires revisions to the database, which will not be completed until the summer of 2012.

In an August 2012 update, the commission indicated that it had actually developed and was using two dashboards to provide data about the promptness of handling cases. According to the commission, one dashboard is for the commission’s use in exercising its oversight responsibilities for discipline cases and measures three key stages of the division’s workload: intake of mail, case management, and review by the committee. It also stated that each item on the dashboard gives three critical measurements: volume of work, average time for the work, and the goal for timely action. Further, the commission indicated that it developed and is using a second dashboard that focuses on key areas within the intake unit, which experiences the highest volume of work, to provide managers and staff with an easy to view method of seeing progress and problems.

**Recommendation 2.9.d—See page 60 of the audit report for information on the related finding.**

The division should ensure that its reports and practices provide adequate information to facilitate an understanding of the reasons for delays in investigating individual reports of misconduct without having to review the paper files for the cases.

***Commission's Action: Fully implemented.***

The commission modified its database to include a “Cause for Delay” activity and it incorporated this activity into three of the reports its database generates. According to the commission, this will allow management to determine whether a case is delayed, whether the delay is caused by an external agency, and the reason for the delay. Although the commission has built the activity into the database, it stated that due to certain warranty issues surrounding its database, it cannot implement the activity until the end of May 2012. Since its April 2012 response, the commission developed procedures on the activities staff will perform to track the “cause for delay” in the database. In June 2012, it conducted training related to these procedures and, according to the commission staff began entering the reasons for delays as they reviewed cases. Finally, in the August 2012 update, the commission stated that its information technology section developed a report on causes for delay.

**Recommendation 2.9.e—See page 61 of the audit report for information on the related finding.**

The division should provide clear evidence of management review of reports intended to track the division's progress in its investigations of misconduct.

***Commission's Action: Fully implemented.***

According to the commission, beginning in October 2011, it has held a weekly management meeting that includes the chief counsel, assistant chief counsel, supervising special investigator, and the acting staff services manager and it plans to include new managers as they are recruited. The commission stated that during the weekly meeting the management team focuses on issues facing the division, including staffing issues, case work issues, and case delays as well as spending some time to review various reports. However, the commission indicated that the management team does not review every type of report at each meeting, but all reports are provided to each manager as they are developed.

**Recommendation 2.9.f—See page 62 of the audit report for information on the related finding.**

The division should clearly track the dates at which the commission will lose its jurisdiction over the case as a result of the expiration of statute-based time frames for investigating the misconduct.

***Commission's Action: Fully implemented.***

The commission stated it modified its database to include statute of limitation dates to show when it will lose jurisdiction to investigate a case. The commission developed a monthly report for the purpose of alerting management about any cases that are within six months of the statute of limitations date, created procedures to inform staff on how to enter the statute of limitations date into the database, and trained staff on the process. For cases involving reports from school districts, the commission indicated that attorneys now review the reports during the intake process to determine the correct date for the statute of limitations.

**Recommendation 2.10—See page 61 of the audit report for information on the related finding.**

The division should develop and implement procedures to track cases after they have been assigned to the investigative process.

***Commission's Action: Fully implemented.***

The commission stated that it developed procedures, modified the database, and developed and implemented the "COC Assigned and Pending Cases" report to track cases after they are assigned to the investigative process. In addition, the commission provided training on the investigative process.

**Recommendation 3.1.a—See pages 67 and 68 of the audit report for information on the related finding.**

To better ensure that its hiring decisions are fair and that employment opportunities are equally afforded to all eligible candidates, and to minimize employees' perceptions that its practices are compromised by familial relationships or employee favoritism, the commission should prepare and/or formally adopt a comprehensive hiring manual that clearly indicates hiring procedures and identifies the parties responsible for carrying out various steps in the hiring process.

***Commission's Action: Fully implemented.***

As indicated in its six-month response, the commission developed and adopted a hiring handbook in June 2011, which identifies the hiring process and the parties responsible for each stage in the hiring process. The commission indicated that the State Personnel Board<sup>1</sup> provided assistance in the development of the handbook and its senior managers reviewed and approved the handbook. The commission also indicated that it is consulting with the State Personnel Board to develop best practices in the commission's office of human resources, including developing and publishing an annual examination plan.

**Recommendation 3.1.b—See pages 68—70 of the audit report for information on the related finding.**

To better ensure that its hiring decisions are fair and that employment opportunities are equally afforded to all eligible candidates, and to minimize employees' perceptions that its practices are compromised by familial relationships or employee favoritism, the commission should maintain documentation for each step in the hiring process. For example, the commission should maintain all applications received from eligible applicants and should preserve notes related to interviews and reference checks. Documentation should be consistently maintained by a designated responsible party.

***Commission's Action: Fully implemented.***

As indicated in its six-month response, according to the commission, it held a training session for all supervisors and managers on June 22, 2011. The training included an overview of the documentation that managers and supervisors must submit to the commission's office of human resources for each step in the hiring process.

**Recommendation 3.1.c—See pages 68—70 of the audit report for information on the related finding.**

To better ensure that its hiring decisions are fair and that employment opportunities are equally afforded to all eligible candidates, and to minimize employees' perceptions that its practices are compromised by familial relationships or employee favoritism, the commission should ensure hiring managers provide to the commission's office of human resources documentation supporting their appointment decisions, and the office of human resources should maintain this documentation so that it can demonstrate that the hiring process was based on merit and the candidate's fitness for the job.

***Commission's Action: Fully implemented.***

As indicated in its six-month response, the commission stated that its office of human resources monitors all hiring processes and maintains documentation for each hiring and examination process, including applications received, notes related to interviews, reference checks, and hiring justification.

**Recommendation 3.2.a—See pages 70—73 of the audit report for information on the related finding.**

To ensure that employees understand their right to file either an Equal Employment Opportunity (EEO) complaint or a grievance, and to reduce any associated fear of retaliation, the commission should include in its EEO policy a statement informing staff members that they may make complaints without fear of retaliation.

<sup>1</sup> On July 1, 2012, the State Personnel Board and the Department of Personnel Administration were combined to create the California Department of Human Resources.

***Commission's Action: Fully implemented.***

As indicated in its six-month response, on May 9, 2011, the commission provided its staff an updated EEO policy, which states that employees may make complaints without fear of reprisal. In addition, the commission's EEO handbook informs staff that retaliation and intimidation is not allowed.

**Recommendation 3.2.b—See pages 70—73 of the audit report for information on the related finding.**

The commission should actively notify employees annually of its EEO complaint and grievance processes, including the protection from retaliation included in both.

***Commission's Action: Fully implemented.***

As indicated in its six-month response, the commission stated that it plans to remind all staff members annually of the EEO and Sexual Harassment Prevention Policy and that staff will be required to certify that they have reviewed the policy.

**Recommendation 3.2.c—See pages 70—73 of the audit report for information on the related finding.**

The commission should conduct training on its EEO complaint process on a periodic basis.

***Commission's Action: Fully implemented.***

As indicated in its six-month response, according to the commission, as of August 25, 2011, all managers and supervisors participated in a training workshop on workplace retaliation provided by the Department of Fair Employment and Housing. The commission also provided EEO training to the rank and file employees and a separate training for all supervisors and managers during September and October 2011. According to the commission, it plans to continue to provide this training on a biennial basis.

# High School Graduation and Dropout Data

## California's New Database May Enable the State to Better Serve Its High School Students Who Are at Risk of Dropping Out

### REPORT NUMBER 2011-117, ISSUED MARCH 2012

This report concludes how, through the use of a unique student identifier, the California Longitudinal Pupil Achievement Data System (CALPADS) allows the California Department of Education (department) to track a student's progress from when he or she enters high school to when he or she exits, and thus allows the department to calculate precise graduation and dropout rates for a particular cohort of students. Data from CALPADS compares favorably to older data, which is based on schools' aggregate counts of graduates and dropouts. In August 2011 the department used CALPADS to report graduation and dropout rates for the first cohort of students tracked from the 2006–07 through the 2009–10 school year. The department reported that this cohort graduated at an overall rate of 74 percent. However, the data shows a divide in graduation rates between various demographic groups. Specifically, African-American students, Hispanic or Latino students, and students of lower socioeconomic status generally dropped out of school at rates higher than their peers. By establishing this baseline, we believe the rates generated from CALPADS will prove useful for encouraging data-driven decision making in meeting the needs of all students.

We also conclude that there is room to increase the utility of CALPADS and improve the quality of data reported into CALPADS. School personnel varied in the extent to which they verified the reasons a student exited high school, in part because they did not consistently follow the department's guidance. Additionally, several districts reported that the process of uploading data into CALPADS can be time-consuming and some districts stated that maintaining and updating CALPADS requires significantly more resources than previously required to report data to the State. Furthermore, because the funding for CALPADS is primarily focused on meeting state and federal reporting requirements, the State may risk missing opportunities to be more innovative in using its longitudinal data.

In the report, the California State Auditor (state auditor) made the following recommendations to the department. The state auditor's determination regarding the current status of recommendations is based on the department's response to the state auditor as of September 2012.

#### **Recommendation 1—See pages 26—30 of the audit report for information on the related finding.**

To increase consistency, the department should remind schools and school districts of the importance of aligning their procedures for recording pupil enrollment and exit data with the *CALPADS Data Guide*.

#### ***Department's Action: Fully implemented.***

According to the department, it distributes a letter to local educational agencies every fall with a reminder of the upcoming data collection cycle. On September 14, 2012, the department issued correspondence to all school district superintendents, county office superintendents, and charter school administrators reminding them of the importance of reporting data accurately and directing them to guidance on data submission available on the department's Web site at [www.cde.ca.gov/calpads](http://www.cde.ca.gov/calpads), under the *System Documentation* link.

#### **Recommendation 2—See pages 30 and 31 of the audit report for information on the related finding.**

To improve efficiency, the department should inform school districts of the value of frequently updating the data they transfer from their local student information systems to CALPADS. Also, to the extent that departments become aware of ways that schools and school districts can perform CALPADS-related activities more efficiently, it should provide written guidance to schools and school districts on these best practices.

***Department's Action: Fully implemented.***

In correspondence issued on September 14, 2012, the department reminded school districts that data is used for multiple purposes throughout the year and emphasized the importance of updating the data school districts' transfer from their local student information systems to CALPADS. According to the department, if it becomes aware of new efficiencies for performing CALPADS-related activities, it will update existing guidance that is available on the department's Web site accordingly.

**Recommendation 3—See pages 32 and 33 of the audit report for information on the related finding.**

To improve the utility of CALPADS and fulfill the legislative intent of the system, the department should work with the Legislature, the State Board of Education, and the governor to identify priorities for building upon the system when funding is available. These priorities could include tracking student participation in dropout prevention programs or strategies to measure the effectiveness of those programs or strategies over time.

***Department's Action: Partially implemented.***

The department stated that it has engaged stakeholders, including State Board of Education staff and legislative staff, regarding how CALPADS can be used now and in the future. However, according to the department, existing budget language specifically restricts the department from adding any additional data elements to CALPADS at this time. Therefore, the department stated that the discussions it has held with stakeholders have been related to how currently collected data might be used and how CALPADS may be further utilized if additional funding becomes available and budget language is changed to be less restrictive.

***Legislative Action: Legislation vetoed.***

Senate Bill 1497 (as enrolled August 30, 2012) of the 2011–12 Regular Legislative Session, if enacted, would have prohibited a pupil from being included and reported more than once in data on pupil dropout rates produced by CALPADS and reported by the Superintendent of Public Instruction. This bill was vetoed by the governor on September 26, 2012.

# Los Angeles Unified School District

## It Could Do More to Improve Its Handling of Child Abuse Allegations

### REPORT NUMBER 2012-103, ISSUED NOVEMBER 2012

This report concludes that the Los Angeles Unified School District (district) often did not properly notify the Commission on Teacher Credentialing (commission) when required to do so, such as when an employee with a certificate to teach is dismissed while an allegation of misconduct is pending. Our review of the information the district provided to the commission found that the district failed to report as required at least 144 cases—including cases involving employee misconduct against students—submitted a year or more late when the district finally did report them. Of the 144 cases, 31 were more than three years late when they were reported to the commission. As a result of the delays in reporting these cases, the commission was not able to determine promptly whether it was appropriate to revoke the teachers' certificates and thus prevent the individuals from working in other school districts. Further, we found that there is no statewide mechanism to communicate to other school districts when a classified employee at any given district, such as a campus aide or food service worker, separates by dismissal, resignation, or settlement during the course of an investigation involving misconduct with students.

The district has made improvements to its policies and procedures related to reporting, investigating, and tracking suspected child abuse over time. However, although the district generally followed state law and its own policies and procedures when reporting and investigating suspected child abuse, we found that the district did not always act promptly on some allegations during the investigation, nor did it always discipline employees in a timely manner. During an investigation of employee misconduct, the district is responsible for keeping the employee away from the school site. The district's policy for addressing this responsibility is to *house* the employee—to relocate him or her away from its school sites. During this time the district continues to pay the employee's salary. We noted that the district paid \$3 million in salaries to 20 employees housed the longest for allegations of misconduct against students. Finally, the lengthy and expensive dismissal process required by state law contributes to the district's settling with employees rather than continuing with the dismissal process. However, the district does not maintain a districtwide tracking mechanism for settlements that includes the total amount paid out and descriptions of the misconduct. Such information could help the district identify and analyze patterns and trends associated with providing a settlement.

In the report, the California State Auditor (state auditor) made the following recommendations to the district and the Legislature. The state auditor's determination regarding the current status of recommendations is based on the district's response to the state auditor as of November 2012.

#### **Recommendation 1.1—See pages 14—19 of the audit report for information on the related finding.**

To ensure that the commission is made aware of certificated employees who need to be reviewed to determine whether the employees' teaching credentials should be suspended or revoked, the district should adhere to state requirements for reporting cases to the commission. Further, the district should avoid reporting cases that are not yet required to be reported so that it will not overburden the commission.

#### ***District's Action: Partially implemented.***

The district states that between February 2012 and May 2012 it conducted a comprehensive review of all aspects of the reporting process in order to analyze strengths and weaknesses and make any necessary improvements. According to the district, the review resulted in the development of a reporting system that incorporates a team approach, detailed internal protocols with built-in redundancy, and an enhanced database to track and monitor all aspects of commission reporting.

The district also reports that it has put in place a commission reporting team that has developed detailed internal protocols and procedures that identify reportable cases and the specific responsibilities of each team member. According to the district, each case is reviewed by at least two team members and regular monitoring is conducted by additional team members.

The district states that to ensure that cases are effectively reported and tracked, a new commission reporting component was created within the Employee Relations misconduct database in March 2012. This component tracks initial reports to the commission, follow-up correspondence between the district and the commission related to the initial report, and statutory notification to employees. The district's Human Resources Division plans to conduct internal audits of the reporting process and procedures and make improvements as warranted in order to ensure student safety.

**Recommendation 1.2—See pages 19—21 of the audit report for information on the related finding.**

The Legislature should consider establishing a mechanism to monitor classified employees who have separated from a school district by dismissal, resignation, or settlement during the course of an investigation for misconduct involving students, similar to the oversight provided by the commission for certificated employees. If such a mechanism existed, school districts throughout the State could be notified before hiring these classified employees.

*Legislative Action: Unknown.*

The state auditor is not aware of any action taken by the Legislature as of December 18, 2012.

**Recommendation 2.1—See pages 34—40 of the audit report for information on the related finding.**

To ensure that investigations proceed in a timely manner and that the district disciplines employees promptly, the district should increase its oversight of open allegations of employee abuse against students.

*District's Action: Pending.*

The district states that as a component of its recent reorganization, its Human Resources Division has augmented support for investigations and any resulting discipline by assigning additional staff relations personnel to the district's new Educational Service Centers, creating a Certificated Performance Evaluation Support Unit, and more strategically utilizing the previously created Investigations Unit. According to the district, these units have collaborated in designing and conducting intensive training on conducting investigations for school site administrators and operations personnel. The district indicates that various units are collaborating in creating guidelines for administrative investigations of allegations of employee misconduct as well as providing appropriate assistance in conducting investigations related to the investigations.

**Recommendation 3.1—See pages 48—50 of the audit report for information on the related finding.**

To ensure that it does not duplicate efforts and that its information is complete, the district should identify one division to maintain a districtwide tracking mechanism for settlements that includes the total amounts paid and descriptions of the misconduct.

*District's Action: Pending.*

The district plans to establish a confidential integrated settlement database, which is to be maintained by its Office of General Counsel, as soon as possible to address the concerns outlined in the audit. The district plans to assemble a team, consisting of representatives from various departments, which will be responsible for evaluating the audit findings, determining whether district licensed computer programs can be used to establish the necessary confidential tracking

database, or if new programming is required. According to the district, the team will work towards establishing a process and procedure that is streamlined and efficient and provides the district with the means of tracking the total cost of the settlements in employee dismissal actions and a description of the misconduct for which dismissal is sought.



# Indian Gaming Special Distribution Fund

## Local Governments Continue to Have Difficulty Justifying Distribution Fund Grants

### REPORT NUMBER 2010-036, ISSUED FEBRUARY 2011

This report, our second review of the allocation and expenditure of grants from the Indian Gaming Special Distribution Fund (distribution fund), concludes that Indian Gaming Local Community Benefit Committees (benefit committees) continue to have difficulty complying with grant requirements and related laws. Our review of a sample of 20 grants totaling \$5.7 million revealed that in 10 instances the grant recipient either could not provide evidence of, or could not quantify, the impact of the casino. As a result, they were unable to prove that the funding was in proportion to the impact of a casino, as required by law. In three other cases, benefit committees awarded grants that were unrelated or disproportionately related to casino impacts, and the Yolo County benefit committee awarded the entirety of its nearly \$336,000 allocation to an ineligible entity. Further, in three of the counties we reviewed, benefit committees did not award some cities and counties the minimum amounts the law set aside for them.

In our review of the allocation of funds to counties by the State Controller's Office, we found that the formula established in law does not take into account the possibility of a change during the course of a year in the number of devices operated by a tribe. Had the law taken into account changes due to compact amendments that took effect during fiscal year 2007–08, approximately \$2 million would have been distributed differently, providing some counties with more money and others with less. We also found that many tribes with compact amendments are negotiating agreements with local governments to directly fund mitigation projects, as required by their most recent compact terms. Finally, changes in contribution requirements due to amended compacts, as well as changes in the number of licenses, have altered the revenue streams of both the distribution fund and the Indian Gaming Revenue Sharing Trust Fund.

In the report, the California State Auditor (state auditor) made the following recommendations to the recipient counties of the distribution fund. The state auditor's determination regarding the current status of recommendations is generally based on the recipient counties responses to the state auditor as of February 2012. Please note that because not all recommendations or parts of recommendations applied to all seven of the counties we visited, the following recommendations will not always include responses from all audited entities.

#### **Recommendation 1.1—See pages 21—25 and 28 of the audit report for information on the related finding.**

The Legislature should consider amending the law to prohibit projects that are unrelated to casino impacts or are not proportionally related to casino impacts. The amendment should require that counties forfeit equivalent amounts of future money from the distribution fund if their benefit committees approve grant applications that fail to provide evidence that projects are funded in proportion to casinos' impacts.

#### ***Legislative Action: Legislation proposed.***

Assembly Bill 2515 (as amended March 29, 2012) of the 2011–2012 Regular Legislative Session, would among other things, require grant applications to clearly show how the grant will mitigate the impact of the casino on the grant applicant agency and require benefit committees to adopt a conflict-of-interest code.

**Recommendation 1.2—See pages 25—27 of the audit report for information on the related finding.**

To make certain that the projects' eligibility, merit, and relevance are discussed in a public forum during the projects' selection, the Legislature should also clarify that benefit committees should meet to consider applications before submitting them for tribal sponsorship. Alternatively, the Legislature could emphasize local priorities by amending the law to allow benefit committees to approve any applications that are submitted to them for public debate and committee approval before tribal sponsorship, regardless of the proportionality of a casino's impact.

***Legislative Action: Unknown.***

The state auditor is not aware of any action taken by the Legislature as of December 18, 2012.

**Recommendation 1.3—See pages 28—30 of the audit report for information on the related finding.**

To provide an incentive for benefit committees to award cities and counties the amounts that the Legislature has appropriated to them for mitigating casino impacts, the Legislature should require that grant funds allocated for each city and county according to the nexus test revert to the distribution fund if they are not awarded to that city or county.

***Legislative Action: Unknown.***

The state auditor is not aware of any action taken by the Legislature as of December 18, 2012.

**Recommendation 1.4.a—See pages 21—25 of the audit report for information on the related finding.**

To help ensure that they meet the grant requirements established in the California Government Code, counties should require that the county auditor review each grant application to ensure a rigorous analysis of a casino's impact and of the proportion of funding for the project provided by the grant. Benefit committees should consider a grant application only when the county auditor certifies that the applicant has quantified the impact of the casino and verifies that the grant funds requested will be proportional to the casino's impact.

***Amador County's Action: No action taken.***

- ➔ The county did not address this recommendation in its response.

***Humboldt County's Action: No action taken.***

- ➔ Humboldt County did not respond to our requests for a six-month response, nor did the county submit a one-year response.

***Riverside County's Action: Pending.***

The county stated that in Riverside County the auditor is an elected official who neither reports to the county executive officer nor the board of supervisors. As a result, the auditor cannot be "required" to provide this assistance. The county also indicated that it will ask the auditor to participate in the fiscal year 2011–12 Special Distribution Funds grant process.

***Santa Barbara County's Action: No action taken.***

- ➔ Santa Barbara County did not respond to our requests for a six-month response, nor did the county submit a one-year response.

***San Diego County's Action: Partially implemented.***

The county stated that it continues to take this recommendation under advisement, as both the county and the benefit committee agree with the importance of a thorough review. It also indicated that instead of the county auditor reviewing every grant application, the county auditor conducted a review of the benefit committee grant process and documents. Finally, the county stated that the county auditor validated the benefit committee's methods used to quantify impacts, and did not have any suggestions to improve the request for information, but did reiterate the need for a thorough analysis of the data presented in the application during the review process. However, the county did not provide evidence to substantiate this claim.

***Shasta County's Action: Pending.***

The county stated that it continues to work with the county auditor in determining their legal responsibilities as it relates to auditing grant applications. However, the county has provided no evidence to substantiate this claim.

***Yolo County's Action: No action taken.***

The county did not address this recommendation in its response.

**Recommendation 1.4.b—See page 31 of the audit report for information on the related finding.**

To help ensure that they meet the grant requirements established in the California Government Code, counties should review the law for changes that may affect applicants' eligibility for distribution fund grants before awarding the grants so that ineligible entities do not receive grants.

***Yolo County's Action: No action taken.***

The county did not address this recommendation in its response.

**Recommendation 1.4.c—See pages 24 and 25 of the audit report for information on the related finding.**

To help ensure that they meet the grant requirements established in the California Government Code, counties should more rigorously review applications that are to be administered and spent by an entity other than the local government that applies for the funds. Specifically, benefit committees should require that each grant application clearly show how the grant will mitigate the impact of the casino on the applicant agency.

***Amador County's Action: Fully implemented.***

In April 2011 the benefit committee adopted procedures requiring eligible applicants to demonstrate how they will be able to document and quantify the impact that is being mitigated by the project. The county provided documentation demonstrating that it had implemented these procedures.

***Humboldt County's Action: No action taken.***

Humboldt County did not respond to our requests for a six-month response, nor did the county submit a one-year response.

***Riverside County's Action: No action taken.***

The county did not address this recommendation in its response.

***Santa Barbara County's Action: No action taken.***

- ➔ Santa Barbara County did not respond to our requests for a six-month response, nor did the county submit a one-year response.

***San Diego County's Action: Fully implemented.***

The county stated that the benefit committee's process is one that provides a rigorous review of the grant applications through a comprehensive, transparent, and public process. The benefit committee has established application policies, procedures, and an application form for the grants following the priorities specified in Section 12715(g) of the California Government Code. The benefit committee further confirmed that grant documents request information from applicants to ensure that metrics clearly demonstrate proportionality for impacts.

***Shasta County's Action: No action taken.***

- ➔ The county did not address this recommendation in its response.

***Yolo County's Action: Fully implemented.***

The county stated that in the benefit committee's last funding cycle, the benefit committee elected to fund three applications which clearly described the impacts of tribal gaming they were seeking to mitigate, including an analysis of proportionality where appropriate.

**Recommendation 1.4.d—See pages 28—30 of the audit report for information on the related finding.**

To help ensure that they meet the grant requirements established in the California Government Code, counties should ensure that eligible cities and counties receive the proportional share of funding they are set aside according to the nexus test by making the governments aware of available distribution fund grants and of the minimum grant amounts that are set aside for them under the nexus test.

***Amador County's Actions: Fully implemented.***

The county provided notice to each jurisdiction in the county that was eligible for funding from the distribution fund of their eligibility and the amounts set aside for them.

***Santa Barbara County's Action: No action taken.***

- ➔ Santa Barbara County did not respond to our requests for a six-month response, nor did the county submit a one-year response.

**Recommendation 1.4.e—See pages 28—30 of the audit report for information on the related finding.**

To help ensure that they meet the grant requirements established in the California Government Code, counties should encourage eligible local governments to submit multiple applications so that the benefit committees can choose appropriate projects while ensuring that local governments are awarded the amount defined in law.

***Amador County's Action: Partially implemented.***

In its six-month response, the county stated that eligible jurisdictions were encouraged to apply for multiple projects so that the benefit committee could choose projects that best mitigated the impacts addressed by the distribution funds. It further stated that as a result, many more project requests were received than could be funded. However, the county did not provide evidence to substantiate this claim, nor did the county address this recommendation in its one-year response.

***Riverside County's Action: Pending.***

The county stated that during the next request for distribution fund grant applications, eligible entities will be encouraged to submit multiple funding applications.

***Santa Barbara County's Action: No action taken.***

Santa Barbara County did not respond to our requests for a six-month response, nor did the county submit a one-year response.

***San Diego County's Action: Fully implemented.***

The county stated that it continues to broadly distribute notice to eligible local governments via email to announce the call for applications. It also indicated that it files public notice with the clerk of the board so agenda packets are posted in compliance with the Brown Act requirements. The benefit committee's frequently ask questions state that eligible agencies can submit multiple applications.

***Shasta County's Action: No action taken.***

The county did not address this recommendation in its response.

**Recommendation 1.4.f—See pages 31—34 of the audit report for information on the related finding.**

To help ensure that they meet the grant requirements established in the California Government Code, counties should require benefit committee filing officers to avail themselves of the free training provided by the Fair Political Practices Commission (FPPC) so that the filing officers are aware of and meet their responsibilities under the Political Reform Act of 1974. Counties should also adhere to FPPC guidelines for notifying filers of the need to submit statements of economic interests.

***Amador County's Action: Partially implemented.***

According to the county, in April 2011 the benefit committee adopted procedures requiring all members of the benefit committee to submit a properly completed Form 700 specifically identifying the benefit committee as required by the FPPC, and, accordingly, all members of the benefit committee filed the form. However, the county did not address all aspects of the recommendation.

***Humboldt County's Action: No action taken.***

Humboldt County did not respond to our requests for a six-month response, nor did the county submit a one-year response.

***Riverside County's Action: Partially implemented.***

The county stated that the benefit committee adopted the Standard Code of the FPPC as the Conflict-of-Interest Code, and it requires committee members to complete form 700 annually. However, the county did not provide evidence of these procedures to substantiate this claim. Further, it did not address all aspects of the recommendation.

***Santa Barbara County's Action: No action taken.***

Santa Barbara County did not respond to our requests for a six-month response, nor did the county submit a one-year response.

***Shasta County's Action: Partially implemented.***

The county stated that county filing officers notified all committee members of the requirement to submit Statement of Economic Interest forms, and as a result, all current benefit committee members have complied. However, the county did not provide evidence to substantiate this claim. Further, it did not address all aspects of the recommendation.

***Yolo County's Action: Partially implemented.***

The county stated that the filing officer for the benefit committee coordinates with the County Clerk-Recorder's Office to ensure all committee members were informed of their obligation to file statements of economic interest by the required date. However, the county did not provide evidence to substantiate this claim. Further, it did not address all aspects of the recommendation.

**Recommendation 1.4.g—See pages 32 and 33 of the audit report for information on the related finding.**

To help ensure that they meet the grant requirements established in the California Government Code, counties should ensure that benefit committees' conflict-of-interest codes comply with the political reform act by reviewing the act and their codes, and changing the codes as necessary to meet the act's requirements.

***Santa Barbara County's Action: No action taken.***

- ➡ Santa Barbara County did not respond to our requests for a six-month response, nor did the county submit a one-year response.

***Shasta County's Action: Pending.***

The county stated it is continuing to review the benefit committee conflict-of-interest code and will update it as necessary. However, the county did not provide documentation to substantiate this claim.

**Recommendation 2.1—See page 42 of the audit report for information on the related finding.**

The Legislature should amend the law for allocating distribution funds to counties to include provisions for prorating a county's distribution fund allocation based on the percentage of the year that each gaming device in the county is required to contribute to the fund. Such an amendment would ensure a more proportionate distribution when the number of contributing gaming devices changes during the course of the year.

***Legislative Action: Unknown.***

The state auditor is not aware of any action taken by the Legislature as of December 18, 2012.

# California's Mutual Aid System

## The California Emergency Management Agency Should Administer the Reimbursement Process More Effectively

### REPORT NUMBER 2011-103, ISSUED JANUARY 2012

This report concludes that the California Emergency Management Agency (Cal EMA) generally processes local agencies' requests for reimbursement within 120 business days and the agencies generally receive their reimbursements in a timely manner. However, Cal EMA can improve its oversight of other aspects of the reimbursement process by ensuring local agencies calculate correctly the average actual hourly rates used to determine their reimbursements. Our analysis of 718 transactions processed between 2006 and 2010 found that inaccuracies in the average actual hourly rates may have resulted in some agencies overbilling for personnel costs by nearly \$674,000, while other agencies were underbilling by nearly \$67,000.

Cal EMA also may need to improve the system it uses to generate invoices on behalf of local agencies that provide assistance. A March 2011 audit conducted by the U.S. Department of Homeland Security's Office of the Inspector General found that the California Department of Forestry and Fire Protection (CAL FIRE) was not in compliance with the Federal Emergency Management Agency's (FEMA) reimbursement criteria. FEMA is actively reviewing this issue and its review may result in a decision to recover some or all of the \$6.7 million identified in the audit report. If FEMA determines the CAL FIRE calculations and claims identified in the audit were erroneous, Cal EMA will need to modify its invoicing system to comply with FEMA's reimbursement criteria. For example, applying FEMA's reimbursement criteria, we found that CAL FIRE may have billed FEMA \$22.8 million more than it should have.

Finally, the majority of 15 local fire and five local law enforcement agencies we interviewed stated that they had not evaluated how providing mutual aid affects their budgets. Some of the 15 local fire agencies and the majority of the five local law enforcement agencies stated that, although their budgets had been reduced in the last five years, they did not believe that budget restrictions hindered their ability to respond to mutual aid requests. Four of the 15 local fire agencies and one of the five local law enforcement agencies said that they were projecting budget reductions in future years. However, only one local fire agency we spoke with has evaluated the impact that budget restrictions will have on its ability to provide mutual aid.

In the report, the California State Auditor (state auditor) made the following recommendations to Cal EMA and CAL FIRE. The state auditor's determination regarding the current status of recommendations is based on Cal EMA and CAL FIRE's responses to the state auditor as of September and October 2012, respectively.

#### **Recommendation 1.1—See pages 20 and 21 of the audit report for information on the related finding.**

To make certain that emergency response agencies receive reimbursements on time, Cal EMA should establish procedures to ensure that paying entities do not delay reimbursements.

#### ***Cal EMA's Action: Partially implemented.***

Cal EMA stated that it is difficult to ensure that paying entities do not delay reimbursements for those emergencies or disasters that are not reimbursed under FEMA's Fire Management Assistance Grant (FMAG) Program. Under the FMAG, states can submit a request for assistance to FEMA at the time a major disaster exists. Cal EMA stated that, because it administers the entire FMAG process, it is able to prioritize workload and expeditiously submit to FEMA the project worksheet that documents the scope of work and cost estimate for each project. However, Cal EMA stated that it has little or no control over reimbursements for FEMA's Public Assistance (PA) Program.

Under the PA, states can submit a request for assistance so that they can quickly respond to and recover from major disasters and emergencies declared by the President. CAL EMA stated that, because it jointly administers the PA Program with FEMA, it is difficult to ensure the expeditious processing of project worksheets that require several layers of federal review and subsequent funding obligations.

Further, to ensure that paying entities do not delay reimbursements for mutual aid provided under the California Fire Assistance Agreement (CFAA), Cal EMA is implementing a new Mutual Aid Reimbursement Program that focuses largely on migrating from a Lotus Notes application to a Web-based application. Cal EMA stated that this system will produce a stable platform and build in appropriate business rules to more effectively administer the CFAA terms and conditions and reduce reimbursement timelines. According to Cal EMA, the first phase of this new program was deployed in July 2012 and eliminated many workarounds and limitations found in the current system.

**Recommendation 1.2.a—See pages 20 and 21 of the audit report for information on the related finding.**

To ensure that it receives reimbursements on time, Cal EMA should identify ways to reduce the amount of time it takes to submit project worksheets to FEMA and to draw down funds.

***Cal EMA's Action: Fully implemented.***

Cal EMA incorporated language into its FMAG Program standard operating procedures that outlines the grant process, including the reimbursement process. Cal EMA stated that, because it jointly administers the PA Program with FEMA, it is difficult to ensure the expeditious processing of project worksheets that require several layers of federal review and subsequent funding obligations.

**Recommendation 1.2.b—See pages 20 and 21 of the audit report for information on the related finding.**

To ensure that it receives reimbursements on time, Cal EMA should establish procedures for submitting project worksheets to FEMA and drawing down funds that reflect the time-saving measures resulting from its efforts to implement recommendation 1.2.a.

***Cal EMA's Action: Fully implemented.***

Cal EMA incorporated language into its FMAG Program standard operating procedures that outlines the grant process, including the reimbursement process. Cal EMA stated that, because it jointly administers the PA Program with FEMA, it is difficult to ensure the expeditious processing of project worksheets that require several layers of federal review and subsequent funding obligations.

**Recommendation 1.3.a—See pages 22—24 of the audit report for information on the related finding.**

To make certain that local agencies calculate correctly their average actual hourly rates, Cal EMA should audit a sample of invoices each year and include in the review an analysis of the accuracy of the local agencies' average actual hourly rates reported in the agencies' salary surveys.

***Cal EMA's Action: Pending.***

Cal EMA did not specifically address this recommendation. Instead, Cal EMA stated it evaluated its options, along with its partner agencies, for ensuring the accuracy of and the accountability for the financial information that the local agencies submit. Cal EMA stated its options for ensuring financial integrity included better defined invoicing instructions, enhanced training of the partner agencies, and, if necessary, revisions to the statutes.

Cal EMA, along with several key committee members signatory to the CFAA, provided workshops in June 2012 to instruct local agencies on how to correctly develop average actual hourly rates, salary surveys, and actual administrative rates. Cal EMA stated it also held a Web conference in July 2012 for those local agencies that were unable to attend the workshops because of budgetary constraints or other commitments.

**Recommendation 1.3.b—See pages 22—24 of the audit report for information on the related finding.**

To make certain that local agencies calculate correctly their average actual hourly rates, if Cal EMA determines that the local agencies' rates are incorrect, it should advise the agencies to recalculate the rates reported in their salary survey. Local agencies that fail to submit accurate average actual hourly rates should be subject to the base rates.

***Cal EMA's Action: Pending.***

Cal EMA did not address this recommendation, which is contingent upon the results of its audit of a sample of the local agencies' invoices.

**Recommendation 1.3.c—See pages 22—24 of the audit report for information on the related finding.**

To make certain that local agencies calculate correctly their average actual hourly rates, if Cal EMA does not believe that it has the statutory authority and resources to audit the average actual hourly rates reported in the local agencies' salary surveys, it should either undertake the necessary steps to obtain both the authority and the necessary resources or obtain statutory authority to request that the State Controller's Office perform the audits.

***Cal EMA's Action: Pending.***

Cal EMA did not specifically address this recommendation. Instead, Cal EMA stated it evaluated its options, along with its partner agencies, for ensuring the accuracy of and the accountability for the financial information that the local agencies submit. Cal EMA stated its options for ensuring financial integrity included better defined invoicing instructions, enhanced training of the partner agencies, and, if necessary, revisions to the statutes.

**Recommendation 1.4.a—See pages 24—27 of the audit report for information on the related finding.**

If FEMA determines that the calculations and claims identified in the Office of Inspector General's audit report were erroneous, Cal EMA should modify the time sheets to track the actual hours that the responding agency works as well as the dates and times that the agency committed to the incident and returned from the incident.

***Cal EMA's Action: Pending.***

On March 5, 2012, FEMA deobligated \$5.7 million in funding related to hours claimed that were in excess of its recovery policy, which permits the reimbursement of personnel costs up to 24 hours for each of the first two days and up to 16 hours for each of the following days in the response period. However, Cal EMA did not specifically address whether or not it modified the time sheets to track the actual hours the responding agency works as well as the dates and times that the agency committed to the incident and returned from the incident. Instead, Cal EMA stated that it has worked with CAL FIRE to make the appropriate adjustments to CAL FIRE's accounting methodologies to ensure that the overtime costs CAL FIRE submits to it do not exceed FEMA's recovery policy.

**Recommendation 1.4.b—See pages 24—27 of the audit report for information on the related finding.**

If FEMA determines that the calculations and claims identified in the Office of Inspector General's audit report were erroneous, Cal EMA should ensure that the replacement for its current invoicing system can calculate the maximum number of reimbursable personnel hours under both FEMA's policy and the CFAA.

***Cal EMA's Action: Pending.***

Cal EMA did not specifically address whether or not its new Mutual Aid Reimbursement Program will be able to calculate the maximum number of reimbursable personnel hours under both FEMA's policy and the CFAA.

**Recommendation 1.5.a—See pages 24—27 of the audit report for information on the related finding.**

If FEMA determines that the calculations and claims identified in the Office of Inspector General's audit report were erroneous, CAL FIRE should revise its method of claiming reimbursement for personnel hours to comply with FEMA's policy.

***CAL FIRE's Action: Fully implemented.***

On March 5, 2012, FEMA deobligated \$5.7 million in funding related to hours claimed that were in excess of its recovery policy, which permits the reimbursement of personnel costs up to 24 hours for each of the first two days and up to 16 hours for each of the following days in the response period. CAL FIRE stated that it revised its method of claiming reimbursement for personnel hours to comply with FEMA's policy.

**Recommendation 1.5.b—See pages 24—27 of the audit report for information on the related finding.**

If FEMA determines that the calculations and claims identified in the Office of Inspector General's audit report were erroneous, CAL FIRE should collaborate with Cal EMA to establish a system that calculates the maximum number of reimbursable personnel hours in accordance with both FEMA's policy and the CFAA.

***CAL FIRE's Action: Pending.***

CAL FIRE stated that it continues to coordinate with Cal EMA and its federal mutual aid partners to ensure as much consistency as possible between the CFAA and the FEMA Disaster Assistance program. However, CAL FIRE did not specifically address its collaboration efforts with Cal EMA to establish a system that calculates the maximum number of reimbursable personnel hours in accordance with both FEMA's policy and the CFAA.

# Financial Information System for California Project

## Status Letter

### REPORT NUMBER 2012-039, ISSUED APRIL 2012

This letter report provides an update on recent events related to the Financial Information System for California (FI\$Cal) project. Pursuant to California Government Code, Section 15849.22(e), the California State Auditor (state auditor) is required to independently monitor the FI\$Cal project throughout its development, as deemed appropriate by the state auditor. FI\$Cal is a business transformation project for state government in the areas of budgeting, accounting, procurement, and cash management. The independent monitoring shall include, but is not limited to, monitoring the contracts for independent project oversight (IPO) and independent verification and validation (IV&V) services, assessing whether concerns about the project raised by the IPO and IV&V contractors are appropriately addressed by the FI\$Cal steering committee and the FI\$Cal project office within the Department of Finance or its successor entity, and assessing whether the FI\$Cal project is progressing timely and within budget. We are required to report on the project's status at least annually and this is the seventh report we have issued since we began our monitoring in April 2007.

The project released its fourth Special Project Report (SPR) on March 1, 2012, to update information in prior SPRs regarding FI\$Cal's costs, schedule, benefits, and cost savings, and to announce that the project is ready for implementation. The project also announced that Accenture plc was the project's winning fit-gap vendor and is its selected systems integrator, with a proposed five-year contract for \$213.1 million. Statute requires the project to submit a report to the Legislature with specified information about the selected system integrator and alternative implementation approaches, 90 days before entering a contract with the system integrator. The project submitted the FI\$Cal legislative report on March 2, 2012. The remainder of this letter report provides our review of selected information in the fourth SPR, including FI\$Cal's updated cost estimates and proposed funding option, projected benefits, revised project schedule and implementation approach, and envisioned risks and assumptions. This letter report also provides status updates on topics that we have previously reported on.

In the letter report, the state auditor made the following recommendations to the Legislature. The state auditor's determination regarding the current status of recommendations is based on legislative action as of December 2012.

#### **Recommendation 1—See page 2 of the letter report for information on the related finding.**

To ensure that the cost to implement FI\$Cal accurately reflects the effort needed, the Legislature should require the project to track the cost of department subject matter expert staff and include this cost in the total cost for FI\$Cal.

#### ***Legislative Action: Unknown.***

The state auditor is not aware of any action taken by the Legislature as of December 18, 2012.

#### **Recommendation 2—See page 4 of the letter report for information on the related finding.**

To monitor the benefits that FI\$Cal is projected to provide based on a benchmarking study, the Legislature should require the project to track projected benefits as they are achieved and to report annually on the total benefits achieved, any changes in total projected benefits, and actual and project benefits as compared to actual and projected FI\$Cal costs.

*Legislative Action: Unknown.*

The state auditor is not aware of any action taken by the Legislature as of December 18, 2012.

**Recommendation 3—See page 5 of the audit report for information on the related finding.**

The Legislature should require the project to report annually on the cost and reasons for any significant customizations it makes to the software that were not anticipated at the onset of FI\$Cal implementation.

*Legislative Action: Unknown.*

The state auditor is not aware of any action taken by the Legislature as of December 18, 2012.

# Medi-Cal Managed Care Program

## The Departments of Managed Health Care and Health Care Services Could Improve Their Oversight of Local Initiatives Participating in the Medi-Cal Two-Plan Model

### REPORT NUMBER 2011-104, ISSUED DECEMBER 2011

This report concludes that both the departments of Managed Health Care (Managed Health Care) and Health Care Services (Health Care Services) have inconsistencies in the financial reviews they conduct of local initiatives that participate in the California Medi-Cal Assistance Program's (Medi-Cal) managed care two-plan model. Under this model, both a county entity, known as a local initiative and a commercial health plan provide managed care services to Medi-Cal beneficiaries. Managed Health Care is chronically late in completing its financial report reviews, thus seriously lessening their value as an oversight tool. Further, Managed Health Care does not have an effective process to monitor local initiatives' responses to corrective action plans that result from its financial examinations. For its part, Health Care Services is inconsistent in performing financial reviews, does not always ensure that all financial requirements are included, and has not performed financial reviews with the frequency outlined in its fiscal monitoring unit's internal policy. Analyses performed by Health Care services overlap the financial viability analysis that Managed Health Care generates from local initiatives' consolidated financial reports. Finally, both Managed Health Care and Health Care Services fail to conduct medical audits—intended to review several aspects of the provision of health care—of the health delivery system of each local initiative within the frequency required by law.

Our review also included the local initiatives' administration of the Medi-Cal two-plan model. Although most local initiatives hold tangible net equity (TNE) balances—the central measure of financial viability under the Knox-Keene Health Care Service Plan Act of 1975—that are significantly higher than the required TNE minimum balances—Health Care Services' performance indicators show that California's eight local initiatives in operation during the time covered by our audit provide a satisfactory level of care to beneficiaries. The four local initiatives we visited generally had adequate fiscal processes and internal controls to monitor their administrative expenses, although weak past policies at Kern Health Systems allowed it to enter into two contracts for medical claims reviews that were not cost-effective. Our review also found that the four local initiatives we visited use similar methods to set and approve salaries, although the salaries and retirement benefits of their highest-paid executives vary significantly.

In the report, the California State Auditor (state auditor) made the following recommendations to Managed Health Care and Health Care Services. We made no recommendations to the local initiatives. The state auditor's determination regarding the current status of recommendations is based on Managed Health Care and Health Care Services' responses to the state auditor as of December 2012.

#### **Recommendation 1.1—See pages 16—19 of the audit report for information on the related finding.**

To monitor local initiatives' financial viability and compliance with the Knox-Keene Act requirements, Managed Health Care should develop a formal policy to ensure that it reviews financial reports in a timely manner, and that administrative expenses are correctly categorized.

#### ***Managed Health Care's Action: Fully implemented.***

Managed Health Care provided us the policies and procedures that it developed and implemented to ensure staff conduct thorough and timely financial reviews. In April 2012 Managed Health Care trained staff on these policies and procedures, including reviews of administrative expenses to ensure correct categorization. Further, Managed Health Care made changes to its financial filing system to help monitor that staff are following the new policies and procedures.

**Recommendation 1.2—See pages 20 and 21 of the audit report for information on the related finding.**

To ensure that all four financial soundness elements included in Health Care Services' contract are being reviewed, it should conduct financial reviews consistently and update its review tool to include working capital.

***Health Care Services' Action: Fully implemented.***

Health Care Services revised its financial review tools to include all four financial soundness elements and in February 2012 it approved a written policy that addressed the consistency of the financial reviews.

**Recommendation 1.3—See pages 20 and 21 of the audit report for information on the related finding.**

Health Care Services should develop a formal policy to ensure that it conducts financial reviews in a timely manner.

***Health Care Services' Action: Fully implemented.***

Health Care Services approved a written policy in February 2012 that addressed the timeliness of the financial reviews.

**Recommendation 1.4—See pages 21 and 22 of the audit report for information on the related finding.**

To make its financial solvency reviews more efficient and reduce the risk of errors, Health Care Services should coordinate with Managed Health Care when analyzing local initiatives' consolidated financial reports.

***Health Care Services' Action: Pending.***

Health Care Services implemented a policy in February 2012 to obtain Managed Health Care's financial information from its Web site and to use this information in its newly developed automated system to calculate various financial ratios. However, under this new policy Health Care Services continues to recreate the financial ratios that Managed Health Care's automated system currently provides.

**Recommendation 1.5—See pages 22—24 of the audit report for information on the related finding.**

To ensure that local initiatives implement corrective action plans, Managed Health Care should devise a more effective process to track, monitor, and review the status of local initiatives' corrective actions as they relate to financial examination requirements.

***Managed Health Care's Action: Fully implemented.***

Managed Health Care developed and implemented a corrective action plan tracking feature in its database to allow for the ready identification of all of the local initiatives' corrective action plans and their status. Also, in October 2012, Managed Health Care provided training to its staff on the new corrective action plan policies and procedures, as well as on the new tracking feature in its database.

**Recommendation 1.6—See pages 25—27 of the audit report for information on the related finding.**

Health Care Services should ensure that it performs annual medical audits of local initiatives as required by law.

***Health Care Services' Action: Pending.***

Health Care Services stated it is working with Managed Health Care to coordinate its efforts related to the medical audits. To ensure the work is leveraged, Health Care Services prepared a crosswalk of the departments' respective statutory and regulatory audit requirements. In addition, Health Care Services plans to phase-in the completion of annual medical audits of Medi-Cal managed care plans, including the local initiatives. Health Care Services indicated it completed two medical audits by the end of 2012 and it plans to continue to increase the number of medical audits completed each year, until full implementation is achieved in 2015. Health Care Services stated that this phase-in process is needed to allow it to increase the staffing required to conduct annual medical audits of all Medi-Cal managed care plans. To maintain a visible presence with managed health care plans, Health Care Services plans to conduct two types of more limited reviews to develop an ongoing understanding of what is occurring with each managed health care plan.

**Recommendation 1.7—See pages 25—27 of the audit report for information on the related finding.**

Managed Health Care should ensure that it obtains timely medical audits from Health Care Services. If it is unable to obtain timely medical audits from Health Care Services, it should conduct them itself.

***Managed Health Care's Action: Fully implemented.***

Managed Health Care has developed and implemented a written policy to track and secure copies of Health Care Services' medical audits and findings, and to the extent necessary, to timely schedule a Knox-Keene Act medical audit in the event that Health Care Services does not conduct its annual medical audit. Additionally, Managed Health Care has bi-monthly meetings with Health Care Services to coordinate Medi-Cal audit schedules, review the status of audit reports, and discuss the scope of work for future audits. Finally, Managed Health Care is working with Health Care Services to determine areas of overlap and distinction in their respective statutory and regulatory audit requirements.



# Salinas Valley Memorial Healthcare System

## Increased Transparency and Stronger Controls Are Necessary as It Focuses on Improving Its Financial Situation

### REPORT NUMBER 2011-113, ISSUED MARCH 2012

This report concludes that the Salinas Valley Memorial Healthcare System's (Health Care System) board of directors (board), when making decisions regarding executive compensation, violated the Ralph M. Brown Act, which requires legislative bodies of local public agencies to conduct their meetings in an open manner. In an environment characterized by a lack of an executive compensation policy and limited transparency, the Health Care System granted compensation for its executives at the upper end of the range for the health care industry. In addition, the former chief executive officer (CEO) received generous retirement and severance benefits totaling \$4.9 million between 2008 and 2011, most of which were paid to him before he retired.

Our review also noted weaknesses in controls in several areas. We identified 11 instances in which the Health Care System had business relationships between 2006 and 2010 with entities in which its executives or board members had economic interests. In the two relationships we reviewed, the former CEO may have violated conflict-of-interest laws in one instance, and the board may have violated conflict-of-interest laws in the other instance. Also, the Health Care System did not ensure that many of the individuals its conflict-of-interest code identified as needing to submit statements of economic interests did so. Further, it does not have a written policy and procedures to demonstrate that its community funding furthers its public purposes, thereby risking questions about whether this funding violates the constitutional prohibition against public agencies making gifts of public funds. Additionally, for contracts we reviewed for which it was not required by state law to use a competitive process, the Health Care System generally did not document how it selected contractors in a way that demonstrated that it obtained the best value when procuring goods and services.

Finally, we noted that the Health Care System has undertaken several initiatives to improve its financial situation, including reducing its staff by 341 positions between July 2010 and October 2011. Even though it reduced its staffing, there is no indication that this decrease affected patient quality of care, as reflected by complaints and similar measures.

In the report, the California State Auditor (state auditor) made the following recommendations to the Health Care System. The state auditor's determination regarding the current status of recommendations is based on the Health Care System's response to the state auditor as of September 2012.

#### **Recommendation 1.1.a—See page 16 of the audit report for information on the related finding.**

To provide members of the public with opportunities to meaningfully participate in board meetings regarding executive compensation matters, and to hold the board accountable for its decisions on these matters, the Health Care System should develop a formal policy that establishes a process for determining executive compensation, including retirement benefits, that clearly documents all executive compensation decisions.

#### ***Health Care System's Action: Fully implemented.***

The board adopted an executive compensation policy in July 2012 that defines the Health Care System's process for establishing executive compensation and requires that compensation, including benefits, for the CEO shall be approved by the board in open sessions of board meetings. Similarly, this policy requires that the board approve salary scales and benefits for executives other than the CEO in open sessions. The policy also specifies that the CEO has the authority to set salaries for other executives and must report the salaries he or she sets to the board.

**Recommendation 1.1.b—See pages 16—19 of the audit report for information on the related finding.**

To provide members of the public with opportunities to meaningfully participate in board meetings regarding executive compensation matters, and to hold the board accountable for its decisions on these matters, the Health Care System should clearly indicate compensation matters on the agendas for its board meetings.

***Health Care System's Action: Fully implemented.***

The Health Care System's updated executive compensation policy requires that matters concerning compensation for the CEO or other executives must be specified in agendas and/or minutes for board meetings. In addition, review of the agendas for board meetings in May through August 2012 indicate that the Health Care System is following this policy.

**Recommendation 1.1.c—See pages 16—19 of the audit report for information on the related finding.**

To provide members of the public with opportunities to meaningfully participate in board meetings regarding executive compensation matters, and to hold the board accountable for its decisions on these matters, the Health Care System should discuss executive compensation matters only in open sessions of board meetings, except in the limited circumstances that allow for discussion in closed sessions.

***Health Care System's Action: Fully implemented.***

The Health Care System's executive compensation policy specifies that the CEO's compensation, including benefits, the CEO's employment agreement, and salary scales and benefits for executive positions other than the CEO shall be approved by the board in open session, and discussion of these compensation matters may occur in closed session only in the limited circumstances specified in law. The Health Care System's board agendas and minutes for May through August 2012 indicate the board is adhering to its executive compensation policy.

**Recommendation 1.2—See pages 19 and 20 of the audit report for information on the related finding.**

To ensure that the terms of its CEO's employment and compensation are clear, and to aid the board in its oversight role, the Health Care System should engage its next permanent CEO in a written employment contract.

***Health Care System's Action: Fully implemented.***

According to the Health Care System's executive compensation policy, its permanent CEO, when hired, will be engaged in an employment agreement. In addition, in its six-month response, the Health Care System indicated that it now requires employment contracts for all of its executives, including the CEO, and that it executed an employment contract with its chief operating officer. Moreover, Chapter 322, Statutes of 2012 (Assembly Bill 2180), requires that a written employment agreement entered into with a hospital administrator by a local health care district include all material terms and conditions regarding compensation and benefits agreed to by the district and the hospital administrator. In addition, the governor vetoed Assembly Bill 2115 of the 2011–12 Regular Legislative Session on September 13, 2012. This bill if enacted, would have required, rather than permitted, local health care districts to enter into written employment agreements not to exceed four years when hiring a hospital administrator or CEO.

**Recommendation 1.3—See pages 27 and 28 of the audit report for information on the related finding.**

To help reduce its operating costs and improve its overall financial situation, the Health Care System should continue to try to modify its employee benefits, such as paid time off, so they are aligned with industry practice.

*Health Care System's Action: Pending.*

In its six-month response, the Health Care System stated that in light of current union contracts, it is challenged with balancing nonunion benefits to union benefits to ensure it is able to retain qualified employees and candidates. Nonetheless, the Health Care System indicated that its executive leadership team and the board continue to evaluate opportunities to shift this variance between the Health Care System's employee benefits and industry practice.

**Recommendation 2.1.a—See pages 32—37 of the audit report for information on the related finding.**

To ensure that the Health Care System, its board members, medical staff, employees, and consultants are engaged only in appropriate business relationships with respect to their economic interests, the Health Care System should engage an independent investigator to review the Health Care System's business relationships with entities that we identified as being economic interests of its board members and executives to determine whether any of the relationships violate applicable legal prohibitions and take appropriate corrective action if they do.

*Health Care System's Action: Partially implemented.*

The Health Care System engaged a law firm to conduct an independent investigation of its relationships with business entities we identified in our report as economic interests of the Health Care System's board members and executives. According to a general summary of the law firm's findings, it found that seven of the nine relationships it examined did not violate any applicable legal prohibitions; for the other two relationships, one of them had ceased and in the other the affected employee or official no longer has a financial interest in the entity. Consequently, according to the law firm, no corrective action was required for any of the nine relationships. However, the law firm also indicated it detected some issues during its investigation and analysis that raised concerns regarding the manner in which the Health Care System identified and addressed potential conflicts of interest. As a result of these issues, the law firm indicated it is working with the Health Care System to implement systems to address these concerns in order to prevent similar issues in the future.

**Recommendation 2.1.b—See pages 32—37 of the audit report for information on the related finding.**

To ensure that the Health Care System, its board members, medical staff, employees, and consultants are engaged only in appropriate business relationships with respect to their economic interests, the Health Care System should implement the requirement in its recently updated conflict-of-interest policy that board members, medical staff, employees, and consultants disclose potential conflict-of-interest situations to their supervisors and the ethics and compliance officer, who shall review each situation and make a determination on the appropriate resolution.

*Health Care System's Action: Fully implemented.*

According to the Health Care System, 24 individuals who submitted statements of economic interests for 2011 identified financial interests in their statements. The revenue integrity and compliance director determined based on her review of the 24 statements that 11 of them required further discussion between the individuals and either the revenue integrity and compliance director or the individuals' supervisors. Following these discussions, according to the revenue integrity and compliance director, she determined no actual violations of conflict-of-interest laws occurred in 2011. In addition, all 24 individuals understood that moving forward they needed to be alert for potential conflicts of interest associated with their identified financial interests.

**Recommendation 2.2—See pages 37 and 38 of the audit report for information on the related finding.**

To ensure that it has an up-to-date, approved conflict-of-interest code, the Health Care System should develop a protocol to file an action through the superior court to adopt a code if, in the future, the board of supervisors does not approve a code within six months of one being submitted to it by the Health Care System and if follow-up efforts with the board of supervisors prove unsuccessful.

***Health Care System's Action: Fully implemented.***

The Health Care System amended its conflict-of-interest policy to specify that if the board of supervisors does not approve changes proposed by the Health Care System's conflict-of-interest code within six months of submission, then the Health Care System will seek legal counsel to consider potential superior court action to ensure action by the board of supervisors.

**Recommendation 2.3.a—See pages 38—41 of the audit report for information on the related finding.**

To help ensure that individuals designated by the Health Care System as needing to file statements of economic interests do so, the Health Care System should amend its conflict-of-interest policy to specify an individual as its filing officer, in accordance with guidelines of the Fair Political Practices Commission.

***Health Care System's Action: Fully implemented.***

The Health Care System's amended conflict-of-interest policy specifies that its ethics and compliance officer, now called its revenue integrity and compliance director, serves as the filing officer for all positions designated in its conflict-of-interest code as needing to file statements of economic interests (designated filers).

**Recommendation 2.3.b—See pages 38—41 of the audit report for information on the related finding.**

To help ensure that individuals designated by the Health Care System as needing to file statements of economic interests do so, the Health Care System should amend its conflict-of-interest policy to delineate the steps its filing officer should take to ensure that all Health Care System board members, medical staff, employees, and consultants who are required to file statements of economic interests do so.

***Health Care System's Action: Fully implemented.***

The Health Care System's amended conflict-of-interest policy delineates the steps that the revenue integrity and compliance director will take to ensure that designated filers submit their statements of economic interests, including sending reminders to all designated filers, following up when individuals do not submit their statements, and reporting noncompliance to the Health Care System's executive leadership.

**Recommendation 2.3.c—See pages 38—41 of the audit report for information on the related finding.**

To help ensure that individuals designated by the Health Care System as needing to file statements of economic interests do so, the Health Care System should amend its conflict-of-interest policy to specify penalties for failure to file.

***Health Care System's Action: Fully implemented.***

The Health Care System amended its conflict-of-interest policy to specify that individuals submitting their statements late are subject to progressive discipline and a fine of \$10 per day that the statements are late, up to a maximum fine of \$100. In addition, the policy states that designated filers whose statements are not received within 30 days of their due dates will be referred to the Fair Political Practices Commission for noncompliance enforcement proceedings.

**Recommendation 2.4—See pages 40 and 41 of the audit report for information on the related finding.**

To help ensure the accuracy and completeness of filed statements of economic interests, the Health Care System's filing officer should follow state regulations for reviewing submitted statements, including verifying the cover sheet for completeness for all submitted statements.

***Health Care System's Action: Fully implemented.***

The Health Care System's amended conflict-of-interest policy specifies that the revenue integrity and compliance director will review all submitted statements for overall completeness and general accuracy. In addition, in the Health Care System's six-month response, it indicated that in collecting and reviewing the statements for 2011, the revenue integrity and compliance director reviewed the cover sheets for all statements and ensured completion and submission of all appropriate schedules.

**Recommendation 2.5—See pages 41—43 of the audit report for information on the related finding.**

To ensure that it is not making gifts of public funds, the Health Care System should develop and implement a policy and written procedures to demonstrate how funds it provides to support entities and programs in the community further the Health Care System's public purposes.

***Health Care System's Action: Fully implemented.***

The Health Care System adopted a community funding policy to ensure that all Health Care System resources provided to any individual, organization, or entity are expended for the public purpose of its mission of improving health care. This policy includes procedures the Health Care System is to follow in evaluating and approving requests for community funding, and specifies that all Health Care System decisions related to community funding will be made pursuant to these procedures. The Health Care System also provided in its six-month response documentation that demonstrates it is following its new community funding policy and procedures.

**Recommendation 2.6—See page 43 of the audit report for information on the related finding.**

To help ensure that the Health Care System has the information it needs to comply with state regulations regarding public disclosure of the disposition of event tickets, the Health Care System should develop and implement a policy and written procedures for tracking its distribution of event tickets. The procedures should ensure that the Health Care System follows state requirements for making pertinent public disclosures.

***Health Care System's Action: Partially implemented.***

Included in the Health Care System's community funding policy is a policy regarding the disposition of event tickets. The policy specifies that when the Health Care System receives tickets or other benefits in response to providing community funding, the benefits shall be provided to the Salinas Valley Memorial Hospital Foundation (foundation). The policy also indicates that the foundation is responsible for maintaining all records related to the distribution of all tickets and benefits. However, it does not appear that the Health Care System's policy regarding ticket disposition is adequate to ensure it complies with applicable state reporting requirements because, among other things, the policy does not ensure that the Health Care System's provision of tickets to the foundation will be publicly disclosed.

**Recommendation 2.7—See pages 45—47 of the audit report for information on the related finding.**

To increase the transparency of its processes for awarding contracts that are not required by law to be selected using a competitive process, the Health Care System should require its employees to fully document the steps they take in selecting contractors and to describe how the selections result in the best value to the Health Care System.

***Health Care System's Action: Partially implemented.***

The board adopted a revised procurement management policy in June 2012 that directed the Health Care System's executive leadership group to adopt a procurement manual that incorporates, clarifies, and coordinates all Health Care System procurement policies. The Health Care System is in the process of drafting a procurement manual that will include guidance and requirements for Health Care System employees to follow when making all organizational procurements. The guidance and requirements in the procurement manual will address the steps Health Care System staff should follow to document and describe how their selections of contractors result in the best value. The procurement manual is currently being completed and reviewed by legal counsel, with anticipated completion by the end of 2012. According to the revenue integrity and compliance director, the Health Care System started providing training at the department director level on the new procurement policies and procedures since May 2012.

# Nonprofit Hospitals

## Statute Prevents State Agencies From Considering Community Benefits When Granting Tax-Exempt Status, While the Effects of Purchases and Consolidations on Prices of Care Are Uncertain

### REPORT NUMBER 2011-126, ISSUED AUGUST 2012

This report concludes that although state law requires most tax-exempt hospitals to prepare annual community benefit plans identifying the amount of benefits that the hospitals provided during the year, state law clearly states that the amount of community benefits provided cannot be used to justify the tax-exempt status of nonprofit hospitals. Additionally, we found that no statutory standard or methodology exists for hospitals to follow when calculating these benefits. Further, the four hospitals we reviewed have policies that qualify patients for full or partial charity care using different federal poverty levels, as allowed by the state law. Moreover, hospital officials believe that the income levels of patients visiting the hospitals are the reason that some hospitals have higher cost of uncompensated care, including charity care, despite employing the same policies as other hospitals that are part of the same organization.

Additionally, because of limited data we could not determine whether the changes in prices for health care services resulted directly from changes in ownership or operatorship of a hospital. Specifically, the unavailability of pricing data for some hospitals we reviewed and the unique codes the hospitals use to group medical services and related costs kept us from determining how changes in ownership or operatorship affected the prices of health care. Although three of the four hospitals reduced or discontinued some services, we also could not determine the effects on communities resulting from such actions. However, we did find that costs of uncompensated care increased after a change in owners or operators for three of the four hospitals we reviewed.

In the report, the California State Auditor (state auditor) made the following recommendations to the Legislature. The state auditor's determination regarding the current status of recommendations is based on legislative actions as of December 2012.

#### **Recommendation 1—See page 6 of the audit report for information on the related finding.**

If the Legislature intends for nonprofit hospitals' tax-exempt status under state law to depend on the amounts of community benefits they provide, it should consider amending state law to include such requirements.

#### ***Legislative Action: Unknown.***

The state auditor is not aware of any action taken by the Legislature as of December 18, 2012.

#### **Recommendation 2—See page 13 of the audit report for information on the related finding.**

If it expects each nonprofit hospital to follow a standard methodology for calculating the community benefits it delivers, the Legislature should either define a methodology in state law or direct the Office of Statewide Health Planning and Development (Health Planning) to develop regulations that define such a methodology.

#### ***Legislative Action: Unknown.***

The state auditor is not aware of any action taken by the Legislature as of December 18, 2012.

**Recommendation 3—See page 27 of the audit report for information on the related finding.**

If the Legislature intends to ensure compliance of all hospitals required to submit community benefit plans to Health Planning, it should consider revising state law to allow Health Planning to assess a penalty to those hospitals that do not comply.

***Legislative Action: Unknown.***

The state auditor is not aware of any action taken by the Legislature as of December 18, 2012.

# Children's Hospital Program

## Fund Disbursements Are Appropriate, but Estimates of Cash Needs Have Been Consistently High

### REPORT NUMBER 2012-042, ISSUED JULY 2012

This report concludes that the California Health Facilities Financing Authority (authority), which administers the program, complied with laws and regulations related to awarding grants for eligible hospitals to construct or improve children's facilities. Further, the authority has a process for monitoring grants and has processed payments to grantees in accordance with the law. However, the authority's administration of the program could be more efficient. The authority requested bond sales that were in excess of its cash needs at a time when California's credit rating was low and interest-rate volatility was high. As a result, the State paid as much as \$16 million in interest annually on the idle capital while the State was facing cash shortfalls.

Although the authority could not have foreseen or mitigated all of the circumstances that led to an excessive fund balance, its estimates of cash needs have consistently been well above actual disbursements. This pattern, as well as some hospital project delays that it could have anticipated, indicate that the authority needs to revise the way it makes yearly projections of cash needs. In particular, the authority currently includes in its estimates the projected cash needs of hospitals that have not yet submitted a project application for approval.

In the report, the California State Auditor (state auditor) made the following recommendations to the authority. The state auditor's determination regarding the current status of recommendations is based on the authority's response to the state auditor as of September 2012.

#### **Recommendation 1—See pages 13—15 of the audit report for information on the related finding.**

To avoid contributing to the State's financial strain, the authority should limit future bond sales to the level of disbursements it reasonably expects to make during the following six-month period.

#### ***Authority's Action: Pending.***

The authority indicates it has not requested additional bond funds.

#### **Recommendation 2—See pages 10 and 11 of the audit report for information on the related finding.**

The authority should reduce its current cash balance by continuing to make disbursements to hospitals while refraining from requesting additional bond sales. If the authority believes it needs to retain a portion of its cash balance as a contingency reserve for unforeseen circumstances, it should perform and document an analysis demonstrating the appropriateness of the reserve level it adopts.

#### ***Authority's Action: Pending.***

As noted above, the authority indicates that it has not requested additional bond funds, and that it continues to process requests for disbursements of grant funds received from hospitals. The authority reports it has undertaken an analysis with its financial advisor to identify an appropriate reserve level, and expects to report on the results of this analysis and the resulting implementation plans in its six-month response.

**Recommendation 3—See page 16 of the audit report for information on the related finding.**

To allow for more accurate planning of upcoming cash needs, the authority should refine its cash-projection process to more accurately reflect its near-term cash needs. Specifically, the authority should refrain from requesting additional bond sales for projects that have not yet received project approval from the authority.

***Authority's Action: Pending.***

As part of the analysis described in Recommendation 2, the authority indicates its financial advisor will provide guidance in forecasting grant disbursement needs. It further indicates it will not request bond funds for projects that have not yet received project approval from the authority.

**Recommendation 4—See pages 16 and 17 of the audit report for information on the related finding.**

For hospitals with existing projects, the authority should request written confirmation from hospitals that detail when the hospitals will submit disbursement requests for approved funds.

***Authority's Action: Pending.***

The authority indicates that, upon execution of new grant agreements, it will request that the grantee provide in writing the projections of timing and the amount of disbursement requests.

# Departments of Public Health and Social Services

## Weaknesses in the Administration of the Child Health and Safety Fund and the State Children's Trust Fund Limit Their Effectiveness

### REPORT NUMBER 2012-105, ISSUED NOVEMBER 2012

This report concludes that the Department of Public Health (Public Health) and the Department of Social Services (Social Services) exhibited weaknesses in their administration of these funds.

Public Health is responsible for managing the part of the Child Health and Safety Fund (health and safety fund) known as the Kids' Plates Program, a prevention program for unintentional childhood injuries. However, Public Health and its predecessor agency, the Department of Health Services<sup>1</sup> (Health Services), violated state law when they contracted with the San Diego State University Research Foundation (research foundation) to manage the Kids' Plates Program from 2004 to 2010. Specifically, they did not comply with provisions of state law that prohibit state agencies from contracting with private entities to perform work that state employees could perform. Further, Public Health continued to have the research foundation perform services without an approved contract, in violation of state law. Because the research foundation had been operating without a contract, it was not able to award any grants to prevent unintentional childhood injuries between July 2010 and May 2011. Moreover, Public Health and Health Services paid the research foundation to administer the program from the funds that the Legislature had intended it to use directly for childhood injury prevention programs. They spent roughly 40 percent of their total appropriations received between fiscal years 2006–07 and 2009–10, or nearly \$2.1 million, on the research foundation's administrative costs for the Kids' Plates Program. Nearly two years after it stopped contracting with the research foundation, Public Health awarded 115 grants to community agencies, but it did not comply with its own contracting procedures when it awarded these grants.

Our review also noted weaknesses in Social Services' administration of the State Children's Trust Fund (trust fund). Social Services did not fulfill certain monitoring requirements for payments it made to grantees that operate local child abuse and neglect prevention and intervention programs. For example, we found instances in which Social Services may have used money from the trust fund to pay expenditures that did not meet the trust fund's requirements. In addition, although our review found that the five grantees we reviewed appear to have met the performance measures established in their grant agreements, Social Services' Office of Child Abuse Prevention (office) can improve its monitoring of grantees' progress. Specifically, the office's guidelines do not include a process for ensuring that its consultants review the grantees' reports and document their assessments of whether the grantees met the measurable outcomes contained in their grant agreements. Further, the office was unable to provide us with documentary evidence demonstrating that it had done so. Finally, the office has not fully complied with the state law that requires it to publish information about the trust fund. For example, the law requires the office to identify the programs it pays for using the trust fund and the target populations these programs serve. However, the office's Web site does not include conferences, education services, and outreach it paid for with the trust fund.

In the report, the California State Auditor (state auditor) made the following recommendations to Public Health and Social Services. The state auditor's determination regarding the current status of recommendations is based on Public Health's and Social Services' responses to the state auditor as of November 2012.

<sup>1</sup> On July 7, 2007, the Department of Health Services was reorganized and became two departments—the Department of Health Care Services and the Department of Public Health.

**Recommendation 1.1—See pages 16—18 of the audit report for information on the related finding.**

To ensure that it does not violate provisions of state law that prohibit contracts for services that state employees can perform, Public Health should establish that it has adequate justification to contract under Section 19130 (b), prior to submitting contracts to the Department of General Services (General Services) for approval.

***Public Health's Action: Pending.***

Public Health stated that effective November 3, 2009, its Contracts and Purchasing Services Section Bulletin 09-13, titled, "Contracts/Procurements Involving Personal Services," requires the completion of a form "Justification for Contracting Out Services" for all personal services contracts. Public Health also stated that its Office of Legal Services must review and approve this form before a contract or amendment can be fully executed.

Public Health stated that by December 1, 2012, it will distribute an e-mail reminder of this bulletin to its section chiefs and above. In addition, Public Health stated that its Center for Chronic Disease Prevention and Health Promotion (center), which oversees the Kids' Plates Program, will take the following actions to remind staff of the established policy: (1) distribute an e-mail reminder of this bulletin all center staff; (2) direct division management to ensure compliance with policy; and (3) remind administrative staff from all branches, via administration update meetings, of the need to follow the established policy.

**Recommendation 1.2.a—See pages 20 and 21 of the audit report for information on the related finding.**

To comply with state contracting laws and policies that protect the State's interest, Public Health should ensure that its staff do not allow contractors to work before General Services has approved the contracts.

***Public Health's Action: Pending.***

Public Health stated that by December 1, 2012, the center will take the following actions to ensure that its staff comply with this mandate and with the internal contracting policies that speak to this mandate: (1) distribute an e-mail reminder of the relevant Public Contract Code, *State Contracting Manual*, and *Public Health Administrative Manual* sections regarding noncommencement of work without a fully executed contract; (2) direct division management to ensure compliance with this mandate; and (3) remind administrative staff from all branches, via administration update meetings, of the need to follow established policy.

**Recommendation 1.2.b—See pages 23 and 24 of the audit report for information on the related finding.**

To comply with state contracting laws and policies that protect the State's interest, Public Health should ensure that its staff do not use service orders to circumvent the State's contracting policies.

***Public Health's Action: Pending.***

Public Health stated that by December 1, 2012, the center will instruct program staff to review the *Public Health Service Order Manual* and ensure that all staff are aware of the appropriate use of service orders. In addition, Public Health stated that the center will provide verbal reminders to division and branch managers and administrative assistants and that the center will require staff involved in the procurement process to attend Public Health's Procurement Training series held by its program support branch. Finally, Public Health reported that the administrative support unit chief within its Safe and Active Communities Branch (branch) will complete the series on October 31, 2012.

**Recommendation 1.2.c—See page 25 of the audit report for information on the related finding.**

To comply with state contracting laws and policies that protect the State's interest, Public Health should recoup the overpayment made to the San Diego State University Research Foundation (research foundation), if applicable.

***Public Health's Action: Pending.***

Public Health stated that by December 31, 2012, the administrative support unit chief within its branch will work with its Accounting Section to review the audit finding on the payments made to the research foundation. Further, Public Health stated that its Accounting Section will bill the research foundation to recoup any amount that it has overpaid.

**Recommendation 1.3—See page 22 of the audit report for information on the related finding.**

To determine whether the appropriation to administer the Kids' Plates Program is sufficient, Public Health should continue its plans to evaluate the costs of the regional grants Request for Application (RFA) process and its monitoring of the awards for fiscal year 2012–13. If Public Health determines that the appropriation is insufficient, it should seek an amendment to state law.

***Public Health's Action: Pending.***

Public Health stated that it will continue its plans to evaluate the costs of the regional grants RFA process and its monitoring of the awards for fiscal year 2012–13. According to Public Health, its branch will continue to document the staff hours expended to conduct the regional grants RFA process and monitor the awards. Further, Public Health stated that if the \$25,000 set aside to cover administrative support for the program is not sufficient, it will seek alternative resources, including exploring an amendment to state law.

**Recommendation 1.4—See pages 24–26 of the audit report for information on the related finding.**

To comply with the *State Contracting Manual*, if Public Health chooses to use contractors for the Kids' Plates Program, it should direct its staff to substantiate the expenditures contractors claim. For example, Public Health could ask the contractors to submit for review detailed records substantiating all or a sample of their invoices.

***Public Health's Action: Pending.***

Public Health stated that by December 1, 2012, the center will institute a policy requiring random or periodic review of detailed expenditures.

**Recommendation 1.5.a—See pages 28 and 29 of the audit report for information on the related finding.**

To ensure that it is able to measure its progress toward fulfilling the requirements of the health and safety fund, Public Health should establish performance measurements for the Kids' Plates Program.

***Public Health's Action: Pending.***

Public Health stated that the Kids' Plates Program RFA requires the completion of a template, which requires a specific "Performance Measure and/or Deliverable" for each major project activity. Public Health indicated that it will build these performance measures into the contract deliverables of each of the three awardees and it anticipated the contracts will begin January 1, 2013. Finally, Public Health stated it will require the contractors to submit progress reports on June 30, 2013, December 31, 2013, and June 30, 2014.

**Recommendation 1.5.b—See pages 28 and 29 of the audit report for information on the related finding.**

To ensure that it is able to measure its progress toward fulfilling the requirements of the health and safety fund, Public Health should periodically assess its progress toward meeting its measureable outcomes.

***Public Health's Action: Pending.***

Public Health stated that the small number and limited scope of Kids' Plates Program projects funded at this time preclude a large-scale evaluation. Public Health also indicated that its injury data surveillance system (<http://epicenter.cdph.ca.gov>) has county-level data on serious injuries and deaths. According to Public Health, beginning in January 2013, it will assess trend data annually to monitor reductions in injuries in those counties that have instituted projects.

**Recommendation 2.1.a—See pages 31—36 of the audit report for information on the related finding.**

To ensure that the office complies with the *State Contracting Manual*, Social Services should direct the office to substantiate the expenditures that grantees claim. For example, the office could ask the grantees to submit for review detailed records for all or a sample of their invoices.

***Social Services' Action: Pending.***

Social Services stated that it has begun reviewing and updating its internal grant and contract manuals to strengthen its process for substantiating expenditures. Specifically, Social Services indicated that it will update its internal manuals to include procedures for requesting random samples of backup documentation on at least a quarterly basis from the grantee or contractor in order to substantiate claimed expenditures. Social Services plans to complete its update of the internal manuals by December 31, 2012.

**Recommendation 2.1.b—See page 33 of the audit report for information on the related finding.**

To ensure that the office complies with the *State Contracting Manual*, Social Services should direct the office to recover the overpayment from the Children's Bureau of Southern California, if applicable.

***Social Services' Action: Pending.***

Social Services stated that it has initiated contact with the Children's Bureau of Southern California and plans to resolve this audit finding by November 30, 2012.

**Recommendation 2.2.a —See pages 31—36 of the audit report for information on the related finding.**

To ensure that it uses trust fund moneys only for permissible uses, Social Services should direct its internal audits staff to periodically perform reviews of the trust fund expenditures.

***Social Services' Action: Pending.***

Social Services stated that it will periodically audit or review all special fund expenditures. Social Services also indicated that it will include a special fund review in its 2013 audit plan.

**Recommendation 2.2.b—See pages 33 and 34 of the audit report for information on the related finding.**

To ensure that it uses trust fund moneys only for permissible uses, Social Services should revise its invoicing process to clearly identify the objectives in the scope of work section of its grant agreements and their corresponding funding sources.

***Social Services' Action: Pending.***

Social Services stated that the office has begun the process of updating its invoice form to identify the objectives in the scope of work section of its grant agreements to the corresponding funding sources. Social Services plans to complete this process by January 31, 2013.

**Recommendation 2.3—See pages 36—39 of the audit report for information on the related finding.**

To ensure compliance with the state law governing the trust fund that allows it to fund research and demonstration projects that explore the nature and incidence of child abuse and the development of long-term solutions to the problem of child abuse, Social Services should establish procedures to ensure that all grants it awards for research and demonstration projects clearly demonstrate a linkage to the trust fund's requirements.

***Social Services' Action: Pending.***

Social Services stated that it will add a section to its grant manual that specifically identifies the allowable uses of the trust fund as set forth in the Welfare and Institutions Code and identifies the process to use to document linkages to these requirements when funding all new projects utilizing the trust fund.

**Recommendation 2.4.a—See pages 39 and 40 of the audit report for information on the related finding.**

To ensure that the office complies with the *State Contracting Manual*, Social Services should direct the office to update its guidelines for grant administration to establish a formal process for reviewing the grantees' progress reports and interim products. This process should include documenting the office's review and assessment of whether the grantees meet the goals, objectives, and measurable outcomes in their grant requirements.

***Social Services' Action: Pending.***

Social Services stated that the office has begun reviewing its grant manual and will update it to include a section on reviewing grantees' progress reports. Social Services also indicated that the office has created a new form to document the receipt, review, and approval of grantees' progress reports. Social Services plans to complete the update of the grant manual by December 31, 2012.

**Recommendation 2.4.b—See pages 39 and 40 of the audit report for information on the related finding.**

To ensure that the office complies with the *State Contracting Manual*, Social Services should direct the office to retain the documentary evidence of its review and assessment in the grantee files.

***Social Services' Action: Pending.***

Social Services stated that the office has created a new form to document the receipt, review, and approval of grantees' progress reports, which will be retained in the grantees' files. In addition, Social Services indicated that this form instructs consultants to keep any backup documentation (e-mails, document phone calls, etc.) in the grantees' files, in accordance with its document retention policies. Social Services plans to implement this process by December 31, 2012.

**Recommendation 2.5.a—See pages 39 and 40 of the audit report for information on the related finding.**

To ensure that its efforts funded by the trust fund are preventing or reducing incidences of child abuse and neglect, Social Services should develop universal performance measurements for the trust fund.

*Social Services' Action: No action taken.*

- ➔ Social Services did not specifically address this recommendation.

**Recommendation 2.5.b—See pages 39 and 40 of the audit report for information on the related finding.**

To ensure that its efforts funded by the trust fund are preventing or reducing incidences of child abuse and neglect, Social Services should ensure that the performance measurements are reflected in the grants it awards.

*Social Services' Action: No action taken.*

- ➔ Social Services did not specifically address this recommendation.

**Recommendation 2.5.c—See pages 39 and 40 of the audit report for information on the related finding.**

To ensure that its efforts funded by the trust fund are preventing or reducing incidences of child abuse and neglect, Social Services should evaluate the performance measurements annually to assess whether the trust fund's programs and services are effective in reducing incidences of child abuse and neglect.

*Social Services' Action: No action taken.*

- ➔ Social Services did not specifically address this recommendation.

**Recommendation 2.6.a—See pages 40—44 of the audit report for information on the related finding.**

To ensure compliance with the state law that requires the office to publish certain trust fund information, Social Services should require the office to establish procedures to ensure inclusion on its Web site of all programs and services it funded using the trust fund.

*Social Services' Action: Pending.*

Social Services stated that by February 1, 2013, the office will ensure that the Web site provides information on all the programs and services financed with all the fund sources it administers, including those financed wholly or in part by the trust fund.

**Recommendation 2.6.b—See pages 40—44 of the audit report for information on the related finding.**

To ensure compliance with the state law that requires the office to publish certain trust fund information, Social Services should require the office to publish on its Web site the amount in the trust fund as of June 30 each year.

*Social Services' Action: No action taken.*

- ➔ Social Services stated that the office updated its Web site to include the publication of the amount of, and expenditure data associated with, the trust fund as of June 30 each year and will ensure the Web site is updated annually with the information required by statute. However, as of December 6, 2012, our review of the attachment containing the trust fund's expenditures from the office's Web site link titled "Funding Information" revealed that the office did not provide updated information for the trust fund. Specifically, the attachment did not contain the trust fund balance as of June 30, 2012, as state law requires.

**Recommendation 2.7.a—See pages 40—44 of the audit report for information on the related finding.**

To improve the presentation of the information it publishes for the trust fund, Social Services should establish a link that separately provides descriptions of the types of programs and services it funds using the trust fund and the target populations that benefit from the programs.

***Social Services' Action: Pending.***

Social Services stated that the office will provide information on all the types of programs and services financed with all the fund sources it administers, including those financed wholly or in part by the trust fund. In addition, Social Services indicated that the office will also include target populations served. Social Services plans to complete this process by January 1, 2013.

**Recommendation 2.7.b—See pages 40—44 of the audit report for information on the related finding.**

To improve the presentation of the information it publishes for the trust fund, Social Services should present the amount it disbursed from the trust fund in the prior fiscal year by the amount spent for each program or service.

***Social Services' Action: Pending.***

Social Services stated that, by January 31, 2013, it will update its Web site with information on the amount disbursed from the trust fund at the close out of each fiscal year.



# University of California

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

### REPORT NUMBER 2010-105, ISSUED JULY 2011

The report concludes that the University of California (university) budgeted widely varying amounts to its 10 campuses. For fiscal year 2009–10, the per-student budget amount ranged from \$12,309 for the Santa Barbara campus to \$55,186 for the San Francisco campus. Although the university identified four factors that it believes contributed to the differing budget amounts, it did not quantify their effects. The university can also improve the transparency of its financial operations. Despite the university's recent efforts to improve the transparency of its budget process, it should take additional steps to increase the ability of stakeholders to better hold the university accountable for how it distributes public funding to various campuses, and to reduce the risk that the allocation process may be perceived as inequitable. Further, although the university publishes annually a report of the campuses' financial schedules, it could provide other information including beginning and ending balances for individual funds and could publish consistent information for its auxiliary enterprises. We further reported that the Office of the President needs to more precisely track about \$1 billion of expenses annually that it currently tracks in a single accounting code—Miscellaneous Services—and that a recent change in university policy allows campuses to subsidize auxiliary enterprises with funding from other sources, despite the intent that they be self-supporting. Finally, we discovered two instances when the university designated \$23 million in student funding to pay for capital projects on the Los Angeles campus that were not authorized by the student referendum establishing the fee.

In the report, the California State Auditor (state auditor) made the following recommendations to the university. The state auditor's determination regarding the current status of recommendations is based on the university's response to the state auditor as of July 2012.

#### **Recommendation 2.1—See pages 31—38 of the audit report for information on the related finding.**

To address the variations in per-student funding of its campuses, the university should complete its reexamination of the base budgets to the campuses and implement appropriate changes to its budget process. As part of its reexamination of the base budget, it should:

- Identify the amount of general funds and tuition budget revenues that each campus receives for specific types of students (such as undergraduate, graduate, and health sciences) and explain any differences in the amount provided per student among the campuses.
- Consider factors such as specific research and public service programs at each campus, the higher level of funding provided to health sciences students, historical funding methods that favored graduate students, historical and anticipated future variations in enrollment growth funding, and any other factors applied consistently across campuses.
- After accounting for the factors mentioned earlier, address any remaining variations in campus funding over a specified period of time.
- Make the results of its reexamination and any related implementation plan available to stakeholders, including the general public.

***University's Action: Partially implemented.***

The university stated that it established a systemwide workgroup consisting of chancellors and other campus leadership, faculty representatives, and leadership from the Office of the President to examine variations in funding across the system. It also indicated that this workgroup reviewed the base budgets and considered alternatives for adjusting distribution formulas, but did not attempt to quantify the existing variation. The workgroup completed its work and forwarded its findings to the university president for his consideration. The university stated that other constituencies are also reviewing the documents. According to the university, the core principles and recommendations offered by the workgroup create a framework that will form the basis of allocations of State General Funds going forward. It further stated that the framework calls for allocations of state funds to be based on a per-student calculation. The workgroup recommended a six-year timeframe for implementation. The university posted the workgroup's results on the Office of the President's Web site.

**Recommendation 2.2.a—See pages 38—40 of the audit report for information on the related finding.**

To help improve accountability in the university's budget process, and to help minimize the risk of unfair damage to its reputation, the university should take additional steps to increase the transparency of its budget process. Specifically, the Office of the President should continue to implement the proposed revisions to its budget process.

***University's Action: Fully implemented.***

The university stated that it has implemented proposed revisions to its budget process for fiscal year 2011–12. Specifically, it stated that these changes resulted in individual campuses retaining all student tuition and fee revenue, all research indirect cost recovery funds, and all other campus-generated funds.

**Recommendation 2.2.b—See pages 38—40 of the audit report for information on the related finding.**

To help improve accountability in the university's budget process, and to help minimize the risk of unfair damage to its reputation, the university should take additional steps to increase the transparency of its budget process. Specifically, the Office of the President should update its budget manual to reflect current practices and make its revised budget manual, including relevant formulas and other methodologies for determining budget amounts, available on its Web site.

***University's Action: Partially implemented.***

The university stated that the Office of the President is developing a new budget manual describing current budget practices. It also indicated that the work is still underway, but due to budget cuts and staff shortages, completion likely will be delayed a year beyond its scheduled July 2012 completion date. The university stated that it will publish the manual on its Web site when it is completed.

**Recommendation 2.2.c—See pages 38—40 of the audit report for information on the related finding.**

To help improve accountability in the university's budget process, and to help minimize the risk of unfair damage to its reputation, the university should take additional steps to increase the transparency of its budget process. Specifically, the Office of the President should continue its efforts to increase the transparency of its budget process beyond campus administrators to all stakeholders, including students, faculty, and the general public. For example, the Office of the President could make information related to its annual campus budget amounts, such as annual campus budget letters and related attachments, available on its Web site.

***University's Action: Pending.***

The university stated that it implemented changes to its budget process that result in individual campuses retaining campus-generated revenues, including all student tuition and fee revenue, indirect cost recovery funds from research, and other sources. According to the university, this change will increase the transparency of its budget. It also stated that it is reviewing the information about budget allocations currently available on its Web site, as well as other financial information made available on systemwide and campus Web sites.

**Recommendation 3.1—See pages 49—51 of the audit report for information on the related finding.**

To increase the transparency of university funds, the Office of the President should make available annually financial information regarding its funds, including beginning and ending balances; revenues, expenses, and transfers; and the impact of these transactions on the balances from year to year.

***University's Action: Pending.***

The university stated that it continues to analyze data and explore alternatives to consistently report unspent balances that are carried over to future years. It expects to include this information in its fiscal year 2012–13 reports.

**Recommendation 3.2—See pages 52—55 of the audit report for information on the related finding.**

To ensure that the campus financial information published by the Office of the President can be better evaluated by interested stakeholders, the university should disclose instances in which campuses subsidize auxiliary enterprises with revenues from other funding sources and should disclose the sources of that funding.

***University's Action: Partially implemented.***

The university stated that after gathering and analyzing data for fiscal year 2010–11, it identified \$1.4 million in campus unrestricted funds used to support auxiliary organizations. Two of the organizations were recently closed. The university also stated that it plans to continue to monitor this information annually. However, the university's response did not address disclosure to interested stakeholders nor identify the source of the funds used to subsidize auxiliary organizations.

**Recommendation 3.3—See pages 51 and 52 of the audit report for information on the related finding.**

To improve the transparency of its expenses, the university should identify more specific categories for expenses that are recorded under the Miscellaneous Services accounting code and should implement object codes that account for these expenses in more detail.

***University's Action: Partially implemented.***

The university stated that each campus implemented procedures for fiscal year 2011–12. It also indicated that it expects miscellaneous services will decrease by 90 percent over the next two fiscal years as other more appropriate accounts are used to report the expenses.

**Recommendation 3.4—See pages 55—57 of the audit report for information on the related finding.**

To ensure that campuses do not inappropriately use revenues generated from student fees imposed by referenda, the university should ensure that it, the regents, and the campuses do not expand the uses for such revenues beyond those stated in the referenda.

*University's Action: No action taken.*

➡ The university does not agree with this recommendation. The university maintains that the Regents of the University of California (regents) and, by delegation, the university president retain authority to modify the terms of collection and uses of revenue for all campus-based fees, including those established by campus-based referenda. It also stated that it will request approval at a future regents meeting for changes to the policy to clarify its position.

Further, the university indicated that it is collaborating with campuses on efforts to avoid the need for the Office of the President to change referenda language. When student referenda for campus-based fees are in the planning stages on the campus level, campuses frequently send draft referenda language to the Office of the President before printing the final language on student ballots. The language is circulated among budget and capital resources, general counsel, and student affairs staff within the Office of the President for review and comment. Staff work with the campuses to clarify any potentially confusing language in the referenda, and to ensure that referenda language is specific to the capital project(s) in question and to avoid leaving the door open to funding unnamed capital projects in the future.

Finally, the university pointed out that the Office of the President may not want to restrict campus flexibility in the future. It stated that campuses benefit from flexibility in their fund sources, future funding needs cannot always be anticipated, and it can be difficult to capture all potential uses of revenue generated from compulsory campus-based student fees.

# California's Postsecondary Educational Institutions

## Some Institutions Have Not Fully Complied With Federal Crime Reporting Requirements

### REPORT NUMBER 2012-032, ISSUED OCTOBER 2012

This report concludes that the six California postsecondary educational institutions (institutions) we visited—Academy of Art University (Academy); California State University, Northridge (Northridge); Laney College (Laney); San Bernardino Valley College (San Bernardino); San Diego City College (San Diego); and University of the Pacific (Pacific)—did not fully comply with the Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act (Clery Act) requirements. All six institutions reported at least some inaccurate statistics, none of the institutions disclosed all of the required policies in their annual security reports, and four of the six institutions did not properly notify prospective employees of the availability of their annual security reports. Most of the errors leading to inaccurate statistics resulted in institutions reporting more crimes than the Clery Act required them to disclose. We also found that the most frequently missing policy disclosures were related to emergency response and evacuation procedures. Failure to comply with the Clery Act may result in federal financial penalties of up to \$27,500 per violation. Furthermore, the U.S. Department of Education (Education) has stated that the goal of safety- and security-related regulations is to provide students and their families, as higher education consumers, with accurate, complete, and timely information about safety on campus so that they can make informed decisions. We identified several reasons for institutions' lack of compliance with the Clery Act. These reasons included not adequately reviewing and adhering to guidance related to the Clery Act and the absence of a thorough review of annual security reports for accuracy before publication.

In the report, the California State Auditor (state auditor) made the following recommendations to the six institutions we audited. The state auditor's determination regarding the current status of recommendations is based on each of the six institutions' responses to the state auditor as of December 2012 and January 2013.

#### **Recommendation 1.1.a—See pages 11—20 of the audit report for information on the related findings.**

To ensure that they comply with the Clery Act by correctly reporting all applicable crimes and disclosing all required campus security policies, institutions should review and adhere to applicable guidance related to the Clery Act, including Education's Office of Postsecondary Education's (OPE) *Handbook for Campus Safety and Security Reporting* (OPE handbook) and the Federal Bureau of Investigation's *Uniform Crime Reporting Handbook*.

#### ***Academy's Action: Fully implemented.***

According to the Academy, the annual security report will be updated each year. To ensure that the report includes only Clery reportable crimes as well as the campus security procedures and disclosures required by Education, reportable crimes will be based on the OPE handbook and Academy staff will stay current on new disclosure requirements by attending Clery conferences and monitoring Clery updates.

#### ***Northridge's Action: Fully implemented.***

According to the police department at Northridge, it has reviewed and will adhere to the applicable guidelines related to the Clery Act. Specifically, Northridge records unit personnel will continue to use the OPE handbook as its primary resource for meeting Clery Act requirements.

#### ***Laney's Action: Pending.***

Laney did not provide a response to the state auditor as requested in time to include it in this report.

***San Bernardino's Action: Pending.***

According to San Bernardino's police department, it is updating its annual security report's policies and procedures for both crime statistics and campus security policy disclosures to include a review of the OPE handbook and the Federal Bureau of Investigation's *Uniform Crime Reporting Handbook* to ensure Clery Act compliance.

***San Diego's Action: Pending.***

According to the San Diego Community College District (district), its Clery Act Compliance Committee is assessing compliance concerns, including district policies and procedures. All policies and procedures determined to be out of compliance with the Clery Act will be revised and/or included in future annual security reports. Also, the district's Emergency Communications Policy and Procedure is currently under administrative review. Once approved, this policy and procedure will be added to the 2012 annual security report. Lastly, the district is developing additional information to include in future annual security reports regarding illegal drug and alcohol policies.

***Pacific's Action: Pending.***

Pacific did not provide a response to the state auditor as requested in time to include it in this report.

**Recommendation 1.1.b—See pages 11—20 of the audit report for information on the related findings.**

To ensure that they comply with the Clery Act by correctly reporting all applicable crimes and disclosing all required campus security policies, institutions should thoroughly review the Clery Act crime statistics and security policy disclosures in their annual security reports for accuracy before publication.

***Academy's Action: Partially implemented.***

According to the Academy, the annual security report will be updated each year. To ensure that the report includes only Clery reportable crimes, the report will be reviewed for accuracy by the Academy's Clery officer and director of security. These reviews will occur throughout the year as well as at year end before the report is released for publication. Also, as mentioned under recommendation 1.1.a, Academy staff will stay current on new disclosure requirements by attending Clery conferences and monitoring Clery updates. However, although the Academy indicated that it will be taking steps to stay informed of the disclosures required by Education, it did not mention the steps it would take to ensure that any changes to its campus security procedures related to those disclosures are reflected in its annual security report.

***Northridge's Action: Fully implemented.***

According to Northridge, in 2012, it established a two-step process to ensure that the annual security report includes all the required policy statements and disclosures as well as accurate statistics. This process includes a review by the records supervisor who writes the report. Next, the report is reviewed by the records administrator to verify its completeness. The review is completed by using a checklist of the procedures, policies, disclosures, practices, and programs as required by Education to be included in the report.

***Laney's Action: Pending.***

Laney did not provide a response to the state auditor as requested in time to include it in this report.

***San Bernardino's Action: Pending.***

According to San Bernardino, it is updating its annual security report's policies and procedures to include a secondary review of the Clery Act crime statistics and security policy disclosures in its annual security report to ensure this information is accurate before the report is published.

***San Diego's Action: Partially implemented.***

According to the district, it is continuing to take the necessary steps to ensure that the crime reporting review process is in compliance with the federal definition of all Clery reportable crimes. However, these steps were not explained. In addition, the district did not mention the steps it would take to stay current on new disclosure requirements or the steps it would take to ensure that any changes to campus security procedures related to new disclosures are reflected in the annual security report.

***Pacific's Action: Pending.***

Pacific did not provide a response to the state auditor as requested in time to include it in this report.

**Recommendation 1.1.c—See pages 16 and 17 of the audit report for information on the related finding.**

To ensure that they comply with the Clery Act by correctly reporting all applicable crimes and disclosing all required campus security policies, institutions should ensure that they have a complete, accessible daily crime log, as required by the Clery Act.

***Laney's Action: Pending.***

Laney did not provide a response to the state auditor as requested in time to include it in this report.

***San Bernardino's Action: Pending.***

According to San Bernardino, it is planning to ensure that the daily crime log is reviewed by a supervisor on a daily basis and forwarded to the chief of police for verification of accuracy.

***San Diego's Action: Fully implemented.***

According to the district, it will now spot check the daily crime log for accuracy for a period of at least six-months to ensure that all required information is being reported correctly.

***Pacific's Action: Pending.***

Pacific did not provide a response to the state auditor as requested in time to include it in this report.

**Recommendation 1.2—See pages 20 and 21 of the audit report for information on the related finding.**

Institutions should ensure that they properly notify both current and prospective students and employees of the availability of their annual security reports in the manner prescribed by the Clery Act.

***Laney's Action: Pending.***

Laney did not provide a response to the state auditor as requested in time to include it in this report.

***San Bernardino's Action: Pending.***

According to San Bernardino, it is in the process of updating its policies and procedures for notifying current and perspective students as well as current and perspective employees of its annual security report to ensure the notification is done properly.

***San Diego's Action: Partially implemented.***

According to the district, it has added a link to the annual security report on the district's Employment Opportunities Web site. Also, its Clery Act Compliance Committee is working with the district's Human Resources to establish any additional guidelines necessary for compliance with the notification requirement.

***Pacific's Action: Pending.***

Pacific did not provide a response to the state auditor as requested in time to include it in this report.

# Department of Housing and Community Development

## Awards of Housing Bond Funds Are Appropriate, but Cash Balances Are High and Monitoring Continues to Need Improvement

### REPORT NUMBER 2012-037, ISSUED OCTOBER 2012

This report concludes that the Department of Housing and Community Development (HCD) and the California Housing Finance Agency generally awarded funds in a timely manner and complied with legal requirements for making awards. However, HCD requested, and the Department of Finance (Finance) recommended, bond sales that were in excess of its cash needs at a time when the State's credit rating was declining and interest-rate volatility was high. As a result, the State paid as much as \$49 million in interest annually on the idle capital while the State was facing cash shortfalls.

Nevertheless, without these bond proceeds, the sustainability of certain housing bond programs likely would have been at risk. For most of HCD's housing bond programs, private lenders and banking institutions provide financing to sponsors, comprising entities qualified to construct or manage housing developments, for the construction of housing projects. Once the sponsor successfully completes the housing project, the sponsor uses its HCD award to repay the construction loan. Various state officials explained that key stakeholders cited significant concerns regarding the State's ability to fund these awards given the economic crisis at the time. In fact, state officials believed that without selling bonds in excess of immediate cash needs, and thereby demonstrating to the financial institutions that the State had the ability to fund the awards used by sponsors to repay the construction loans, many of the housing bond programs would have been suspended, or halted altogether. Thus, the reasons for the excessive bond sales appear to have merit.

Additionally, HCD did not always adhere to controls established for its CalHome and Building Equity and Growth in Neighborhoods (BEGIN) programs. For example, as we reported in November 2009, HCD still is not ensuring the recipients submit required status reports for its CalHome program. Further, we identified that HCD needs to improve its monitoring efforts during the period following payment up to the completion of all contract requirements. For instance, HCD had not finalized and implemented on-site monitoring procedures for its BEGIN program.

In the report, the state auditor made the following recommendations to HCD and Finance. The state auditor's determination regarding the current status of recommendations is based on HCD's and Finance's responses to the state auditor as of December 2012.

#### **Recommendation 1—See pages 16 and 17 of the audit report for information on the related finding.**

To ensure that it does not exceed the maximum amount specified in state law for administrative costs for the BEGIN Program, HCD should continue to reevaluate, as appropriate, its administrative support costs projection and continue to monitor its future costs.

#### ***HCD's Action: Fully implemented.***

HCD currently forecasts all costs for the life of the program and has a monitoring process to inform management of the need to adjust program administration to keep costs within statutory requirements. HCD indicated that it will continue to re-evaluate its administrative support cost projections and continue to monitor actual program costs. As such, HCD explained that it will maintain documentation of these business practices as needed.

**Recommendation 2—See pages 19—23 of the audit report for information on the related finding.**

Going forward, to the extent that Finance or HCD believes the State needs to issue bonds in excess of cash needs, it should document an analysis demonstrating the appropriateness of the bond sale amount and the circumstances.

***HCD's Action: Fully implemented.***

HCD stated that it agrees with our recommendations and will fully document any special circumstance that may require bonds to be issued in excess of the immediate cash need. HCD stated that Finance requests a Bond Cash Flow Analysis (drill) twice per year. As part of HCD's processes and procedures for this drill, HCD indicated that documentation is available that demonstrates whether or not it recommends a bond sale. HCD explained that it will now document the considerations and circumstances should Finance's final bond decision not match HCD's bond recommendation. According to HCD, Finance has the full authority over this process and makes the final decision on whether or not a bond sale is initiated. HCD stated that as the need arises, it will document the decisions and considerations made during these drills and that it will maintain the documentation and present the material when necessary.

***Finance's Action: Fully implemented.***

Finance stated that it agrees with our recommendation and explained that it has significantly increased the level of analysis that it conducts regarding the level of bond program cash needs by routinely surveying departments, analyzing usage rates, and assessing future demand. Finance indicated that it is retaining these analyses so that they will be available for any future audits.

**Recommendation 3.a—See pages 25 and 26 of the audit report for information on the related finding.**

HCD should continue its efforts to monitor sponsors that receive awards of housing bond funds by requiring staff to follow its procedures related to centrally tracking advances to sponsors under the CalHome Program.

***HCD's Action: Partially implemented.***

HCD stated that by March 2013, it will review and update all Proposition 1C and 45 CalHome disbursements through September 2012 in the centralized system to track and log advances to ensure current, complete, and accurate information. In addition, HCD explained that current processes for management approval and tracking advances have been implemented and were communicated to all appropriate staff on or about September 27, 2012. Further, a centralized tracking log has been developed and implemented for advance transactions. HCD stated that written policies regarding when and how staff is to update the tracking log have been developed but are currently under management review and not ready for finalization. HCD explained that management will continue to reiterate the importance of using these policies and procedures to ensure proper tracking.

**Recommendation 3.b—See pages 26—28 of the audit report for information on the related finding.**

HCD should continue its efforts to monitor sponsors that receive awards of housing bond funds by ensuring that it receives, reviews, and centrally tracks required status reports from sponsors under its CalHome and BEGIN programs.

***HCD's Action: Partially implemented.***

HCD explained that at the beginning of each quarter staff will contact their assigned sponsors via e-mail to request the required quarterly reports. HCD indicated that this will ensure that program staff are proactively requesting the information and documenting the request. Upon receipt, HCD stated that staff will review and record the report in the established centralized tracking report file.

In those instances when a sponsor fails to submit a report, HCD asserted that the program manager will take steps to obtain the report and document the response in the file and the centralized tracking report. HCD also explained that the CalHome and BEGIN programs have developed procedures, currently under review by program management, which will give program managers the ability to assess sponsor quarterly and annual reporting compliance. HCD stated that it anticipates completion of the written procedures on or before May 31, 2013. HCD also indicated that monitoring of reporting compliance is a key performance indicator for both staff and management.

**Recommendation 3.c—See pages 28 and 29 of the audit report for information on the related finding.**

HCD should continue its efforts to monitor sponsors that receive awards of housing bond funds by, upon finalizing monitoring procedures for the BEGIN Program, ensure that staff implement and follow them.

***HCD's Action: Fully implemented.***

HCD has developed a written monitoring process, including a risk assessment tool and checklist to be used for the monitoring of BEGIN projects. HCD explained that it finalized and implemented this process during October 2012. Further, HCD stated that BEGIN staff completed training by the end of November 2012 and staff are currently applying the risk assessment tool to develop the monitoring schedule. HCD indicated that once each recipient has been given a final score, they will be entered on the monitoring spreadsheet and sorted to identify those recipients that are at higher risk. HCD implemented the monitoring plan in December 2012 and scheduled its first monitoring visit for January 2013.

**Recommendation 3.d—See page 29 of the audit report for information on the related finding.**

As it relates to selecting which sponsors to monitor, HCD should continue its efforts to monitor sponsors that receive awards of housing bond funds by adopting a risk-based, on-site monitoring approach for its CalHome and BEGIN programs. For the CalHome Program, HCD should evaluate the criteria in its risk assessment tool and require staff to use a centralized tracking log for on-site monitoring visits, which should indicate when findings are resolved.

***HCD's Action: Fully implemented.***

The BEGIN Program has developed a written monitoring process, including a risk-assessment tool and checklist to be used for the monitoring of BEGIN projects and it implemented the process in December 2012. Additionally, HCD explained that CalHome management has evaluated and approved the criteria in its risk assessment tool. Further, HCD stated that the CalHome staff and management team has developed and implemented a centralized tracking log, which will be maintained by staff for all audit findings and monitored by CalHome management to ensure resolution to findings.



# Foster Family Home and Small Family Home Insurance Fund

## Expanding Its Coverage Will Increase Costs and the Department of Social Services Needs to Improve Its Management of the Insurance Fund

### REPORT NUMBER 2010-121, ISSUED SEPTEMBER 2011

In September 1986 the Legislature established the Foster Family Home and Small Family Home Insurance Fund (insurance fund) to pay, on behalf of foster family homes and small family homes (licensed homes), the claims of foster children, their parents, or their guardians stemming from an accident that results in bodily injury or personal injury neither expected nor intended by the foster parent.

This report concludes that almost 90 percent of the foster parents running licensed homes who responded to our survey were unaware of the insurance fund's existence. In addition, approximately a third of these foster parents reported that the possibility of liability claims against them made them less likely to continue as foster parents in the future. Expanding the insurance fund's coverage to homes that are certified by foster family agencies (FFAs), which are organizations that recruit, certify, and train parents who provide foster family homes not licensed by the State, may be costly. If the Legislature desires to expand the insurance fund's coverage to include the FFAs' certified homes, it will have to make statutory amendments to expressly permit the insurance fund to pay claims on behalf of certified homes. Based on our survey results and the insurance fund's claims history, our consultant estimated that expanding the insurance fund's coverage to the FFAs' certified homes could potentially cost the State a minimum of \$967,500 each year. Further, if the Legislature desires to enable the insurance fund to cover legal guardians participating in the Kinship Guardianship Assistance Payment (Kin GAP) program, it will have to amend the pertinent statutes to expressly provide coverage for these guardians. Due to limitations in obtaining readily available and pertinent data, we were unable to survey the Kin GAP families and project the financial impact of adding them to the insurance fund.

This report also concludes that the Department of Social Services (Social Services) did not ensure that the Department of General Services (General Services), its designated contract agency, approved or rejected claims filed against the insurance fund within the 180 day time frame state law mandates. Social Services also failed to obtain key information from General Services, and as a result, Social Services has been unable to accurately project the insurance fund's budget needs. As of December 31, 2010, the insurance fund had a balance of roughly \$5.4 million, which is significantly higher than the \$1 million amount we estimate it needs to maintain as a reserve. Should the Legislature choose to expand the insurance fund's coverage to include certified homes and Kin GAP families, Social Services will need to reevaluate this reserve amount.

In the report, the California State Auditor (state auditor) made the following recommendations to Social Services and the Legislature. The state auditor's determination regarding the current status of recommendations is based on Social Services' response to the state auditor as of October 2012.

#### **Recommendation 1.1—See page 18 of the audit report for information on the related finding.**

To mitigate foster parents' concerns about liability and to increase the likelihood that they will continue to serve as foster parents, Social Services should develop more effective methods to inform and remind licensed homes about the availability of the insurance fund.

#### ***Social Services' Action: Fully implemented.***

Social Services issued a memo on September 28, 2011, instructing its Community Care Licensing Division (licensing division) program analysts to provide foster parents with General Services' insurance fund handout during the pre-licensing visit. In addition, Social Services posted the insurance

fund information on the licensing division's Web site on October 20, 2011. Finally, Social Services included the insurance fund information in the licensing division's fall 2011 Children's Residential Quarterly Update Newsletter.

**Recommendation 1.2—See pages 21 and 22 of the audit report for information on the related finding.**

If the Legislature desires that the insurance fund provide coverage to the FFAs' certified homes and Kin GAP families, it should amend the pertinent statutes to expand the insurance fund's coverage to include them.

***Legislative Action: Unknown.***

The state auditor is not aware of any action taken by the Legislature as of December 18, 2012.

**Recommendation 1.3.a—See pages 23—25 of the audit report for information on the related finding.**

To comply with state law and improve the timeliness of claims processing, Social Services should ensure that General Services approves or rejects all claims within the mandated 180-day deadline.

***Social Services' Action: Fully implemented.***

Social Services stated that General Services has implemented a system to be in compliance with the mandated 180-day deadline, by either accepting or rejecting a claim within 180 days. In addition, Social Services implemented a process to track claims pending at General Services to ensure they are processed in 180 days.

**Recommendation 1.3.b—See pages 23—25 of the audit report for information on the related finding.**

To comply with state law and improve the timeliness of claims processing, Social Services should require General Services to ensure that claimants receive prompt notification of its decision to approve or reject their claims.

***Social Services' Action: Fully implemented.***

Social Services stated that General Services has implemented a system to be in compliance with the mandated 180-day deadline, by either accepting or rejecting a claim within 180 days. In addition, Social Services implemented a process to track claims pending at General Services to ensure they are processed in 180 days.

**Recommendation 1.4—See pages 23—25 of the audit report for information on the related finding.**

To ensure the expedient disposition of claims, the Legislature should consider amending state law to provide claimants the option of litigating against the insurance fund if General Services does not approve or reject their claims within the 180-day deadline described in state law.

***Legislative Action: Unknown.***

The state auditor is not aware of any action taken by the Legislature as of December 18, 2012.

**Recommendation 1.5.a—See pages 26 and 27 of the audit report for information on the related finding.**

To ensure that the insurance fund makes the most efficient use of the State's limited resources, Social Services should ensure that General Services provides it with all the claims information specified in the interagency agreement.

***Social Services' Action: Fully implemented.***

Social Services worked with General Services to revise its quarterly reports to include all of the claims information specified in the interagency agreement.

**Recommendation 1.5.b—See pages 27—29 of the audit report for information on the related finding.**

To ensure that the insurance fund makes the most efficient use of the State's limited resources, Social Services should use these claims and expenditure data to determine the annual appropriation amount needed for the insurance fund to meet its anticipated liabilities.

***Social Services' Action: Pending.***

Social Services stated that it developed a methodology for determining an adequate insurance fund appropriation that will be based, in part, upon General Services' quarterly reports. However, Social Services' methodology does not sufficiently explain the steps necessary for making this determination. Social Services stated that it plans to provide us with its fiscal analysis of the fund and the supporting documentation by January 10, 2013.

**Recommendation 1.5.c—See pages 27—29 of the audit report for information on the related finding.**

To ensure that the insurance fund makes the most efficient use of the State's limited resources, Social Services should establish a written policy or procedures to guide staff on the appropriate methodology to use when calculating these anticipated liabilities.

***Social Services' Action: Pending.***

Social Services stated that it has developed methodologies for determining the insurance fund's annual appropriation and its reserve requirements. However, both methodologies lack the details necessary to guide staff on the appropriate steps to take when calculating these anticipated liabilities. Social Services stated that it plans to provide us with its fiscal analysis of the fund and the supporting documentation by January 10, 2013.

**Recommendation 1.5.d—See pages 27—29 of the audit report for information on the related finding.**

To ensure that the insurance fund makes the most efficient use of the State's limited resources, Social Services should establish an adequate reserve amount for the insurance fund and reevaluate it annually.

***Social Services' Action: Pending.***

Social Services stated that future adjustments to the fund balance and appropriation will be conducted as part of the budget process for developing the fiscal year 2013–14 governor's budget. In its methodology, Social Services states its intent to evaluate the reserve amount annually, or sooner as directed by circumstances or controlling agencies. Social Services stated that it plans to provide us with its fiscal analysis of the fund and the supporting documentation by January 10, 2013.



# Child Welfare Services

## California Can and Must Provide Better Protection and Support for Abused and Neglected Children

### REPORT NUMBER 2011-101.1, ISSUED OCTOBER 2011

This report concludes that California can and must provide abused and neglected children better protection and support. Specifically, the Department of Social Services (Social Services), which oversees the child welfare services (CWS) system, needs to use the Department of Justice's (Justice) Sex and Arson Registry to better ensure that children—when removed from their homes—are provided safe out-of-home placements. Our comparison of addresses for registered sex offenders to Social Services' addresses for licensed facilities and out-of-home child placements found more than 1,000 matches. In July 2011 our office referred these address matches to Social Services for investigation. Social Services reported in October 2011 that it and county CWS agencies had investigated nearly all of these matches and found several registered sex offenders living or present in licensed facilities. Specifically, Social Services indicates it has begun legal actions against eight licensees (four temporary suspension orders and four license revocations) and issued 36 immediate exclusion orders (orders barring individuals from licensed facilities).

This report also concludes that county CWS agencies' increased reliance on foster family agencies has led to unjustified increases in out-of-home placement costs. The increased reliance on foster family agencies, which were originally meant as substitutes for expensive group homes for children with elevated treatment needs, has instead been accompanied by a matching drop in the use of less expensive licensed foster homes. One potential explanation for this trend is that Social Services does not require county CWS agencies to document the treatment needs of children who are placed with foster family agencies. Additionally, Social Services could not provide us with support for the monthly rate it pays foster family agencies—a rate that includes a 40 percent administrative fee.

Our review of county CWS agencies' investigatory and ongoing case management practices found that they generally comply with state regulations and county policies. Nonetheless, the agencies still need to improve the timeliness of investigations and the consistency of ongoing case visits. Our review also found that county CWS agencies generally performed required background checks before placing children in out-of-home placements, although they did not always forward information regarding instances of abuse or neglect to Justice, as required by state law at the time of our audit. Finally, we determined that county CWS agencies that do not formally conduct internal evaluations of the services they delivered to a family prior to a child's death from abuse or neglect are missing opportunities to identify needed changes that may prevent similar future tragedies.

In the report, the California State Auditor (state auditor) made the following recommendations to Social Services. The state auditor's determination regarding the current status of recommendations is based on Social Services' response to the state auditor as of November 2012.

#### **Recommendation 1.1—See pages 20—22 of the audit report for information on the related finding.**

To ensure that vulnerable individuals, including foster children, are safe from sex offenders, Social Services should complete follow-up on any remaining address matches our office provided in July 2011 and take appropriate actions, as well as relay information to Justice or local law enforcement for any sex offenders not in compliance with registration laws.

#### ***Social Services' Action: Fully implemented.***

Social Services reported that it finished following-up on the outstanding address matches that our office provided in July 2011. In addition, it stated that it reported erroneous address data that it identified through the investigations to Justice. In a few instances, we questioned the appropriateness

of the actions taken by county CWS agencies in which they allowed sex offenders to remain in homes of children in the CWS system. Social Services stated that in certain circumstances counties do not have an obligation under current regulation or policy to remove children from homes due to the presence of a registered sex offender. However, counties are still required to determine the immediate risk and take appropriate steps to ensure the safety of children in these instances. Social Services indicated that counties have discretion over the action they take and that in certain situations it may be determined appropriate for a child to be in the home of a registered sex offender.

**Recommendation 1.2—See pages 22—24 of the audit report for information on the related finding.**

Social Services should begin to conduct regular address comparisons using Justice’s sex offender registry and its Licensing Information System and Child Welfare Services/Case Management System (CWS/CMS). If Social Services believes it needs additional resources to do so, it should justify and seek the appropriate level of funding. If efforts to obtain additional resources fail, Social Services should assign this high-priority task to existing staff.

***Social Services’ Action: Fully implemented.***

Social Services began its first address comparison in late December 2011 using its databases and Justice’s sex offender registry. Social Services has continued to refine this process and has performed these address comparisons on a regular basis. Social Services added that it continues to assess its resource needs.

**Recommendation 1.3.a—See pages 24 and 25 of the audit report for information on the related finding.**

To help keep children safe, the Legislature should consider enacting a general prohibition of registered sex offenders living or working in licensed children’s facilities or CWS placements.

***Legislative Action: Legislation proposed but not enacted.***

Assembly Bill 493 (AB 493), which was held in the Senate Appropriations Committee when the 2011–12 Legislative Session ended, would have created a general prohibition on registered sex offenders living or working in licensed children facilities or CWS placements.

**Recommendation 1.3.b—See pages 24 and 25 of the audit report for information on the related finding.**

To help keep children safe, the Legislature should consider enacting a requirement that all law enforcement staff overseeing sex offenders make sure that the addresses sex offenders submit for registration do not match a licensed facility for children or a foster home.

***Legislative Action: Legislation proposed but not enacted.***

AB 493 would have implemented this recommendation by requiring entities responsible for registering sex offenders to ensure that the address submitted by a sex offender does not match the address of a licensed facility for children or a CWS placement.

**Recommendation 1.3.c—See pages 24 and 25 of the audit report for information on the related finding.**

To help keep children safe, the Legislature should consider enacting a requirement that Social Services make available to law enforcement in an efficient manner the addresses of its children’s facilities and foster homes.

***Legislative Action: Legislation proposed but not enacted.***

AB 493 would have implemented this recommendation by requiring Social Services to provide the addresses of licensed facilities for children and CWS placements to entities responsible for registering sex offenders.

**Recommendation 1.4—See pages 25—27 of the audit report for information on the related finding.**

To provide sufficient oversight of county CWS agencies with delegated authority to license foster homes, Social Services should complete comprehensive reviews of these agencies' licensing activities at least once every three years.

***Social Services' Action: Fully implemented.***

Social Services completed nine of the 13 county licensing reviews in 2011 that its departmental standards require. Based on information from 2008, 2009, and 2010, these nine reviews represent an improvement on previous years' performance. In 2012 Social Services doubled this output by completing 18 county licensing reviews (two of these reviews were scheduled for completion in December 2012).

**Recommendation 1.5—See pages 25—27 of the audit report for information on the related finding.**

To ensure that its licensees, including state-licensed foster homes, foster family agencies, and group homes, are in compliance with applicable requirements and that children are protected, Social Services should complete on-site reviews at least once every five years as required by state law.

***Social Services' Action: Partially implemented.***

Social Services stated that historically, it has substantially met the five-year-visit requirement and added that with a new, evidenced-based inspection tool that it is continuing to refine, it will be able to complete facility reviews more frequently than once every five years. We examined Social Services' monthly reports displaying overdue on-site reviews and found that the number of overdue five-year inspections of foster homes, foster family agencies, and group homes was higher in 2012 than it was when we conducted our audit. Specifically, we found 120 of these licensees were overdue for visits in February 2012. Although the number declined to 75 by December 2012, this still exceeds what we found during our audit.

The department indicates that 20 of these overdue visits relate to closed facilities and another 11 have been visited. However, the department has not been able to update this information in its database because of ongoing system upgrades.

**Recommendation 1.6—See page 31 of the audit report for information on the related finding.**

To encourage more effective communication from county CWS agencies regarding its licensees, Social Services should specify in regulations what types of situations or allegations the agencies should forward to its licensing division.

***Social Services' Action: No action taken.***

Social Services disagrees with this recommendation because it believes situations requiring a report are already defined. Social Services stated that it sent in September 2012 a notice to all counties reminding them of reporting requirements.



**Recommendation 1.7—See page 31 of the audit report for information on the related finding.**

To ensure that county CWS agencies send required reports of abuse and neglect to Justice, Social Services should remind these agencies of applicable requirements and examine the feasibility of using CWS/CMS to track compliance with these statutory provisions.

***Social Services' Action: Fully implemented.***

Social Services sent a May 2012 notice to all counties reminding them of the conditions that warrant cross reporting to appropriate law enforcement agencies. Social Services determined that CWS/CMS currently has the capability to be used to track compliance with these reporting requirements.

**Recommendation 2.1.a—See pages 35—37 of the audit report for information on the related finding.**

To ensure that rates paid to foster family agencies are appropriate, Social Services should analyze the rates and provide reasonable support for each component, especially the 40 percent administrative fee it currently pays these agencies.

***Social Services' Action: No action taken.***

- ➔ Social Services continues to assert that it will examine this recommendation in conjunction with its existing efforts on congregate care reform. Social Services projected that implementation of this recommendation would not occur until October 2014. Similar to our statement on page 89 of the audit report, we continue to be concerned that Social Services does not fully appreciate that establishing support for foster family agency rates—a portion of which is federally reimbursed—should be a high priority task that should be accomplished regardless of the timeline of any other reform effort.

**Recommendation 2.1.b—See pages 35—37 of the audit report for information on the related finding.**

Social Services should create and monitor compliance with clear requirements specifying that children placed with foster family agencies must have elevated treatment needs that would require a group home placement if not for the existence of these agencies' programs. Specifically, Social Services should revise its regulations so licensed foster homes have higher priority than foster family agencies for children that do not have identified treatment needs.

***Social Services' Action: No action taken.***

- ➔ Although Social Services agrees that licensed foster homes are the preferred placement type for children who do not have identified treatment needs, Social Services indicated that it will continue to consider this recommendation in the context of congregate care reform. We continue to believe, as we state on page 90 of the audit report, that Social Services should expeditiously establish a requirement that county CWS agencies provide adequate justification for placements with foster family agencies and this action should not be dependent on the timeline of some larger reform effort.

**Recommendation 2.1.c—See pages 35—37 of the audit report for information on the related finding.**

Social Services should require county CWS agencies to file in CWS/CMS a detailed justification for any child placed with a foster family agency.

***Social Services' Action: No action taken.***

- ➔ Social Services indicated that a workgroup has identified potential locations in CWS/CMS that can be modified to provide a consistent location to input and track placement justifications. However, the department stated the earliest that these changes could occur, due to funding constraints and

other priorities, is in fall 2013. Moreover, Assembly Bill 1697, as amended in March 2012, would have required Social Services to designate a separate field in CWS/CMS for county CWS agencies to record reasons for placing a child with a foster family agency or group home and would have required a CWS agency to file this information in the system when a placement is made. However, this bill was not enacted during the 2011–12 Legislative Session.

**Recommendation 2.1.d—See pages 35—37 of the audit report for information on the related finding.**

Social Services should create a mechanism by which it can efficiently check for compliance with the needs-justification requirement.

***Social Services' Action: No action taken.***

See Social Services' response under Recommendation 2.1.c.

**Recommendation 2.2—See pages 37—40 of the audit report for information on the related finding.**

To achieve greater cooperation from county CWS agencies and to make it possible for some of these agencies to improve their placement practices, Social Services should develop a funding alternative that allows the agencies to retain a portion of state funds they save as a result of reducing their reliance on foster family agencies and only making placements with these agencies when justified by the elevated treatment needs of the child. The agencies would use these funds to support placement activities necessary to achieve the savings (for example, assessment centers and placement resource units).

***Social Services' Action: Fully implemented.***

Social Services stated that the intent of this recommendation has been essentially implemented by the realignment of CWS funding. Social Services indicated that, under realignment, county CWS agencies now have financial incentives to place children in the lowest cost placement necessary to effectively meet the needs of individual children.

**Recommendation 3.1—See pages 50 and 51 of the audit report for information on the related finding.**

To encourage continued progress and innovation in keeping children safe, Social Services should add to its current CWS performance metrics a measure of the percentage of investigatory visits (both immediate and 10-day) completed on time that excludes attempted investigatory visits from its calculation of successful outcomes.

***Social Services' Action: Pending.***

Social Services stated that it agrees with the recommendation and a department committee is working with county representatives to determine the best way to provide this information alongside existing measures.

**Recommendation 3.2—See pages 52—54 of the audit report for information on the related finding.**

Social Services should work with the Alameda County CWS agency to improve its percentage of ongoing case visits completed until it at least meets Social Services' compliance goal of 90 percent.

***Social Services' Action: Fully implemented.***

Social Services stated that it continues to monitor Alameda's performance on this measure. Social Services asserted that Alameda made progress last calendar year on case worker visits, meeting or exceeding the 90 percent threshold in all but two months.

**Recommendation 3.3—See pages 54—58 of the audit report for information on the related finding.**

To determine whether the hold harmless provision has been effective in reducing caseloads and whether it should be revised or rescinded, Social Services should refine and use CWS/CMS to calculate and report county CWS caseloads.

*Social Services' Action: No action taken.*

- ➔ In its October 2011 response to the audit report, Social Services disagreed that one purpose of the hold harmless provision was to reduce caseloads, but nonetheless agreed that CWS/CMS could and should be used to calculate and report county caseloads. Rather than provide an update on its progress towards creating this measure, Social Services once again asserted its disagreement regarding our description of the purpose of the hold harmless provision.

**Recommendation 4.1—See page 61 of the audit report for information on the related finding.**

To improve agency practices and increase the safety of children within the CWS system, all county CWS agencies should perform a formal internal review of the services they delivered to each child before he or she died of abuse or neglect and implement any resulting recommendations.

*Social Services' Action: Fully implemented.*

Social Services released, in September 2012, a letter to all counties encouraging them, as a best practice, to conduct internal reviews of fatalities resulting from abuse or neglect. Additionally, Assembly Bill 1440 (AB 1440), as amended in March 2012, would have required each county CWS agency to conduct a formal child death review and would also have required counties to submit death review reports to Social Services. AB 1440 was not enacted during the 2011–12 Legislative Session.

**Recommendation 4.2—See pages 69—71 of the audit report for information on the related finding.**

To encourage county CWS agencies to conduct formal internal death reviews, Social Services should revise its annual report on child deaths resulting from abuse or neglect to provide information on whether county CWS agencies conducted such a review of child deaths with prior CWS history. To obtain this information, Social Services should revise its regulations to require all county CWS agencies to not only report child deaths resulting from abuse or neglect but to also require a subsequent report indicating whether an internal child death review was completed.

*Social Services' Action: No action taken.*

- ➔ Social Services disagrees with this recommendation because it does not believe that its annual report on child deaths is an appropriate vehicle for encouraging counties to conduct formal death reviews. It also does not believe it has the statutory authority to require counties to conduct formal death reviews or report completion of these reviews to Social Services. Rather, Social Services points to the letter it released in September 2012 encouraging counties to conduct formal internal child death reviews. As we indicate on page 90 of the audit report, Social Services' plan for implementing this recommendation fails to create a mechanism to determine whether county CWS agencies are heeding its advice. If enacted, AB 1440 would have implemented our recommendation by requiring county CWS agencies to submit death reviews to Social Services and by requiring Social Services to include in its annual report information on whether county CWS agencies completed formal death reviews. AB 1440 was not enacted during the 2011–12 Legislative Session.

**Recommendation 4.3—See pages 69—71 of the audit report for information on the related finding.**

As part of its instructions related to its outcome review process, Social Services should direct county CWS agencies to include completed internal death reviews in the development of their self-assessments and improvement plans.

***Social Services' Action: Partially implemented.***

Social Services released a September 2012 letter to county CWS agencies encouraging them to use information gathered from death reviews in their county self-assessments. However, the department did not indicate that it revised its instructions related to its outcome review process.

**Recommendation 4.4—See pages 66—69 of the audit report for information on the related finding.**

As part of its oversight of the outcome review process, Social Services should follow up on whether Fresno and Sacramento counties implemented recommendations resulting from their respective internal death reviews.

***Social Services' Action: Fully implemented.***

Social Services reported that this recommendation was fully implemented and identified various actions taken by Fresno and Sacramento counties in response to recommendations resulting from their respective child death reviews.

**Recommendation 4.5—See pages 69—71 of the audit report for information on the related finding.**

To ensure that they report all requisite child deaths to Social Services and investigate all child deaths involving abuse or neglect, county CWS agencies should annually reconcile their child death information with other reliable information on child deaths, such as county child death review team data.

***Social Services' Action: Fully implemented.***

Social Services agrees that county CWS agencies should reconcile their child death information with other reliable information on child deaths, such as county child death review team data. Social Services issued a notice in September 2012 to all counties encouraging them to do so.

**Recommendation 4.6—See pages 69—71 of the audit report for information on the related finding.**

To provide more useful information in its annual report, Social Services should provide child death information broken out by county, not just statewide totals. Further, Social Services should provide more analysis, such as comparing child death information over multiple years and presenting each county's child deaths as a percentage of its total child population.

***Social Services' Action: No action taken.***

Social Services continues to disagree with this recommendation, stating that county-specific information is already available from each county. As we indicate on pages 90 and 91 of the audit report, Social Services' assertion that this information is already available from the 58 counties does little to help state decision makers and stakeholders who may be interested in this information. Social Services has this information by county readily available and could present this information in its annual report. AB 1440 would have required Social Services to enhance its annual report to include the information we suggested. However, AB 1440 was not enacted during the 2011–12 Legislative Session.





# Los Angeles County Department of Children and Family Services

## Management Instability Hampered Efforts to Better Protect Children

### REPORT NUMBER 2011-101.2, ISSUED MARCH 2012

This report concludes that instability in the Department of Children and Family Services' (department) management has hampered its efforts to address long-standing problems. Since 2009 the department has struggled to complete investigations of child abuse and neglect within requisite time frames. In July 2010 the department reported it had 9,300 investigations that were open longer than 30 days, the maximum time period allowed by state regulations. Although this backlog has decreased substantially, it remains at a relatively elevated level. Department officials indicated that it contributed to the backlog in uncompleted investigations when, under pressure from outside stakeholders, department management created new, potentially unrealistic policies that it later revised or rescinded in early 2011. Nevertheless, in January 2012 the backlog was still 3,200, more than twice as large as it was in July 2009.

The department has also struggled to perform required assessments of homes and caregivers prior to placing children with relatives. From 2008 to 2010 the department completed fewer than a third of home and caregiver assessments before placing children with relatives. This delay resulted in nearly 900 children living in placements that the department later determined to be unsafe or inappropriate. Even after these determinations, the children typically remained in these homes for nearly a month and a half before the department removed them, or later reassessed and approved the placement. Department management failed to identify and address this long-standing problem because it has not monitored whether required assessments are completed prior to placement.

Finally, in just over a year, the department had four different directors. It has also experienced high turnover in other key management positions. This turnover impeded the department's ability to develop and implement a strategic plan that would have provided cohesiveness to its various initiatives and communicated a clear vision to department staff and external stakeholders.

In the report, the California State Auditor (state auditor) made the following recommendations to the department. The state auditor's determination regarding the current status of recommendations is based on the department's response to the state auditor as of September 2012.

#### **Recommendation 1.1.a—See pages 15—20 of the audit report for information on the related finding.**

To ensure that child abuse and neglect allegations receive timely resolution, the department should continue to monitor the status of its backlog of investigations but revise its policies and performance measures to no longer define the backlog as investigations over 60 days old. Rather, it should emphasize completing investigations within 30 days.

#### ***Department's Action: Fully implemented.***

The department created a goal to reduce the number of referral investigations that take longer than 30 days. In accordance with this goal, the department states that its regional managers will monitor how many investigations take longer than 30 days.

#### **Recommendation 1.1.b—See pages 15—20 of the audit report for information on the related finding.**

To ensure that child abuse and neglect allegations receive timely resolution, the department should assess whether it needs to permanently allocate more resources to investigate allegations of child abuse and neglect.

***Department's Action: Pending.***

The department states it is currently assessing the caseload levels for social workers who investigate allegations of child abuse and neglect and is examining its processes to streamline its investigations.

**Recommendation 1.2—See pages 19 and 20 of the audit report for information on the related finding.**

To better ensure that inner-city regional offices are staffed by experienced social workers, the department should consider providing social workers with incentives to work in these areas or require them to remain in these offices for a period longer than the one year currently required.

***Department's Action: Fully implemented.***

The department has temporarily frozen transfers of social workers who work in inner-city offices. It has also notified future social workers, who will be assigned to inner-city offices, that they will be expected to remain in those offices for at least two years. Additionally, the department is attempting to provide financial incentives to social workers who work in inner-city regional offices.

**Recommendation 2.1—See pages 25—30 of the audit report for information on the related finding.**

To ensure that it is placing children only in safe homes, the department should measure its performance and adjust its practices to adhere to state law, which requires that all homes be assessed prior to the placement of the child.

***Department's Action: No action taken.***

- The department disagrees with our interpretation of state law; it believes it does not need to complete formal assessments of caregivers and homes before placing children in homes. As described in our comments on pages 81 through 84 of the audit report, we strongly disagree with the department's interpretations.

**Recommendation 2.2—See pages 25—30 of the audit report for information on the related finding.**

To improve its process for placing children with a relative, the department should analyze the best practices used by other county child welfare services agencies for such placements. The department should then implement changes in its practices so that relatives and their homes are approved prior to placement, as required by state law.

***Department's Action: No action taken.***

- The department indicates that it researched the practices of five other counties but the department believes that its relative placement process conforms to regulations and has not made the changes we recommended.

**Recommendation 2.3—See pages 33 and 34 of the audit report for information on the related finding.**

To ensure that social workers have as much relevant information as possible when placing children and licensing homes, the department should report requisite allegations of abuse or neglect to the Department of Justice and the Department of Social Services' licensing division.

*Department's Action: Fully implemented.*

The department implemented a process that will make it easier to submit the requisite reports to the Department of Justice. Instead of faxing reports, the department's employees can now click on an icon that will transmit the report electronically. Additionally, the department reminded staff regarding their responsibility for submitting these reports.

**Recommendation 2.4—See pages 35—37 of the audit report for information on the related finding.**

To fully benefit from its death review process, the department should implement the resulting recommendations.

*Department's Action: Pending.*

The department is working with its legal counsel to determine how it can best implement this recommendation.

**Recommendation 3.1—See pages 39—42 of the audit report for information on the related finding.**

To provide effective leadership, the director should form a stable executive team by filling the department's chief deputy director, senior deputy director, and other deputy director positions.

*Department's Action: Partially implemented.*

The director has filled the senior deputy director, director of program development and strategic initiatives, and executive assistant positions. The director also indicated that he plans to fill the other positions after a planned reorganization occurs.

**Recommendation 3.2—See pages 39—42 of the audit report for information on the related finding.**

To create and communicate its philosophy and plans, the department should complete and implement its strategic plan.

*Department's Action: Partially implemented.*

The department distributed the completed strategic plan in September 2012, which contained 50 objectives. To implement these objectives, the department will create action teams that consist of executive sponsors and project managers.



# Employment Development Department

## Its Unemployment Program Has Struggled to Effectively Serve California's Unemployed in the Face of Significant Workload and Fiscal Challenges

### REPORT NUMBER 2010-112, ISSUED MARCH 2011

This report concludes that over the last 10 years the Employment Development Department (department) has consistently failed to perform at a level the United States Department of Labor considers acceptable regarding its timely delivery of unemployment benefits. The department's attempts to resolve its performance deficiencies have had mixed results. Although increasing its staff and allowing them to work overtime has enabled the department to process significantly more claims, mitigate the effects of furloughs, and likely improve its performance, it has not fully implemented certain key corrective actions and the impact of others has been minimal or remains unclear. In addition, historical data the department provided us indicated that its previous phone system did not have the capacity to handle the necessary volume of calls and a high percentage of callers requesting to speak to an agent were unable to do so. The department activated its new phone system at its six main call center locations by December 2010. Although it is too early to tell using data from the new system, our limited capacity analysis suggests that the new system should be able to handle a substantially higher volume of calls; however, access to agents may continue to be a challenge. Moreover, in order to receive \$839 million in federal stimulus funds, the department must implement an alternate base period no later than September 2012 that would allow certain unemployed workers (claimants) to qualify for benefits if their earnings are not sufficient under the standard base period. Although the department stated that it will implement the alternate base period in April 2012, it is critical that it does so before the federal deadline. Finally, the department's process for determining California Training Benefits program eligibility for claimants has taken an average of four or more weeks, during which time the claimants did not receive unemployment benefits. Although the department has streamlined this process for some claimants, it does not appear to have a clear plan to improve its procedures for 80 percent of its determinations that involve claimants who desire to participate in self-arranged training.

In the report, the California State Auditor (state auditor) made the following recommendations to the department and the California Technology Agency (Technology Agency).<sup>1</sup> The state auditor's determination regarding the current status of the recommendations is based on the department's response to the state auditor as of March 2012, the Technology Agency's response as of March 2012, and a letter report dated November 13, 2012, that presents a follow-up review conducted by the state auditor concerning the department's progress in implementing the recommendations.

#### **Recommendation 1.1.a—See pages 27—34 of the audit report for information on the related finding.**

To further enhance its corrective action planning process as a means of improving the unemployment program, the department should identify corrective actions that specifically address the timeliness measures it is trying to meet.

#### ***Department's Action: Fully implemented.***

The department's 2012 State Quality Service Plan (quality plan), which serves as the principal vehicle for planning, recording, and managing its unemployment program's efforts to strive for excellence in service, includes corrective actions to address federal timeliness measures for promptly issuing initial unemployment payments and making nonmonetary determinations of claimant's eligibility for benefits.

<sup>1</sup> Chapter 404, Statutes of 2010, which became effective January 1, 2011, renames the Office of the State Chief Information Officer as the California Technology Agency and the position of the State's chief information officer as the Secretary of California Technology.

**Recommendation 1.1.b—See pages 27—34 of the audit report for information on the related finding.**

To further enhance its corrective action planning process as a means of improving the unemployment program, the department should develop milestones that are specific and are tied to corrective actions to allow for monitoring the incremental progress of its corrective actions, similar to the milestones it established for some of the activities in its federal fiscal year 2011 corrective action plans.

***Department's Action: Fully implemented.***

The department's quality plan for 2012 now has corrective actions with related milestones.

**Recommendation 1.1.c—See pages 27—34 of the audit report for information on the related finding.**

To further enhance its corrective action planning process as a means of improving the unemployment program, the department should establish several key performance targets or benchmarks that are tied to each specific corrective action, to effectively gauge the impact of the actions on its goal of achieving the acceptable levels related to the timeliness measures.

***Department's Action: No action taken.***

- ➔ Although the department has now established corrective action plans with related milestones, it has not created ways to measure how those actions affect the department's performance. Specifically, even though the federal labor department approved the department's 2012 quality plan, we noted that the plan still does not include specific performance targets or benchmarks related to its corrective actions.

**Recommendation 1.2.a —See pages 34—40 of the audit report for information on the related finding.**

As part of an overall strategy to limit the number of calls it receives while still providing timely and effective customer service, the department should use existing data and additional data from the new phone system to gain a better understanding of why people request to speak to an agent. Using this information, the department should further develop strategies and measurable goals related to achieving a reduction in call volumes. For example, to ensure that virtually all calls are able to gain access to the voice response portion of its new phone system, the department should monitor the volume of blocked call attempts and work with its phone system vendor if necessary to increase the system's capacity.

***Department's Action: No action taken.***

- ➔ During our follow-up review the department informed us of four projects it had undertaken related to this recommendation. However, it did not provide any analyses of data from its new phone system that led to these efforts, nor did the documents the department provided identify any measurable goals for reducing call volume. Moreover, even though our follow-up review found that millions of callers continue to have difficulty accessing the department's new phone system and its agents and the number and percentage of blocked calls remain high, the department has not developed any specific goals related to reducing its blocked call rate.

**Recommendation 1.2.b—See pages 34—40 of the audit report for information on the related finding.**

As part of an overall strategy to limit the number of calls it receives while still providing timely and effective customer service, the department should use existing data and additional data from the new phone system to gain a better understanding of why people request to speak to an agent. Using this information, the department should further develop strategies and measurable goals related to achieving a reduction in call volumes. For example, to evaluate the effectiveness of its other efforts to

provide services to claimants in ways that do not require them to speak to agents, such as Web-Cert and Tele-Cert, the department should periodically summarize and assess the more robust management information available under its new phone system.

***Department's Action: No action taken.***

The department has not used information from the new phone system to evaluate the effectiveness of its self-service options or to target its efforts to reduce call volume. Although the phone system contractor maintains the voice response system data in a database it manages and the department has access to this information through standard reports, the department did not use this information to address our recommendation. In addition, the contractor exports this information to an external unemployment insurance program database from which the department can access the information through custom reports it can create. However, based on a request for information from the external database we made during our follow-up review, the department determined a significant amount of data was missing from the external database; thus, the department could not have accurately evaluated its self-service options using this database.

**Recommendation 2.1—See pages 44—47 of the audit report for information on the related finding.**

To maximize federal funding and provide unemployment benefits to those eligible under the alternate base period, the department should closely monitor its resources and project schedule to avoid any further delays in implementing the client database and ensure that it completes the alternate base period project by the federal deadline.

***Department's Action: Fully implemented.***

The federal labor department certified the department's application for incentive funds in June 2011 and the department received a maximum transfer of \$839 million in July 2011. In July 2012 the department reported to the Legislature that it had successfully implemented the alternate base period and that it had processed 1,767 valid claims for the alternate base period as of May 12, 2012, which we verified.

**Recommendation 2.2—See pages 44—47 of the audit report for information on the related finding.**

To help ensure that the department completes the alternate base period project by the federal deadline so that the State preserves its eligibility to receive \$839 million in incentive funds, the Technology Agency should closely monitor the department's progress toward implementing the client database and alternate base period projects and provide assistance to the department, as necessary.

***Technology Agency's Action: Fully implemented.***

According to its one-year response, the Technology Agency monitored monthly project status reports and project schedules and met with the department bi-weekly to review progress, issues, and risks specific to the Alternate Base Period project.

**Recommendation 2.3.a—See pages 48—57 of the audit report for information on the related finding.**

To better track and improve the timeliness of determinations for the training benefits program and to assist claimants in understanding self-arranged training requirements, the department should take measures to ensure that its staff correctly enter all data into the training benefits program's streamline database.

***Department's Action: Fully implemented.***

The department reported that it had made corrections to the database to ensure that data fields are validated and to prevent blank or empty fields. Our follow-up review assessed the data in the streamline database, and the department appears to have corrected the issues we initially identified.

**Recommendation 2.3.b—See pages 48—57 of the audit report for information on the related finding.**

To better track and improve the timeliness of determinations for the training benefits program and to assist claimants in understanding self-arranged training requirements, the department should track and report the number of claimants it determines are both eligible and ineligible for the self-arranged training and the reasons for these determinations, to better focus some of its recommendations toward how it can assist claimants in understanding the program's criteria.

***Department's Action: Partially implemented.***

According to its one-year response, the department is using a weekly report to track the number of and reasons for its self-arranged training determinations, and it started doing so with data from the week ending July 9, 2011. During our current review, we found that although the department reports that it now tracks the information, it has not yet used it to develop recommendations for the report it must submit in 2016.

**Recommendation 2.3.c—See pages 48—57 of the audit report for information on the related finding.**

To better track and improve the timeliness of determinations for the training benefits program and to assist claimants in understanding self-arranged training requirements, the department should track the number of claimants that it finds to be both ineligible for self-arranged training and ultimately ineligible for unemployment benefits and develop strategies to expedite the determination process for these claimants.

***Department's Action: No action taken.***

- ➔ The department did not specifically address this recommendation in its 60-day, six-month, or one-year response. In our follow-up review the program analysis and evaluation section chief stated the department has not tracked the number of these claimants because doing so would be labor-intensive and time-consuming and the reporting unit that would be responsible for the tracking is short-staffed.

# Administrative Office of the Courts

## The Statewide Case Management Project Faces Significant Challenges Due to Poor Project Management

### REPORT NUMBER 2010-102, ISSUED FEBRUARY 2011

This report concludes that the Administrative Office of the Courts (AOC) has not adequately planned the statewide case management project since 2003 when the Judicial Council of California (Judicial Council) directed the AOC to continue its development. The statewide case management project includes two interim systems and the most recent version, the California Court Case Management System (CCMS). Further, the AOC has not analyzed whether the project would be a cost-beneficial solution to the superior courts' technology needs and it is unclear on what information the AOC made critical decisions during the project's planning and development. In addition, the AOC did not structure its contract with the development vendor to adequately control contract costs. As a result, over the course of seven years, the AOC entered into 102 amendments and the contract has grown from \$33 million to \$310 million. Further, although the AOC fulfilled its reporting requirements to the Legislature, the four annual reports it submitted between 2005 and 2009 did not include comprehensive cost estimates for the project, and the AOC's 2010 report failed to present the project's cost in an aggregate manner. Moreover, the AOC has consistently failed to develop accurate cost estimates for the statewide case management project, which is now at risk of failure due to a lack of funding.

As of June 2010 the AOC and several superior courts had spent \$407 million on the project. The AOC's records show that as of fiscal year 2015–16—the year it expects that CCMS will be deployed statewide—the full cost of the project will be \$1.9 billion. However, this amount does not include \$44 million that the seven superior courts reported to us they spent to implement the interim systems or the unknown but likely significant costs the superior courts will incur to implement CCMS.

In addition, our survey of the seven superior courts using interim versions of the statewide case management project found they experienced challenges and difficulties in implementation, and some are reluctant to implement the CCMS. Many of the remaining 51 superior courts not using an interim version expressed uncertainty about various aspects of the project. Although the Judicial Council has the authority to compel the superior courts to implement CCMS, our survey results indicate that its successful implementation will require the AOC to more effectively foster court support. Although state-level justice partners indicated to us they look forward to CCMS, the extent to which local justice partners will integrate their systems with CCMS is unclear due to cost considerations.

Finally, the AOC has not contracted for adequate independent oversight of the statewide case management project. Our information technology expert believes that as a result of the AOC's failure to address significant independent oversight concerns and quality problems experienced, CCMS may be at risk of future quality problems. In light of these issues, we believe that prior to proceeding with the AOC's plan to deploy CCMS at three courts that will be early adopters of the system, there would be value in conducting an independent review to determine the extent of any quality issues and problems.

In the report, the California State Auditor (state auditor) made the following recommendations to the AOC. The state auditor's determination regarding the current status of recommendations is based on the AOC's one-year response to the state auditor as of February 2012 and subsequent responses to provide additional context received through November 2012.

#### **Recommendation 1.1—See pages 24—26 of the audit report for information on the related finding.**

To understand whether CCMS is a cost-beneficial solution to the superior courts' case management needs, the AOC should continue with its planned cost-benefit study and ensure it completes this study before spending additional significant resources on the project. The AOC should ensure that this study includes a thorough analysis of the cost and benefits of the statewide case management project,

including a consideration of costs and benefits it believes cannot be reasonably quantified. The AOC should carefully evaluate the results of the study and present a recommendation to the Judicial Council regarding the course of action that should be taken with CCMS. Further, the AOC should fully share the results of the study as well as its recommendation to all interested parties, such as the superior courts, justice partners, the Legislature, and the California Technology Agency (Technology Agency). The AOC should update this cost-benefit analysis periodically and as significant assumptions change.

***AOC's Action:***

In March 2012 the Judicial Council voted to halt deployment of CCMS; thus, this recommendation is no longer relevant.

**Recommendation 1.2—See pages 26—29 of the audit report for information on the related finding.**

To ensure the statewide case management project is transparent, the AOC should make sure all key decisions for future activities on CCMS are documented and retained.

***AOC's Action: Fully implemented.***

The AOC stated all key decisions will be documented and all documentation provided to or produced by the CCMS governance committees and the CCMS Project Management Office will be retained throughout the life of the CCMS project. It also stated all available documentation predating this new governance model will also be retained throughout the life of the CCMS project. The AOC stated that CCMS documentation will be available to the public in a manner consistent with rule 10.500 of the California Rules of Court, which strives for transparency of judicial administrative records and to ensure the public's right of access to such records.

**Recommendation 1.3—See pages 32—34 of the audit report for information on the related finding.**

To ensure its contract with the development vendor protects the financial interests of the State and the judicial branch, the AOC should consider restructuring its current contract to ensure the warranty for CCMS is adequate and covers a time period necessary to ensure that deployment of CCMS has occurred at the three early-adopter courts and they are able to operate the system in a live operational environment.

***AOC's Action:***

In March 2012 the Judicial Council voted to halt deployment of CCMS; thus, this recommendation is no longer relevant.

**Recommendation 1.4.a—See pages 34 and 35 of the audit report for information on the related finding.**

If the Judicial Council determines that CCMS is in the best interest of the judicial branch and it directs the AOC to deploy the system statewide, assuming funding is available, the AOC should ensure that any contract it enters into with a deployment vendor includes cost estimates that are based on courts' existing information technology (IT) environments and available resources to assist with deployment activities.

***AOC's Action:***

In March 2012 the Judicial Council voted to halt deployment of CCMS; thus, this recommendation is no longer relevant.

**Recommendation 1.4.b—See pages 35 and 36 of the audit report for information on the related finding.**

If the Judicial Council determines that CCMS is in the best interest of the judicial branch and it directs the AOC to deploy the system statewide, assuming funding is available, the AOC should ensure that any contract it enters into with a deployment vendor includes well-defined deliverables.

***AOC's Action:***

In March 2012 the Judicial Council voted to halt deployment of CCMS; thus, this recommendation is no longer relevant.

**Recommendation 1.4.c—See pages 34 and 35 of the audit report for information on the related finding.**

If the Judicial Council determines that CCMS is in the best interest of the judicial branch and it directs the AOC to deploy the system statewide, assuming funding is available, the AOC should ensure that any contract it enters into with a deployment vendor includes that adequate responsibility be placed on the vendor for conducting key steps in the deployment of the system.

***AOC's Action:***

In March 2012 the Judicial Council voted to halt deployment of CCMS; thus, this recommendation is no longer relevant.

**Recommendation 1.5—See pages 29—32 of the audit report for information on the related finding.**

The Judicial Council should make certain that the governance model for CCMS ensures that approval of contracts and contract amendments that are significant in terms of cost, time extension, and/or change in scope occur at the highest and most appropriate levels, and that when contracts or contract amendments above these thresholds are approved, that the decision makers are fully informed regarding both the costs and benefits.

***AOC's Action:***

In March 2012 the Judicial Council voted to halt deployment of CCMS; thus, this recommendation is no longer relevant.

**Recommendation 1.6.a—See pages 24—26 of the audit report for information on the related finding.**

To ensure that any future IT projects are in the best interest of the judicial branch and the State, the AOC should complete a thorough analysis of the project's cost and benefits before investing any significant resources and time into its development, and update this analysis periodically and as significant assumptions change.

***AOC's Action: Fully implemented.***

The AOC stated it has been working diligently with the Technology Agency since its review of CCMS. The AOC further stated it has taken steps to integrate the Technology Agency's recommendations into its existing technology project management process. The AOC reported this includes working with the Technology Agency on project concept documents and the project charters for future IT projects and using project planning documents more similar to those typically used for executive branch IT projects.

**Recommendation 1.6.b—See pages 26—29 of the audit report for information on the related finding.**

To ensure that any future IT projects are in the best interest of the judicial branch and the State, the AOC should document and retain all key decisions that impact the project in general, including the goals of the project.

***AOC's Action: Fully implemented.***

The AOC indicates incorporating the Technology Agency's recommendations into its existing processes, and using and retaining project concept documents, project charters, and other project planning documents more similar to those typically used for executive branch IT projects.

**Recommendation 1.6.c—See pages 29—36 of the audit report for information on the related finding.**

To ensure that any future IT projects are in the best interest of the judicial branch and the State, the AOC should better structure contracts with development and deployment vendors to protect the financial interests of the judicial branch and ensure the contracts provide for adequate warranty periods.

***AOC's Action: Fully implemented.***

The AOC stated it will continue to work with the best qualified legal counsel to ensure that its development and deployment contracts protect the financial interests of the judicial branch and the State. The AOC also stated it will include appropriate warranty periods in IT projects and will ensure that any future development and deployment contracts address the length and timing of a warranty period to ensure necessary protection.

**Recommendation 2.1.a—See pages 40—47 of the audit report for information on the related finding.**

To ensure that the financial implications of the statewide case management project are fully understood, the AOC should report to the Judicial Council, the Legislature, and stakeholders a complete accounting of the costs for the interim systems and CCMS. This figure should be clear about the uncertainty surrounding some costs, such as those that the AOC and superior courts will incur for deployment of CCMS.

***AOC's Action:***

In March 2012 the Judicial Council voted to halt deployment of CCMS; thus, this recommendation is no longer relevant.

**Recommendation 2.1.b—See pages 44—47 of the audit report for information on the related finding.**

The AOC should require superior courts to identify their past and future costs related to the project, particularly the likely significant costs that superior courts will incur during CCMS deployment, and include these costs in the total cost.

***AOC's Action:***

In March 2012 the Judicial Council voted to halt deployment of CCMS; thus, this recommendation is no longer relevant.

**Recommendation 2.1.c—See pages 44—47 of the audit report for information on the related finding.**

Further, the AOC should be clear about the nature of the costs that other entities, such as justice partners, will incur to integrate with CCMS that are not included in its total cost.

***AOC's Action:***

In March 2012 the Judicial Council voted to halt deployment of CCMS; thus, this recommendation is no longer relevant.

**Recommendation 2.1.d—See pages 40—47 of the audit report for information on the related finding.**

The AOC should update its cost estimate for CCMS on a regular basis as well as when significant assumptions change.

***AOC's Action:***

In March 2012 the Judicial Council voted to halt deployment of CCMS; thus, this recommendation is no longer relevant.

**Recommendation 2.2—See pages 47—49 of the audit report for information on the related finding.**

To address the funding uncertainty facing CCMS, the AOC should work with the Judicial Council, the Legislature, and the governor to develop an overall strategy that is realistic given the current fiscal crisis facing the State.

***AOC's Action:***

In March 2012 the Judicial Council voted to halt deployment of CCMS; thus, this recommendation is no longer relevant.

**Recommendation 2.3.a—See pages 40—44 of the audit report for information on the related finding.**

To better manage costs of future IT projects, the AOC should estimate costs at the inception of projects.

***AOC's Action: Fully implemented.***

The AOC has two artifacts for budgeting, tracking, managing, and estimating costs—the business case and the project assessment form—both developed as part of the Enterprise Methodology and Process program (enterprise program). A key component of the enterprise program is development and implementation of a standard Solution Development Life Cycle (development life cycle) that describes a phase-by-phase methodology for medium or large projects including standards, processes, and artifacts. The AOC explained that while no new medium or large projects are currently envisioned in the current budget climate, it will require that upcoming applicable maintenance and operations efforts and future projects adhere to the development life cycle.

The AOC explained that the primary purpose of development of a business case is to provide a financial justification for undertaking a project, including cost analyses for a recommended solution and for alternatives that were explored as well. According to the AOC, costs are broken out into several categories (such as hardware or software), as well as project versus ongoing costs. In addition to completing the business case, the development life cycle calls for revisiting the business case after project inception to facilitate cost management and tracking as well as to validate the accuracy of initial estimates. The development life cycle also requires a post-project review, one part of which includes an analysis of the accuracy of cost estimates and the identification of any lessons learned to improve cost management on future efforts.

The purpose of the project assessment form is to gather high-level information about the project to categorize it as small, medium, or large, based on estimated level of effort, duration, and cost. Costs are broken out into several categories (such as hardware or software), application versus infrastructure, and project versus ongoing. The project assessment form also includes costs likely to be incurred by entities external to the AOC, such as the superior courts, justice partners, and law enforcement agencies.

The AOC also explained that another key tool used for budgeting, tracking, managing, and estimating costs is its Information and Technology Services Office's (IT services office) zero-based budgeting process. The purpose of this process, according to the AOC, is to identify key needs for each project going forward while providing sufficient funding for baseline activities. The other purpose the AOC cited is to provide a budget monitoring tool for project managers throughout the fiscal year. The AOC explained that the budget projections produced through this process are also used to inform the Judicial Council, related working groups, and advisory committees. To develop, track, and monitor their budgets, the AOC indicated that each program uses information provided by its financial system, which captures all AOC allocations, encumbrances, and expenditures for IT services programs.

Additionally, the AOC stated that it uses a project portfolio management tool for weekly project reporting, one element of which includes a budget health indicator, ensuring that significant variances from initial cost estimates are identified and addressed. Formal criteria for the budget health indicator are as follows: green, the project is tracking to the approved budget; yellow, a budgetary risk has been identified for which a mitigation strategy is in place; and red, a budgetary risk has been identified for which there is no mitigation strategy in place. The AOC stated that an explanation of any yellow or red budget indicators must be provided in writing, and a justification for any indicators that were previously yellow or red but have been reset to green must also be noted.

**Recommendation 2.3.b—See pages 43 and 44 of the audit report for information on the related finding.**

To better manage costs of future IT projects, the AOC should employ appropriate budget and cost management tools to allow it to appropriately budget, track, manage, and estimate costs.

***AOC's Action: Fully implemented.***

The AOC has two artifacts for budgeting, tracking, managing, and estimating costs—the business case and the project assessment form—both developed as part of the Enterprise Methodology and Process program (enterprise program). A key component of the enterprise program is development and implementation of a standard Solution Development Life Cycle (development life cycle) that describes a phase-by-phase methodology for medium or large projects including standards, processes, and artifacts. The AOC explained that while no new medium or large projects are currently envisioned in the current budget climate, it will require that upcoming applicable maintenance and operations efforts and future projects adhere to the development life cycle.

The AOC explained that the primary purpose of development of a business case is to provide a financial justification for undertaking a project, including cost analyses for a recommended solution and for alternatives that were explored as well. According to the AOC, costs are broken out into several categories (such as hardware or software), as well as project versus ongoing costs. In addition to completing the business case, the development life cycle calls for revisiting the business case after project inception to facilitate cost management and tracking as well as to validate the accuracy of initial estimates. The development life cycle also requires a post-project review, one part of which includes an analysis of the accuracy of cost estimates and the identification of any lessons learned to improve cost management on future efforts.

The purpose of the project assessment form is to gather high-level information about the project to categorize it as small, medium, or large, based on estimated level of effort, duration, and cost. Costs are broken out into several categories (such as hardware or software), application versus infrastructure, and project versus ongoing. The project assessment form also includes costs likely to be incurred by entities external to the AOC, such as the superior courts, justice partners, and law enforcement agencies.

The AOC also explained that another key tool used for budgeting, tracking, managing, and estimating costs is its Information and Technology Services Office's (IT services office) zero-based budgeting process. The purpose of this process, according to the AOC, is to identify key needs for each project going forward while providing sufficient funding for baseline activities. The other purpose the AOC cited is to provide a budget monitoring tool for project managers throughout the fiscal year. The AOC explained that the budget projections produced through this process are also used to inform the Judicial Council, related working groups, and advisory committees. To develop, track, and monitor their budgets, the AOC indicated that each program uses information provided by its financial system, which captures all AOC allocations, encumbrances, and expenditures for IT services programs.

Additionally, the AOC stated that it uses a project portfolio management tool for weekly project reporting, one element of which includes a budget health indicator, ensuring that significant variances from initial cost estimates are identified and addressed. Formal criteria for the budget health indicator are as follows: green, the project is tracking to the approved budget; yellow, a budgetary risk has been identified for which a mitigation strategy is in place; and red, a budgetary risk has been identified for which there is no mitigation strategy in place. The AOC stated that an explanation of any yellow or red budget indicators must be provided in writing, and a justification for any indicators that were previously yellow or red but have been reset to green must also be noted.

**Recommendation 2.3.c—See pages 44—47 of the audit report for information on the related finding.**

To better manage costs of future IT projects, the AOC should ensure that cost estimates are accurate and include all relevant costs, including costs that superior courts will incur.

***AOC's Action: Fully implemented.***

The AOC has two artifacts for budgeting, tracking, managing, and estimating costs—the business case and the project assessment form—both developed as part of the Enterprise Methodology and Process program (enterprise program). A key component of the enterprise program is development and implementation of a standard Solution Development Life Cycle (development life cycle) that describes a phase-by-phase methodology for medium or large projects including standards, processes, and artifacts. The AOC explained that while no new medium or large projects are currently envisioned in the current budget climate, it will require that upcoming applicable maintenance and operations efforts and future projects adhere to the development life cycle.

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**Recommendation 2.3.d—See page 46 of the audit report for information on the related finding.**

To better manage costs of future IT projects, the AOC should disclose costs that other entities will likely incur to the extent it can reasonably do so.

***AOC's Action: Fully implemented.***

The AOC has two artifacts for budgeting, tracking, managing, and estimating costs—the business case and the project assessment form—both developed as part of the Enterprise Methodology and Process program (enterprise program). A key component of the enterprise program is development and implementation of a standard Solution Development Life Cycle (development life cycle) that describes a phase-by-phase methodology for medium or large projects including standards, processes, and artifacts. The AOC explained that while no new medium or large projects are currently envisioned in the current budget climate, it will require that upcoming applicable maintenance and operations efforts and future projects adhere to the development life cycle.

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**Recommendation 2.3.e—See pages 40—44 of the audit report for information on the related finding.**

To better manage costs of future IT projects, the AOC should update cost estimates on a regular basis and when significant assumptions change.

***AOC's Action: Fully implemented.***

The AOC has two artifacts for budgeting, tracking, managing, and estimating costs—the business case and the project assessment form—both developed as part of the Enterprise Methodology and Process program (enterprise program). A key component of the enterprise program is development and implementation of a standard Solution Development Life Cycle (development life cycle) that describes a phase-by-phase methodology for medium or large projects including standards, processes, and artifacts. The AOC explained that while no new medium or large projects are currently envisioned in the current budget climate, it will require that upcoming applicable maintenance and operations efforts and future projects adhere to the development life cycle.

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**Recommendation 2.3.f—See pages 40—47 of the audit report for information on the related finding.**

To better manage costs of future IT projects, the AOC should disclose full and accurate cost estimates to the Judicial Council, the Legislature, and stakeholders from the beginning of projects.

***AOC's Action: Partially implemented.***

The AOC explained that the Judicial Branch Technology Committee, in collaboration with working groups and advisory committees, is establishing a branch governance structure that will enable communication to the Judicial Council, the Legislature, and stakeholders. With the March 27, 2012, Judicial Council decision to halt deployment of CCMS, the AOC stated that the Judicial Council tasked the Technology Committee with overseeing the council's policies concerning technology. The AOC indicated that the Technology Committee is responsible, in partnership with the courts, to coordinate with the Administrative Director of the Courts and all internal committees, advisory committees, commissions, working groups, task forces, justice partners, and stakeholders on technological issues relating to the branch and the courts. The committee is responsible for ensuring compliance with IT policies and that specific projects are on schedule, and within scope and budget.

Further, the AOC explained that the Technology Committee will develop a governance structure for technology programs that will provide the oversight, monitoring, transparency, and accountability recommended by both the state auditor and the Judicial Council. The AOC stated that future projects will be subject to the approval of the Technology Committee.

In addition to the project oversight that the governance structure will provide after it is implemented, the AOC explained that the superior courts, the appellate courts, and the AOC are all subject to the approval from the California Technology Agency for projects with an estimated cost of more than \$5 million.

**Recommendation 2.3.g—See pages 47—49 of the audit report for information on the related finding.**

To better manage costs of future IT projects, the AOC should ensure that it has a long-term funding strategy in place before investing significant resources in a project.

***AOC's Action: Partially implemented.***

The AOC explained that the Judicial Branch Technology Committee, in collaboration with working groups and advisory committees, is establishing a branch governance structure that will enable communication to the Judicial Council, the Legislature, and stakeholders. With the March 27, 2012, Judicial Council decision to halt deployment of CCMS, the AOC stated that the Judicial Council tasked the Technology Committee with overseeing the council's policies concerning technology. The AOC indicated that the Technology Committee is responsible, in partnership with the courts, to coordinate with the Administrative Director of the Courts and all internal committees, advisory committees, commissions, working groups, task forces, justice partners, and stakeholders on technological issues relating to the branch and the courts. The committee is responsible for ensuring compliance with IT policies and that specific projects are on schedule, and within scope and budget.

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In addition to the project oversight that the governance structure will provide after it is implemented, the AOC explained that the superior courts, the appellate courts, and the AOC are all subject to the approval from the California Technology Agency for projects with an estimated cost of more than \$5 million.

**Recommendation 3.1.a—See pages 52—64 of the audit report for information on the related finding.**

Although the Judicial Council has the legal authority to compel the courts to adopt CCMS, to better foster superior court receptiveness to deploying CCMS, the AOC should use the results from its consultant's survey of the superior courts to identify and better understand the courts' input and concerns regarding CCMS, including the manner in which the project has been managed by the AOC. To the extent the survey results indicate courts have significant concerns regarding CCMS or that they believe their case management systems will serve them for the foreseeable future, the AOC should take steps to address these concerns and overcome any negative perceptions and modify its deployment plan for CCMS accordingly.

***AOC's Action:***

In March 2012 the Judicial Council voted to halt deployment of CCMS; thus, this recommendation is no longer relevant.

**Recommendation 3.1.b—See pages 52—57 of the audit report for information on the related finding.**

Although the Judicial Council has the legal authority to compel the courts to adopt CCMS, to better foster superior court receptiveness to deploying CCMS, the AOC should continue to work with the superior courts that have deployed the civil system to ensure it is addressing their concerns in a timely and appropriate manner.

<sup>1</sup> According to the director of the AOC's IT services office, the one courthouse within Los Angeles County that used the civil system at the time of our review, no longer uses the system. Thus, as of the AOC's October 2012 response, the five counties that use the civil system are Orange, Sacramento, San Diego, San Joaquin, and Ventura. Fresno is the sole county that continues to use the criminal system.

***AOC's Action: Partially implemented.***

According to the AOC, currently the IT services office conducts weekly meetings by conference call with five superior courts that have deployed the interim civil system.<sup>2</sup> The AOC stated that the civil system support project manager facilitates these weekly meetings, which are attended by court project managers, technical analysts, and operational staff. During these meetings, the AOC explained that court representatives discuss operational issues and prioritize items for the next software release. Following established processes, any enhancements and defects exceeding a pre-defined level of effort are escalated to the governance committee for approval. In addition to these weekly meetings, the AOC indicated that it holds weekly meetings with each individual court, providing an opportunity to discuss issues specific to their court.

To further support the courts, the AOC cited metrics that are maintained to track compliance to service level agreements, as well as application performance and reliability. Over the past 12 months, the AOC asserted that there has been only one severity 1 (critical) issue recorded. The AOC stated that the interim civil system application has been extremely stable.

Regarding the future, the AOC explained that the Judicial Council Technology Committee created the Judicial Branch Technology Initiatives Working Group to address various technology issues facing the branch and to determine how the six courts that are currently using an interim system will be supported. In addition, these six courts are preparing a proposal regarding the future of the interim systems, which will address maintenance and support, governance, funding, addition of courts, hosting, and life expectancy of the case management systems.

**Recommendation 3.1.c—See pages 52 and 57—59 of the audit report for information on the related finding.**

Although the Judicial Council has the legal authority to compel the courts to adopt CCMS, to better foster superior court receptiveness to deploying CCMS, the AOC should work with superior courts to address concerns about hosting data at the California Court Technology Center (Technology Center). Further, the AOC should take steps to ensure that superior courts do not lose productivity or efficiencies by hosting data at the Technology Center.

***AOC's Action: Partially implemented.***

To address the needs of the courts, the AOC indicated that it works directly with the courts to address day-to-day issues and concerns with hosting data at the Technology Center, as well as extended challenges. Weekly, it meets with Technology Center staff on behalf of the courts to address any service issues.

Regarding the future, the AOC indicates that the Judicial Branch Technology Initiatives Working Group will address the question of hosting data at a court's local facilities versus central hosting at the Technology Center and make recommendations to the Judicial Council.

**Recommendation 3.2—See pages 64—65 of the audit report for information on the related finding.**

The AOC should continue working with local and state justice partners to assist them in their future efforts to integrate with CCMS, and in particular provide local justice partners the information needed to estimate the costs involved.

***AOC's Action:***

In March 2012 the Judicial Council voted to halt deployment of CCMS; thus, this recommendation is no longer relevant.

**Recommendation 3.3.a—See pages 52—64 of the audit report for information on the related finding.**

Before embarking on future statewide IT initiatives and to ensure it secures appropriate support from users of the systems being proposed, the AOC should determine the extent to which the need for the IT initiative exists, including the necessary information to clearly demonstrate the extent of the problem the IT initiative will address.

*AOC's Action: Fully implemented.*

The AOC stated it has both formal and informal processes and procedures in place to identify and assess the need for statewide technology improvements for the judicial branch in partnership with the courts. The AOC also stated it is committed to these processes and will continue to leverage these opportunities. As technology project needs are identified through these many communication channels, the AOC stated project concept documents are drafted that include statements of the problem, anticipated costs and benefits of the IT solution, impacts on courts and court operations, and known risks.

**Recommendation 3.3.b—See pages 52—64 of the audit report for information on the related finding.**

Before embarking on future statewide IT initiatives and to ensure it secures appropriate support from users of the systems being proposed, the AOC should take steps to ensure that superior courts support the solution the AOC is proposing to address the need, which could include conducting a survey of courts to determine their level of support.

*AOC's Action: Fully implemented.*

The AOC stated regional meetings provide a solid foundation for the AOC and the courts to share information to learn about, better understand, and evaluate statewide technology needs. The AOC also stated the Judicial Council's Court Technology advisory committee, trial court presiding judges advisory committee, and court executives advisory committee provide additional avenues of communication that enhance the exchange of information between and among the AOC and the courts to influence the direction and strategies for future statewide technology improvements. The AOC indicated that statewide meetings of presiding judges and court executive officers build on those committee meetings to ensure that superior court feedback is received.

**Recommendation 3.3.c—See pages 64 and 65 of the audit report for information on the related finding.**

Before embarking on future statewide IT initiatives and to ensure it secures appropriate support from users of the systems being proposed, the AOC should if necessary, determine whether other stakeholders, including local and state justice partners, support the IT initiative.

*AOC's Action: Fully implemented.*

The AOC stated its Project Review Board is to ensure that all branch-wide technology projects follow a structured analysis protocol that will produce the information required to adequately assess the need for and value of the project proposal. The AOC further stated court and stakeholder surveys will be included in this structured analysis protocol.

**Recommendation 4.1—See pages 68—78 of the audit report for information on the related finding.**

To provide for an appropriate level of independent oversight on CCMS, the AOC should expand and clarify the scope of oversight services and require that oversight consultants perform oversight that is consistent with best practices and industry standards.

***AOC's Action:***

In March 2012 the Judicial Council voted to halt deployment of CCMS; thus, this recommendation is no longer relevant.

**Recommendation 4.2—See pages 69—72 of the audit report for information on the related finding.**

To ensure that no gaps in oversight occur between CCMS development and deployment, the AOC should ensure that it has IV&V and IPO services in place for the deployment phase of CCMS. Further, to allow for independent oversight of the IV&V consultant, the AOC should use separate consultants to provide IV&V and IPO services.

***AOC's Action:***

In March 2012 the Judicial Council voted to halt deployment of CCMS; thus, this recommendation is no longer relevant.

**Recommendation 4.3—See pages 80—86 of the audit report for information on the related finding.**

To ensure no significant quality issues or problems exist within CCMS, the AOC should retain an independent consultant to review the system before deploying it to the three early-adopter courts. This review should analyze a representative sample of the requirements, code, designs, test cases, system documentation, requirements traceability, and test results to determine the extent of any quality issues or variances from industry standard practices that would negatively affect the cost and effort required of the AOC to operate and maintain CCMS. If any quality issues and problems identified by this review can be adequately addressed, and system development can be completed without significant investment beyond the funds currently committed, the AOC should deploy it at the early-adopter courts during the vendor's warranty period.

***AOC's Action:***

In March 2012 the Judicial Council voted to halt deployment of CCMS; thus, this recommendation is no longer relevant.

**Recommendation 4.4.a—See pages 68—72 of the audit report for information on the related finding.**

To ensure that future major IT projects receive appropriate independent oversight over technical aspects and project management, the AOC should obtain IV&V and IPO services at the beginning of the projects and ensure this independent oversight is in place throughout and follows best practices and industry standards appropriate for the size and complexity of the project.

***AOC's Action: Fully implemented.***

The AOC stated that it uses established guidelines and a framework for graduated project oversight. The AOC explained that the oversight level will be according to the evaluation of criticality and the risk level of the project and that this will be initiated during the concept stage of the project. The AOC stated that it will also continue to operate under industry guidelines and standards of the Institute of Electrical and Electronics Engineers (IEEE) for verification and validation (V&V) activities as established in Standard 1012-2012. Independent V&V activities will be performed in accordance with the established standard's guidelines. For example, if a vendor is performing project oversight work, a separate vendor will perform the independent V&V activities. The AOC indicates that it will use independent oversight services within the review and according to the recommendations of the California Technology Agency, as required by California Government Code, Section 68511.9. Subsequent to receiving the AOC's response and for purposes of clarification, we confirmed with the AOC that it intends to implement our recommendation on any future, major IT project.

**Recommendation 4.4.b—See pages 69—72 of the audit report for information on the related finding.**

To ensure that future major IT projects receive appropriate independent oversight over technical aspects and project management, the AOC should employ separate firms for IV&V and IPO services to allow for the IPO consultant to provide independent oversight on the IV&V consultant as well as the project team's response to IV&V findings.

***AOC's Action: Fully implemented.***

The AOC stated it will work closely with the Technology Agency on all future IT projects that will have a cost in excess of \$5 million, and will carefully consider its recommendations for such projects, including those relating to oversight and risk mitigation.

**Recommendation 4.4.c—See pages 68—78 of the audit report for information on the related finding.**

To ensure that future major IT projects receive appropriate independent oversight over technical aspects and project management, the AOC should ensure that the staff performing IV&V and IPO services have experience and expertise that is commensurate with the size, scope, and complexity of the project they are to oversee.

***AOC's Action: Fully implemented.***

See the AOC's response under recommendation 4.4.b.

**Recommendation 4.4.d—See pages 78—80 of the audit report for information on the related finding.**

To ensure that future major IT projects receive appropriate independent oversight over technical aspects and project management, the AOC should ensure that independent oversight is not restricted in any manner and that all parties—the IV&V and IPO consultants, senior management, the project management team, and the development vendor—understand that the IV&V and IPO consultants are to have complete access to all project materials.

***AOC's Action: Fully implemented.***

See the AOC's response under recommendation 4.4.b.

**Recommendation 4.4.e—See pages 80—86 of the audit report for information on the related finding.**

To ensure that future major IT projects receive appropriate independent oversight over technical aspects and project management, the AOC should address promptly and appropriately the concerns that independent oversight consultants raise.

***AOC's Action: Fully implemented.***

The AOC stated it concurs with the importance of the identification of concerns raised by IV&V and IPO consultants and that their concerns be reported and monitored to ensure they are appropriately addressed. The AOC also stated concerns raised by IV&V and IPO consultants will be taken off watch status only after careful consideration and discussion of all risks and mitigation efforts that must occur to ensure that system function is unaffected.



# Federal Workforce Investment Act

## More Effective State Planning and Oversight Is Necessary to Better Help California's Job Seekers Find Employment

### REPORT NUMBER 2011-111, ISSUED MARCH 2012

This report concludes that the California Workforce Investment Board (state board) has failed to develop a strategic workforce plan for California, as required by state law since 2006. In addition, the state board has failed to maintain a majority of members who represent businesses throughout the State, a situation that violates the requirements of the federal Workforce Investment Act of 1998 (WIA) and that may prevent the state board from making recommendations that adequately represent California's business community. Finally, although it has been developing relationships with other entities in an effort to improve the statewide workforce investment system, the state board does little to ensure the nonduplication of services that program participants receive because it did not begin reviewing the local boards' plans until program year 2011 (the U.S. Department of Labor's (Labor) program year runs from July 1 through June 30), and its review did not include steps to identify unnecessary duplication of services. To review the local boards' plans and the activities funded by WIA, the state board needs performance measures and data from workforce investment activities around California. The Employment Development Department (EDD) could not provide those entities involved in workforce investment programs and activities with sufficient data to develop performance measures specifically for California because the primary function of its Job Training Automation system and its new Web-based system is to meet federal reporting requirements. In addition, because EDD did not always demonstrate its compliance with WIA provisions when awarding a certain type of funding to local boards and a community-based organization, it increased the State's risk of possibly losing WIA funding. Finally, EDD is not maximizing the federal funding opportunities available for workforce investment, and thus it is not availing itself of additional funds the State can use to help job seekers obtain employment. We noted six missed opportunities for federal grants that could have provided up to \$10.5 million in additional funds for the workforce investment efforts of the State.

In the report, the California State Auditor (state auditor) made the following recommendations to the Legislature, the California Labor and Workforce Development Agency (labor agency), the state board, and EDD. The state auditor's determination regarding the current status of recommendations is based on responses from the labor agency, the state board, and EDD to the state auditor as of October 2012.

#### **Recommendation 1.1—See pages 19—21 of the audit report for information on the related finding.**

To ensure that the state board promptly develops a strategic workforce plan, the Legislature should consider amending the pertinent statutes to establish a due date for the plan.

#### ***Legislative Action: Unknown.***

The state auditor is not aware of any action taken by the Legislature as of December 18, 2012.

#### **Recommendation 1.2—See pages 23—30 of the audit report for information on the related finding.**

To comply with WIA requirements for state boards, the Legislature should consider amending the pertinent statutes to clarify the roles and responsibilities of the state board and EDD.

#### ***Legislative Action: Unknown.***

The state auditor is not aware of any action taken by the Legislature as of December 18, 2012.

**Recommendation 1.3—See pages 22 and 23 of the audit report for information on the related finding.**

To make certain that the state board meets the WIA requirement that a majority of the members are representatives of California businesses, the labor agency should continue working with the Governor's Office to identify and appoint a sufficient number of business representatives to the state board as soon as possible.

***Labor Agency's Action: Partially implemented.***

The labor agency stated that the governor has made numerous appointments to the state board and that the governor was considering more appointments. Further, according to the state board's chief of operations, four more appointments are still needed to be made to achieve the 51 percent business majority. He also stated that the state board's executive director was working with the labor agency's secretary and the Governor's Office to make these appointments as soon as possible.

**Recommendation 1.4.a—See pages 19—21 of the audit report for information on the related finding.**

To assist the governor in the development, oversight, and continuous improvement of California's workforce investment system, the state board should collaborate with state and local workforce investment partners to promptly develop and implement a strategic workforce plan as state law requires. The strategic plan should include, at a minimum, the following elements: clear roles and responsibilities pertaining to the state board, EDD, and other state and local workforce partners; clear definitions for terminology used in the strategic plan, such as *quality services*; performance measures that are specific to California for evaluating the efficiency and effectiveness of WIA-funded programs and activities; and procedures for approving the addition of data elements to EDD's Web-based system and for the exchange of data between EDD and the state board to facilitate the development and implementation of performance measures that are specific to California.

***State Board's Action: Partially implemented.***

According to the labor agency, it intends to submit a revised strategic workforce plan to Labor before April 1, 2013. Furthermore, the state board stated that it was continuing to discuss with EDD the procedures for incorporating additional data elements. It indicated that by early 2013, the state board and EDD will finalize the additional data elements that local one-stop staff will be required to complete and will finalize the specific reports the state board will need to evaluate the quality and effectiveness of the program.

**Recommendation 1.4.b—See pages 23—26 of the audit report for information on the related finding.**

To assist the governor in the development, oversight, and continuous improvement of California's workforce investment system, the state board should continue to exercise its legal authority to review the local boards' plans to, among other things, assure the coordination and nonduplication of services to program participants.

***State Board's Action: Partially implemented.***

The state board stated that it is taking the lead role in establishing the content of the local plans and in communicating its expectations as part of the review and approval process to ensure that local plans are consistent with the state board's vision and goals for California's workforce investment system. It also stated that once Labor approves the integrated strategic workforce development plan, the state board will work with EDD to issue a directive outlining the required contents of the local plans as well as the state board's new role as the reviewer and approver of these plans.

**Recommendation 1.5—See pages 26—30 of the audit report for information on the related finding.**

To assist the state board and other workforce investment partners in the development and implementation of state-specific performance measures, EDD should ensure that it works with the state board to develop procedures for approving the addition of data elements to its Web-based system and for the exchange of data between EDD and the state board.

***EDD's Action: Pending.***

According to the EDD, it convened preliminary meetings with the state board to ensure that procedures are put in place for considering and approving the collection of additional data elements. EDD also stated that after Labor approves the integrated strategic workforce development plan, EDD will develop and disseminate new procedures in collaboration with the state board and its staff that will allow for the identification of possible new state performance measures and the sharing of additional information with the state board and other stakeholders.

**Recommendation 1.6—See pages 30 and 31 of the audit report for information on the related finding.**

To comply with WIA requirements and eliminate the State's risk of losing funds, EDD should ensure that it awards rapid-response funding for additional assistance only to local boards or community-based organizations that demonstrate that their local areas experience natural disasters, mass layoffs, plant closings, or other dislocation events when such events substantially increase the number of unemployed individuals.

***EDD's Action: Pending.***

EDD stated that it convened preliminary meetings with the state board to ensure that state policy is consistent with federal rules and to refine its application procedures to ensure that it awards additional assistance funding only to local boards or community-based organizations for local areas that experience natural disasters, mass layoffs, plant closings, or other dislocation events when such events substantially increase the number of unemployed individuals. EDD also stated that work on the policy has been delayed pending approval by Labor of the integrated strategic workforce development plan.

**Recommendation 1.7.a—See pages 32—35 of the audit report for information on the related finding.**

To ensure that the State maximizes federal funding opportunities related to workforce investment, EDD should update its written policy to include, at a minimum, the following procedures: the methods it will use to identify federal grant opportunities, the factors it will consider in its decision to pursue or forego applying for these grants, and the process by which it will document its final decision to either pursue or forego the grant opportunity.

***EDD's Action: Fully implemented.***

EDD established grant recommendation procedures to ensure it sufficiently documents the steps taken, factors considered, and decisions made regarding grant opportunities.

**Recommendation 1.7.b—See pages 32—35 of the audit report for information on the related finding.**

To ensure that the State maximizes federal funding opportunities related to workforce investment, EDD should implement the updated policy as soon as practicable.

***EDD's Action: Fully implemented.***

EDD indicated that its grant recommendation procedures have been implemented since at least April 2012.



## Sacramento and Marin Superior Courts

### Both Courts Need to Ensure That Family Court Appointees Have Necessary Qualifications, Improve Administrative Policies and Procedures, and Comply With Laws and Rules

#### REPORT NUMBER 2009-109, ISSUED JANUARY 2011

This report concludes that both superior courts need to do more to ensure that the individuals who provide mediation and evaluation services and who act as counsel for minors in cases before their family courts have the necessary qualifications and required training. In addition, the two superior courts should follow their established procedures for handling complaints, improve their processes for payments related to counsel appointed to represent the interests of minors involved in family law cases, and strengthen their procedures for dealing with conflicts of interest within the family courts.

In the report, the California State Auditor (state auditor) made the following recommendations to the superior courts and their family courts. The state auditor's determination regarding the current status of the recommendations is based on the superior courts' responses to the state auditor as of December 2012.

#### **Recommendation 1.1.a—See pages 25—27 of the audit report for information on the related finding.**

To ensure that its Office of Family Court Services (FCS) mediators are qualified, the Sacramento superior and family courts should retain in the mediator's official personnel file any decisions to substitute additional education for experience or additional experience for the educational requirements.

#### ***Sacramento Superior and Family Courts' Action: Fully implemented.***

The Sacramento Superior Court stated that it revised its internal recruitment and selection practice to ensure that its determinations and validations of minimum qualifications and best qualified criteria are clearly noted in its employees' personnel files. The court provided its Recruitment and Selection policy, dated September 2009, which requires the court to certify applicants who meet the necessary qualifications for the position. In addition, the court stated that it will retain a copy of the candidate's transcript and license in the official personnel file.

#### **Recommendation 1.1.b—See pages 25—27 of the audit report for information on the related finding.**

To ensure that its FCS mediators are qualified, the Sacramento superior and family courts should update the current mediators' official personnel files with any missing information.

#### ***Sacramento Superior and Family Courts' Action: Partially implemented.***

The Sacramento superior and family courts provided documentation it believed demonstrated that the FCS mediators met the minimum qualifications and training. We reviewed the courts' documentation and found that it demonstrated that three FCS mediators met the minimum qualifications and training at the time of hire. However, the information the court provided for the other FCS mediator, only a resume, did not demonstrate that the mediator met the qualifications at the time of hire. The court requested information from the Board of Behavioral Sciences to demonstrate that the mediator met the qualifications at the time of hire. However, as of December 7, 2012, the court had not provided us with this information. In an earlier response to the audit report, the court stated that the documents would be placed in the FCS mediators' personnel files.

**Recommendation 1.1.c—See pages 25—27 of the audit report for information on the related finding.**

To ensure that its FCS mediators are qualified, the Sacramento superior and family courts should verify the initial training of those FCS mediators they hire who have worked at other superior courts.

***Sacramento Superior and Family Courts' Action: Fully implemented.***

The Sacramento superior and family courts provided copies of training certificates and other information such as sign-in sheets to demonstrate that the FCS mediator mentioned in the audit report met the minimum qualifications and training requirements. In addition, the courts provided a letter from the FCS mediator's former employer that stated its practice was to send employees to training upon initial hire; however, the court does not retain training records older than three years.

**Recommendation 1.1.d—See pages 25—27 of the audit report for information on the related finding.**

To ensure that its FCS mediators are qualified, the Sacramento superior and family courts should develop a policy to retain training completion records for at least as long as an FCS mediator is a court employee.

***Sacramento Superior and Family Courts' Action: Fully implemented.***

The Sacramento Superior Court provided a retention policy titled Record Retention Policy for Human Resources Division and it requires training records for all court classifications to be kept in its staff's official personnel files for five years after the employee separates from the court.

**Recommendation 1.1.e—See pages 25—27 of the audit report for information on the related finding.**

To ensure that its FCS mediators are qualified, the Sacramento superior and family courts should take all reasonable steps to ensure that the FCS mediators meet all of the minimum qualifications and training requirements before assigning them to future mediations. If necessary, and as soon as reasonably possible, the court should require the FCS mediators to take additional education or training courses to compensate for the minimum qualifications and training requirements that were not met.

***Sacramento Superior and Family Courts' Action: Fully implemented.***

The Sacramento superior and family courts reported that they have documentation to demonstrate that the FCS mediators have completed additional training education or training courses to compensate for the minimum requirements for which there was no documentation. The courts also stated that the documents will be placed in the FCS mediators' personnel files. We reviewed the documents the court provided and as recommended, the court has taken reasonable steps to ensure that the FCS mediators meet all of the minimum qualifications and training requirements.

**Recommendation 1.2.a—See pages 27—30 of the audit report for information on the related finding.**

To make certain that the FCS evaluators are qualified, the Sacramento family court should develop processes to ensure that it signs all FCS evaluator declarations of qualifications annually.

***Sacramento Family Court's Action: No action taken.***

The Sacramento Superior Court reported to us that effective July 2011 FCS will no longer conduct Family Code Section 3111 evaluations. The court cited budget reductions as its reason for discontinuing this service.

**Recommendation 1.2.b—See pages 27—30 of the audit report for information on the related finding.**

To make certain that the FCS evaluators are qualified, the Sacramento family court should ensure that its unlicensed FCS evaluators complete the licensing portion of the annual declarations of qualifications.

***Sacramento Family Court's Action: No action taken.***

See the Sacramento Family Court's response under recommendation 1.2.a.

**Recommendation 1.2.c—See pages 27—30 of the audit report for information on the related finding.**

To make certain that the FCS evaluators are qualified, the Sacramento family court should identify the training each of the FCS evaluators need to satisfy the court rules' requirements and ensure that they attend the trainings.

***Sacramento Family Court's Action: Partially implemented.***

The Sacramento Superior Court stated that it began taking steps to change its Family Court Counselor classification specifications to include the requirement that employees in the classification complete the mandatory training the court rules require. However, the court reported to us that effective July 2011 FCS will no longer conduct Family Code Section 3111 evaluations. The court cited budget reductions as its reason for discontinuing this service.

**Recommendation 1.2.d—See pages 27—30 of the audit report for information on the related finding.**

To make certain that the FCS evaluators are qualified, the Sacramento family court should develop a policy to retain training completion records for at least as long as an FCS evaluator is a court employee.

***Sacramento Family Court's Action: Fully implemented.***

The Sacramento Superior Court established a record retention policy to retain all training records for a total of five years after an FCS evaluator separates from the court. However, the Sacramento Superior Court reported to us that effective July 2011 FCS will no longer conduct Family Code Section 3111 evaluations. The court cited budget reductions as its reason for discontinuing this service.

**Recommendation 1.2.e—See pages 27—30 of the audit report for information on the related finding.**

To make certain that the FCS evaluators are qualified, the Sacramento family court should develop processes to ensure that evaluator declarations of qualifications include all relevant information, such as the evaluator's experience.

***Sacramento Family Court's Action: No action taken.***

See the Sacramento Family Court's response under recommendation 1.2.a.

**Recommendation 1.2.f—See pages 27—30 of the audit report for information on the related finding.**

To make certain that the FCS evaluators are qualified, the Sacramento family court should ensure that FCS evaluators attach certificates for their domestic violence training to each Family Code Section 3111 evaluation report they prepare.

***Sacramento Family Court's Action: Fully implemented.***

The Sacramento Superior Court adopted a local rule effective January 1, 2012, that requires all court-appointed child custody evaluators to annually lodge with the court a sworn affidavit that they have completed all required domestic violence training and instruction required by statute and/or California Rules of Court. In the absence of an affidavit, the child custody evaluators must attach copies of their certificates of completion of the required training to each child custody evaluation report they submit to the court. However, the court reported to us that effective July 2011 FCS will no longer conduct Family Code Section 3111 evaluations. The court cited budget reductions as its reasons for discontinuing this service.

**Recommendation 1.2.g—See pages 27—30 of the audit report for information on the related finding.**

To make certain that the FCS evaluators are qualified, the Sacramento family court should take all reasonable steps to ensure its FCS evaluators meet the minimum qualifications and training requirements before assigning them to any future Family Code Section 3111 evaluations. If necessary, and as soon as reasonably possible, the court should require the FCS evaluators to take additional education or training courses to compensate for the minimum qualifications and training requirements that were not met.

***Sacramento Family Court's Action: No action taken.***

See the Sacramento Family Court's response under recommendation 1.2.a.

**Recommendation 1.3—See pages 30—33 of the audit report for information on the related finding.**

To determine whether staff are capable and suitable for positions, the Sacramento FCS should ensure it follows the superior court's probationary policy for any former employees the court rehires.

***Sacramento Superior Court's Action: Fully implemented.***

The Sacramento Superior Court revised as of March 2012 the form it uses to evaluate probationary staff. The court's policy covering probationary employees, dated January 15, 2010, requires the employee's manager to complete two interim reports and a final report during the employee's probationary period.

**Recommendation 1.4.a—See pages 30—33 of the audit report for information on the related finding.**

To ensure that it assists nonprobationary staff in developing their skills and improving their job performance, the Sacramento Superior Court should ensure that the FCS adheres to its employee appraisal policy.

***Sacramento Superior Court's Action: Fully implemented.***

The Sacramento Superior Court revised as of March 2012 the form it uses to evaluate nonprobationary staff. In addition, as of March 6, 2012, the court revised its employee appraisal policy and generally requires supervisors and managers to provide employees with an appraisal every two years.

**Recommendation 1.4.b—See pages 30—33 of the audit report for information on the related finding.**

To ensure that it assists nonprobationary staff in developing their skills and improving their job performance, the Sacramento Superior Court should clarify the employee appraisal policy by specifying how often updates to the duty statement should occur.

***Sacramento Superior Court's Action: Fully implemented.***

The Sacramento Superior Court revised as of March 6, 2012, its employee appraisal policy and generally requires supervisors to provide employees with an appraisal every two years. The policy states that the evaluation must be based on the employee's current duty statement. The court's duty statement policy requires supervisors and managers to periodically review and update the statements.

**Recommendation 1.5.a—See pages 34—38 of the audit report for information on the related finding.**

To verify that its private mediator and evaluator panel members meet the minimum qualifications and training requirements before appointment, the Sacramento family court should obtain any missing applications and training records for private mediators and evaluators on its current panel list before appointing them to future cases.

***Sacramento Family Court's Action: No action taken.***

The Sacramento Superior Court stated that it does not have the resources to maintain training records for private mediators and evaluators beyond requiring copies of their training certificates with their initial application and the submission of declarations under penalty of perjury.

**Recommendation 1.5.b—See pages 34—38 of the audit report for information on the related finding.**

To verify that its private mediator and evaluator panel members meet the minimum qualifications and training requirements before appointment, the Sacramento family court should ensure that if it continues to rely on the evaluators' licensure to satisfy the training requirements, the training courses that evaluators on its current panel list take are approved by the Administrative Office of the Courts (AOC) or that the evaluator seek individual approvals from the AOC to take the courses.

***Sacramento Family Court's Action: Fully implemented.***

The Sacramento Family Court notified private evaluator panel members via an email dated March 18, 2011, that they must attend training approved by the AOC or seek individual approval of required courses.

**Recommendation 1.5.c—See pages 34—38 of the audit report for information on the related finding.**

To verify that its private mediator and evaluator panel members meet the minimum qualifications and training requirements before appointment, the Sacramento family court should create a record retention policy to retain the applications and training records related to private mediators and evaluators on its panel list for as long as they remain on the list.

***Sacramento Family Court's Action: Fully implemented.***

The Sacramento Family Court established a policy to maintain the private mediator's or evaluator's application, which includes training records, for as long as the private mediator or evaluator remains on the court's panel list.

**Recommendation 1.5.d—See pages 34—38 of the audit report for information on the related finding.**

To verify that its private mediator and evaluator panel members meet the minimum qualifications and training requirements before appointment, the Sacramento family court should establish a process to ensure that the private mediators and evaluators file their declarations of qualifications with the court no later than 10 days after notification of each appointment and before they begin work on a case.

***Sacramento Family Court's Action: Fully implemented.***

The Sacramento Family Court modified its *Order for Private Mediation* and its *Order Appointing Child Custody Evaluator* to include a requirement that the appointed private mediator or private evaluator file a declaration regarding qualifications within 10 days of notification of the appointment and before beginning work on the case.

**Recommendation 1.5.e—See pages 34—38 of the audit report for information on the related finding.**

To verify that its private mediator and evaluator panel members meet the minimum qualifications and training requirements before appointment, the Sacramento family court should reinstate its local rules for private mediators and evaluators to provide a minimum of three references, and for private evaluators to provide a statement that they have read the court's evaluator guidelines.

**➔ *Sacramento Family Court's Action: No action taken.***

The Sacramento Superior Court stated that because the declaration they must complete confirms their qualifications, it does not believe it is necessary to reinstitute the local rule requiring private mediators and evaluators to provide a minimum of three references or the local rule requiring private evaluators to provide a statement that they have read the court's evaluator guidelines. The court also stated that it does not have the resources to maintain and update a guideline, the contents of which are based upon statute, local rules, and the rules of court. Finally, the court stated it expects that appointees are aware of and have read all applicable statutes and rules.

**Recommendation 1.6.a—See pages 38—41 of the audit report for information on the related finding.**

The Sacramento family court should ensure that minor's counsel submit, within 10 days of their appointment, the required declarations about their qualifications, education, training, and experience. Specifically, the family court should send annual notices to the minor's counsel it appoints, instructing them to file the declaration.

***Sacramento Family Court's Action: Fully implemented.***

The Sacramento Superior Court stated that it does not believe it is necessary to send annual notices to appointed minor's counsel of the need to file a declaration. The court stated that the order appointing minor's counsel includes a specific requirement that the minor's counsel submit a declaration within 10 days of appointment and before beginning any work on a case. The court included in its Order Appointing Counsel for a Child the specific requirement to file a declaration of qualifications within 10 days of appointment or before beginning work on a case. The court's alternative approach addresses our concern that the minor's counsel should submit the required declaration in a timely manner.

**Recommendation 1.6.b—See pages 38—41 of the audit report for information on the related finding.**

The Sacramento family court should ensure that minor's counsel submit, within 10 days of their appointment, the required declarations about their qualifications, education, training, and experience. Specifically, the family court should continue to ensure the appointment orders direct the minor's counsel to complete and promptly file the declaration.

***Sacramento Family Court's Action: Fully implemented.***

The Sacramento Family Court included in its Order Appointing Counsel for a Child the specific requirement to file a declaration of qualifications within 10 days of appointment or before beginning work on a case.

**Recommendation 1.7.a—See pages 38—41 of the audit report for information on the related finding.**

To make sure that the minor's counsel it appoints meet the additional standards required by the superior court's local rules, the Sacramento family court should obtain any missing applications for minor's counsel before appointing them to any future cases.

***Sacramento Family Court's Action: No action taken.***

The Sacramento Superior Court stated that it does not have the resources to obtain and review all previous training records or to require and review the resubmission of applications for each minor's counsel.

**Recommendation 1.7.b—See pages 38—41 of the audit report for information on the related finding.**

To make sure that the minor's counsel it appoints meet the additional standards required by the superior court's local rules, the Sacramento family court should create a record retention policy to retain the minor's counsel applications for as long as they remain on its panel list.

***Sacramento Family Court's Action: Fully implemented.***

The Sacramento Family Court established a policy to maintain the minor's counsel application for as long as the minor's counsel remains on the court's panel list.

**Recommendation 1.8.a—See pages 41—43 of the audit report for information on the related finding.**

To ensure that the FCS mediators are qualified, the Marin superior and family courts should retain documentation in the FCS mediators' official personnel files to demonstrate that they met the minimum qualifications.

***Marin Superior and Family Courts' Action: Fully implemented.***

The Marin superior and family courts adopted a policy requiring FCS mediators to submit annually their original certificates of training for retention in their official personnel files.

**Recommendation 1.8.b—See pages 41—43 of the audit report for information on the related finding.**

To ensure that the FCS mediators are qualified, the Marin superior and family courts should verify the initial training of those FCS mediators hired who have worked at other superior courts.

***Marin Superior and Family Courts' Action: Fully implemented.***

The Marin superior and family courts adopted a policy requiring its newly hired FCS mediators who have worked at other superior courts to submit to it copies of their certificates of training for retention in their official personnel files. If the mediator is unable to produce these records, the court will attempt to obtain the records from the FCS mediator's former court employer. If the records are unavailable, the court will require the FCS mediator to prepare a sworn statement that he or she has met these requirements in another court.

**Recommendation 1.8.c—See pages 41—43 of the audit report for information on the related finding.**

To ensure that the FCS mediators are qualified, the Marin superior and family courts should ensure that the FCS mediators receive supervision from someone who is qualified to perform clinical supervision so that they can resume their participation in performance supervision, as the court rules require.

***Marin Superior and Family Courts' Action: Fully implemented.***

The Marin superior and family courts contracted with a clinical supervisor to provide three onsite visits per year to conduct performance supervision.

**Recommendation 1.9.a—See pages 44—46 of the audit report for information on the related finding.**

To confirm that the private evaluators the family court appoints are qualified, the Marin superior and family courts should establish a process to ensure that the private evaluators file declarations of their qualifications with the court no later than 10 days after notification of each appointment and before they begin any work on a case.

***Marin Superior and Family Courts' Action: Fully implemented.***

The Marin superior and family courts developed procedures to ensure that private evaluators file their declarations of qualifications no later than 10 days after notification of each appointment and before they begin any work on a case.

**Recommendation 1.9.b—See pages 44—46 of the audit report for information on the related finding.**

To confirm that the private evaluators the family court appoints are qualified, the Marin superior and family courts should adopt a local rule regarding procedures for the private evaluators to notify the family court that they have met the domestic violence training requirements. If the superior court chooses not to adopt a local rule, the family court should establish a process to ensure that the private evaluators attach copies of their domestic violence training certificates to their completed evaluation reports.

***Marin Superior and Family Courts' Action: Fully implemented.***

The Marin Superior Court adopted a local rule requiring private evaluators to submit annually to the court copies of their domestic violence training certificates.

**Recommendation 1.10—See pages 46 and 47 of the audit report for information on the related finding.**

To verify that the private minor's counsel it appoints are qualified, the Marin family court should establish a process to ensure that minor's counsel submit, no later than 10 days after notification of their appointment and before working on a case, the required declaration of qualifications.

***Marin Family Court's Action: Fully implemented.***

The Marin superior and family courts developed procedures to ensure that minor's counsel file their declarations of qualifications no later than 10 days after notification of each appointment and before they begin any work on a case.

**Recommendation 1.11—See page 46 of the audit report for information on the related finding.**

To make certain that it orders evaluations as the court rules require, the Marin family court should consistently use the standard form.

***Marin Family Court's Action: Fully implemented.***

The Marin Family Court acknowledged that the *Order Appointing Child Custody Evaluator* was the standard form and stated that it would consistently use the form for all future private evaluator appointments.

**Recommendation 2.1.a—See pages 53 and 54 of the audit report for information on the related finding.**

To ensure that all complaints regarding FCS staff are tracked properly and reviewed promptly, the Sacramento FCS and family court should keep a complete log of all verbal and written complaints they receive regarding FCS staff.

***Sacramento Superior and Family Courts' Action: Fully implemented.***

The Sacramento FCS and family court developed a log to track all verbal and written FCS staff complaints it receives.

**Recommendation 2.1.b—See pages 53 and 54 of the audit report for information on the related finding.**

To ensure that all complaints regarding FCS staff are tracked properly and reviewed promptly, the Sacramento FCS and family court should follow the established complaint process, including retaining the appropriate documentation to demonstrate adherence to the process.

***Sacramento Superior and Family Courts' Action: Fully implemented.***

The Sacramento FCS and family court stated that it uses a log to document the steps taken to resolve complaints.

**Recommendation 2.1.c—See pages 53 and 54 of the audit report for information on the related finding.**

To ensure that all complaints regarding FCS staff are tracked properly and reviewed promptly, the Sacramento FCS and family court should establish specific time frames for responding to complaints.

***Sacramento Superior and Family Courts' Action: Fully implemented.***

The Sacramento FCS and family court modified the client complaint process to reflect that FCS will act on all verbal and written complaints within 90 days of receiving them.

**Recommendation 2.2.a—See pages 53—55 of the audit report for information on the related finding.**

To make certain that all complaints regarding FCS staff are tracked properly and reviewed promptly, the Marin Superior Court should keep a complete log of all verbal and written complaints it receives regarding FCS staff.

***Marin Superior Court's Action: Fully implemented.***

The Marin Superior Court developed a log to track all verbal and written FCS staff complaints it receives.

**Recommendation 2.2.b—See pages 53—55 of the audit report for information on the related finding.**

To make certain that all complaints regarding FCS staff are tracked properly and reviewed promptly, the Marin Superior Court should ensure that FCS follows the court's established complaint process, including retaining the appropriate documentation to demonstrate adherence to the process.

***Marin Superior Court's Action: Fully implemented.***

The Marin Superior Court developed an FCS mediator complaint tracking form and stated that its human resources manager will complete the form while investigating the complaint, attach the form to the written complaint or to the notes pertaining to a verbal complaint, and retain the form in the FCS complaint file for mediators.

**Recommendation 2.3—See pages 55 and 56 of the audit report for information on the related finding.**

To verify that all complaints received about the private mediators or evaluators that the family court appoints are tracked and reviewed promptly, the Sacramento Superior Court should keep a log of all complaints it receives.

***Sacramento Superior Court's Action: Fully implemented.***

The Sacramento Superior Court established a log for complaints about private mediators and private evaluators.

**Recommendation 2.4.a—See pages 55 and 56 of the audit report for information on the related finding.**

To verify that all complaints received about the private mediators or evaluators that the family court appoints are tracked and reviewed promptly, the Marin Superior Court should keep a log of all complaints it receives.

***Marin Superior Court's Action: Fully implemented.***

The Marin Superior Court developed a log to track all written private evaluator complaints it receives.

**Recommendation 2.4.b—See pages 55 and 56 of the audit report for information on the related finding.**

The Marin Superior Court should make certain that for future complaints it may receive, the court follows the steps stated in its process for registering complaints about evaluators.

***Marin Superior Court's Action: Fully implemented.***

The Marin Superior Court developed an evaluator complaint tracking form and stated that its human resources manager will complete the form while overseeing the investigation of the complaint, attach the form to the written complaint along with the evaluator's written response and the written response from the other party if one is provided, and retain the form in the FCS complaint file for private evaluators.

**Recommendation 2.5—See pages 56 and 57 of the audit report for information on the related finding.**

To ensure that it provides transparency for the parties in family court cases, the Sacramento Superior Court should develop a local rule that defines its process for receiving, reviewing, and resolving complaints against private mediators and evaluators.

***Sacramento Superior Court's Action: Fully implemented.***

The Sacramento Superior Court adopted a local rule related to the complaint process for private mediators and evaluators. The local rule became effective on January 1, 2012.

**Recommendation 2.6—See page 57 of the audit report for information on the related finding.**

To clearly identify its process for registering complaints about private evaluators, the Sacramento Superior Court should make the necessary corrections to its 2012 local rules to add the complaint procedures that were omitted in error.

***Sacramento Superior Court's Action: Fully implemented.***

The Sacramento Superior Court adopted a local rule related to the complaint process for private mediators and evaluators. The local rule became effective on January 1, 2012.

**Recommendation 2.7.a—See pages 58—62 of the audit report for information on the related finding.**

To strengthen its accounting process for California Family Code Section 3111 evaluations, the Sacramento Superior Court should update its accounting procedures related to billing FCS evaluation costs to include steps for verifying the mathematical accuracy of the FCS summary and the proper allocation of costs between the parties.

***Sacramento Superior Court's Action: No action taken.***

The Sacramento Superior Court reported to us that effective July 2011 FCS will no longer conduct Family Code Section 3111 evaluations. The court cited budget reductions as its reason for discontinuing this service.

**Recommendation 2.7.b—See pages 58—62 of the audit report for information on the related finding.**

To strengthen its accounting process for California Family Code Section 3111 evaluations, the Sacramento Superior Court should update its process for collecting amounts it is owed for California Family Code 3111 evaluations.

***Sacramento Superior Court's Action: Fully implemented.***

The Sacramento Superior Court stated that it mailed out delinquent account notices. In addition, the court noted that the accounting unit will provide up to two delinquent account notices. Finally, the court stated it began using a private collection agency for those accounts it has been unsuccessful in collecting.

**Recommendation 2.7.c—See pages 58—62 of the audit report for information on the related finding.**

To strengthen its accounting process for California Family Code Section 3111 evaluations, the Sacramento Superior Court should develop a written policy for reviewing periodically the hourly rate it charges parties for 3111 evaluations.

***Sacramento Superior Court's Action: Fully implemented.***

The Sacramento Superior Court developed a written policy for reviewing periodically the hourly rate it charges parties for Family Code Section 3111 evaluations. However, the Sacramento Superior Court reported to us that effective July 2011 FCS will no longer conduct Family Code Section 3111 evaluations. The court cited budget reductions as its reason for discontinuing this service.

**Recommendation 2.8.a—See pages 62—66 of the audit report for information on the related finding.**

To strengthen its processes related to minor's counsel fees, the Sacramento superior and family courts should ensure that determinations about the parties' ability to pay are made in accordance with the court rules and are properly reflected in the orders appointing minor's counsel.

***Sacramento Superior and Family Courts' Action: Fully implemented.***

The Sacramento superior and family courts have a process for documenting the judicial determination and allocation of the payment of minor's counsel fees.

**Recommendation 2.8.b—See pages 62—66 of the audit report for information on the related finding.**

To strengthen its processes related to minor's counsel fees, the Sacramento superior and family courts should finalize, approve, and implement the draft procedures for processing minor's counsel invoices.

***Sacramento Superior and Family Courts' Action: Fully implemented.***

The Sacramento superior and family courts stated that the accounting staff implemented procedures for processing minor's counsel invoices.

**Recommendation 2.8.c—See pages 62—66 of the audit report for information on the related finding.**

To strengthen its processes related to minor's counsel fees, the Sacramento superior and family courts should make certain that accounting follows the appropriate court policy when reviewing minor's counsel costs and that accounting does not pay costs that the policy does not allow.

***Sacramento Superior and Family Courts' Action: Fully implemented.***

The Sacramento superior and family courts stated that the accounting staff continue to follow the court policy so that only costs permitted by that policy are paid.

**Recommendation 2.8.d—See pages 62—66 of the audit report for information on the related finding.**

To strengthen its processes related to minor's counsel fees, the Sacramento superior and family courts should take the steps necessary to confirm that accounting does not make duplicate or erroneous payments to minor's counsel.

***Sacramento Superior and Family Courts' Action: Fully implemented.***

The Sacramento superior and family courts stated that the accounting staff implemented the procedures for processing minor's counsel invoices and have taken steps to assure the duplicate payments are not remitted to minor's counsel.

**Recommendation 2.8.e—See pages 62—66 of the audit report for information on the related finding.**

To strengthen its processes related to minor's counsel fees, the Sacramento superior and family courts should take necessary steps to collect minor's counsel costs that accounting has paid improperly.

***Sacramento Superior and Family Courts' Action: Fully implemented.***

The Sacramento Superior Court stated that overpayments to minor's counsel have either been billed or deducted from a subsequent invoice payment.

**Recommendation 2.9—See pages 67 and 68 of the audit report for information on the related finding.**

To ensure that it reimburses only appropriate and necessary minor's counsel costs, the Marin Superior Court should develop a written policy that outlines the costs it will reimburse and that requires the attorneys to provide original receipts for their costs.

***Marin Superior Court's Action: Fully implemented.***

The Marin Superior Court developed a policy for reviewing incidental costs on minor's counsel invoices. The policy reflects the court's reimbursement rates and, in certain circumstances, requires minor's counsel to provide receipts.

**Recommendation 2.10—See pages 69 and 70 of the audit report for information on the related finding.**

To make its conflict-of-interest policy more effective, the Marin Superior Court should modify its conflict-of-interest policy to include documenting the cause of potential conflicts of interest in writing and tracking their final disposition.

***Marin Superior Court's Action: Fully implemented.***

The Marin Superior Court modified its conflict-of-interest policy to require the mediator to notify the human resources manager in writing if an actual, potential, or perceived conflict of interest exists. The policy requires the human resources manager to notify the mediator in writing regarding the final disposition.

**Recommendation 2.11.a—See pages 70 and 71 of the audit report for information on the related finding.**

To make its conflict-of-interest process more effective, the Sacramento FCS should continue to maintain its log recording potential conflicts of interest.

***Sacramento Office of Family Court Services' Action: Fully implemented.***

The Sacramento Family Court stated that it will continue to maintain its log of all FCS mediator conflicts of interest.

**Recommendation 2.11.b—See pages 70 and 71 of the audit report for information on the related finding.**

To make its conflict-of-interest process more effective, the Sacramento FCS should update its conflict-of-interest policy to match its practice of identifying cases that could present a real or perceived conflict of interest, including cases involving court employees, and to include its current practice of documenting potential conflicts of interest in the FCS files.

***Sacramento Office of Family Court Services' Action: Fully implemented.***

The Sacramento Family Court updated its policy to document its current practice of identifying cases that could present an actual or perceived conflict of interest. The court also stated it implemented a process to maintain records pertaining to conflicts of interest in the FCS case files.

**Recommendation 2.12—See pages 71—73 of the audit report for information on the related finding.**

The Sacramento Superior Court should develop and implement processes to review periodically the court rules to ensure that its local rules reflect all required court rules.

***Sacramento Superior Court's Action: Fully implemented.***

The Sacramento Superior Court stated that it has assigned to its family law research attorney the ongoing responsibility of reviewing all changes to the court rules, which necessitate any change to its local rules.

**Recommendation 2.13—See pages 71—73 of the audit report for information on the related finding.**

The Marin Superior Court should develop and implement processes to review periodically the court rules to ensure that its local rules reflect all required court rules.

*Marin Superior Court's Action: Fully implemented.*

The Marin Superior Court has developed a process to review periodically the court rules to ensure that its local rules reflect all required court rules. According to the court executive officer, she made assignments to court managers to review new and amended court rules to ensure that the court is aware of any provisions that require the court to adopt them.

# State Bar of California

## Its Lawyer Assistance Program Lacks Adequate Controls for Reporting on Participating Attorneys

### REPORT NUMBER 2011-030, ISSUED MAY 2011

This report concludes that the Lawyer Assistance Program (assistance program) of the State Bar of California (State Bar) lacks controls to ensure that the case managers for the program's participants submit reports of noncompliance promptly and consistently to such disciplinary bodies as the State Bar Court of California. Our review of case files for 25 participants in the assistance program showed that it does not have adequate procedures for monitoring case managers to ensure that they are appropriately sending reports of participants' noncompliance, such as missed or positive laboratory testing results for drugs or alcohol. In fact, case managers failed to send six reports to disciplinary bodies when participants missed laboratory tests and failed to send 10 other reports in a timely manner.

Further, the assistance program lacks adequate controls and procedures to ensure that case managers treat all noncompliance issues consistently. The assistance program relies on case managers to bring participants' noncompliance to the attention of the program's evaluation committee when appropriate; however, the program has issued only limited guidance to help case managers determine when to notify the evaluation committee. Further, the assistance program does not have any formal process for monitoring case managers' adherence to policies and procedures. Nine of the 25 participants we reviewed each had 10 or more instances of noncompliance, but we did not always see evidence that the case managers brought these issues to the attention of the evaluation committee.

Finally, the assistance program needs to adopt mechanisms to better gauge its effectiveness in achieving its mission of enhancing public protection and identifying and rehabilitating attorneys who are recovering from substance abuse or mental health issues. Until it develops these mechanisms, the State Bar will be unable to determine how well the assistance program is performing.

In the report, the California State Auditor (state auditor) made the following recommendations to the State Bar. The state auditor's determination regarding the current status of recommendations is based on the State Bar's response to the state auditor as of July 2012.

#### **Recommendation 1.1—See pages 17—20 of the audit report for information on the related finding.**

The assistance program should ensure that case managers are submitting to the appropriate entity the required reports in a timely manner, as required by its policies. Specifically, the assistance program should make certain that the new automated process for tracking and monitoring case managers' reporting of noncompliance is implemented properly and is being used as intended.

#### ***State Bar's Action: Fully implemented.***

The assistance program implemented an automated mechanism to assist the director, case managers, and administrative assistants in tracking and monitoring the immediate report filing process.

#### **Recommendation 1.2—See pages 20—22 of the audit report for information on the related finding.**

To make certain that case managers treat consistently the noncompliance issues that do not require immediate reports to disciplinary bodies, the assistance program should finish implementing its case file review process. Further, the assistance program should develop guidelines to help case managers determine when to submit noncompliance issues to the evaluation committee.

***State Bar's Action: Fully implemented.***

According to the State Bar, it has fully implemented its annual case review process, which requires case managers to meet on a monthly basis and review a random selection of case files. The review process involves an assessment of each selected case and a discussion of any changes that may be required. At the end of the case review process, the case management supervisor is required to follow up to ensure each case manager has made the necessary changes. In addition, the assistance program has developed guidelines to help case managers determine when to submit noncompliance issues to the evaluation committee.

**Recommendation 1.3—See pages 22—24 of the audit report for information on the related finding.**

Finally, the assistance program should take steps to better gauge its effectiveness. For example, it could measure how long its participants remain in the program and assess the program's impact on any further actions that disciplinary bodies impose on these attorneys. Further, if the assistance program believes that the effectiveness of the program is better measured through other means, it should develop these alternative measures and assess the program's effectiveness in meeting its stated goals.

***State Bar's Action: Partially implemented.***

The State Bar states that the assistance program has undertaken the process of identifying performance measures to supplement those that are currently in place and reported in the annual report to the Board of Governors. According to the State Bar, assistance program staff has met with the Board Committee on Member Oversight to receive its input and guidance in this process so that meaningful measures can be developed to assist the State Bar's stakeholders in further evaluating the effectiveness of the program. For example, staff has discussed with the Member Oversight Committee two separate preliminary studies gauging the impact on attorneys by length of time participating in the program. These studies suggest that participants in the assistance program for six months or longer have shown positive results on the rate of disciplinary sanctions imposed. According to the State Bar, it expects to have the recommendation fully implemented by the end of 2012.

# California Department of Transportation

## Its Poor Management of State Route 710 Extension Project Properties Costs the State Millions of Dollars Annually, Yet State Law Limits the Potential Income From Selling the Properties

### REPORT NUMBER 2011-120, ISSUED AUGUST 2012

This report concludes that the California Department of Transportation (Caltrans) has spent nearly \$22.5 million to repair the properties it owns between July 1, 2008, and December 31, 2011, which exceeds the rental income it collected by \$9.7 million. Caltrans charges the majority of the State Route 710 (SR 710) property tenants rents that are, on average, 43 percent below market rate. By doing so, we estimate that Caltrans has foregone \$22 million in rental income between July 1, 2007, and December 31, 2011. Further, our legal counsel advises us that generally Caltrans' rental of the SR 710 properties at below-market rates may constitute a prohibited gift of public funds.

Caltrans has spent an average of \$6.4 million per year on repairs to the SR 710 properties; however, it could not demonstrate that the repairs for many of the properties were reasonable or necessary. Caltrans maintains the SR 710 properties by either contracting directly with service providers or requesting that the Department of General Services (General Services) complete specific repairs. However, Caltrans did not always perform annual inspections to determine whether repairs were necessary. Furthermore, Caltrans often authorized repairs that far exceeded the properties' potential rental income. Also, General Services exerts insufficient oversight over several repair project cost areas. For example, General Services' construction unit does not properly monitor its labor charges. General Services also did not follow state law and policies governing purchases from small businesses. We found that the owner of a small business that does a large amount of business with General Services is related to the owners of two other small businesses that General Services made purchases from, and these companies with related owners bid against each other. Consequently, other qualified suppliers may not have had a fair opportunity to participate in the competitive solicitation process.

As of March 1, 2012, Caltrans estimated that the market value of the SR 710 parcels was \$279 million, with single- and multi-family residential parcels comprising \$238 million, or 85 percent, of the estimated market value. However, if the State were to deem these residential parcels as surplus and sell them in accordance with the state law known as the Roberti Bill, it could potentially receive only \$40 million, or 17 percent of their estimated market value. Further, if the SR 710 residential parcels were sold under the Roberti Bill, they would generate only a fraction of the property tax revenues that they would otherwise if the State sold them at fair market value. While Caltrans is determining whether it will proceed with the SR 710 extension project, the State could consider certain alternatives that would allow it to retain access to the right-of-way needed for the extension project. One option Caltrans could consider is contracting with one or more private contractors to provide property management services to maintain the SR 710 properties. Another option to consider is the establishment of a joint powers authority (JPA) that would include Caltrans and the cities of Pasadena, South Pasadena, and Los Angeles to manage the SR 710 properties.

In the report, the California State Auditor (state auditor) made the following recommendations to Caltrans and General Services. The state auditor's determination regarding the current status of recommendations is based on Caltrans' and General Services' responses to the state auditor as of October 2012.

#### **Recommendation 1.1.a—See pages 20—24 of the audit report for information on the related finding.**

To ensure that it collects fair market rents for the SR 710 properties on the State's behalf, Caltrans should, using the fair market rent determinations for all SR 710 properties it recently prepared and excluding those in its affordable rent program, adjust the tenants' rents to fair market after providing them with proper notice.

***Caltrans' Action: Partially implemented.***

Caltrans stated that it is in the process of assessing rental rate increases to fair market rent and has sent letters to all SR 710 tenants requesting their financial information. Caltrans also stated that, once it completes its analysis of all of the information, it will work with the Business, Transportation and Housing Agency (agency) to determine the best course of action for it and the State. Caltrans anticipates that, after providing the affected tenants with the requisite 60-day notice, rental rate increases will be effective March 1, 2013.

**Recommendation 1.1.b—See pages 21—24 of the audit report for information on the related finding.**

To ensure that it collects fair market rents for the SR 710 properties on the State's behalf, Caltrans should make only limited exceptions to charging fair market rent and document the specific public purpose that is served in any case that it does not charge fair market rent.

***Caltrans' Action: Partially implemented.***

Caltrans stated that it is in the process of assessing rental rate increases to fair market rent and has sent letters to all SR 710 tenants requesting their financial information. Caltrans also stated that, once it completes its analysis of all of the information, it will work with the agency to determine the best course of action for it and the State. Caltrans anticipates that, after providing the affected tenants with the requisite 60-day notice, rental rate increases will be effective March 1, 2013.

**Recommendation 1.2.a—See pages 24—27 of the audit report for information on the related finding.**

To ensure that all taxable fringe benefits or gifts state employees receive are appropriately included in their gross income, Caltrans should establish procedures to notify state employees who rent SR 710 properties that they may be subject to tax implications.

***Caltrans' Action: Partially implemented.***

Caltrans stated that it has notified state employees who rent SR 710 properties that they may be subject to tax implications. However, Caltrans did not specifically address whether or not it established procedures.

**Recommendation 1.2.b—See page 25 of the audit report for information on the related finding.**

To ensure that all taxable fringe benefits or gifts employees receive are appropriately included in their gross income, Caltrans should continue to work with its information technology division to generate the reports necessary for it to provide the State Controller's Office (state controller) with the value of the state housing for its employees monthly.

***Caltrans' Action: No action taken.***

➔ Caltrans did not specifically address this recommendation.

**Recommendation 1.2.c—See pages 24—27 of the audit report for information on the related finding.**

To ensure that all taxable fringe benefits or gifts state employees receive are appropriately included in their gross income, Caltrans should work with the state controller to identify the statute of limitations for employers to report adjustments to employee gross income to the federal Internal Revenue Service and the California Franchise Tax Board.

*Caltrans' Action: Partially implemented.*

Caltrans stated that it obtained consent from the Attorney General's Office (attorney general) to retain independent legal counsel specializing in taxation to provide legal advice on the tax issues raised in this recommendation. Caltrans also stated that it sent a request for proposal on September 14, 2012, to several law firms listed on the State Bar of California's (state bar) Web site. According to Caltrans, upon receiving a legal opinion from the selected firm, it and the agency will evaluate the appropriate course of action for it and the State.

**Recommendation 1.2.d—See pages 24—27 of the audit report for information on the related finding.**

To ensure that all taxable fringe benefits or gifts state employees receive are appropriately included in their gross income, Caltrans should work with the state controller to identify the difference between the fair market rental value of the SR 710 housing and the rent state employees paid for that housing during the applicable calendar years related to the federal and state statute of limitations.

*Caltrans' Action: Partially implemented.*

Caltrans stated that it obtained consent from the attorney general to retain independent legal counsel specializing in taxation to provide legal advice on the tax issues raised in this recommendation. Caltrans also stated that it sent a request for proposal on September 14, 2012, to several law firms listed on the state bar's Web site. According to Caltrans, upon receiving a legal opinion from the selected firm, it and the agency will evaluate the appropriate course of action for it and the State.

**Recommendation 1.2.e—See pages 24—27 of the audit report for information on the related finding.**

To ensure that all taxable fringe benefits or gifts state employees receive are appropriately included in their gross income, Caltrans should work with the state controller to determine if it needs to revise the W-2 forms for the other employees to whom Caltrans provided housing benefits, including the four employees who worked at its Chilao Maintenance Station.

*Caltrans' Action: Partially implemented.*

Caltrans stated that it obtained consent from the attorney general to retain independent legal counsel specializing in taxation to provide legal advice on the tax issues raised in this recommendation. Caltrans also stated that it sent a request for proposal on September 14, 2012, to several law firms listed on the state bar's Web site. According to Caltrans, upon receiving a legal opinion from the selected firm, it and the agency will evaluate the appropriate course of action for it and the State.

**Recommendation 1.2.f—See pages 24—27 of the audit report for information on the related finding.**

To ensure that all taxable fringe benefits or gifts state employees receive are appropriately included in their gross income, Caltrans should provide information to the other state agencies so that they can submit the standard form for reporting the value of the housing provided to their employees for the applicable past calendar years to the state controller. Caltrans should continue to submit this information monthly to the applicable state agencies until the state employees are no longer renting the SR 710 properties at below-market rates.

*Caltrans' Action: Partially implemented.*

Caltrans stated that it obtained consent from the attorney general to retain independent legal counsel specializing in taxation to provide legal advice on the tax issues raised in this recommendation. Caltrans also stated that it sent a request for proposal on September 14, 2012, to several law firms listed on the state bar's Web site. According to Caltrans, upon receiving a legal opinion from the selected firm, it and the agency will evaluate the appropriate course of action for it and the State.

**Recommendation 1.3.a—See pages 27—29 of the audit report for information on the related finding.**

To ensure that the affordable rent policy is enforceable and that only eligible tenants receive the benefit of the policy, Caltrans should adopt regulations in accordance with the Administrative Procedure Act (APA) if the director determines that it is appropriate to continue to offer affordable rent to certain tenants.

***Caltrans' Action: Pending.***

Caltrans stated that the director is reviewing the affordable rent program to determine if it is appropriate to continue offering it to certain tenants and/or to expand it to include other tenants. Caltrans also stated that it is expected that the director will make a decision by November 2012.

**Recommendation 1.3.b—See pages 27—29 of the audit report for information on the related finding.**

To ensure that the affordable rent policy is enforceable and that only eligible tenants receive the benefit of the policy, Caltrans should annually review and document the tenants' household incomes using income certification forms. If tenants no longer qualify for the program because their income exceeds the income requirement or one of the income-producing tenants in the household has been replaced by a new tenant, it should increase their rent to fair market rates after giving proper notice.

***Caltrans' Action: Pending.***

Caltrans stated that the director is reviewing the affordable rent program to determine if it is appropriate to continue offering it to certain tenants and/or to expand it to include other tenants. Caltrans also stated that the director's decision is expected by November 2012.

**Recommendation 2.1.a—See page 32 of the audit report for information on the related finding.**

To ensure that the repairs it makes to the SR 710 properties are necessary and reasonable, Caltrans should document its rationale for approving project change orders.

***Caltrans' Action: Partially implemented.***

Caltrans' District 7 office management issued a memo on September 27, 2012, instructing staff to document their rationale for approving project change orders, effective immediately. Caltrans also stated that it is on track to complete the specific policy and procedures to ensure compliance and the related training by December 31, 2012.

**Recommendation 2.1.b—See pages 32 and 33 of the audit report for information on the related finding.**

To ensure that the repairs it makes to the SR 710 properties are necessary and reasonable, Caltrans should conduct annual field inspections of the properties.

***Caltrans' Action: Partially implemented.***

Caltrans' District 7 office management issued a memo on September 27, 2012, instructing staff to conduct annual field inspections of the properties, effective immediately. Caltrans stated that as of October 9, 2012, it had completed 371 of the 433 inspections and that it is on target to complete the remaining inspections by December 31, 2012.

**Recommendation 2.1.c—See page 33 of the audit report for information on the related finding.**

To ensure that the repairs it makes to the SR 710 properties are necessary and reasonable, Caltrans should discontinue performing roofing repairs on properties its roof assessments indicate are in good condition, unless a new assessment indicates a repair is needed.

***Caltrans' Action: Partially implemented.***

Caltrans' District 7 office management issued a memo on September 27, 2012, requiring all roof repair orders to have an updated assessment to determine if the repairs are necessary, effective immediately. Caltrans also stated that it is on track to complete the specific policy and procedures to ensure compliance by December 31, 2012.

**Recommendation 2.1.d—See pages 32 and 33 of the audit report for information on the related finding.**

To ensure that the repairs it makes to the SR 710 properties are necessary and reasonable, Caltrans should incorporate roof assessments as part of its annual field inspections of the properties.

***Caltrans' Action: Partially implemented.***

Caltrans stated that it incorporated roof assessments as part of its annual inspections of properties. Caltrans also stated that it is on track to complete the specific policy and procedures to ensure compliance by December 31, 2012.

**Recommendation 2.1.e—See pages 34—36 of the audit report for information on the related finding.**

To ensure that the repairs it makes to the SR 710 properties are necessary and reasonable, Caltrans should develop a written policy to ensure that it considers the cost-effectiveness of repair costs for historic and nonhistoric projects in relation to the potential rental income for the property. Such a policy should establish the maximum acceptable cost-recovery period for the amount it will spend for repairs, above which the repairs will be considered wasteful.

***Caltrans' Action: Partially implemented.***

Caltrans stated that it is developing a policy to assess the cost-effectiveness of repair costs, which will include evaluating a cost-recovery period for repairs. Caltrans also stated that it is on track to issue the policy and provide training to all employees by December 31, 2012.

**Recommendation 2.1.f—See pages 34—36 of the audit report for information on the related finding.**

To ensure that the repairs it makes to the SR 710 properties are necessary and reasonable, Caltrans should establish a process to ensure it evaluates the cost-effectiveness of any repair before authorizing it.

***Caltrans' Action: Partially implemented.***

Caltrans stated that its District 7 office management is developing a standardized process for evaluating the cost-effectiveness of repairs. Caltrans also stated that it anticipates implementing this process and providing training to the appropriate staff by December 31, 2012.

**Recommendation 2.1.g—See pages 32—36 of the audit report for information on the related finding.**

To ensure that the repairs it makes to the SR 710 properties are necessary and reasonable, Caltrans should retain in its project files evidence to support the necessity and reasonableness of repairs, such as change orders, annual field inspections, and analyses of cost-effectiveness.

***Caltrans' Action: Partially implemented.***

Caltrans' District 7 office management issued a memo on September 27, 2012, instructing staff to retain the required evidence to support the necessity and reasonableness of repairs in the project files, effective immediately. Caltrans also stated that it is on track to issue the specific policy and provide training to the appropriate staff by December 31, 2012.

**Recommendation 2.2—See pages 38 and 39 of the audit report for information on the related finding.**

To ensure that the State achieves cost savings for the repairs made to the SR 710 properties, Caltrans should periodically perform more comprehensive analyses of viable options for repairing the properties. If Caltrans determines that General Services is the best option, it should ensure that it properly executes an interagency agreement in accordance with the *State Contracting Manual*.

***Caltrans' Action: Partially implemented.***

Caltrans stated that it is evaluating the best method to perform a cost comparison of options for the maintenance of the SR 710 properties. Caltrans anticipates completing the cost comparison by December 31, 2012. Caltrans also stated that, in the meantime, it initiated the execution of an interagency agreement with General Services.

**Recommendation 2.3—See pages 36—38 of the audit report for information on the related finding.**

To ensure that it appropriately executes interagency agreements with other state agencies, General Services should provide training to construction unit staff.

***General Services' Action: Pending.***

General Services stated that the construction unit will schedule its staff to attend the Services Contracting course offered by the California Procurement and Contracting Academy (Cal-PCA). General Services also stated that this course is taught by staff from its office of legal services and includes coverage of the State's requirements for the use of interagency agreements to contract with other state agencies.

**Recommendation 2.4.a—See pages 39—40 of the audit report for information on the related finding.**

To ensure that General Services performs only necessary repairs and that its costs are reasonable, Caltrans should ensure that its staff adhere to relevant contracting policies, including retaining evidence of its approval of General Services' repair work before and after the completion of a project in the project file.

***Caltrans' Action: Partially implemented.***

Caltrans' District 7 office management issued a memo on September 27, 2012, instructing staff to retain the required evidence to support the necessity and reasonableness of repairs in the project files, effective immediately. Caltrans stated the required evidence would include approval of General Services' work before and after project completion. Caltrans also stated that it is on track to issue the specific policy and provide training to the appropriate staff by December 31, 2012.

**Recommendation 2.4.b—See pages 40 and 41 of the audit report for information on the related finding.**

To ensure that General Services performs only necessary repairs and that its costs are reasonable, Caltrans should reconcile General Services' estimates for the repair projects with the scope of work the Department of Finance (Finance) approved in the transfer request form, and, if applicable, explain any differences.

***Caltrans' Action: Partially implemented.***

Caltrans stated that it is meeting with General Services to develop a process to reconcile the estimates for repairs with the scope of work in the transfer request forms. Caltrans expects this process to be in place by December 31, 2012.

**Recommendation 2.4.c—See pages 40 and 41 of the audit report for information on the related finding.**

To ensure that General Services performs only necessary repairs and that its costs are reasonable, Caltrans should reconcile the actual work General Services performs to the scope of work approved in the project work plans.

***Caltrans' Action: Partially implemented.***

Caltrans stated that it is meeting with General Services to develop a process to reconcile the actual work performed to the scope of work approved in the project work plans. Caltrans expects this process to be in place by December 31, 2012.

**Recommendation 2.4.d—See pages 40 and 41 of the audit report for information on the related finding.**

To ensure that General Services performs only necessary repairs and that its costs are reasonable, Caltrans should reconcile the actual expenditures for the projects listed in the transfer request form approved by Finance and the approved budget in the project work plans with General Services' actual expenditures for each project.

***Caltrans' Action: Partially implemented.***

Caltrans stated that it is using its March 2012 tracking spreadsheet to reconcile actual expenditures to the approved budget for the work being done by General Services. However, the effectiveness of this spreadsheet is contingent upon Caltrans' implementation of recommendation 2.4.e. Further, Caltrans did not specifically address whether or not it reconciles the actual expenditures for the projects listed in the transfer request form approved by Finance.

**Recommendation 2.4.e—See pages 40 and 41 of the audit report for information on the related finding.**

To ensure that General Services performs only necessary repairs and that its costs are reasonable, Caltrans should modify its March 2012 tracking spreadsheet to ensure that it contains sufficient information for Caltrans to effectively monitor repair costs.

***Caltrans' Action: Partially implemented.***

Caltrans stated that it is working with General Services to obtain the necessary data to monitor repair costs. Caltrans anticipates it will complete the final modifications to its March 2012 tracking spreadsheet on or before December 31, 2012.

**Recommendation 3.1.a—See pages 43—45 of the audit report for information on the related finding.**

To ensure that it charges its clients appropriately for the work it performs, General Services should reassess the construction unit's methodologies for determining the hourly burden rate and direct administration fees.

***General Services' Action: Partially implemented.***

General Services stated that its construction unit will revise its rate-setting process for fiscal year 2013–14 to fully address the state auditor's concerns. General Services also stated that the revised process will ensure that the construction unit's hourly burden rate and direct administration fees are accurately and properly calculated based on prior year expenditure data and projected billable hours. Further, General Services stated that, to date, the construction unit has consulted with General Services' budget, accounting, and information technology staff on improvements that can be made to its rate and fees calculation function.

**Recommendation 3.1.b—See pages 43—45 of the audit report for information on the related finding.**

To ensure that it charges its clients appropriately for the work it performs, General Services should ensure that the construction unit's methodologies are sound and that it can properly support them.

***General Services' Action: Partially implemented.***

General Services stated that its construction unit will revise its rate-setting process for fiscal year 2013–14 to fully address the state auditor's concerns. General Services also stated that the revised process will ensure that the construction unit's hourly burden rate and direct administration fees are accurately and properly calculated based on prior year expenditure data and projected billable hours. Further, General Services stated that, to date, the construction unit has consulted with General Services' budget, accounting, and information technology staff on improvements that can be made to its rate and fees calculation function.

**Recommendation 3.2—See pages 46—48 of the audit report for information on the related finding.**

To determine if the construction unit's use of casual laborers to perform work not in their job specifications, such as procurement, is cost-effective, General Services should perform an analysis comparing the cost of paying the casual laborers at the prevailing wage rate and the cost of paying permanent civil service employees. If it finds that using permanent employees is cost-effective for the State, General Services should seek approval for additional permanent employees to perform those functions.

***General Services' Action: Partially implemented.***

General Services stated that its construction unit is in the final stages of analyzing the cost effectiveness of its practice of using a limited number of casual laborers to occasionally perform office administrative type tasks, such as procurement.

**Recommendation 3.3.a—See pages 46—50 of the audit report for information on the related finding.**

To ensure that the casual laborers charge only for their actual hours worked on projects, General Services should require that the civil service supervisor who has knowledge of the time the casual laborer works approve the casual laborer's daily time report and the Activity Based Management System time charges.

*General Services' Action: No action taken.*

General Services did not specifically address this recommendation.



**Recommendation 3.3.b—See pages 46—50 of the audit report for information on the related finding.**

To ensure that the casual laborers charge only for their actual hours worked on projects, General Services should ensure that the daily time reports for casual laborers contain the appropriate task codes, the laborer's signature, and the approval of a civil service supervisor.

*General Services' Action: No action taken.*

General Services did not specifically address this recommendation.



**Recommendation 3.3.c—See pages 48—50 of the audit report for information on the related finding.**

To ensure that the casual laborers charge only for their actual hours worked on projects, General Services should update its construction unit manual to formalize its standard practice of using daily job reports for each project.

*General Services' Action: No action taken.*

General Services did not specifically address this recommendation.



**Recommendation 3.3.d—See pages 48—50 of the audit report for information on the related finding.**

To ensure that the casual laborers charge only for their actual hours worked on projects, General Services should retain the daily job reports and the daily time reports in the project files.

*General Services' Action: No action taken.*

General Services did not specifically address this recommendation.



**Recommendation 3.4—See page 50 of the audit report for information on the related finding.**

To ensure that it complies with its nepotism policy, General Services should have its office of human resources review and approve its existing temporary authorization appointments for casual laborers. If the office of human resources finds that personal relationships exist, General Services should take appropriate action in accordance with its policy.

*General Services' Action: Partially implemented.*

General Services stated that its office of audit services is conducting a review of the construction unit's operations to determine compliance with the nepotism policy. General Services also stated that it is updating its nepotism policy, as well as the nepotism process contained in its Personnel Operations Manual, to provide additional guidance to staff. General Services plans to issue its updated nepotism policy by October 31, 2012. Further, General Services stated that, upon issuance of the new policy, its office of human resources will work with the construction unit to ensure that the construction unit's staff are fully trained on its nepotism policy and practices.

**Recommendation 3.5.a—See page 55 of the audit report for information on the related finding.**

To ensure that the construction unit complies with the State's procurement laws and policies, General Services should require the construction unit to immediately discontinue its current procurement practices that are inconsistent with the State's procurement laws and policies.

***General Services' Action: Partially implemented.***

General Services stated that the construction unit has taken actions to discontinue any procurement practices that do not comply with state requirements, including the implementation of additional policies and procedures that ensure the rotating of suppliers and obtaining a minimum of two quotes for all purchases. Further, General Services stated that the construction unit headquarters staff are actively monitoring compliance with the new operating requirements.

**Recommendation 3.5.b—See page 55 of the audit report for information on the related finding.**

To ensure that the construction unit complies with the State's procurement laws and policies, General Services should require the construction unit to modify the procurement section of its manual to conform to the State's procurement laws and policies.

***General Services' Action: Partially implemented.***

General Services stated that the construction unit is updating the procurement section of its policy manual to conform to the State's procurement requirements and plans to issue its updated policies by November 30, 2012.

**Recommendation 3.5.c—See pages 50—55 of the audit report for information on the related finding.**

To ensure that the construction unit complies with the State's procurement laws and policies, General Services should provide training to its construction unit employees regarding the State's procurement laws and policies.

***General Services' Action: Partially implemented.***

General Services stated that, based on course availability, the construction unit is actively enrolling its purchasing staff in Cal-PCA courses that provide acquisition specialists with the knowledge essential to conduct purchases in accordance with state requirements.

**Recommendation 3.5.d—See page 56 of the audit report for information on the related finding.**

To ensure that the construction unit complies with the State's procurement laws and policies, General Services should clarify the waiver process in the administrative order governing the small business participation goal.

***General Services' Action: Partially implemented.***

General Services stated that it will amend its administrative order to include additional examples of situations in which waivers may be granted. General Services plans to issue its amended administrative order by November 30, 2012.

**Recommendation 3.5.e—See page 56 of the audit report for information on the related finding.**

To ensure that the construction unit complies with the State's procurement laws and policies, General Services should continue its efforts to implement regulations that govern the small business certification process related to defining and enforcing violations of commercially useful function requirements.

***General Services' Action: Partially implemented.***

General Services expects the Office of Administrative Law (OAL) will approve the final regulations by January 31, 2013.

**Recommendation 3.5.f—See pages 50—57 of the audit report for information on the related finding.**

To ensure that the construction unit complies with the State's procurement laws and policies, General Services should conduct an investigation of the small businesses we discussed in the report to determine if they are performing a commercially useful function.

***General Services' Action: Partially implemented.***

General Services stated that its office of audit services, in consultation with its construction unit and office of small business and disabled veterans business enterprise services, is investigating the small businesses discussed in the report to determine if they are performing a commercially useful function.

**Recommendation 4.1—See pages 59—64 of the audit report for information on the related finding.**

To ensure the State properly manages its resources, the Legislature should consider amending the state law known as the Roberti Bill to allow Caltrans to sell SR 710 properties that have high market value at fair market prices.

***Legislative Action: Legislation vetoed.***

The governor vetoed Senate Bill 204 of the 2011–12 Regular Legislative Session on September 30, 2012. This bill would have required the California Transportation Commission and Caltrans to declare as excess certain state properties acquired for the SR 710 surface freeway extension and required Caltrans to expeditiously release those properties for sale, with the tenants of those properties being offered the first right of refusal to purchase the properties at fair market value.

**Recommendation 4.2—See page 60 of the audit report for information on the related finding.**

To comply with the 2007 court ruling and the APA until such time as the Legislature may choose to act, Caltrans should establish regulations to govern the sales process for the SR 710 properties affected by the Roberti Bill.

***Caltrans' Action: Partially implemented.***

Caltrans stated it anticipates submitting its proposed regulations to OAL for approval by the end of 2012.

**Recommendation 4.3.a—See page 65 of the audit report for information on the related finding.**

To pursue alternatives to its management of the SR 710 properties, Caltrans should prepare a cost-benefit analysis to determine if the State would save money by hiring a private vendor to manage the properties. If such savings would occur, Caltrans should seek an exemption under Government Code, Section 19130 (a), to hire a private vendor.

***Caltrans' Action: Partially implemented.***

Caltrans stated it hired a consultant to perform an independent cost-benefit analysis of the following property management options for the SR 710 properties: hiring a private vendor, establishing a JPA, and transferring the properties to a local transportation entity. The local transportation entity would take over ownership and management of the properties and use the proceeds of the sale for local transportation improvements. Caltrans also stated that its first meeting with the consultant would be held in October 2012 to develop a work plan with target dates.

**Recommendation 4.3.b—See page 66 of the audit report for information on the related finding.**

To pursue alternatives to its management of the SR 710 properties, Caltrans should perform an analysis to compare the cost of establishing a JPA to its current costs of managing the properties.

***Caltrans' Action: Partially implemented.***

Caltrans stated it hired a consultant to perform an independent cost-benefit analysis of the following property management options for the SR 710 properties: hiring a private vendor, establishing a JPA, and transferring the properties to a local transportation entity. The local transportation entity would take over ownership and management of the properties and use the proceeds of the sale for local transportation improvements. Caltrans also stated that its first meeting with the consultant would be held in October 2012 to develop a work plan with target dates.

**Recommendation 4.4—See pages 64—66 of the audit report for information on the related finding.**

To pursue alternatives to the State's management of the SR 710 properties that would preserve its access to the right-of-way needed for the extension project, to the extent that Caltrans has determined it to be cost-beneficial to do so, the Legislature should consider the establishment of a JPA that would allow Caltrans and the affected cities to jointly manage the SR 710 properties.

***Legislative Action: Unknown.***

The state auditor is not aware of any action taken by the Legislature as of December 18, 2012.

# Probationers' Domestic Violence Payments

## Improved Processes for Managing and Distributing These Payments Could Increase Support for Local Shelters

### REPORT NUMBER 2011-121, ISSUED SEPTEMBER 2012

This report concludes that improved processes for managing and distributing payments collected from individuals convicted of crimes of domestic violence and sentenced to probation (probationers) could increase support for local shelters. Our review of 135 domestic violence cases in four California counties—Los Angeles, Sacramento, San Diego, and Santa Clara—over a four-year period revealed that individual courts and county agencies use varying methods for collecting the payments required of probationers. Of the cases we evaluated, many of the amounts initially assessed against probationers were not collected, although collections in some counties were higher than others. Moreover, our review of the distribution of funds from the payments identified several issues that reduced the amount of funding available to local shelters. Specifically, Santa Clara County had a fund balance that grew to \$715,000 in undistributed domestic violence funds. Sacramento County accumulated a large balance equivalent to 20 months of disbursements. Further, counties and courts inaccurately distributed the state and county shares of their domestic violence funds leading them, in some instances, to misdirect funds that they should have distributed to local shelters. When county agencies and courts do not collect or distribute all available domestic violence funds, local shelters may not be able to provide as many services to victims of domestic violence as they otherwise would. Finally, we identified several other issues that can affect these payments and that may require legislative clarification.

In the report, the California State Auditor (state auditor) made the following recommendations to Los Angeles County, the Los Angeles County Superior Court (Los Angeles Court), Sacramento County, San Diego County, the San Diego County Superior Court (San Diego Court), Santa Clara County, and the Legislature. The state auditor's determination regarding the current status of recommendations is based on the entities' responses to the state auditor as of November 2012.

#### **Recommendation 1.1.a—See pages 24—28 of the audit report for information on the related finding.**

To ensure consistent assessment, collection, and allocation of domestic violence payments, the Legislature should consider clarifying whether it intends for the domestic violence payment to be a fine or a fee and, similarly, whether collections entities should allocate the domestic violence payment to the payment priority category known as *finer and penalty assessments* or whether the payments belong in the *other reimbursable costs* category.

#### ***Legislative Action: Unknown.***

The state auditor is not aware of any action taken by the Legislature as of December 18, 2012, to clarify these matters. However, shortly after our audit report was issued, Chapter 511, Statutes of 2012 (Assembly Bill 2094), was enacted. Among other things, it increases the minimum payment from \$400 to \$500. Further, if the court reduces or waives the payment at its discretion, the court is required to state the reason on the record.

#### **Recommendation 1.1.b—See pages 25—28 of the audit report for information on the related finding.**

To ensure consistent assessment, collection, and allocation of domestic violence payments, the Legislature should consider clarifying whether collections that belong in the *other reimbursable costs* category should be prorated among all assessments in that category.

***Legislative Action: Unknown.***

The state auditor is not aware of any action taken by the Legislature as of December 18, 2012.

**Recommendation 1.1.c—See pages 28 and 29 of the audit report for information on the related finding.**

To ensure consistent assessment, collection, and allocation of domestic violence payments, the Legislature should consider clarifying whether collections entities have the authority to continue pursuing collection of domestic violence payments once an individual's term of probation expires.

***Legislative Action: Unknown.***

The state auditor is not aware of any action taken by the Legislature as of December 18, 2012.

**Recommendation 1.1.d—See pages 29—31 of the audit report for information on the related finding.**

To ensure consistent assessment, collection, and allocation of domestic violence payments, the Legislature should consider clarifying whether allowable administrative costs apply to all funds in a county's special fund.

***Legislative Action: Unknown.***

The state auditor is not aware of any action taken by the Legislature as of December 18, 2012.

**Recommendation 1.1.e—See pages 29—31 of the audit report for information on the related finding.**

To ensure consistent assessment, collection, and allocation of domestic violence payments, the Legislature should consider clarifying how counties should calculate allowable administrative costs. Specifically, the Legislature should indicate whether counties should base their calculations on the balance of the special fund or deposits into that fund.

***Legislative Action: Unknown.***

The state auditor is not aware of any action taken by the Legislature as of December 18, 2012.

**Recommendation 1.2—See pages 20 and 21 of the audit report for information on the related finding.**

San Diego Court should ensure that procedures are in place so that courts do not reduce or waive domestic violence payments for reasons other than a probationer's inability to pay.

***San Diego Court's Action: Partially implemented.***

San Diego Court indicated that court administration discussed the audit findings with the court's judicial leadership. According to San Diego Court, the San Diego criminal justice community has approached the problem of domestic violence collaboratively over the years and has consistently urged the court to treat the completion of the mandatory counseling and treatment as a priority. Further, it explained that the prosecution and defense routinely agree to use a financial incentive-based approach to help ensure the defendant's timely completion of the 52-week Domestic Violence Recovery Program. It indicated that due to the audit findings, San Diego Court is now aware of the conflict that this plea-bargained, or agreed-upon, approach has created, especially in light of the effort to increase collection of the domestic violence fund fees. According to San Diego Court, its judicial leadership has indicated that it will embark on an effort to address the issues with its criminal justice partners, which are both the prosecution and defense bar.

**Recommendation 1.3.a—See pages 21—23 of the audit report for information on the related finding.**

To ensure that it is accurately setting up accounts and to ensure that probationers are not paying more fines and fees than are applicable, San Diego Court should include on the orders issued at sentencing the breakdown of all fines and fees owed.

***San Diego Court's Action: Pending.***

According to San Diego Court, staff are working to amend its change-of-plea form to list each fee and fine and to include a space for the amount of each. The court expects to have the changes approved and implemented by January 2013.

**Recommendation 1.3.b—See pages 21—23 of the audit report for information on the related finding.**

To ensure that it is accurately setting up accounts and to ensure that probationers are not paying more fines and fees than are applicable, San Diego Court should use the guidelines in place at the time of sentencing for those convicted of domestic violence crimes when it establishes accounts for payments.

***San Diego Court's Action: Partially implemented.***

San Diego Court indicated that accounting staff, who open accounts receivable, are now opening accounts on domestic violence cases at the time of sentencing, even if the fines have been stayed pending completion of a program, rather than waiting until the fines and fees become due. According to San Diego Court, the accounting staff are using current sentencing guidelines to ensure proper allocation of fines and fees. Further, San Diego Court explained that for older cases on which the fines and fees were stayed and an account has not yet been opened, staff are opening the accounts receivable as the stays are lifted and the fines and fees become due. It is working to create tools for staff to clearly show the proper allocations for the applicable sentencing dates. San Diego Court expects that full implementation will be complete no later than January 2013.

**Recommendation 2.1—See page 41 of the audit report for information on the related finding.**

The Legislature should consider clarifying whether it intends for collections entities to base the percentage of domestic violence payment revenue distributed to the State and county on statutes in effect at the time of sentencing or at the time the probationer makes a payment.

***Legislative Action: Unknown.***

The state auditor is not aware of any action taken by the Legislature as of December 18, 2012.

**Recommendation 2.2—See pages 35—38 of the audit report for information on the related finding.**

Santa Clara County should implement a process to distribute funds regularly to domestic violence shelters.

***Santa Clara County's Action: Partially implemented.***

Santa Clara County developed a process for annually distributing funds to domestic violence shelters, which includes an annual Request for Statements of Qualifications to certify any domestic violence shelter providers to receive funding for the next fiscal year. According to Santa Clara County, the fund distribution will be based on a formula that has been developed by the county with input from the shelter providers. Santa Clara County indicated that it will begin using this process for funds distributed during fiscal year 2013–14.

**Recommendation 2.3.a—See pages 38 and 39 of the audit report for information on the related finding.**

Sacramento County should finalize work with the State Controller's Office on correcting the county's overpayment of domestic violence funds to the State.

***Sacramento County's Action: Fully implemented.***

Sacramento County stated that it had completed the corrections to its distributions for the full three-year period, excluding the eight months in 2010 where there were no overpayments. It indicated that the final corrections totaled \$45,036 for these years. Sacramento County made the adjustments during its July 2012 and August 2012 distributions to the State.

**Recommendation 2.3.b—See pages 38 and 39 of the audit report for information on the related finding.**

Sacramento County should implement the process developed for reviewing statutes that affect domestic violence payment collection and distribution practices in order to prevent overpayment of domestic violence funds in the future.

***Sacramento County's Action: Fully implemented.***

Sacramento County established a policy for reviewing statutes that affect domestic violence payment collection and distribution practices. This policy requires Sacramento County to review all statutes related to the distribution of fines each December using the State of California's Legislative Information Web site.

**Recommendation 2.4.a—See pages 39—41 of the audit report for information on the related finding.**

Los Angeles County, San Diego County, San Diego Court, and Santa Clara County should determine the magnitude of the misdirected domestic violence funds.

***Los Angeles County's Action: Fully implemented.***

Los Angeles County determined that its Probation Department overdistributed \$12,620 to the county for the period January through August 2010 and overdistributed \$883 to the State from August 2010 through June 2012. These adjustments net to a total of \$11,737 that it overpaid the county.

***San Diego County's Action: Fully implemented.***

San Diego County indicated that it reviewed and reconciled its records for all distributed funds and calculated that it underpaid the State \$4,300.

***San Diego Court's Action: Fully implemented.***

San Diego Court stated that it reviewed the domestic violence fund revenue distributions for the four court divisions with particular emphasis placed on distributions beginning in January 2010 and going forward since the audit report noted discrepancies within the central division during this period. After the review, San Diego Court calculated an overall net overpayment of \$203 to the State for the period January 2010 through October 2012 for all four divisions.

***Santa Clara County's Action: Partially implemented.***

According to Santa Clara County, its Department of Revenue is currently testing programming changes necessary to correct the 482 cases that make up the overpayment to the State. Santa Clara County anticipated these changes would be ready by the end of November 2012.

**Recommendation 2.4.b—See pages 39—41 of the audit report for information on the related finding.**

Los Angeles County, San Diego County, San Diego Court, and Santa Clara County should consult with the State Controller's Office to determine what action should be taken to correct the domestic violence funds that were misdirected in prior fiscal years.

***Los Angeles County's Action: Fully implemented.***

In October 2012 Los Angeles County submitted an adjustment of the \$11,737 that it overpaid the county.

***San Diego County's Action: Fully implemented.***

San Diego County offset county collections received in its regular disbursements in July, August, and September 2012 to adjust for the \$4,300 that it underpaid the State.

***San Diego Court's Action: Pending.***

San Diego Court indicated that its accounting staff will make an adjustment in December 2012 to correct the net overpayment to the State.

***Santa Clara County's Action: Partially implemented.***

Santa Clara County indicated it has contacted the State Controller's Office and will correct the prior distributions once it completes its testing of necessary programming changes.

**Recommendation 2.4.c—See pages 39—41 of the audit report for information on the related finding.**

Los Angeles County, San Diego County, San Diego Court, and Santa Clara County should improve protocols for reviewing statutes that affect collection and distribution practices so that future changes can be acted upon.

***Los Angeles County's Action: Partially implemented.***

Los Angeles County indicated that its Probation Department will monitor the State Controller's Office's Web site monthly for updates to the Trial Court Manual and Distribution guidelines. However, although monitoring changes to statutes posted by the State Controller's Office is a valuable tool for identifying any relevant changes, this source may not be updated consistently. As a result, Los Angeles County could miss important statutory changes. We would expect Los Angeles County to develop a process to monitor the statutes itself to identify any relevant changes.

***San Diego County's Action: Partially implemented.***

San Diego County stated that it revised its accounting procedures following the completion of the audit to ensure compliance with statutes. It plans to have revised comprehensive procedures with a targeted completion date of March 2013 for all accounting processes that are affected by court ordered debt, including the domestic violence payment. San Diego County also plans to establish a compliance unit by the end of January 2013. This unit will be responsible for regular and ongoing monitoring of procedures and for ensuring that all legislative changes are reflected in the procedures.

***San Diego Court's Action: Partially implemented.***

According to San Diego Court, its accounting staff will continue to work with the court legislative analyst and Administrative Office of the Courts' staff to keep abreast of legislative changes impacting revenue distributions. San Diego Court anticipates that legislative updates can be added as an agenda item on future Accounting Committee meetings.

***Santa Clara County's Action: Partially implemented.***

Santa Clara County explained that it, together with the Santa Clara Superior Court, has formed a Legislation Review Committee. The members of the committee are to monitor new legislation and discuss changes to departmental procedures. Santa Clara County stated this will include information on the change of the amount collected from \$400 to \$500 effective January 1, 2013, due to the recent passage of Assembly Bill 2094 by the Legislature.

**Recommendation 2.5.a—See page 40 of the audit report for information on the related finding.**

Los Angeles Court should finalize the correction of the court's misdirected domestic violence funds.

***Los Angeles Court's Action: Fully implemented.***

Los Angeles Court stated that it has finalized and completed correction of its misdirected funds on the March 2012 and July 2012 monthly revenue distribution of funds to the State. Documentation from the Los Angeles Court indicated that it made an adjustment for \$7,289 that it overpaid the State.

**Recommendation 2.5.b—See page 40 of the audit report for information on the related finding.**

Los Angeles Court should improve protocols for reviewing statutes that affect collection and distribution practices so that future changes can be acted upon.

***Los Angeles Court's Action: Fully implemented.***

Los Angeles Court established a checklist to ensure that all areas affecting revenue distribution are changed consistently throughout the cashiering and revenue distribution systems.

**Recommendation 2.6—See pages 41—43 of the audit report for information on the related finding.**

Sacramento County should increase its contracted spending for shelter services so that it reduces the balance of its special fund down to a level that is reasonable considering the needs of the fund.

***Sacramento County's Action: Fully implemented.***

Sacramento County obtained its board of supervisors' approval in November 2012 to increase its contracted spending for shelter services by more than \$400,000 to provide additional domestic violence services and crisis intervention through June 2014. Further, it obtained approval to issue a Request for Interest for an additional \$100,000 to contract with providers of domestic violence services to underserved populations.

**Recommendation 2.7—See pages 41—44 of the audit report for information on the related finding.**

To ensure that they are maximizing the impact of domestic violence funds, Sacramento, San Diego, and Santa Clara counties should periodically monitor their special funds.

***Sacramento County's Action: No action taken.***

➡ Sacramento County did not respond to this recommendation.

***San Diego County's Action: Partially implemented.***

San Diego County indicated that it will conduct an annual review of the balance in the fund and compare it with the rate of incoming funds quarterly. According to San Diego County, this process will be implemented in November 2012 and calculations will be made retroactively for the first quarter.

***Santa Clara County's Action: Fully implemented.***

Santa Clara County developed a formula for distributing funds annually to the local domestic violence shelters based on the funds available in the domestic violence trust fund. Use of this formula will require that Santa Clara County determine the balance of its funds.



# Metropolitan Transportation Commission

## The Use of Toll Revenues to Purchase a New Headquarters Building Is Likely Legal, but the Transaction Exposes Toll Payers to Undisclosed Financial Risk

### REPORT NUMBER 2011-127, ISSUED AUGUST 2012

This report concludes that the decision the board governing the Bay Area Toll Authority (toll authority) made to use toll revenues to fund the acquisition of a new headquarters building likely was legally permissible. However, a court would ultimately decide the legality of the purchase. Further, during the decision-making process the Metropolitan Transportation Commission (transportation commission) and the toll authority could have done more to clearly articulate to both their shared governing board and the public the financial risks associated with purchasing the building. Specifically, the transportation commission's presentation to the board in September 2011 stated that toll payers are protected because the cash flows from the building would repay contributed toll revenue. However, in its projection the transportation commission did not discount the value of future cash flows to today's dollars. We converted the cash flows projection and determined that, in the most conservative combination of rental and occupancy rates, cash flows would fall short of repaying contributed toll revenue by \$30 million. We also noted that the financial risk of being unable to repay all of the toll revenue significantly increased in May 2012 when the Bay Area Headquarters Authority announced plans to convert 101,000 square feet of the building into an atrium and building support space that will reduce rental space available to generate income.

The transportation commission developed property search criteria and followed a reasonable process for evaluating potential properties, but at 350,000 square feet, the specified criteria for overall building size was roughly twice the amount originally shared with its governing board. Moreover, it is not clear to us what the transportation commission's motivation was in setting the search criteria for the building's size—planning for growth or generating income. Notwithstanding building size, the governing board was generally informed about the transaction and was responsive to public comment. Moreover, the Bay Area Air Quality Management District (air district) has signed a lease for space in the headquarters building with an option to buy. The transportation commission, toll authority, and the air district plan to move in to the headquarters building in fall 2013. Meanwhile, the transportation commission and the air district still need to resolve their options for disposing of their current headquarters buildings.

In the report, the California State Auditor (state auditor) made the following recommendations to the Legislature. The state auditor's determination regarding the current status of the recommendations is based on legislative actions as of December 2012.

#### **Recommendation 1.1—See pages 11—13 of the audit report for information on the related finding.**

If the Legislature believes state law provides the toll authority with too much discretion over its use of toll revenues, it should consider amending state law to more narrowly define how toll revenues that are not immediately needed for bridge maintenance or debt service may be spent or invested. For example, the Legislature might consider imposing specific limitations or prohibitions on the use of toll revenues to acquire real estate for administrative or investment purposes.

#### ***Legislative Action: Legislation introduced.***

Prior to the publication of our audit report in August 2012, the Senate considered Senate Bill 1149 (SB 1149) in May 2012 that would have made a variety of changes to the entities that were the subject of our audit. Among the changes proposed in SB 1149 was the requirement that the toll authority would be prohibited from using toll funds to invest in real property. A hearing was scheduled but was cancelled at the author's request.

**Recommendation 1.2—See pages 13 and 14 of the audit report for information on the related finding.**

If the Legislature desires greater separation between the transportation commission and the toll authority, it should consider amending state law to require that each entity have its own key executive management staff, such as its own chief executive officer, chief financial officer, and general counsel.

***Legislative Action: Unknown.***

The state auditor is not aware of any action taken by the Legislature as of December 18, 2012.

# City of Vernon

## Although Reform Is Ongoing, Past Poor Decision Making Threatens Its Financial Stability

### REPORT NUMBER 2011-131, ISSUED JUNE 2012

This report concludes that although the City of Vernon (city) is enacting reforms, it has not yet developed policies necessary to implement some reforms and for others it will take years to achieve the full benefits. The city also has not properly managed its executive positions by failing to establish minimum qualifications for several key leaders, including the city administrator. Further, the city may not have chosen positions in the most comparable cities for its May 2011 survey of executive salaries, potentially skewing salaries upward. The city may have also provided legally questionable retirement benefits to certain past and current executives.

The city has weak internal controls over contracting and our analysis revealed problems in 21 of the 25 service and consultant contracts we reviewed. Further, the city did not always ensure compliance with its conflict-of-interest code, which requires it to determine whether consultants it hires perform duties that require disclosure of economic interests.

For more than 20 years the city's general fund has operated at a structural deficit because the current revenue structure does not fully pay for the general fund's services. The city has funded past general fund deficits through reserves, transfers and loans from other funds, and one-time revenues. Although such practices may be common among cities, the city's continued reliance on other funds to cover its general fund deficit is now problematic because the funds available from these sources have decreased. As of March 2012 the city had \$571 million in outstanding bonds, mostly for its power department. However, the power department has struggled to manage its debt burden while maintaining competitive electric rates. The power department is forecasting a \$24 million deficit in fiscal year 2013–14, creating a need for electric rate increases.

Our finance and energy expert found that the city could not demonstrate that it performed the expected analyses for past energy decisions, such as purchasing a 15-year supply of natural gas for the city's power plant, which it then sold nearly two years later. Because the city used tax-exempt bonds to purchase the gas, selling the power plant created the need for the city to also sell this prepaid natural gas supply to an eligible buyer or risk losing the bond's tax-exempt status; as a result, it sold the gas at a significant discount. Finally, the city has used interest rate swaps to hedge risks associated with issuing bonds, which is a practice consistent with other cities. However, our finance and energy expert found that the city's use of swaps has proved costly—it terminated all but two of its swaps at a cost of \$33.4 million, and as of February 2012, it would have needed to pay \$47 million to terminate the remaining two swaps.

In the report, the California State Auditor (state auditor) made the following recommendations to the city. The city did not submit a six-month response to the audit when it was due to the state auditor in December 2012. Therefore, the state auditor's determination regarding the current status of recommendations is based on the city's August 27, 2012, 60-day response to the state auditor.

#### **Recommendation 1.1.a—See pages 22—24 of the audit report for information on the related finding.**

To increase accountability and transparency in its governance, the city should ensure that specific reforms are appropriately implemented. Specifically, it should develop an implementation plan containing sufficient detail to establish the activities and coordination required to successfully implement an alternative new employment system so that its nonunion employees are no longer at-will employees of the city council.

*City's Action: Pending.*

The city indicated that its human resources director and city attorney, who were both recently appointed, will review and recommend civil service procedures, but it has not provided detail on the steps it intends to take to develop these procedures.

**Recommendation 1.1.b—See pages 25 and 26 of the audit report for information on the related finding.**

To increase accountability and transparency in its governance, the city should determine whether it will continue to own housing and communicate its decision to the public as soon as appropriate. Should the city decide to retain ownership of the housing, it should continue the effort to develop policies and procedures that are necessary to ensure fairness and impartiality in its management of city-owned housing.

*City's Action: No action taken.*

➡ The city did not address this recommendation in its August 2012 response.

**Recommendation 1.1.c—See pages 25 and 26 of the audit report for information on the related finding.**

To increase accountability and transparency in its governance, the city should continue the effort to develop a comprehensive plan to construct additional housing in the city.

*City's Action: Partially implemented.*

The city, with input from the Housing Commission counsel and a legislative member's office, has selected a housing developer and is in the process of developing the necessary agreements for city council approval that will result in a comprehensive housing plan for the construction of additional city housing.

**Recommendation 1.1.d—See page 24 of the audit report for information on the related finding.**

To increase accountability and transparency in its governance, the city should develop a formal policy that describes the circumstances under which revenues can be transferred from its power department, and the limits and permissible uses of transferred revenue.

*City's Action: No action taken.*

➡ The city did not address this recommendation in its August 2012 response.

**Recommendation 1.2.a—See pages 27 and 28 of the audit report for information on the related finding.**

To ensure that it develops complete and appropriate personnel policies and procedures, the city should continue its efforts to hire an experienced human resources director.

*City's Action: Fully implemented.*

The city appointed a human resources director to start in September 2012.

**Recommendation 1.2.b—See pages 27 and 28 of the audit report for information on the related finding.**

To ensure that it develops complete and appropriate personnel policies and procedures, the new human resources director should ensure that the city's policies and procedures include, at a minimum, requirements for performing and documenting the analyses and justifications for appointments, including promotions, to management positions.

***City's Action: Pending.***

Although the city indicated that its recently appointed human resources director will review and recommend improvements to personnel policies and procedures, the city did not specifically respond to our recommendations, elaborate on any plans to improve its policies and procedures, or give a time frame for completion.

**Recommendation 1.2.c—See pages 27 and 28 of the audit report for information on the related finding.**

To ensure that it develops complete and appropriate personnel policies and procedures, the new human resources director should ensure that the city's policies and procedures include, at a minimum, requirements for minimum qualifications, desirable qualifications, and job duties for all city executive positions.

***City's Action: Pending.***

Although the city indicated that its recently appointed human resources director will review and recommend improvements to personnel policies and procedures, the city did not specifically respond to our recommendations, elaborate on any plans to improve its policies and procedures, or give a time frame for completion.

**Recommendation 1.2.d—See pages 27 and 28 of the audit report for information on the related finding.**

To ensure that it develops complete and appropriate personnel policies and procedures, the new human resources director should ensure that the city's policies and procedures include, at a minimum, a periodic appraisal process for executives.

***City's Action: Pending.***

Although the city indicated that its recently appointed human resources director will review and recommend improvements to personnel policies and procedures, the city did not specifically respond to our recommendations, elaborate on any plans to improve its policies and procedures, or give a time frame for completion.

**Recommendation 1.2.e—See pages 28—34 of the audit report for information on the related finding.**

To ensure that it develops complete and appropriate personnel policies and procedures, the new human resources director should ensure that the city's policies and procedures include, at a minimum, an improved methodology for and analysis of future salary surveys, ensuring that they are performed by staff or a consultant with experience and expertise in the area of salary surveys.

***City's Action: Pending.***

Although the city indicated that its recently appointed human resources director will review and recommend improvements to personnel policies and procedures, the city did not specifically respond to our recommendations, elaborate on any plans to improve its policies and procedures, or give a time frame for completion.

**Recommendation 1.3—See pages 34 and 35 of the audit report for information on the related finding.**

The city should determine whether employees have a vested right to longevity payments and whether it can legally reduce or discontinue the original longevity program as a means to reduce its costs.

*City's Action: No action taken.*

- ➔ The city did not address this recommendation in its August 2012 response.

**Recommendation 1.4—See pages 36—38 of the audit report for information on the related finding.**

To ensure accurate reporting and payment of retirement benefits, the city should work with California Public Employees' Retirement System (CalPERS) to resolve the reported findings and observation noted in CalPERS April 2012 audit report within a reasonable period of time.

*City's Action: Partially implemented.*

The city has begun reporting its attorney contributions under the miscellaneous classification and is working with CalPERS to remove the safety classification for attorneys from its contract.

**Recommendation 2.1.a—See pages 42 and 43 of the audit report for information on the related finding.**

To better control contract expenditures and ensure that it receives the best value for the services it purchases, the city should require that all city contracts be entered into its enterprise resource planning (ERP) system so that the contract managers and the city can more efficiently and effectively track the city's contract expenditures.

*City's Action: Pending.*

The city states that a top priority for its recently appointed city attorney will be to develop a comprehensive contracting policy resolution for city council approval, but it did not give a time frame for completion.

**Recommendation 2.1.b—See pages 42 and 43 of the audit report for information on the related finding.**

To better control contract expenditures and ensure that it receives the best value for the services it purchases, the city should also begin using the ERP system's uniquely assigned contract numbers for tracking and generating a list of contracts.

*City's Action: No action taken.*

- ➔ The city did not address this recommendation in its August 2012 response.

**Recommendation 2.1.c—See pages 43—47 of the audit report for information on the related finding.**

To better control contract expenditures and ensure that it receives the best value for the services it purchases, the city should require all contracts to have expenditure limits and starting and ending dates for services performed.

*City's Action: Pending.*

The city states that a top priority for its recently appointed city attorney will be to develop a comprehensive contracting policy resolution for city council approval, but it did not give a time frame for completion.

**Recommendation 2.1.d—See pages 47—51 of the audit report for information on the related finding.**

To better control contract expenditures and ensure that it receives the best value for the services it purchases, the city should require contract managers to use logs to monitor payments and the contractor's progress toward completion of required deliverables.

***City's Action: Pending.***

The city states that a top priority for its recently appointed city attorney will be to develop a comprehensive contracting policy resolution for city council approval, but it did not give a time frame for completion.

**Recommendation 2.1.e—See pages 47—51 of the audit report for information on the related finding.**

To better control contract expenditures and ensure that it receives the best value for the services it purchases, the city should require that all contracts contain a well-defined scope of work and deliverables that a sufficiently detailed invoice can be measured against.

***City's Action: Pending.***

The city states that a top priority for its recently appointed city attorney will be to develop a comprehensive contracting policy resolution for city council approval, but it did not give a time frame for completion.

**Recommendation 2.1.f—See pages 47—51 of the audit report for information on the related finding.**

To better control contract expenditures and ensure that it receives the best value for the services it purchases, the city should ensure that contracts include language requiring contractors to provide invoices with sufficient detail so that contract managers can determine whether the services provided are consistent with the scope of work.

***City's Action: Pending.***

The city states that a top priority for its recently appointed city attorney will be to develop a comprehensive contracting policy resolution for city council approval, but it did not give a time frame for completion.

**Recommendation 2.1.g—See pages 47—51 of the audit report for information on the related finding.**

To better control contract expenditures and ensure that it receives the best value for the services it purchases, the city should also require the finance department to review invoices to identify those that lack sufficient detail and return such invoices to the appropriate contract manager to obtain a revised invoice that is sufficiently detailed.

***City's Action: Pending.***

The city states that a top priority for its recently appointed city attorney will be to develop a comprehensive contracting policy resolution for city council approval, but it did not give a time frame for completion.

**Recommendation 2.1.h—See pages 51—53 of the audit report for information on the related finding.**

To better control contract expenditures and ensure that it receives the best value for the services it purchases, the city should continue its efforts to develop and implement policies and procedures for a competitive bidding process, including clearly defining the circumstances under which forgoing competitive bidding is appropriate.

*City's Action: Pending.*

The city states that a top priority for its recently appointed city attorney will be to finalize the proposed comprehensive contract and purchasing ordinance that establishes an open and competitive bidding process for service contracts as required by the city charter, but it did not give a timeframe for completion.

**Recommendation 2.2—See page 53 of the audit report for information on the related finding.**

To the extent that the city implements policies that affect contracts, the city should also ensure that it reviews all current contracts and amends them, if necessary, to comply with newly established policies.

*City's Action: Pending.*

The city states that a top priority for its recently appointed city attorney will be to develop a comprehensive contracting policy resolution for city council approval, but it did not give a time frame for completion.

**Recommendation 2.3.a—See pages 53 and 54 of the audit report for information on the related finding.**

To improve its internal controls, better control costs, and prevent abuse from occurring, the city should require the finance department to review credit card expenditures for appropriateness.

*City's Action: No action taken.*

➔ The city did not address this recommendation in its August 2012 response.

**Recommendation 2.3.b—See page 54 of the audit report for information on the related finding.**

To improve its internal controls, better control costs, and prevent abuse from occurring, the city should revise its travel and expense reimbursement policy to be clear about the expenditure limits for meals, and add a limit for lodging accommodations.

*City's Action: No action taken.*

➔ The city did not address this recommendation in its August 2012 response.

**Recommendation 2.4.a—See pages 55 and 56 of the audit report for information on the related finding.**

To comply with the Political Reform Act (reform act), the city should ensure that the city administrator and city clerk are appropriately trained to administer its conflict-of-interest code (conflict code).

*City's Action: No action taken.*

➔ The city did not address this recommendation in its August 2012 response.

**Recommendation 2.4.b—See pages 55 and 56 of the audit report for information on the related finding.**

To comply with the reform act, the city should continue to ensure that all city executives file statements of economic interests, as its conflict code requires.

*City's Action: No action taken.*

The city did not address this recommendation in its August 2012 response.



**Recommendation 2.4.c—See pages 55 and 56 of the audit report for information on the related finding.**

To comply with the reform act, with regard to consultants, the city should review its existing contracts and have the city administrator determine which consultants should file statements of economic interests. The city should retain documentation of the city administrator's determinations and also forward them to the city council for review.

*City's Action: No action taken.*

The city did not address this recommendation in its August 2012 response.



**Recommendation 2.4.d—See pages 55 and 56 of the audit report for information on the related finding.**

To comply with the reform act, the city should ensure that any consultants identified by the city administrator as needing to file statements of economic interests submit the forms as soon as possible.

*City's Action: No action taken.*

The city did not address this recommendation in its August 2012 response.



**Recommendation 3.1.a—See pages 60—68 of the audit report for information on the related finding.**

To address the structural deficit in its general fund, the city should seek long-term solutions to balance the general fund's expenditures and revenues and lessen its reliance on transfers from other city funds. These solutions could include revenue increases, such as the proposed increased and new parcel tax, as well as looking for ways to reduce expenditures.

*City's Action: Partially implemented.*

The city states that in addition to the 20 percent reduction in its general fund expenditures reflected in the 2012–13 fiscal year budget, a subsequent budget amendment further reduced general fund spending by 6 percent. Additionally, the city indicates considering other actions, including working with key stakeholders in the business community to develop a comprehensive long-term revenue plan for the city's general fund and expects to present a proposal to city council by December 2012.

**Recommendation 3.1.b—See pages 68—70 of the audit report for information on the related finding.**

The city should clearly present the general fund structural deficit to the city council and the public in a budget that includes narrative and summary information to help users understand the city's budget process and its priorities and challenges, and that incorporates the elements for improved budgeting practices recommended by the Government Finance Officers Association (GFOA).

*City's Action: No action taken.*

- ➔ The city did not address this recommendation in its August 2012 response.

**Recommendation 3.2.a—See pages 71—73 of the audit report for information on the related finding.**

To better guide its budget preparation and improve transparency, the city should develop budget policies, particularly for long-term planning, that incorporate the elements that the GFOA recommends and make these policies available to the public on its Web site.

*City's Action: No action taken.*

- ➔ The city did not address this recommendation in its August 2012 response.

**Recommendation 3.2.b—See pages 68 and 69 of the audit report for information on the related finding.**

The city should ensure that its budgets include the information required in the city code.

*City's Action: No action taken.*

- ➔ The city did not address this recommendation in its August 2012 response.

**Recommendation 3.2.c—See pages 72 and 73 of the audit report for information on the related finding.**

The city should improve the monitoring of expenditures against the approved budget by establishing a centralized process to regularly monitor and report to the city administrator and the city council on the status of the budget.

*City's Action: Partially implemented.*

The city instituted quarterly budget reports to the city council beginning in May 2012. The city states that the budget presentation to city council outlined the budget requirements, process, and contents and reported the status of revenues and expenditures for the first quarter. The next quarterly budget report was scheduled for a September 2012 city council meeting. However, the city did not address whether it has developed a process for city executives to regularly report the budget status of their departments to the city administrator.

**Recommendation 4.1—See pages 76—80 of the audit report for information on the related finding.**

To ensure that it issues debt when doing so is in the best interests of the city and is consistent with its long-term financial goals, the city should establish a comprehensive debt policy that includes the elements that the GFOA recommends and make the debt policy it establishes available on its Web site.

*City's Action: No action taken.*

- ➔ The city did not address this recommendation in its August 2012 response.

**Recommendation 4.2—See pages 76—80 of the audit report for information on the related finding.**

To ensure that the city council and public are well informed regarding proposed debt decisions, the city should provide summary information that clearly explains the costs, risks, and benefits related to the proposed decisions in its agenda packets, and should provide these in advance on its Web site.

*City's Action: No action taken.*

The city did not address this recommendation in its August 2012 response.



**Recommendation 4.3.a—See pages 98 and 99 of the audit report for information on the related finding.**

To ensure that it can demonstrate sufficient analysis and provide justification for its decisions on significant energy-related transactions, the city should develop an integrated energy strategy that examines all elements of its energy needs, sources, and objectives.

*City's Action: No action taken.*

The city did not address this recommendation in its August 2012 response.



**Recommendation 4.3.b—See pages 98 and 99 of the audit report for information on the related finding.**

To ensure that it can demonstrate sufficient analysis and provide justification for its decisions on significant energy-related transactions, the city should create a formal process and guidelines that include the following: identifying the benefits and risks of proposed transactions, quantifying the benefits and risks of proposed transactions, evaluating and comparing proposed transactions against alternative proposals, quantifying the impact of proposed transactions on short-term and long-term rates paid by the city's energy customers, seeking an independent validation of the fair market value of proposed transactions, and documenting and communicating the findings of the evaluation process to the city council.

*City's Action: No action taken.*

The city did not address this recommendation in its August 2012 response.



**Recommendation 4.4—See page 95 of the audit report for information on the related finding.**

If the city plans to continue to rely on the advice of its consultants when entering significant energy-related transactions, it should develop a process for the consultants to provide written documentation that would enable the city to satisfy the process and guidelines outlined in 4.3.a and 4.3.b above.

*City's Action: No action taken.*

The city did not address this recommendation in its August 2012 response.



**Recommendation 4.5—See pages 104—106 of the audit report for information on the related finding.**

To minimize the continuing financial losses on the two currently outstanding interest rate swaps, the city should develop a clear process for deciding how it will terminate these swaps based on the cost and future risk to the city.

*City's Action: No action taken.*

The city did not address this recommendation in its August 2012 response.



**Recommendation 4.6.a—See pages 99—104 of the audit report for information on the related finding.**

To ensure that any future decisions to enter into interest rate swaps are carefully considered, the city should develop and follow a process that thoroughly analyzes the risks and benefits of the potential swap transaction.

*City's Action: No action taken.*

- ➔ The city did not address this recommendation in its August 2012 response.

**Recommendation 4.6.b—See pages 99—104 of the audit report for information on the related finding.**

To ensure that any future decisions to enter into interest rate swaps are carefully considered, the city should specifically disallow the use of derivatives for speculative purposes and should require the retention of the documents and analyses that support the decision to enter into the swap.

*City's Action: No action taken.*

- ➔ The city did not address this recommendation in its August 2012 response.

## City of San José

### Some Retirement Cost Projections Were Unsupported Although Rising Retirement Costs Have Led to Reduced City Services

#### REPORT NUMBER 2012-106, ISSUED AUGUST 2012

This report concludes that during fiscal years 2009–10 through 2011–12, the City of San José (San José) experienced financial challenges as its budgeted revenues declined and retirement costs—consisting of pension and postemployment health benefits—increased. Although we believe that San José’s financial challenges are real, we found that some of the retirement cost projections reported in San José’s official documents in 2011 were not supported by accepted actuarial methodologies, nor were the underlying assumptions vetted and approved by the boards of San José’s two retirement plans. For example, in supporting the need to reduce retirement benefits, the mayor and certain city council members referred to a projection that the city’s annual retirement costs could increase to \$650 million by fiscal year 2015–16, a projection that our actuarial consultant determined was unsupported and likely overstated when assumptions approved by the boards of the two retirement plans are considered. Although we have concerns with some of San José’s projected retirement costs for future years, its actual retirement costs increased significantly from fiscal years 2009–10 through 2011–12. These increased costs appear to have crowded out some of the funding previously available for nonpublic safety services, such as parks and libraries.

In the report, the California State Auditor (state auditor) made the following recommendation to San José. The state auditor’s determination regarding the current status of the recommendation is based on San José’s response to the state auditor as of October 2012.

#### **Recommendation—See pages 15—20 of the audit report for information on the related finding.**

To ensure that stakeholders receive consistent and reliable information, San José should report the official retirement cost projections that were developed using the assumptions approved by the boards of the two retirement plans. If San José does not use the official retirement cost projections, it should develop projections that are supported by accepted actuarial methodologies, report this information in the correct context, and disclose significant assumptions that differ from those in the boards’ retirement cost projections.

#### ***San José’s Action: Pending.***

San José reported that it continues to implement our recommendation. Similar to its initial response to our report, San José reiterated that the retirement cost projections used in its most recent five-year budget forecast, released in February 2012, were developed by the actuary used by the boards of the two retirement plans, using assumptions that were also approved by both boards. However, as we discussed in our report, San José has not always done this. Therefore, we look forward to seeing that San José uses retirement cost projections developed by the actuary used by the boards of its two retirement plans based on board-approved assumptions in its next five-year budget forecast. San José expects to release its next forecast in early 2013.



# State Lands Commission

## Because It Has Not Managed Public Lands Effectively, the State Has Lost Millions in Revenue for the General Fund

### REPORT NUMBER 2010-125, ISSUED AUGUST 2011

This report concludes the State Lands Commission (commission) has not always managed its more than 4,000 leases in the State's best interest with the result that it has missed opportunities to generate millions of dollars in revenues for the State's General Fund. For example, the commission has allowed lessees whose rent is past due to remain on state land for years without paying rent. In fact, we estimated losses totaling \$1.6 million for a sample of 10 delinquent leases we reviewed. Additionally, about 140 of the commission's 1,000 revenue-generating leases are currently expired. We estimate the commission has lost \$269,000 for 10 expired leases because lessees continue to pay the rent established by an old appraisal that may not be indicative of the property's current value. Further, although the commission has a mechanism in place to periodically review—and potentially increase—rental amounts, we found that it generally failed to promptly conduct rent reviews, causing it to lose \$6.3 million in increased rent it may have been able to collect. Moreover, the commission does not appraise its leased properties as frequently as the lease agreements allow, and when it does conduct appraisals, it sometimes undervalues its properties because it uses outdated methods, some of which were established more than 18 years ago.

We also found that the commission does not adequately monitor its leases. Specifically, the database used by the commission to store lease information is both inaccurate and incomplete, and is not used by staff to monitor the status of its leases. As a result, the commission is not appropriately tracking the status of some of its leases. For example, the commission apparently lost track of one of its leases, and as a result failed to bill the lessee for 12 years while the lessee remained on state property. Additionally, the commission does not regularly audit its revenue-generating leases, nor does it adequately oversee granted lands.

Finally, although the commission has undergone a series of staff reductions since 1990 and has made attempts to replace these lost positions, it has not taken sufficient steps to quantify its need for additional staff. Specifically, the commission has not developed any analyses to determine an appropriate workload and the number of staff needed to address such a workload.

In the report, the California State Auditor (state auditor) made the following recommendations to the commission. The state auditor's determination regarding the current status of recommendations is based on the commission's response to the state auditor as of August 2012.

#### **Recommendation 1.1.a—See pages 16 and 17 of the audit report for information on the related finding.**

To ensure that it manages delinquent leases in an effective and timely manner and collects all the amounts owed to it, the commission should determine the amount of past due rent that should be included in its accounts receivable account.

#### ***Commission's Action: Fully implemented.***

The commission asserted that it identified the amount of past-due rent that should be included in its accounts receivable account and it provided us the list of accounts receivable that included those receivables identified as contingent receivables.

**Recommendation 1.1.b—See page 18 of the audit report for information on the related finding.**

To ensure that it manages delinquent leases in an effective and timely manner and collects all the amounts owed to it, the commission should develop and adhere to policies and procedures that incorporate the administrative manual's guidance, including the steps staff should take when a lessee is delinquent, time standards for performing those steps, and a process for consistently tracking the status of delinquent leases between divisions.

***Commission's Action: Fully implemented.***

The commission provided draft policies and procedures that specified the steps staff should take when a lessee is delinquent, including time standards and a process for tracking the status of delinquent leases between divisions. The commission also plans to convene a team of senior management that will meet at least quarterly to discuss delinquent leases. According to the commission, the new process will be in place by November 1, 2011.

**Recommendation 1.1.c—See page 19 of the audit report for information on the related finding.**

To ensure that it manages delinquent leases in an effective and timely manner and collects all the amounts owed to it, the commission should conduct and document cost-benefit analyses when it contemplates either referring a delinquent lessee to the attorney general or pursuing the delinquent lessee through other means.

***Commission's Action: Fully implemented.***

The commission's draft procedures regarding delinquent lessees specify that a management team will make a determination regarding pursuing a delinquent lessee after weighing available resources. According to the commission's chief counsel, while its draft procedures did not use the phrase "cost-benefit analysis," the analysis of whether to pursue a trespass or lease compliance issue includes the elements of a cost-benefit analysis in addition to policy and legal considerations.

**Recommendation 1.2—See pages 19 and 20 of the audit report for information on the related finding.**

When the commission determines that it will pursue delinquent lessees itself, it should use a collection agency or a program such as the Franchise Tax Board's Interagency Intercept Collections Program.

***Commission's Action: Partially implemented.***

The commission determined that it would need special legislation to obtain individual lessee social security numbers in order to participate in the Franchise Tax Board Interagency Intercept Collections program. It also stated that it determined that the liability risks, legal requirements, and obligations to keep such private information safe from disclosure outweigh the potential benefits of obtaining such authority to request that kind of information. However, the commission indicated that it has intensified the collection efforts currently available and it has reduced outstanding past due account receivable significantly. According to the commission, the June 2012 total is \$868,000 compared to the \$1.2 million identified in the state auditor's report and recent actions will reduce the total by another \$225,000. The commission stated that it is confident this trend will continue and that the addition of the lease compliance positions in the fiscal year 2012–13 budget will further enhance these efforts.

**Recommendation 1.3.a—See page 22 of the audit report for information on the related finding.**

To ensure that as few leases as possible go into holdover, the commission should continue to implement its newly established holdover reduction procedures and periodically evaluate whether its new procedures are having their intended effect of reducing the number of leases in holdover.

***Commission's Action: Fully implemented.***

The commission believes that its new holdover reduction procedures are effective with the result that the number of leases in holdover has decreased by 75 percent. As of August 2012 the commission indicated that 27 of the 32 holdover leases identified in the state auditor's report have been eliminated from holdover status.

**Recommendation 1.3.b—See pages 21 and 22 of the audit report for information on the related finding.**

To ensure that as few leases as possible go into holdover, the commission should consistently assess the 25 percent penalty on expired leases.

***Commission's Action: Fully implemented.***

The commission stated that its new holdover reduction policies include a provision to assess the 25 percent penalty.

**Recommendation 1.4.a—See pages 22 and 23 of the audit report for information on the related finding.**

To complete its rent reviews promptly and obtain a fair rental amount for its leases, the commission should consistently notify lessees of impending rent reviews or rental increases within established timelines.

***Commission's Action: Fully implemented.***

The commission stated that it updated a rent review checklist and now requires staff to pull lease files one year in advance of the rent review date rather than nine months. It also indicated that it has a process in place that prioritizes rent reviews for high value or otherwise significant issues. Further, the commission requested and received five additional staff for lease compliance purposes and to accommodate the rent review workload.

**Recommendation 1.4.b—See page 25 of the audit report for information on the related finding.**

To complete its rent reviews promptly and obtain a fair rental amount for its leases, the commission should establish time standards for each step of the rent review process and ensure that all staff adhere to those time standards.

***Commission's Action: Fully implemented.***

The commission provided its rent review policies and procedures that include time standards for each step in the rent review process, including appraisals.

**Recommendation 1.4.c—See pages 25 and 26 of the audit report for information on the related finding.**

To complete its rent reviews promptly and obtain a fair rental amount for its leases, the commission should develop a methodology for prioritizing its workload that focuses its staff on managing the higher revenue generating leases until such time as it addresses its workload needs.

***Commission's Action: Fully implemented.***

The commission provided policies and procedures that instructed staff to focus on managing the higher revenue-generating leases.

**Recommendation 1.4.d—See page 26 of the audit report for information on the related finding.**

To complete its rent reviews promptly and obtain a fair rental amount for its leases, the commission should conduct rent reviews on each fifth anniversary as specified in the lease agreements or consider including provisions in its leases that allow for the use of other strategies, such as adjusting rents annually using an inflation indicator.

***Commission's Action: Fully implemented.***

The commission stated that it is moving forward with a more expanded use of the Consumer Price Index (CPI) in calculating annual rent revisions. In November 2011, according to the commission, it consolidated and simplified the CPI process by using the California CPI as the sole index where feasible on a going-forward basis. Additionally, as indicated for recommendation 1.4.a, the commission received additional staffing that will ensure the five-year rent reviews and appraisals are completed on schedule.

**Recommendation 1.5—See pages 26 and 27 of the audit report for information on the related finding.**

To ensure that it receives rent from the lessee that reflects the approximate value for the State's property at those times when a lessee disputes a modification to the rental amount after the commission exercises its right to perform a rent review or because the lease expired, the commission should include in its lease agreements a provision that requires lessees to pay the commission's proposed increased rental amount, which would be deposited into an account within the Special Deposit Fund. The increased rental amounts deposited, plus the corresponding interest accrued in the account, should then be liquidated in accordance with the amount agreed to in the final lease agreement.

***Commission's Action: No action taken.***

The commission indicated that the aggressive strategies it has implemented should preclude the need for the use of a special deposit fund. Additionally, the commission stated that implementing this recommendation would undermine the leverage achieved by the 25 percent rental increase for holdover leases.

**Recommendation 1.6.a—See page 28 of the audit report for information on the related finding.**

To ensure that it is charging rent based on the most current value of its properties, the commission should appraise its properties as frequently as the lease provisions allow—generally every five years.

***Commission's Action: Fully implemented.***

The commission stated that it reorganized its structure to provide for more direct management of appraisal staff. As part of this, the commission updated its appraisal request form and it was released with a memo from management on how to complete the form. The memo also instructed staff to submit an appraisal request, even in areas where a benchmark is available, if there is reason to believe that a land value appraisal would result in a higher rent than the benchmark. The commission believes that these steps have and will continue to improve the coordination and communication between leasing staff and appraisal staff and ensure that appraisals are completed as frequently as the lease provisions allow (generally every five years). However, according to the commission, implementation of these measures will be temporarily affected by the current lack of appraisal staff, although it hopes to fill two appraisal positions by late summer or early fall of 2012.

**Recommendation 1.6.b—See pages 28—31 of the audit report for information on the related finding.**

To ensure that it is charging rent based on the most current value of its properties, the commission should use the sales comparison method when it establishes values for leases having the greatest revenue potential, and develop policies that specify when and how often it is appropriate to use the other methods of appraising properties. These policies should address the coordination of leasing staff with appraisal staff as part of the process for determining which appraisal method should be used.

***Commission's Action: Fully implemented.***

The commission indicated that the Land Management Division (land management) has directed staff to request sales comparison appraisals for all high value leases. Additionally, it indicated that to improve the coordination of leasing and appraisal staff, land management has reorganized its structure to provide for more direct supervision and management of appraisal staff. In December 2011, the commission issued a memo revising the appraisal process.

**Recommendation 1.7.a—See pages 31 and 32 of the audit report for information on the related finding.**

To ensure that it does not undervalue certain types of leases, the commission should amend its regulations for establishing pipeline rents on state land as staff recommended in the 2010 survey of methods used by agencies in other states to establish pipeline rents.

***Commission's Action: Partially implemented.***

The commission stated that it is moving forward with the regulatory process to revise and update the regulations regarding rents, including those for pipelines. The commission plans to submit its regulatory package to the Office of Administrative Law in September 2012. As part of these regulations, the commission is recommending an increase in pipeline rent from 2 cents per diameter inch per linear foot of pipeline to 5 cents.

**Recommendation 1.7.b—See pages 33 and 34 of the audit report for information on the related finding.**

To ensure that it does not undervalue certain types of leases, the commission should implement and follow its plan to regularly update its benchmarks for determining rental amounts.

***Commission's Action: Partially implemented.***

The commission asserted that it updated all benchmarks other than the Black Point and the Lake Tahoe residential benchmarks. The commission indicated that it plans to complete these benchmarks when the appraisal unit is fully staffed.

**Recommendation 1.7.c—See page 34 of the audit report for information on the related finding.**

To ensure that it does not undervalue certain types of leases, the commission should periodically analyze whether collecting oil royalties in cash or in kind would maximize revenues to the State, and use that method to collect its oil royalties.

***Commission's Action: Fully implemented.***

The commission requested the city of Long Beach to perform an analysis of the sale of oil from the Long Beach leases. The city of Long Beach determined that it will not collect royalties in kind as such sales would be detrimental to the State. Commission staff conducted an analysis of its non-Long Beach leases and made a similar determination.

**Recommendation 2.1.a—See pages 38—40 of the audit report for information on the related finding.**

To improve its monitoring of leases, the commission should create and implement a policy, including provisions for supervisory review, to ensure that the information in the Application Lease Information Database (ALID) is complete, accurate, and consistently entered to allow for the retrieval of reliable lease information. To do so, the commission should consult another public lands leasing entity, such as the Department of General Services, to obtain best practices for a lease tracking database.

***Commission's Action: Fully implemented.***

The commission indicated that the accuracy of the information included in its database continues to improve. According to the commission, as part of its quality control process, the two staff entering data into ALID verify and validate the other's data entry. In addition, the commission stated that other staff have been assigned to audit and validate the information in ALID and management within land management review all input and routinely access the database. The commission also indicated that it participated in a round table discussion with numerous other state agencies that manage significant land holdings and that part of the discussion was devoted to best practices for tracking state properties. Finally, the commission stated that it is currently upgrading the database from MS Access to a net web interface to improve accessibility by all staff.

**Recommendation 2.1.b—See page 39 of the audit report for information on the related finding.**

To improve its monitoring of leases, the commission should require all of its divisions to use ALID as its one centralized lease-tracking database.

***Commission's Action: Fully implemented.***

The commission created five new management reports from information contained in ALID, including four specific reports related to rent reviews, expiring leases, holdover leases, and bond/insurance status, in addition to one master report containing general lease information. It believes that these types of reports should preclude the need for multiple lists and data sources that were kept by staff in the past. The commission asserted that these reports will better assist management in tracking leases and prioritizing lease compliance issues. The commission believes that such a reporting capability should preclude the need for multiple lists and data sources.

**Recommendation 2.2.a—See page 42 of the audit report for information on the related finding.**

To adequately monitor its revenue generating oil and gas leases, the commission should track the recoveries and findings identified in its audits and use this information to develop an audit plan that would focus on leases that have historically generated the most revenue and recoveries for the State, as well as those that historically have had the most problems.

***Commission's Action: Fully implemented.***

The commission developed an audit plan for all mineral leases that considers a combination of factors, including risk. In addition, the commission tracks and submits quarterly reports to the executive officer on the status of findings for the completed audits. It believes that this process will help staff track its findings identified in audits and any associated recoveries. Finally, the commission indicated that it is in the process of hiring auditors and training them in oil and gas operations and the audit process.

**Recommendation 2.2.b—See page 43 of the audit report for information on the related finding.**

To adequately monitor its revenue generating oil and gas leases, the commission should work with lessees that entered into a lease with the commission before 1977 to put in place a reasonable time period within which lessees must resolve other types of deduction claims similar to the regulations already in place for dehydration costs.

***Commission's Action: Fully implemented.***

The commission stated that staff will continue to work with lessees when the opportunity arises to implement the recommendation where appropriate and when it is in the best interests of the State.

**Recommendation 2.2.c—See pages 43 and 44 of the audit report for information on the related finding.**

To adequately monitor its revenue generating oil and gas leases, the commission should explore and take advantage of other approaches to fulfill its auditing responsibilities, such as contracting with an outside consulting firm that could conduct some of its audits on a contingency basis.

***Commission's Action: Fully implemented.***

The commission is currently contracting with an outside consulting firm to audit one of its oil and gas leases. The commission believes that because this approach has proven to be successful, it will continue to be an option.

**Recommendation 2.3—See pages 44 and 45 of the audit report for information on the related finding.**

The commission should establish a monitoring program to ensure that the funds generated from granted lands are expended in accordance with the public trust.

***Commission's Action: Partially implemented.***

State law approved in August 2012 requires the commission to prepare a workload analysis to ensure that it is fulfilling its oversight responsibilities over public trust lands. In addition, according to the commission, it is exploring potential funding sources for its granted lands program pursuant to a request by the Senate and Assembly Budget committees. The commission also indicated that the executive officer has directed a reorganization of those currently working on granted lands issues within a new External Affairs Division. This reorganization is intended to focus attention to this area and result in closer coordination between all divisions on granted lands issues. Finally, the commission asserted that on a limited basis given its constrained resources, it is improving outreach to local trustees and to assist them with their waterfront revitalization programs.

**Recommendation 2.4—See pages 46 and 47 of the audit report for information on the related finding.**

To ensure that all of its oil and gas leases have current surety bonds and liability insurance, as required by law and certain lease agreements, the commission should require lessees to provide documentation of their surety bonds and liability insurance. If the commission believes that assessing a monetary penalty will be effective in encouraging lessees to obtain surety bonds or liability insurance, it should seek legislation to provide this authority. Finally, if it obtains this authority, the commission should enforce it.

***Commission's Action: Partially implemented.***

The commission indicated that, in accordance with the specific language of the recommendation, it has already implemented the recommendation as it relates to the commission's offshore oil and gas leases and that bondsmen are required to give at least a 90-day notice (some are longer) before they

can terminate a bond. According to the commission, it also requires that the offshore lessees show evidence of current bonding and insurance or a replacement bond for any expiring or terminating bond at the annual meetings with all lessees. For its surface leases, the commission stated that it has contacted federal, state, and local agencies with leasing responsibilities, both in California and in other states, and found that many agencies do not require insurance of any kind when leasing to private individuals. The commission also indicated that those that do require insurance communicated significant difficulty in obtaining insurance compliance. In addition, according to the commission, its communications with the insurance industry indicate there is no stand-alone product available that covers recreational piers.

The commission indicated that it has researched the availability of insurance in the California market and found that insurance companies are reluctant to name the State as an additional insured and to provide notice of cancellation to the State. According to the commission, in some instances lessees can obtain insurance, but this appears to be an exception that the companies make to retain clients with large insurance portfolios. However, the commission stated it is exploring other options including strengthening the indemnity provisions in the lease language, contacting the insurance industry and educating them on the market for an insurance product that covers recreational piers, and contacting various insurance companies and attempting to create a pilot program providing insurance coverage.

***Legislative Action: Unknown.***

The state auditor is not aware of any action taken by the Legislature as of December 18, 2012.

**Recommendation 3.1.a—See pages 52 and 53 of the audit report for information on the related finding.**

To better demonstrate its need for additional staff, the commission should conduct a workload analysis to identify a reasonable workload for its staff and use this analysis to quantify the need for additional staff.

***Commission's Action: Fully implemented.***

The commission conducted workload analyses that it included as part of its request for additional staff. Moreover, Chapter 206, Statutes of 2012 (Assembly Bill 2620), among other things, requires the commission, on or before September 1, 2013, to prepare a workload analysis that summarizes the resources necessary for the commission to fulfill its oversight responsibilities related to legislatively granted public trust lands.

**Recommendation 3.1.b—See pages 53—55 of the audit report for information on the related finding.**

To better demonstrate its need for additional staff, the commission should quantify the monetary benefits of its staff's duties other than processing lease applications, and consider billing lessees for those activities.

***Commission's Action: Fully implemented.***

The commission asserted that it has been able to secure a management fee in certain oil, gas, and geothermal producers as well as larger industrial leases to recoup actual costs. It also stated that it is conducting a workload analysis to quantify staff duties as part of its foundational research to establish new minimum rent levels. The commission indicated that the goal in establishing minimum rents based on this methodology is to ensure that most of the lease maintenance costs not currently captured would at least be offset by annual rents and make administration of these leases cost neutral to the State's General Fund.

**Recommendation 3.1.c—See page 55 of the audit report for information on the related finding.**

To better demonstrate its need for additional staff, the commission should ensure that the workload analysis takes into consideration the additional responsibilities and staffing needs that the commission will receive if the section of the state law that provides for rent free leases is repealed.

***Commission's Action: Fully implemented.***

The section of the state law that provided for rent-free leases was repealed during this past legislative session. The commission stated that it identified additional staffing needs in its enrolled bill report.

**Recommendation 3.2—See pages 55—57 of the audit report for information on the related finding.**

To better address current and potential future staffing shortages, as well as the impending loss of institutional knowledge, the commission should create a succession plan.

***Commission's Action: Fully implemented.***

The commission has developed a draft succession plan and it stated that the succession plan will be updated upon completion of its strategic plan by the end of the year.



# Oil Spill Prevention and Administration Fund

## The Department of Fish and Game and the Office of Spill Prevention and Response Need to Improve Their Administration of the Spill Fund

### REPORT NUMBER 2011-123, ISSUED AUGUST 2012

The Department of Fish and Game's<sup>1</sup> (Fish and Game) Office of Spill Prevention and Response (spill office) is responsible for preventing and responding to oil spills and the administrator of the spill office is responsible for administering the Oil Spill Prevention and Administration Fund (spill fund). The revenue for the spill fund is mostly derived from its per-barrel fees, which are charged to owners or operators of crude oil and petroleum products received in California, and the fees paid by certain vessels carrying cargo other than oil, known as nontank vessels. Combined, these fees fund the majority of the spill office's oil spill prevention activities.

This report concludes that Fish and Game misstated the financial condition of the spill fund appearing in the governor's budget for four of the five fiscal years during our audit period from fiscal years 2006–07 through 2010–11. These misstatements were, in part, a result of Fish and Game's budget branch not having written procedures directing staff to reconcile the spill fund's financial condition to the State Controller's Office records. Moreover, the analysts in Fish and Game's budget branch lacked experience and training regarding the preparation of fund condition statements.

State law requires the administrator to produce a three-year projection of the spill fund's future revenues and expenses. Relying at least in part on financial information prepared by the spill office in June 2011, the Legislature recently approved a temporary increase to the per-barrel fee to cover projected deficits in the spill fund. However, the spill office's three-year projection contained inaccuracies because the spill office did not take the steps necessary to verify the accuracy of the financial information included in the projection. A factor that may have affected the three-year projection is the method Fish and Game used to calculate the federal government's share of its indirect administrative costs, such as those costs associated with accounting, personnel services, and general administration. Fish and Game's method for calculating the federal government's share led to an undercharge of \$27.3 million to the Federal Trust Fund that was incurred by other funds administered by Fish and Game. The federal government has agreed to allow Fish and Game to recover this amount over the next three fiscal years. As a result, the spill office will need to consider the reduction in the spill fund's indirect administrative costs when projecting its fund balance and, if necessary, adjust the fees accordingly moving forward.

This report also follows up on recommendations issued in our August 2008 report titled *Office of Spill Prevention and Response: It Has Met Many of Its Oversight and Response Duties, but Interaction With Local Government, the Media, and Volunteers Needs Improvement*, Report 2008-102. In that report, we concluded that Fish and Game's restructuring of certain spill office positions appeared to have caused friction between the spill office and Fish and Game management. To help reduce friction, we recommended that the spill office and other Fish and Game units discuss their respective authority and better define their roles. This report concludes that some of these issues still exist and that they may be resolved with the development of written policies and procedures. Our 2008 report also raised concerns regarding certain employees' salaries being improperly charged to the spill fund; however, we found that Fish and Game has since resolved these issues by providing guidance to its employees and implementing a new time reporting system.

In the report, the California State Auditor (state auditor) made the following recommendations to Fish and Game. The state auditor's determination regarding the current status of recommendations is based on Fish and Game's response to the state auditor as of October 2012.

<sup>1</sup> As of January 1, 2013, the Department of Fish and Game became the Department of Fish and Wildlife.

**Recommendation 1.1.a—See pages 17—19 of the audit report for information on the related finding.**

To prepare and report accurate fund condition statements for inclusion in the governor's budget each year, Fish and Game should ensure that staff in its budget branch follow written procedures to develop fund condition statements.

***Fish and Game's Action: Fully implemented.***

Fish and Game developed written procedures for completing fund condition statements. It also stated that its budget branch has been following these procedures since fiscal year 2011–12. In addition, Fish and Game indicated that, as required by the Department of Finance, starting in fiscal year 2012–13, the budget branch is also completing the Prior Year Adjustments to Special Funds Worksheet (worksheet).

**Recommendation 1.1.b—See pages 17—19 of the audit report for information on the related finding.**

To prepare and report accurate fund condition statements for inclusion in the governor's budget each year, Fish and Game should train both new and existing staff on how to prepare fund condition statements for inclusion in the governor's budget.

***Fish and Game's Action: Fully implemented.***

Fish and Game stated that its budget branch has a primary analyst and back-up analyst assigned to develop fund condition statements and that both current analysts have been trained in using its new written procedures and the worksheet. Fish and Game explained that if staff change, either due to attrition or assignment changes, new staff will be trained in using the written procedures and the worksheet to ensure that the budget branch continues to follow these procedures when developing the fund condition statements.

**Recommendation 1.2.a—See pages 20 and 21 of the audit report for information on the related finding.**

To ensure that three-year projections of the spill fund's revenues, expenditures, and fund balances, all of which are used to determine fee rates, are based on accurate financial information, the spill office should develop written procedures directing staff on how to prepare the three-year projection, including steps to verify the accuracy of the financial information in the projection. In developing these procedures, the spill office should consult with Fish and Game's accounting branch and budget branch to confirm that these procedures are thorough and complete.

***Fish and Game's Action: Fully implemented.***

Fish and Game developed written procedures that direct staff on how to prepare the three-year projection of the spill fund's revenues, expenditures, and fund balances.

**Recommendation 1.2.b—See pages 21—23 of the audit report for information on the related finding.**

To ensure that three-year projections of the spill fund's revenues, expenditures, and fund balances, all of which are used to determine fee rates, are based on accurate financial information, the spill office should consider the reduction in the spill fund's costs, as a result of the recovery of indirect administrative costs, when projecting its fund balance moving forward.

***Fish and Game's Action: Pending.***

Fish and Game stated that its budget office will factor the recovery of indirect administrative costs in its determination of the spill fund's share of these recovered costs. It also indicated that the spill office will consider this recovery when estimating fund projections.

**Recommendation 1.3—See pages 21—23 of the audit report for information on the related finding.**

To prevent under- or over-recovery of federal funds, Fish and Game should regularly reassess whether using budgeted expenditures or actual expenditures will produce the most accurate results.

***Fish and Game's Action: Pending.***

Fish and Game stated that its accounting services branch (accounting branch) submits its Indirect Cost Rate Proposal annually to the U.S. Department of Interior and that in November 2012, the accounting branch will be preparing the new proposal for fiscal year 2013–14. Fish and Game asserted that it will reassess the method used at that time as well as make adjustments as needed.

**Recommendation 1.4—See pages 23—26 of the audit report for information on the related finding.**

To eliminate confusion about the authority of the spill office and its relationship with Fish and Game, the Legislature should consider amending state law to clarify its intent regarding the administrator's authority.

***Legislative Action: Unknown.***

The state auditor is not aware of any action taken by the Legislature as of December 18, 2012.

**Recommendation 1.5.a—See pages 23—26 of the audit report for information on the related finding.**

To ensure that the spill office continues to work consistently with other entities to resolve issues with the use of staff and equipment and that it has the necessary resources to carry out its operations, the spill office should develop written policies and procedures with Fish and Game enforcement regarding staffing decisions.

***Spill Office's Action: Pending.***

Fish and Game explained that it has completed draft guidelines regarding the coordination of the spill office and Fish and Game enforcement and the current target for adoption of these guidelines is January 1, 2013.

**Recommendation 1.5.b—See pages 23—26 of the audit report for information on the related finding.**

To ensure that the spill office continues to work consistently with other entities to resolve issues with the use of staff and equipment and that it has the necessary resources to carry out its operations, the spill office should develop written policies and procedures with Fish and Game's IT unit regarding the coordination of response to system outages.

***Spill Office's Action: Pending.***

Fish and Game stated that it has completed draft guidelines regarding the coordination of the spill office and Fish and Game's IT unit, and the current target for adoption of these guidelines is January 1, 2013.

**Recommendation 1.5.c—See pages 23—26 of the audit report for information on the related finding.**

To ensure that the spill office continues to work consistently with other entities to resolve issues with the use of staff and equipment and that it has the necessary resources to carry out its operations, the spill office should develop written policies and procedures with the State Lands Commission (State Lands) regarding its disclosure of budget change proposals affecting the spill fund.

***Spill Office's Action: Fully implemented.***

The spill office and State Lands have completed a memorandum of understanding (MOU) regarding the spill fund. State Lands stated that this MOU will ensure that the two entities share budget change concept proposals, budget change proposals, and the spill fund's fund condition and fund projection information.

**Recommendation 1.6—See pages 26—29 of the audit report for information on the related finding.**

To comply with state law, State Lands should develop time sheet review procedures to ensure that its employees charge the spill fund only for oil spill prevention activities and that those charges are accurate.

***State Lands' Action: Fully implemented.***

State Lands has updated its time reporting instructions, which are included in its employee information guide and are accessible by all State Lands' employees on its intranet. State Lands' executive officer also sent a memorandum to all State Lands' managers and supervisors emphasizing the importance of the time report review and approval process. Finally, it stated that administrative staff have also been directed to conduct time reporting training for all staff.

# Sex Offender Commitment Program

## Streamlining the Process for Identifying Potential Sexually Violent Predators Would Reduce Unnecessary or Duplicative Work

### REPORT NUMBER 2010-116, ISSUED JULY 2011

This report concludes that the Department of Corrections and Rehabilitation (Corrections) and the Department of Mental Health's (Mental Health)<sup>1</sup> processes for identifying and evaluating sexually violent predators (SVPs) are not as efficient as they could be and at times have resulted in the State performing unnecessary work. The current inefficiencies in the process for identifying and evaluating potential SVPs stems in part from Corrections' interpretation of state law. These inefficiencies were compounded by recent changes made by voters through the passage of Jessica's Law in 2006. Specifically, Jessica's Law added more crimes to the list of sexually violent offenses and reduced the required number of victims to be considered for the SVP designation from two to one, and as a result many more offenders became potentially eligible for commitment. Additionally, Corrections refers all offenders convicted of specified criminal offenses enumerated in law but does not consider whether an offender committed a predatory offense or other factors that make the person likely to be an SVP, both of which are required by state law. As a result, the number of referrals Mental Health received dramatically increased from 1,850 in 2006 to 8,871 in 2007, the first full year Jessica's Law was in effect. In addition, in 2008 and 2009 Corrections referred 7,338 and 6,765 offenders, respectively. However, despite the increased number of referrals it received, Mental Health recommended to the district attorneys or the county counsels responsible for handling SVP cases about the same number of offenders in 2009 as it did in 2005, before the voters passed Jessica's Law. In addition, the courts ultimately committed only a small percentage of those offenders. Further, we noted that 45 percent of Corrections' referrals involved offenders whom Mental Health previously screened or evaluated and had found not to meet SVP criteria. Corrections' process did not consider the results of previous referrals or the nature of parole violations when re-referring offenders, which is allowable under the law.

Our review also found that Mental Health primarily used contracted evaluators to perform its evaluations—which state law expressly permits through the end of 2011. Mental Health indicated that it has had difficulty attracting qualified evaluators to its employment and hopes to remedy the situation by establishing a new position with higher pay that is more competitive with the contractors. However, it has not kept the Legislature up to date regarding its efforts to hire staff to perform evaluations, as state law requires, nor has it reported the impact of Jessica's Law on the program.

In the report, the California State Auditor (state auditor) made the following recommendations to Mental Health and Corrections. The state auditor's determination regarding the current status of recommendations is based on Mental Health's and Corrections' responses to the state auditor as of July 2012 and August 2012, respectively.

#### **Recommendation 1.1—See pages 15—17 of the audit report for information on the related finding.**

To enable it to track trends and streamline processes, Mental Health should expand the use of its database to capture more specific information about the offenders whom Corrections refers to it and the outcomes of the screenings and evaluations that it conducts.

#### ***Mental Health's Action: Fully implemented.***

Mental Health has completed database enhancements that will enable it to track more specific information related to victims, offenders, offenses, clinical screening outcomes, and evaluation outcomes.

<sup>1</sup> As of July 1, 2012, the Department of Mental Health became the Department of State Hospitals.

**Recommendation 1.2.a—See pages 19 and 20 of the audit report for information on the related finding.**

To eliminate duplicative effort and increase efficiency, Corrections should not make unnecessary referrals to Mental Health. Corrections and Mental Health should jointly revise the structured screening instrument so that the referral process adheres more closely to the law's intent.

***Mental Health's Action: No action taken.***

- ➔ Although Mental Health indicates that referrals from Corrections have declined, it did not specify any actions taken to revise the structured screening instrument. Mental Health stated that referral efficiencies have been realized through the implementation of Assembly Bill 109 and that referrals from Corrections for January through June 2012 were significantly lower than in previous years. Mental Health stated that it now agrees that all of the referrals received from Corrections require review by Mental Health staff.

**Recommendation 1.2.b—See pages 19—23 of the audit report for information on the related finding.**

To eliminate duplicative effort and increase efficiency, Corrections should not make unnecessary referrals to Mental Health. For example, Corrections should better leverage the time and work it already conducts by including in its referral process: (1) determining whether the offender committed a predatory offense, (2) reviewing results from any previous screenings and evaluations that Mental Health completed and considering whether the most recent parole violation or offense might alter the previous decision, and (3) using the State Authorized Risk Assessment Tool for Sex Offenders (STATIC-99R) to assess the risk that an offender will reoffend.

***Corrections' Action: No action taken.***

- ➔ Although Corrections explored what additional screening it could do before making referrals to Mental Health, it chose not to implement any of the changes we recommended to its referral process. Corrections stated that it has determined that the STATIC-99 scores should continue to be part of the Mental Health clinical evaluation and should not be used by Corrections to screen out a case prior to referral to Mental Health for evaluation. Corrections also stated that due to the Public Safety Realignment Act, Corrections no longer receives parole violators. Corrections stated that it and its Board of Parole Hearings will review previous screening results and refer the case to Mental Health. Corrections and its Board of Parole Hearings stated that it believes that Mental Health is better qualified to determine whether the current offense would alter a prior determination based on a clinical evaluation of the current offense and its possible physiological connectedness with the previous sex offense.

**Recommendation 1.3—See pages 23 and 24 of the audit report for information on the related finding.**

To allow Mental Health sufficient time to complete its screenings and evaluations, Corrections should improve the timeliness of its referrals. If it does not achieve a reduction in referrals from implementing recommendation 1.2.b, Corrections should begin the referral process earlier than nine months before offenders' scheduled release dates in order to meet its six-month statutory deadline.

***Corrections' Action: Fully implemented.***

Corrections provided a memorandum issued in August 2011 adjusting its timelines and transmittal methods for SVP cases. Corrections also implemented a new database for tracking SVP cases and indicated that it tracks referral dates to its Board of Parole Hearings and Mental Health. Additionally, Corrections stated that the number of cases referred to Mental Health has decreased significantly as a result of Public Safety Realignment. Corrections provided a report from its tracking system showing a reduction in referrals to Mental Health.

**Recommendation 1.4—See pages 27—29 of the audit report for information on the related finding.**

To reduce costs for unnecessary evaluations, Mental Health should either issue a regulation or seek a statutory amendment to clarify that when resolving a difference of opinion between the two initial evaluators of an offender, Mental Health must seek the opinion of a fourth evaluator only when a third evaluator concludes that the offender meets SVP criteria.

***Mental Health's Action: Partially implemented.***

Mental Health stated that it is moving forward with a regulation that would allow it to seek the opinion of a fourth evaluator only when a third evaluator concludes that the offender meets the SVP criteria when resolving a difference of opinion between the two initial evaluators. As of August 2012 Mental Health states that its legal office is reviewing the final documents for submission to the Office of Administrative Law.

**Recommendation 1.5—See pages 29—32 of the audit report for information on the related finding.**

To ensure that it will have enough qualified staff to perform evaluations, Mental Health should continue its efforts to obtain approval for a new position classification for evaluators. If the State Personnel Board<sup>2</sup> (SPB) approves the new classification, Mental Health should take steps to recruit qualified individuals as quickly as possible. Additionally, Mental Health should continue its efforts to train its consulting psychologists to conduct evaluations.

***Mental Health's Action: Partially implemented.***

According to Mental Health, it received approval for the SVP Evaluator classification from the SBP in March 2012 and began immediate recruitment. Although Mental Health reported that it expects to fill 35 evaluator positions by the end of July 2012, it did not provide documentation to show how many have been hired so far. Additionally, Mental Health provided documentation to show it is continuing efforts to provide training to its consulting psychologists to conduct evaluations and asserted that all existing consulting psychologists have received the training. However, it has not yet provided us with the documentation we requested to demonstrate who attended the training.

**Recommendation 1.6—See page 32 of the audit report for information on the related finding.**

To ensure that the Legislature can provide effective oversight of the program, Mental Health should complete and submit as soon as possible its reports to the Legislature about Mental Health's efforts to hire state employees to conduct evaluations and about the impact of Jessica's Law on the program.

***Mental Health's Action: Pending.***

Mental Health stated that it submitted to the Legislature a combined report on its efforts to hire state employees to conduct evaluations for the periods of July 2011 and January 2012 and that it is updating the data contained in the report regarding the impact of Jessica's Law. However, Mental Health has not provided us with copies of those reports.

<sup>2</sup> On July 1, 2012, the State Personnel Board and the Department of Personnel Administration were combined to create the California Department of Human Resources.



# California Prison Industry Authority

## It Can More Effectively Meet Its Goals of Maximizing Inmate Employment, Reducing Recidivism, and Remaining Self-Sufficient

### REPORT NUMBER 2010-118, ISSUED MAY 2011

This report concludes that although one of its primary responsibilities is to offer inmates the opportunity to develop effective work habits and occupational skills, the California Prison Industry Authority (CALPIA) cannot determine the impact it makes on post-release inmate employability because it lacks reliable data. Specifically, both CALPIA and a consultant it hired were unable to match the social security number of parolees from the California Department of Corrections and Rehabilitation's (Corrections) Offender Based Information System to employment data from the Employment Development Department. We attempted to measure CALPIA's impact using a different source—Corrections' CalParole Tracking System (CalParole)—but could not because we found more than 33,000 instances of erroneous parolee employer information in this system. Our audit also revealed that while CALPIA created a set of comprehensive performance indicators for the entire organization, its opportunity to track its performance is limited because it only recently finalized a tracking matrix in March 2011. Moreover, several of these indicators are either vague or not measurable.

We also noted that CALPIA could improve the accuracy of its annual reports to the Legislature. Although we found that the recidivism rate for parolees who worked for CALPIA were consistently lower than the rates of the general prison population, CALPIA overstated by \$546,000 the savings it asserts result from the lower recidivism rate. Further, CALPIA did not acknowledge that factors other than participating in one of its work programs may have contributed to the lower recidivism rates among its parolees.

CALPIA's closure of more enterprise locations than it has opened has resulted in a decline of work opportunities for inmates. Since 2004 it has established two new enterprises and reactivated or expanded four others; however, during the same time period it closed, deactivated, or reduced the capacity of six other enterprises at 10 locations, resulting in a net loss of 441 inmate positions. Finally, although CALPIA's five largest state agency customers paid more for certain CALPIA products, overall they saved an estimated \$3.1 million during fiscal year 2009–10 when purchasing the 11 products and services that we evaluated.

In the report, the California State Auditor (state auditor) made the below recommendations to CALPIA and Corrections. The state auditor's determination regarding the current status of recommendations is based on CALPIA's and Corrections' responses to the state auditor as of May 2012.

#### **Recommendation 1.1.a—See pages 17—20 of the audit report for information on the related finding.**

To improve the reliability of employment data contained in CalParole, Corrections should ensure that parole agents correctly follow procedures related to populating the data fields of and maintaining CalParole.

#### ***Corrections' Action: Pending.***

According to clarifications we received from Corrections in August 2012 regarding its May 2012 response, it intends to release a policy memorandum to provide direction to field staff about entering offender data into CalParole, which will include detail on the integrity of employment information. This policy memorandum shall establish a statewide standard relative to data entry to CalParole, including ramifications for staff noncompliance with this standard. In August 2012 Corrections stated that the policy was under review and would be released upon executive approval. In addition to the policy memorandum, CalParole has been upgraded to include employment status fields. As a result, Corrections stated that the new Parole Performance Index (PPI), a tool used to monitor data input within CalParole, is now capable of extracting the necessary employment status data from CalParole for data analysis and reporting purposes.

**Recommendation 1.1.b—See pages 17—20 of the audit report for information on the related finding.**

In addition, supervisors of parole agents should conduct periodic reviews of parolee files to verify whether employment fields are completed appropriately and whether employment is documented adequately.

***Corrections' Action: Pending.***

In addition to existing department procedures that require parole agent supervisors to review all cases subject to active supervised parole, Corrections indicated it developed the PPI as a secondary monitoring tool for parole agent supervisors to ensure data input to CalParole is correct. Further, Corrections stated that it will release a policy memorandum outlining the use of the PPI. The policy memorandum is to include instruction for managers to audit the frequency and quality of CalParole updates. According to Corrections, coupled with a supervisory file review, the PPI will serve to assist supervisors in monitoring the integrity of data within CalParole. Corrections stated that the policy memorandum is complete and ready to be released, however, it has encountered a technical issue with the electronic user guide, which it referred to the software developer for resolution. According to Corrections, the policy memorandum will be immediately released to all Division of Adult Parole Operations (Parole) staff once this technical issue is resolved.

**Recommendation 1.2—See pages 17—20 of the audit report for information on the related finding.**

As Corrections prepares to move CalParole data into the Strategic Offender Management System (SOMS), it should modify existing employment related fields and add to SOMS new fields that are currently not available in CalParole so that Corrections can minimize the opportunity for erroneous data entries and make employment data more reliable.

***Corrections' Action: Pending.***

According to Corrections, it is in the process of modifying existing employment-related fields in SOMS in a thorough, more detailed manner than that currently captured within CalParole. It expects to complete these modifications by the middle of 2013. Also, according to Corrections, upon full implementation of the parole modules in mid-2013, SOMS will provide the ability for Parole supervisors to conduct case reviews electronically. SOMS will be implemented for all Parole field and office staff statewide, and will require use of SOMS as the system of record for all parole information. As a result, Corrections stated that SOMS will replace CalParole.

**Recommendation 1.3—See pages 20—23 of the audit report for information on the related finding.**

To ensure that it has a uniform set of inmate assignment standards, CALPIA should continue its efforts to issue regulations and complete the amendment of Corrections' operations manual. It should then work with Corrections to implement the changes to the inmate assignment criteria and the assignment process when the regulations take effect.

***CALPIA's Action: Pending.***

According to clarifications we received from CALPIA in August 2012 regarding its May 2012 response, the Prison Industry Board approved its proposed inmate hiring and assignment criteria in April 2012. CALPIA stated that it filed the regulations with the Office of Administrative Law in May 2012. It estimates the regulations will become effective by December 2012 after the completion of the comment period and response to any public comments.

**Recommendation 1.4.a—See pages 23—25 of the audit report for information on the related finding.**

To allow it to measure progress in meeting the goals in its strategic plan, CALPIA should ensure that all of its performance indicators are clear, measurable, and consistently tracked. It should also continue its efforts to properly measure its performance and to track each performance indicator.

***CALPIA's Action: Fully implemented.***

According to CALPIA, it formed a strategic business council of five CALPIA managers, who are each responsible for one of the five strategic plan goals. The strategic business council is to assess progress on the goals each month. Further, at least monthly, these five managers also meet with their staff to assess whether its strategic business plan's underlying objectives and action steps are relevant to accomplishing the plan's goals and that measures used to track progress are properly utilized.

In addition, CALPIA indicates that its performance measurement matrix has been improved to capture results with performance indicators in a dashboard-style chart that uses color codes and is updated and reviewed monthly by management. Instructions have been developed to provide clear and standardized instructions for managers and staff when reporting and utilizing the improved performance measurement dashboard matrix.

**Recommendation 1.4.b—See pages 23—25 of the audit report for information on the related finding.**

Further, CALPIA needs to create a process that will allow its management to review the results of performance tracking and ensure that the results can be recreated at least annually.

***CALPIA's Action: Fully implemented.***

CALPIA indicates the strategic business council reviews the performance measurement dashboard on a monthly basis. Further, to ensure that its results can be recreated at least annually, CALPIA states that it retains all documentation related to its strategic planning efforts. This documentation includes minutes of meetings, project management timelines, completed performance measure checklists, data collection and analysis, and periodic compilations of performance results for the five strategic goals.

**Recommendation 1.5.a—See pages 25—29 of the audit report for information on the related finding.**

CALPIA should maintain the source documentation used in calculating the savings it brings to the State as well as ensure that an adequate secondary review of its calculation occurs.

***CALPIA's Action: Pending.***

According to CALPIA, it has hired two graduate student assistants to review CALPIA's recidivism calculation and revise the calculation as needed. CALPIA indicated that it is utilizing the Washington State Institute for Public Policy's report titled, *The Comparative Costs and Benefits of Programs to Reduce Crime* as a foundation for the calculation's methodology. CALPIA estimates that it will complete the recidivism cost savings calculation study by October 1, 2012, assuming its exemption request to keep the student assistants is approved. Once the final recidivism calculation has been produced, CALPIA indicates it will memorialize the calculation's methodology and supporting documentation so the same figures can be reproduced or updated as needed.

**Recommendation 1.5.b—See pages 25—29 of the audit report for information on the related finding.**

It should also qualify its savings by stating that employment at CALPIA enterprises may be just one of several factors that contribute to the lower recidivism of its inmates.

***CALPIA's Action: Pending.***

CALPIA agrees that there may be other factors that contribute to the lower recidivism rate of CALPIA participants. According to CALPIA, since the completion of our audit, it has endeavored to develop a more accurate method to calculate the recidivism rate of its inmates and the related savings to the State's general fund. CALPIA stated that upon completion of the recidivism study, it will provide qualifying information about the recidivism calculation, including other contributing factors, if they are found.

**Recommendation 2.1—See page 34 of the audit report for information on the related finding.**

CALPIA should continue to use its recently improved method of identifying new product ideas and the changing needs of state agencies.

***CALPIA's Action: Fully implemented.***

CALPIA states that it is continuing to use the recently updated product development process to ensure product and enterprise concepts are properly screened prior to their launch. It also indicates that it is documenting instructions for using this process on the CALPIA intranet for staff.

**Recommendation 2.2—See pages 37 and 38 of the audit report for information on the related finding.**

When performing analyses to establish prices for its products, CALPIA should document the basis for each product's or service's profit margin and should also ensure that it always considers and documents market data when making pricing decisions.

***CALPIA's Action: Fully implemented.***

CALPIA indicates that each product price analysis now includes the basis for the product's profit margin as well as market data for comparable products.

**Recommendation 2.3—See pages 43 and 45 of the audit report for information on the related finding.**

CALPIA should continue to ensure that its managers use the estimated net profit report on a regular basis to review the profitability of each enterprise and to make decisions on how to improve the profitability of those enterprises that are unprofitable.

***CALPIA's Action: Fully implemented.***

CALPIA asserts it continues to ensure that managers use the estimated net profit report to monitor each enterprise's profitability.

# Department of Corrections and Rehabilitation

## The Benefits of Its Correctional Offender Management Profiling for Alternative Sanctions Program Are Uncertain

### REPORT NUMBER 2010-124, ISSUED SEPTEMBER 2011

Our report concludes that the benefits from the Department of Corrections and Rehabilitation's (Corrections) use of the Correctional Offender Management Profiling for Alternative Sanctions Program (COMPAS) are, at best, uncertain. Specifically, Corrections' use of COMPAS in its reception centers—facilities where inmates entering the correctional system are evaluated and assigned to a prison—does not meaningfully affect its decision making concerning prison assignments, and by extension, the rehabilitative programs inmates might access at those facilities. Further, the COMPAS core assessment identifies up to five different needs; however, Corrections has rehabilitative programs that address only two. Corrections has not established regulations defining how COMPAS assessments are to be used despite legal requirements to do so.

Our review also revealed other problems with Corrections' deployment of COMPAS that negatively affect its usefulness. Some correctional staff we spoke with at reception centers and parole offices indicated a lack of acceptance of COMPAS, suggesting the need for further training or clarification regarding COMPAS's value. Further, Corrections' use of COMPAS for placing inmates into its in-prison rehabilitative programs is limited to its substance abuse program. However, we found that many in this program either lack COMPAS assessments or have a low COMPAS-identified need for substance abuse treatment. Moreover, relatively few inmates with moderate to high substance abuse treatment needs, as determined through the COMPAS core assessment, are assigned to a treatment program. Finally, we found that Corrections lacks accounting records demonstrating how much it cost to fully deploy and implement COMPAS at its reception centers, prisons, and parole offices.

In the report, the California State Auditor (state auditor) made the following recommendations to Corrections. The state auditor's determination regarding the current status of recommendations is based on Corrections' response to the state auditor as of September 2012.

#### **Recommendation 1.1.a—See pages 21, 37, and 38 of the audit report for information on the related finding.**

To ensure that the State does not spend additional resources on COMPAS while its usefulness is uncertain, Corrections should suspend its use of the COMPAS core and reentry assessments until it has issued regulations and updated its operations manual to define how Corrections' use of COMPAS will affect decision making regarding inmates, such as clarifying how COMPAS results will be considered when sending inmates to different prison facilities, enrolling them in rehabilitative programs to address their criminal risk factors, and developing expectations for those on parole.

#### ***Corrections' Action: No action taken.***

Corrections stated that it does not agree with our recommendation to temporarily suspend its use of COMPAS. During the audit, we had noted that COMPAS did not play a significant role when deciding where inmates should be housed, and by extension, the rehabilitative programs they receive at those prison facilities. Instead, Corrections' staff more frequently considered other factors, such as an inmate's security level and available bed space.

Corrections has not suspended its use of COMPAS and has not developed regulations that are responsive to our recommendation. In May 2012 Corrections adopted emergency regulations that defined COMPAS and required its use for those inmates entering the correctional system and those undergoing their annual reviews. Further, the emergency regulations require Corrections' staff to use COMPAS assessments when determining the inmate's placement into rehabilitative programs.

However, the regulations do not clarify how COMPAS results will be acted upon given the importance of other inmate factors. As a result, it remains unclear if COMPAS will meaningfully influence inmate placement in rehabilitative programs. Finally, Corrections' parole staff acknowledged that they have not developed regulations defining the appropriate use of COMPAS for those beginning parole.

**Recommendation 1.1.b—See page 29 of the audit report for information on the related finding.**

To ensure that the State does not spend additional resources on COMPAS while its usefulness is uncertain, Corrections should suspend its use of the COMPAS core and reentry assessments until it has demonstrated to the Legislature that it has a plan to measure and report COMPAS's effect on reducing recidivism. Such a plan could consider whether inmates enrolled in a rehabilitative program based on a COMPAS assessment had lower recidivism rates than those provided rehabilitative programming as a result of non-COMPAS factors.

*Corrections' Action: No action taken.*

- ➔ Corrections did not provide a plan or methodology for considering whether inmates enrolled in rehabilitative programs as a result of COMPAS had lower recidivism rates once released. Corrections indicated that it plans to provide some information on recidivism rates for those receiving a COMPAS assessment sometime in the fall of 2012. Finally, Corrections' response did not indicate that it communicated with the Legislature regarding how it plans to measure COMPAS' usefulness.

**Recommendation 1.2.a—See pages 19, 20, and 37 of the audit report for information on the related finding.**

Once Corrections resumes its use of COMPAS core and reentry assessments, it should provide ongoing training to classification staff representatives, parole agents, and others that may administer or interpret COMPAS assessment results to ensure that COMPAS is a valuable inmate assessment and planning tool.

*Corrections' Action: No action taken.*

- ➔ Corrections provided employee sign-in sheets as evidence that it provided training to certain correctional staff, along with examples of the material provided at these training sessions. These training materials are primarily related to conducting COMPAS assessments and thus it does not appear that the training helps ensure that COMPAS plays a more prominent role in inmate decision making and that Corrections' staff has a better understanding of how to use COMPAS now than they did at the time of our audit.

**Recommendation 1.2.b—See pages 28 and 36 of the audit report for information on the related finding.**

Once Corrections resumes its use of COMPAS core and reentry assessments, it should develop practices or procedures to periodically determine whether its staff are using COMPAS core or reentry assessments as intended. Such a process might include performing periodic site visits to corroborate that COMPAS is being used as required.

*Corrections' Action: Partially implemented.*

According to Corrections, it has completed an initial draft of the site visit process and a final version will be prepared for executive review. In addition, Corrections reported that it has completed an initial draft of a weekly COMPAS report that will outline issues identified during the site visits and is soliciting feedback on the report from staff. However, Corrections did not provide any evidence to corroborate its assertions.

**Recommendation 1.2.c—See page 23 of the audit report for information on the related finding.**

Once Corrections resumes its use of COMPAS core and reentry assessments, it should develop practices or procedures to periodically compare the demand for certain rehabilitative programs, as suggested by a COMPAS core assessment, to the existing capacity to treat such needs.

***Corrections' Action: Partially implemented.***

Corrections asserts that it has fully implemented this recommendation, but we disagree. Corrections indicates that it provides monthly data reports that show the number of inmates with medium to high needs—based on a COMPAS assessment—that are in rehabilitative programs, citing evidence it provided to us during an earlier response. Although we saw at one time Corrections tracked whether inmates in its substance abuse program had medium or high COMPAS scores, Corrections did not provide evidence to demonstrate that this practice is still taking place for both its substance abuse and other rehabilitative programs. Further, Corrections did not provide evidence that it was using COMPAS scores to determine which rehabilitative programs are needed the most and where.

**Recommendation 1.3.a—See pages 39 and 40 of the audit report for information on the related finding.**

To ensure transparency and accountability for costs associated with information technology projects such as COMPAS, Corrections should disclose that it lacks accounting records to support certain COMPAS expenditure amounts it reported to the California Technology Agency and seek guidance on how to proceed with future reporting requirements for its deployment of the COMPAS core assessment to its adult institutions.

***Corrections' Action: Fully implemented.***

Corrections' staff met with the California Technology Agency in October 2011 and disclosed that it lacked accounting records to support certain COMPAS expenditures that Corrections has been submitting to the California Technology Agency. The California Technology Agency stated that Corrections' reporting of COMPAS costs were appropriate.

**Recommendation 1.3.b—See page 40 of the audit report for information on the related finding.**

To ensure transparency and accountability for costs associated with information technology projects such as COMPAS, Corrections should develop policies to ensure that accounting or budget management personnel are involved in the project planning phase of future information technology projects so that appropriate accounting codes are established for reporting actual project costs.

***Corrections' Action: Fully implemented.***

Corrections has modified its project management manual to require those responsible for information technology projects to obtain an accounting code—referred to as a functional area code—from Corrections' budget and accounting staff. Corrections provided us with revisions to its policy manuals and cost-tracking tools to demonstrate it had implemented our recommendation.



## Office of Traffic Safety

### Although It Exercises Limited Oversight of Sobriety Checkpoints, Law Enforcement Agencies Have Complied With Applicable Standards

#### REPORT NUMBER 2011-110, ISSUED FEBRUARY 2012

This report concludes that neither federal nor state laws establish standards by which law enforcement agencies must administer checkpoints. Instead, rulings issued by the California Supreme Court (court) have resulted in a set of guidelines for administering checkpoints. The State's Office of Traffic Safety (OTS) does not formally monitor grant recipients' adherence to these court rulings—nor is it required to under federal or state law—but instead focuses its monitoring efforts on ensuring grant recipients perform the expected number of checkpoints and spend grant funds properly. All of OTS's funding for checkpoints comes from the federal government and OTS's monitoring efforts are focused on ensuring that federal requirements are met. Our review found that OTS's monitoring practices were reasonable and also noted that the National Highway Traffic Safety Administration (NHTSA) commended OTS for its grant monitoring practices in 2010.

In addition, we reviewed documentation for a single checkpoint at five different law enforcement agencies to assess compliance with the court's rulings and to document the outcomes of these checkpoints. Our review found that law enforcement could reasonably demonstrate their adherence to the court's guidelines. We also noted that checkpoints often resulted in citations for nonalcohol-related offenses, and in many cases, these citations resulted in the motorist's vehicle being towed. Based on our review of federal regulations and discussions with NHTSA, we also determined that revenue resulting from federally funded checkpoints, such as vehicle release fees assessed on impounded vehicles towed from checkpoints, can be used by law enforcement for their own purposes. Finally, our discussions with these five law enforcement agencies, as well as the results of a survey performed by the University of California at Berkeley, found that the amount of these vehicle release fees vary.

In the report, the California State Auditor (state auditor) made the following recommendation to the Legislature. The state auditor's determination regarding the current status of the recommendation is based on legislative actions as of December 2012.

#### **Recommendation 1—See pages 11 and 12 of the audit report for information on the related finding.**

If the Legislature desires to receive periodic information on whether law enforcement agencies comply with existing checkpoint guidelines across the State, it should consider amending state law to require OTS to evaluate and include this information in its annual report. Such an amendment should also require OTS to recommend statutory changes if it identifies widespread problems at checkpoints.

#### ***Legislature's Action: Unknown.***

The state auditor is not aware of any action taken by the Legislature as of December 18, 2012.



# Juvenile Justice Realignment

## Limited Information Prevents a Meaningful Assessment of Realignment's Effectiveness

### REPORT NUMBER 2011-129, ISSUED SEPTEMBER 2012

This report concludes that limited information and a lack of clear goals prevent a meaningful assessment of the outcomes of juvenile justice realignment. In particular, as part of the realignment law, the Board of State and Community Corrections (board) is required to issue annual reports regarding counties' use of block grant funds. Although not specifically required by state law, we would expect the reports to allow the Legislature to make assessments regarding the outcomes of realignment. However, the board's reports are based on a flawed methodology and, therefore, should not be used for this purpose. Moreover, the board's reports could mislead decision makers about the effectiveness of realignment by making it appear that realignment has not been effective when this may not be the case. Because of the problems we identified with the board's reports, we did not use them to assess the outcomes of realignment. Instead, we attempted to use juvenile justice data from the counties as well as from the Department of Justice (Justice) and the California Department of Corrections and Rehabilitation (Corrections); however, we discovered limitations to these data that further impeded our ability to draw conclusions about realignment.

Furthermore, the realignment law did not clearly specify the goals or intended outcomes of realignment. Without clear goals, measuring whether realignment has been successful is challenging. Nonetheless, the chief probation officers of the four counties we visited all believe that realignment has been effective based on various indicators, such as a reduction in juvenile crime, new and enhanced services, and reduced state costs. In support of these assertions, we found evidence suggesting that realignment may have had positive outcomes for many juvenile offenders and thus for the State. Although these indicators are encouraging, the limited—and potentially misleading—juvenile justice data that are currently available makes any measurement of realignment outcomes arbitrary and may not fully represent the impact realignment has had on juvenile offenders and the State as a whole.

In the report, the California State Auditor (state auditor) made the following recommendations to the board, Justice, and Corrections. The state auditor's determination regarding the current status of recommendations is based on the responses from the board, Justice, and Corrections to the state auditor as of November 2012.

#### **Recommendation 1.1—See pages 22—28 of the audit report for information on the related finding.**

To ensure that it has the information necessary to meaningfully assess the outcomes of juvenile justice realignment, the Legislature should consider amending state law to require counties to collect and report countywide performance outcomes and expenditures related to juvenile justice as a condition of receiving Youthful Offender Block Grant (block grant) funds. In addition, the Legislature should require the board to collect and report these data in its annual reports, rather than outcomes and expenditures solely for the block grant.

#### ***Legislative Action: Unknown.***

The state auditor is not aware of any action taken by the Legislature as of December 18, 2012.

#### **Recommendation 1.2.a—See pages 22—26 of the audit report for information on the related finding.**

To improve the usefulness of its reports so that they can be used to assess the outcomes of realignment, the board should work with counties and relevant stakeholders, such as the committee that established performance outcome measures for the block grant, to determine the data that counties should report. To minimize the potential for creating a state mandate, the board should take into consideration the information that counties already collect to satisfy requirements for other grants.

***Board's Action: No action taken.***

➔ The board did not specifically address this recommendation in its response.

**Recommendation 1.2.b—See pages 22—24 of the audit report for information on the related finding.**

To improve the usefulness of its reports so that they can be used to assess the outcomes of realignment, if the Legislature chooses not to change the law as suggested, or if the counties are unable to report countywide statistics, the board should discontinue comparing outcomes for juveniles who receive block grant services to those who do not in its reports

***Board's Action: Pending.***

The board asserted that it will consider whether there are alternative approaches to present county outcome data when preparing its 2013 annual report.

**Recommendation 1.3.a—See pages 28 and 29 of the audit report for information on the related finding.**

To maximize the usefulness of the information it makes available to stakeholders and to increase accountability, the board should create policies and procedures that include clear, comprehensive guidance to counties about all aspects of performance outcome and expenditure reporting. At a minimum, such guidance should include specifying how counties should define when a juvenile has received a service and whether certain services, such as training, should qualify as serving juveniles.

***Board's Action: Pending.***

According to the board, it has begun reviewing its existing directions and forms provided to counties. Based on the outcome of this review, the board will make the needed adjustments to the guidelines prior to the counties' next reporting date in October 2013.

**Recommendation 1.3.b—See pages 26—28 of the audit report for information on the related finding.**

To maximize the usefulness of the information it makes available to stakeholders and to increase accountability, the board should publish performance outcome and expenditure data for each county on its Web site and in its annual reports.

***Board's Action: Pending.***

The board stated that county expenditures will be posted on its Web site once all county reports have been reviewed and approved. In addition, the board indicated that it will review county performance outcomes reports and explore options for reporting data for each county prior to issuing its 2013 annual report to the Legislature, but states that it does not plan to report county expenditure information in its annual reports.

**Recommendation 1.3.c—See pages 29—31 of the audit report for information on the related finding.**

To maximize the usefulness of the information it makes available to stakeholders and to increase accountability, the board should consider verifying the counties' data by conducting regular site visits on a rotating basis or by employing other procedures to verify data that counties submit.

***Board's Action: No action taken.***

The board indicated that it is exploring options to increase the staff resources available to administer the program; however, the board did not address whether it has explored options to verify counties' data that would not require an increase in staff resources.

**Recommendation 1.4—See pages 31—33 of the audit report for information on the related finding.**

To increase the amount of juvenile justice data the counties make available to the public, the board should work with counties on how best to report these data.

***Board's Action: No action taken.***

The board did not address this recommendation in its response.

**Recommendation 1.5—See pages 33—35 of the audit report for information on the related finding.**

To ensure the accuracy and completeness of the data the counties submit into the Juvenile Court and Probation Statistical System (JCPSS), Justice should follow its procedure to send annual summaries of the JCPSS data to the counties for review and to conduct occasional field audits of the counties' records.

***Justice's Action: Partially implemented.***

Justice indicated that it revised its JCPSS manual to include a description of the year-end process for assuring the accuracy of the information submitted by probation departments. The policy will require probation departments to provide written confirmation of receipt of the summary reports and to notify Justice if the probation departments detect any discrepancies. However, Justice also stated that it eliminated the requirement for it to conduct field audits on JCPSS data but provided no alternative procedure. By deleting this procedure, it is clear that Justice does not intend to take appropriate action to proactively address the issues we found with JCPSS data.

**Recommendation 1.6.a—See pages 35 and 36 of the audit report for information on the related finding.**

To ensure that its Automated Criminal History System (criminal history system) contains complete and accurate data related to juvenile offenders, Justice should implement a process to ensure that staff enter data correctly into the system.

***Justice's Action: Pending.***

Justice stated that staff has started the process of updating the reference manual to provide instructions on how to update the juvenile offender information in the criminal history system. In addition, Justice indicated that staff is working to ensure that no overlap occurs between adult and juvenile reporting.

**Recommendation 1.6.b—See pages 35 and 36 of the audit report for information on the related finding.**

To ensure that its criminal history system contains complete and accurate data related to juvenile offenders, Justice should implement a procedure similar to the one it employs for the JCPSS to verify the accuracy of information the counties submit.

***Justice's Action: No action taken.***

- ➔ According to Justice, counties are responsible for submitting accurate criminal history information. Justice indicated that staff contact counties when questions arise and more experienced staff verify the work of newer staff. However, Justice did not address whether it plans to implement any procedure to verify the accuracy of information the counties submit.

**Recommendation 1.7—See pages 36 and 37 of the audit report for information on the related finding.**

To increase the amount of information related to realignment and to allow stakeholders to identify the population of juvenile offenders sent directly to adult prison, Corrections should obtain complete offense dates from the courts, if possible.

***Corrections' Action: No action taken.***

- ➔ Although Corrections provided policies and procedures that require staff to request offense dates from the courts, none of them were created recently. Corrections' current policies are not adequate because the issue we identified occurred after Corrections' policies were already in place. Thus, Corrections needs to take additional steps, such as updating its policy manual or issuing a memo to staff, to ensure that it receives complete offense dates from the courts.

**Recommendation 2.1.a—See pages 42—51 of the audit report for information on the related finding.**

The Legislature should consider revising state law to specify the intended goals of juvenile justice realignment.

***Legislative Action: Unknown.***

The state auditor is not aware of any action taken by the Legislature as of December 18, 2012.

**Recommendation 2.1.b—See pages 42—51 of the audit report for information on the related finding.**

To assist the Legislature in its effort to revise state law to specify the intended goals of juvenile justice realignment, the board should work with stakeholders to propose performance outcome goals to use to measure the success of realignment.

***Board's Action: No action taken.***

- ➔ The board did not address this recommendation in its response.

**Recommendation 2.2—See pages 51—53 of the audit report for information on the related finding.**

To offset potential disincentives and provide counties with a more consistent level of funding from year to year, the Legislature should consider amending the block grant funding formula. For example, the formula could be adjusted to use the average number of felony dispositions over the past several fiscal years instead of using only annual data.

***Legislative Action: Unknown.***

The state auditor is not aware of any action taken by the Legislature as of December 18, 2012.

**Recommendation 2.3—See pages 51—53 of the audit report for information on the related finding.**

To ensure that counties do not maintain excessive balances of unexpended block grant funds, the board should develop procedures to monitor counties' unspent funds and follow up with them if the balances become unreasonable.

***Board's Action: No action taken.***

The board did not address this recommendation in its response.





# California Department of Transportation

## Its Capital Outlay Support Program Should Strengthen Budgeting Practices, Refine Its Performance Measures, and Improve Internal Controls

### REPORT NUMBER 2010-122, ISSUED APRIL 2011

This report concludes that, despite a stated goal to reduce overruns in its support project budgets, the California Department of Transportation (Caltrans) has performed little analysis to determine the frequency or magnitude of support cost budget overruns. Our review of projects that completed construction in fiscal years 2007–08 through 2009–10 indicates that 62 percent of the projects had support costs that exceeded their respective budgets. These overruns totaled more than \$305 million of the \$1.4 billion in total support cost expenditures for the projects that completed construction during these fiscal years. Our analysis found that the primary cause for support cost overruns was an increase in the hourly rate for support costs. For example, one project was approximately 14,600 hours under budget but exceeded its budgeted dollar amount by nearly \$6.8 million, representing a support cost overrun of 83 percent. The changes in the hourly rate for support costs were due, in part, to salary increases of more than 40 percent during fiscal years 2005–06 through 2008–09 for certain Caltrans employees, including engineers. We also found that project managers for 12 of the 40 projects we reviewed monitored their budgets based primarily on the hours charged and not dollars spent. If project managers do not pay attention to costs, escalations in the rate paid per hour could cause a support cost overrun, even if the project remains under its budgeted hours. Further, project managers for 10 of the 40 projects we reviewed did not use a detailed approach to develop a support budget when a project was ready for construction.

Moreover, although Caltrans has established a goal of reducing support costs to represent a ratio of 32 percent of the total capital costs (support-to-capital ratio), according to our assessment Caltrans generally did not meet its goal for fiscal years 2007–08 through 2009–10. In addition, Caltrans has failed historically to use a consistent method to calculate this ratio over time, thus decreasing the value of the ratio for assessing Caltrans' performance in managing the support program. Furthermore, the support-to-capital ratio has limitations and could be defined more precisely to better measure efficiency, given that support costs can vary greatly depending on a project's size and type.

We also noted that Caltrans' time-reporting system lacks strong internal controls, and better project monitoring and consistent use of performance metrics, such as earned value metrics, could help it minimize support cost overruns. Further, although Caltrans recently sought to hire consultants rather than permanent employees to address a temporary increase in workload, it was not successful in doing so because requests for consultants have historically been revised during the legislative budget process to align with a staffing ratio of 10 percent consultants to 90 percent state staff.

In the report, the California State Auditor (state auditor) made the following recommendations to Caltrans. The state auditor's determination regarding the current status of recommendations is based on Caltrans' one-year response to the state auditor as of April 2012.

#### **Recommendation 1.1.a—See pages 28—37 of the audit report for information on the related finding.**

To improve accountability internally and with the public, Caltrans should create and incorporate an analysis of support cost budget variances in its quarterly report to the agency and in its annual report to the Legislature and the governor. The analysis should report on the number of completed projects with budget variances and on the number of open projects for which the estimates at completion predict budget variances. Further, the analysis should report on the overrun and underrun ratios for those projects, and the portions of the variances due to rates and hours. Also, Caltrans should include in its strategic plan a measurable goal for reducing variances.

***Caltrans' Action: Partially implemented.***

Caltrans established a performance measure that targets support expenditures that are within a specified range of the support budget. The performance measure is now in place and Caltrans stated that it is now included in the quarterly project delivery reports submitted to the California Transportation Commission (CTC). The report was not included in the 2011 annual report to the Legislature and governor due to timing issues; however, Caltrans stated that it will be included in future reports. Further, Caltrans did not state whether it will include in its reports an analysis of the portions of budget variances due to rates and hours.

**Recommendation 1.1.b—See pages 32 and 33 of the audit report for information on the related finding.**

To improve accountability internally and with the public, Caltrans should establish budgets for those State Transportation Improvement Program (STIP) projects programmed before the passage of Senate Bill 45 so that overruns may be reported in the quarterly report to the agency and in the annual report to the Legislature and the governor.

***Caltrans' Action: Fully implemented.***

Caltrans has established support budgets for the 24 projects it identified as having started (projects programmed) prior to the passage of Senate Bill 45.

**Recommendation 1.1.c—See page 33 of the audit report for information on the related finding.**

To improve accountability internally and with the public, Caltrans should develop a system to report on the total budgets of support program projects—including initial project support budgets—of projects that have been divided into multiple projects or combined into a larger project.

***Caltrans' Action: Fully implemented.***

Caltrans stated that it has developed improved business practices to allow for easier tracking of project budgets. Specifically, Caltrans provided a project management directive outlining a process for managing project funding and costs when projects are split or combined into one or more construction contracts. The process allows for tracking the origin of projects split into multiple projects or combined into one project. That directive took effect in August 2011.

**Recommendation 1.2.a—See pages 41—43 of the audit report for information on the related finding.**

To improve performance metrics related to the support program, Caltrans should devise, use, and publicize a consistent method for reporting the support-to-capital ratio on its Web site and in other reports to the public. Further, Caltrans should recalculate past support-to-capital ratios using the method devised to allow for comparison across years.

***Caltrans' Action: Partially implemented.***

Caltrans stated that it developed a consistent methodology for reporting the support-to-capital ratio and posted the methodology on its project management intranet site. Caltrans also recalculated past support to capital ratios consistent with this new methodology. However, it did not indicate that it has or will publish this information on its Web site or in other reports to the public. Further, Caltrans stated that it would incorporate these measures into a quarterly report to the CTC by the third quarter of fiscal year 2011–12.

**Recommendation 1.2.b—See pages 43—45 of the audit report for information on the related finding.**

To improve performance metrics related to the support program, Caltrans should develop goals—and publicly report on the progress against those goals—for the support-to-capital ratio, based on project type—STIP or the State Highway Operation and Protection Program (SHOPP)—and project size.

***Caltrans' Action: Partially implemented.***

Caltrans stated it established support-to-capital ratio goals based on the capital cost of STIP and SHOPP projects. For example, projects with a capital cost greater than \$25 million would have a support-to-capital ratio goal of below 30 percent. Caltrans stated it would include the established measures in the CTC Project Delivery Report starting with the third quarter of fiscal year 2011–12.

**Recommendation 1.2.c—See pages 45 and 46 of the audit report for information on the related finding.**

To improve performance metrics related to the support program, Caltrans should continue to explore the use of additional metrics, such as a measure based on a productivity index as described in a March 2011 draft study by the University of California, Davis.

***Caltrans' Action: Pending.***

Caltrans stated that it has been moving away from using the support-to-capital ratio as a measure of performance but will continue to use it as an indicator. Caltrans stated that it is on track to develop an additional metric by July 2012.

**Recommendation 1.3—See pages 37—39 of the audit report for information on the related finding.**

To better develop and manage project budgets for support, Caltrans should instruct project managers to submit requests to update the budget when assumptions on which the budget was based are no longer valid, regardless of the phase of the project. Additionally, it should direct its project managers to use a detailed approach based on project tasks, such as those included in a project work plan, when finalizing project support budgets before construction.

***Caltrans' Action: Fully implemented.***

Caltrans issued a project management directive titled “Management of Capital Outlay Support,” in August 2011. The directive gives direction on updating budgets for construction on or before the date the project is voted on by the CTC and proceeds to the construction phase. Further, the directive includes instruction to update estimated hours in the project’s work plan when hours change and to review and update—if needed—resource estimates on an ongoing basis, and at least quarterly. Further, the directive requires that the project development team review and update support budgets at the completion of each major milestone.

**Recommendation 1.4.a—See pages 38 and 39 of the audit report for information on the related finding.**

To ensure that it monitors the status of projects, Caltrans should continue to implement the policies described in its February 2010 memorandum to the districts describing an approach Caltrans will take to monitor support costs within budget. Moreover, Caltrans should direct its project managers to monitor budgets for all projects according to both hours and costs.

***Caltrans' Action: Fully implemented.***

Caltrans issued a project management directive in August 2011 clarifying the responsibility of project managers in the development and maintenance of project workplans, including planned hours and support costs throughout the life of the project. Further, Caltrans stated that it has added a standing agenda item to a quarterly teleconference to discuss support budget corrective action plans.

**Recommendation 1.4.b—See pages 48—50 of the audit report for information on the related finding.**

To ensure that it monitors the status of projects, Caltrans should implement earned value management throughout its districts in a manner similar to the implementation in the Los Angeles district. To allow for performance evaluation of project work, Caltrans should ensure that these performance metrics are available at the task level for both active and completed projects. Caltrans should instruct districts to aggregate this information for all projects by task level, to better assess the effectiveness and efficiency of support costs by task level. Caltrans should also make available to project managers graphical displays of project cost and schedule performance.

***Caltrans' Action: Partially implemented.***

In its 60-day response, Caltrans stated that it was reviewing policies, business processes, existing systems and data, to implement a statewide standard approach to earned value management in advance of the implementation of its Project Resource and Schedule Management (PRSM) system. In its six-month response, Caltrans stated that it is on track for having a standard approach to earned value management in place by December 31, 2011. Caltrans issued a "Project Delivery Directive" effective 2012 stating that Caltrans utilizes earned value management as one of the tools to manage capital outlay projects' cost and schedule. The directive provides definitions of earned value management measures and indicates the responsibilities of managers at various levels to implement earned value management. However, the directive does not indicate whether there are reports available for managers to use in implementing earned value management, such as reports on metrics at the task level for both active and completed projects and graphical displays of project cost and schedule performance available to managers. Finally, past responses tied Caltrans' implementation of earned value management to its adoption of the PRSM system; however, Caltrans' one-year response does not mention the PRSM system in relation to earned value management.

**Recommendation 1.5.a—See pages 46—48 of the audit report for information on the related finding.**

To better address costs associated with the support program, Caltrans should ensure that the PRSM system contains strong controls that ensure employees only charge time to projects and phases for which they are assigned.

***Caltrans' Action: Pending.***

Caltrans stated that when the PRSM system is fully implemented, only those employees with approved cost centers will be allowed to charge to projects. According to Caltrans, it initially expected full implementation of the PRSM system to be complete by the summer of 2012; however, several factors have contributed to a delay in the system's implementation including data conversion and a change in approach to training. Caltrans expects full implementation of the PRSM system by June 2013.

**Recommendation 1.5.b—See pages 50—52 of the audit report for information on the related finding.**

To better address costs associated with the support program, Caltrans should commission an independent study of the costs and benefits of using consultants to address temporary increases in workload and, if the study reveals cost savings, use consultants. To the extent possible, Caltrans should also use temporary staff appointments for temporary increases in workload when consultants are unavailable.

***Caltrans' Action: Partially implemented.***

Caltrans Division of Research and Innovation contracted with CTC and Associates LLC to compare in-house staff and consultant costs for highway design and construction. Caltrans has received two reports, one dated July 2011 and another dated October 2011, from CTC and Associates LLC, which compared the use of in-house staff and consultants. In general, according to Caltrans, these reports concluded that cost should not be an overriding factor in deciding whether to outsource. Caltrans explained that other factors such as expediting project delivery and managing workload should be taken into consideration when determining when and what work to outsource. Caltrans stated it is in the process of contracting for an independent study to identify options or tools to improve decision-making processes regarding resource mix during workload peaks and valleys. Caltrans stated in its one-year response that it expects the final report to be complete within six to 12 months.

**Recommendation 1.6—See pages 42 and 43 of the audit report for information on the related finding.**

To ensure that it receives more complete information on the support program, the Legislature should require Caltrans to include in its annual report an expanded methodology for reporting support to capital ratios to include, in addition to a support-to-cost ratio analysis based on costs incurred up to the award of the construction contract of STIP projects, a separate support-to-capital ratio analysis for STIP projects that have completed construction. Further, the Legislature should require Caltrans to report on similar ratios for SHOPP projects based on costs incurred up to the award of the construction contract and for those projects that completed construction.

***Legislative Action: Legislation enacted.***

Chapter 6, Statutes 2011 (Assembly Bill 105), requires the department to submit to the Legislature information to substantiate the proposed capital outlay budget. In addition, Chapter 38, Statutes 2011 (Assembly Bill 115), requires the department to include in that submittal the capital-to-support ratio for all projects completed in the prior fiscal year.

**Recommendation 1.7—See page 40 of the audit report for information on the related finding.**

To increase accountability for budget overruns of support costs, the Legislature should consider legislation that would expressly require CTC to review and approve project construction support costs when they differ from the amount budgeted by 20 percent or more.

***Legislative Action: Legislation enacted.***

Chapter 272, Statutes of 2012 (Senate Bill 1102), among other things, requires the department, no later than November 15, 2014, and annually thereafter, to report the difference between the original allocation made by the CTC and the actual construction capital and support costs at project close for all state transportation improvement program projects completed during the previous fiscal year.

**Recommendation 1.8—See pages 50—52 of the audit report for information on the related finding.**

To ensure that Caltrans does not hire permanent state staff beyond its need for such staff, the Legislature should consider appropriating funding for consultants to address temporary increases in Caltrans' workloads when Caltrans requests such funding.

***Legislative Action: Unknown.***

The state auditor is not aware of any action taken by the Legislature as of December 18, 2012.



# High-Speed Rail Authority Follow-Up

## Although the Authority Addressed Some of Our Prior Concerns, Its Funding Situation Has Become Increasingly Risky and the Authority's Weak Oversight Persists

### REPORT NUMBER 2011-504, ISSUED JANUARY 2012

In January 2012 we issued a report that presents the results of a follow-up review the California State Auditor (state auditor) conducted concerning the efforts by the High-Speed Rail Authority (Authority) to implement recommendations from an earlier audit report that we issued in April 2010. The state auditor's report titled *High-Speed Rail Authority: It Risks Delays or an Incomplete System Because of Inadequate Planning, Weak Oversight, and Lax Contract Management*, Report 2009-106, examined the Authority's readiness to manage funds authorized for building the high-speed rail network (program) in California, including the \$9 billion in general obligation bonds the voters authorized in November 2008. As a result of our follow-up audit, we concluded that the Authority has fully implemented four recommendations, partially implemented five, and taken no action on the remaining one.

Although the Authority has implemented some of the recommendations we made in our prior report, significant problems persist. For example, the program's overall financial situation has become increasingly risky. This is in part because the Authority has not provided viable funding alternatives in the event that its planned funding does not materialize. In its 2012 draft business plan, the Authority more than doubled its previous cost estimates for phase one of the program, to between \$98.1 billion and \$117.6 billion. Of this amount, the Authority has secured only approximately \$12.5 billion as of January 2012. Further, the Authority's 2012 draft business plan still lacks key details about the program's costs and revenues.

In addition to our concerns related to the Authority's 2012 draft business plan, we also identified a number of critical, ongoing problems involving its oversight of the program. Specifically, in part because the Authority is significantly understaffed, it has delegated significant control to its contractors—especially the entity that manages the program (Program Manager). The Authority relies on the Program Manager to provide accurate, consistent, and useful information in its monthly progress reports. However, we found that these reports were often inaccurate and that at times the Program Manager appeared to misinform the Authority about the speed with which contractors for each region performed their assigned tasks. Finally, even though the majority of the Authority's role in administering the program involves its management of contracts, we discovered during the course of our work that the Authority had engaged in inappropriate contracting practices involving information technology services. The nature of these problems suggests that the Authority needs to significantly improve its internal controls to ensure that it effectively manages its contracts.

In the follow-up report, the state auditor made the following recommendations to the Authority, one to the Legislature, and one to the Department of General Services (General Services). The state auditor's determination regarding the current status of recommendations is based on the Authority's and General Services' response to the state auditor as of August 2012.

#### **Recommendation 1.1.a—See page 54 of the follow-up audit report for information on the related finding.**

To ensure that it can respond adequately to funding levels that may vary from its business plan, the Authority should develop and publish alternative funding scenarios that reflect the possibility of reduced or delayed funding from the planned sources. These scenarios should detail the implications of variations in the level or timing of funding on the program and its schedule.

#### ***Authority's Action: Partially implemented.***

The Authority stated that it continues to work with stakeholders to define alternative delivery scenarios on blended system operations. Additionally, the Authority asserted that in the spring of 2012, the Department of Finance and the Administration identified cap-and-trade revenues as a

potential funding source for the program. Further, the Authority stated that it will work with the Department of Finance to define a specific plan for the use of cap-and-trade funds, which it claims will be presented in detail in the next business plan to be issued in draft in the fall of 2013. However, although the Authority's business plan includes three alternative funding scenarios, all three assume a similar or increased level of federal funding compared to the Authority's primary plan—which the federal government has not indicated will occur.

**Recommendation 1.1.b—See page 54 of the follow-up audit report for information on the related finding.**

In order to respond effectively to circumstances that could significantly delay or halt the program, the Authority should ensure that it implements planned actions related to managing risk.

***Authority's Action: Fully implemented.***

The Authority hired a risk manager in August 2012. The Authority asserts that the risk manager will attend the risk management meetings related to updating the risk register, identifying new risks, performing qualitative risk analyses, and coordinating and tracking risk responses.

**Recommendation 1.1.c—See page 54 of the follow-up audit report for information on the related finding.**

To avert possible legal challenges, the Authority should ensure that the independent peer review panel adheres to the Bagley-Keene Open Meeting Act or seek a formal opinion from the Office of the Attorney General (attorney general) regarding whether the panel is subject to this act.

***Authority's Action: No action taken.***

- ➔ The Authority originally addressed our recommendation by requesting an opinion from the attorney general on January 5, 2012. Subsequently, on October 16, 2012, it withdrew its request for a legal opinion stating that it did so because the independent peer review group is appointed by the State Treasurer, the State Controller, the Director of Finance, and the Secretary of Business, Transportation and Housing. The Authority explained that although it provides information requested by the peer review group, it believes that it does not have the legal authority to direct how the peer review group conducts its meetings including providing legal advice to the group about open meeting law requirements. Nevertheless, while the Authority does not appoint the members of the peer review group, state law requires the Authority to “establish” the independent peer review group and, as such, we believe the Authority would be an appropriate entity to request the opinion. In addition, the peer review group informed us that it believes its actions are not covered by the Bagley-Keene Open Meeting Act when it conducts its meetings. The peer group bases its belief on the advice of the authority's former counsel when it explained to us why it does not comply with the Bagley-Keene Open Meeting Act. Therefore, the Authority has not implemented our recommendation.

**Recommendation 1.1.d—See page 54 of the follow-up audit report for information on the related finding.**

To ensure that it does not run out of funds for administrative and preconstruction tasks prematurely, the Authority should track expenditures for these activities and develop a long-term spending plan for them. It also should develop procedures and systems to ensure that it complies with American Recovery and Reinvestment Act of 2009 requirements.

***Authority's Action: Fully implemented.***

The Authority implemented monthly control procedures and a supporting spreadsheet that utilizes cost data from CalStars to report cumulative information for administrative and preconstruction costs. The spreadsheet provides a breakdown of administrative and preconstruction expenditures by fiscal year and the percentage these expenditures represent of the total allowable expenditures authorized in Proposition 1A. The Authority stated that the

spreadsheet will be combined with Program Manager information to project administrative and preconstruction expenditures. The Authority also asserts the spreadsheet may be used for future cost projections.

**Recommendation 1.1.e—See page 55 of the follow-up audit report for information on the related finding.**

In order to ensure that staff receive relevant information on the program's status, the Authority should amend the oversight consultant's work plan to include a critical review of the progress reports for accuracy and consistency. Authority staff should also request that the Program Manager revise its progress reports to include information on the status of contract products and services in relationship to what was promised.

***Authority's Action: Fully implemented.***

The Authority amended the oversight consultant's work plan to include a critical review of the progress reports. In addition, the Authority provided four recent copies of the Program Manager's progress reports that included information on the status of contract products and services in relationship to what was promised.

**Recommendation 1.1.f—See page 55 of the follow-up audit report for information on the related finding.**

To ensure that it does not misuse public funds and can hold contractors accountable, the Authority should adhere to the conditions of its contracts and work plans, and make any amendments and modifications in writing.

***Authority's Action: Fully implemented.***

As published in our March 2011 report titled *Implementation of State Auditor's Recommendations, Audits Released in January 2009 Through December 2010* (Report 2011-406), the Authority amended its contract with the Program Manager to require the use of an audit-adjusted field rate—a discounted overhead rate used when consultants use client facilities. Further, the Authority amended its contract with a regional contractor to include work that was not part of the original contract. Finally, the Authority implemented a change control process, which includes making any amendments and modifications to contracts and work plans in writing.

**Recommendation 1.2—See page 15 of the follow-up audit report for information on the related finding.**

To add clarification to the first recommendation we made in our prior report that stated, "To ensure that it can respond adequately to funding levels that may vary from its business plan, the Authority should develop and publish alternative funding scenarios that reflect the possibility of reduced or delayed funding from the planned sources. These scenarios should detail the implications of variations in the level or timing of funding on the program and its schedule," the Authority should also present viable alternative funding scenarios for phase one in its entirety that do not assume an increase in the federal funding levels already identified in the 2012 draft business plan. If the Authority does not believe that such alternatives exist, it should publicly disclose this in its 2012 final business plan.

***Authority's Action: Partially implemented.***

The Authority stated that it continues to work with stakeholders to define alternative delivery scenarios on blended system operations. Additionally, the Authority asserted that in the spring of 2012, the Department of Finance and the Administration identified cap-and-trade revenues as a potential funding source for the program. Further, the Authority stated that it will work with the Department of Finance to define a specific plan for the use of cap-and-trade funds, which it claims will be presented in detail in the next business plan to be issued in draft in the fall of 2013. However, although the Authority's business plan includes three alternative funding scenarios, all three assume a similar or increased level of federal funding compared to the Authority's primary plan—which the federal government has not indicated will occur.

**Recommendation 1.3.a—See page 21 of the follow-up audit report for information on the related finding.**

To ensure that the public and the Legislature are aware of the full cost of the program, the Authority should clearly report total costs, including projected operating and maintenance costs for the program.

***Authority's Action: Fully implemented.***

The Authority's 2012 revised business plan discusses total capital costs including operating and maintenance costs. The Authority believes that capital costs and operating and maintenance costs, including costs by year, have been accurately and thoroughly discussed in an open manner through a range of communication media, including through board meetings that are open to the public.

**Recommendation 1.3.b—See page 21 of the follow-up audit report for information on the related finding.**

To ensure that the public and the Legislature are aware of the full cost of the program, the Authority should clearly disclose that the 2012 draft business plan assumes that the State will only be receiving profits for the first two years of operation in 2022 and 2023, and potentially not again until 2060 in exchange for the almost \$11 billion the Authority assumes it will receive from the private sector over a four-year period.

***Authority's Action: Pending.***

The Authority stated that it would clarify in its next business plan the decision by the State to raise financing from the private sector based on the net cash flows of the project, which means the State will not be able to use those cash flows for other purposes during the term of the financing.

**Recommendation 1.4—See page 23 of the follow-up audit report for information on the related finding.**

To assure independence and instill public confidence in the process regarding the Authority's ridership model, the Legislature should draft legislation that establishes an independent ridership review group. For example, the Legislature could use a similar process to the one used to establish the independent peer review panel that the law requires to assess the Authority's business plans.

***Legislative Action: Unknown.***

The state auditor is not aware of any action taken by the Legislature as of December 18, 2012.

**Recommendation 2.1.a—See page 28 of the follow-up audit report for information on the related finding.**

To ensure that it has adequate staff to effectively oversee the program, the Authority should continue to fill its vacant positions.

***Authority's Action: Partially implemented.***

As of October 2012 the Authority filled all but one of its high-level vacant positions; the position of chief financial officer remains vacant.

**Recommendation 2.1.b—See page 31 of the follow-up audit report for information on the related finding.**

To ensure that it has adequate staff to effectively oversee the program, the Authority should conduct a workload analysis to determine the total number of staff it needs as well as the functions those staff should perform.

***Authority's Action: Pending.***

The Authority stated that it will explore available options for conducting a workload analysis once it has filled its high-level positions.

**Recommendation 2.2—See page 31 of the follow-up audit report for information on the related finding.**

To comply with the political reform act, the Authority should establish written policies and procedures for tracking whether all designated employees and consultants have completed and filed their statements of economic interests on time, thereby identifying any potential conflicts of interest.

***Authority's Action: Fully implemented.***

The Authority has written policies and procedures in place to collect, follow up, and retain statements of economic interest. Those policies and procedures include sections on annual statements, assuming office statements, leaving office statements, and retention. The procedures were approved by the chief executive officer on July 17, 2012.

**Recommendation 2.3—See page 31 of the follow-up audit report for information on the related finding.**

To increase transparency and to ensure that it is aware of any financial interest that a subcontractor may have in the program, the Authority should require subcontractors to file statements of economic interest.

***Authority's Action: Partially implemented.***

The Authority asserts that it has put a process in place for determining which contractors and subcontractors should file statements of economic interest. However, not all subcontractors will be required to file. In addition, the Authority's policies state that prime contractors, not Authority staff, are responsible for determining which subcontractors are subject to the conflict-of-interest policy.

**Recommendation 2.4.a—See page 35 of the follow-up audit report for information on the related finding.**

To ensure that the Program Manager's monthly progress reports are accurate, consistent, and useful, the Authority should reinstate the oversight consultant's review of the progress reports.

***Authority's Action: Fully implemented.***

The Authority asserted that the oversight consultant reviews the Program Manager's monthly progress reports and makes observations and recommendations to the Program Manager.

**Recommendation 2.4.b—See page 35 of the follow-up audit report for information on the related finding.**

To ensure that the Program Manager's monthly progress reports are accurate, consistent, and useful, the Authority should hold the Program Manager accountable for implementing the oversight consultant's recommendations. For example, the Authority could withhold partial payment of invoices to the Program Manager until it fully addresses these recommendations.

***Authority's Action: Fully implemented.***

The Authority stated that the Program Manager discusses, reviews, and incorporates the observations and recommendations of the oversight consultant into a written response to the Authority. The Authority also asserted that its contract managers have the ability to withhold payments in order to deal with nonperformance issues. Additionally, the Authority stated that it continues to add resources to its team to augment its oversight responsibility.

**Recommendation 2.4.c—See page 34 of the follow-up audit report for information on the related finding.**

To ensure that the Program Manager's monthly progress reports are accurate, consistent, and useful, the Authority should conduct monthly comparisons of the Program Manager's and the regional contractors' progress reports to verify that they are consistent with one another and to ensure that the reports include an accurate status of promised deliverables.

***Authority's Action: Fully implemented.***

The Authority stated that the oversight consultant, acting as an extension of the Authority, reviews the Program Manager's monthly progress reports and makes observations and recommendations. Those observations and recommendations are reviewed by the program director and are discussed, reviewed, and incorporated into a written response to the Authority. In addition, the Authority indicated that its audit office's work plan includes scheduled audits of the regional contractors' progress reports and invoices, as well as comparisons on a sample of the Program Manager's and the regional contractors' progress reports. It also stated that the audit office will review the Program Manager's and oversight consultant's activities.

**Recommendation 2.5—See page 37 of the follow-up audit report for information on the related finding.**

To ensure that the regional contractors' monthly progress reports provide sufficient detail to support the monthly invoices, the Authority should perform a monthly comparison of the regional contractors' invoices with the corresponding progress reports. Specifically, the Authority should ensure that the regional contractors' monthly progress reports describe the work they performed in those areas for which they claimed costs in the corresponding invoices. The Authority should discuss with the Program Manager any areas that lack sufficient detail in the progress reports to make such determinations.

***Authority's Action: Fully implemented.***

According to the Authority, to ensure that sufficient detail is provided in the regional contractors' monthly progress reports and that the program director adequately documents any reporting deficiencies noted in the review of the progress reports and invoices, the audit office's work plan includes scheduled audits of the regional contractors' monthly progress reports and invoices and the Program Manager's and oversight consultant's activities. The audit office reports directly to the Audit and Finance Committee of the Authority's board and administratively to the chief executive officer.

**Recommendation 2.6.a—See page 38 of the follow-up audit report for information on the related finding.**

To be aware of and respond effectively to circumstances that could significantly delay or halt the program, the Authority should hire a risk manager as soon as possible. Until then, it should designate and require Authority staff to attend risk-management meetings and workshops.

***Authority's Action: Fully implemented.***

The Authority hired a risk manager in August 2012. According to the Authority, the risk manager will attend the risk management meetings related to updating the risk register, identifying new risks, performing qualitative risk analyses, and coordinating and tracking risk responses.

**Recommendation 2.6.b—See page 38 of the follow-up audit report for information on the related finding.**

To be aware of and respond effectively to circumstances that could significantly delay or halt the program, the Authority needs to be involved in the development and implementation of the Program Manager's risk-management plan and ensure that Authority staff have roles and responsibilities defined in the plan, such as identifying and mitigating risks in the risk register.

***Authority's Action: Fully implemented.***

The Authority stated that the new risk management program includes four general types of risk management workshops and meetings that involve Authority staff. The first type of risk management meeting serves to regularly update the risk register, identify new risks, perform qualitative risk analysis, and coordinate and track risk responses—this includes a review of all program and project risks. In addition, the Authority stated that its risk manager is assessing the current risk meeting process and will be making recommendations for enhancements that will be implemented under the Authority's updated risk management plan.

**Recommendation 2.6.c—See page 38 of the follow-up audit report for information on the related finding.**

To be aware of and respond effectively to circumstances that could significantly delay or halt the program, the Authority should monitor the Program Manager's risk management practices to ensure that either it or the Program Manager identifies and promptly and appropriately addresses risks.

***Authority's Action: Fully implemented.***

The Authority indicated that its risk manager plans to regularly meet with risk management staff, including the Program Manager, to provide necessary Authority control, direction, oversight, and information sharing.

**Recommendation 2.7.a—See page 40 of the follow-up audit report for information on the related finding.**

To effectively manage its contracts, the Authority should develop procedures to detect and prevent contract splitting.

***Authority's Action: Fully implemented.***

According to the Authority, all staff with responsibility for preparing contracts have completed the General Services' training on proper state contracting procedures, including the prohibition against contract splitting. The Authority's contract manual has been updated and provided to Authority employees who have responsibility for preparing contracts. To detect contract splitting, all non-state agency contracts are reviewed prior to execution by the contract specialist within the Authority's contracts and procurement department.

**Recommendation 2.7.b—See page 40 of the follow-up audit report for information on the related finding.**

To effectively manage its contracts, the Authority should begin awarding contracts with a sufficient amount of lead time.

***Authority's Action: Fully implemented.***

The Authority provided a schedule of contract expiration dates to ensure that contract managers receive timely notifications from the contract unit of contract expiration dates. Additionally, the Authority asserted that its contract manual contains language ensuring adequate lead time in the contract award process.

**Recommendation 2.7.c—See page 40 of the follow-up audit report for information on the related finding.**

To effectively manage its contracts, the Authority should immediately begin the process of soliciting competitive bids for its IT services.

***Authority's Action: Partially implemented.***

The Authority asserted that it is moving toward in-house IT support rather than contractors. Specifically, the Authority stated that it hired a DPM II on March 5, 2012. According to the Authority's response, the new DPM II has moved the Authority's network connection from the cloud to the California Technology Agency (CTA) and has implemented the movement of the exchange services from its previous contractor—PK Inc.—to CTA-California Email Service (CES) mail. The Authority claims the process of migrating the electronic mail system to CES will be approximately six to 13 months. Additionally, the Authority stated that desktop support has been transitioned in-house with the support of one full-time associate information systems analyst and a student intern. The Authority further indicated that two retired annuitants have been hired to support the server and network administration, and application development.

**Recommendation 2.8—See page 40 of the follow-up audit report for information on the related finding.**

To ensure that the Authority is complying with state contracting rules and is following the guidelines of the *State Contracting Manual*, General Services should conduct a procurement audit of the Authority by January 1, 2013.

***General Services' Action: Fully implemented.***

Effective May 1, 2012, General Services indicated that the Authority lacks sufficiently trained staff to conduct procurements and subsequently decreased the Authority's purchasing authority to the minimum level of \$4,999.99. Thus, General Services now conducts all of the Authority's purchases above \$4,999.99. As a result of decreasing the Authority's purchasing authority, it is not necessary for General Services to conduct a procurement audit.

# General Obligation Bonds

## The Departments of Water Resources and Finance Should Do More to Improve Their Oversight of Bond Expenditures

### REPORT NUMBER 2010-117, ISSUED MAY 2011

This report concludes that the Department of Water Resources (Water Resources) demonstrated effective oversight of general obligation bonds, but it could improve in certain areas. During our review of a sample of 10 projects, we noted that Water Resources made appropriate decisions when awarding bond funds and making payments for project activities. However, for two of the 10 projects, Water Resources could not demonstrate that it performed site visits or took other steps to ensure the projects achieved their expected outcomes. We also found that Water Resources lacks a documented review process to ensure information posted to the Bond Accountability Web site is correct. Our review of the Web site revealed instances where Water Resources posted inaccurate award information for certain projects and in some cases did not post any information at all.

We also found that the Department of Finance (Finance) should do more to ensure transparency and accountability for bond spending related to the general obligation bonds approved by voters in November 2006 to fund the State's Strategic Growth Plan. The former governor's executive order from January 2007 required Finance to establish a Bond Accountability Web site that was to include information on the amounts spent on each bond-funded project. However, Finance's approach to establishing the Web site required departments to post information on the amounts awarded and not the amounts spent. By not providing the public with periodic information on the amounts spent for each project—to then compare against amounts awarded—the public lacks a way to measure each project's progress towards completion. In addition, Finance lacks a tracking process to ensure that state departments update the Bond Accountability Web site and describe the expected or realized benefits of bond-funded projects in terms the public can readily understand. Finally, we noted that the executive order requires state agencies to either contract with Finance for audits of bond expenditures or make alternative arrangements for audits with Finance's approval. However, as of late April 2011, Finance had issued audit reports on only three of the state agencies administering the general obligation bonds that support the State's Strategic Growth Plan, and none were of Water Resources.

In the report, the California State Auditor (state auditor) made the following recommendations to the Governor and the audited agencies. The state auditor's determination regarding the current status of recommendations is based on Water Resources' response as of June 2012 and Finance's response as of July 2011.

#### **Recommendation 1.1—See pages 22—27 of the audit report for information on the related finding.**

To ensure that its expenditures of bond funds achieve the intended purposes, Water Resources needs to strengthen its monitoring of project deliverables. For example, it should review the policies and practices of its various divisions, ensuring that periodic progress reports are obtained from grant recipients, and that final site visits document the results of the reviews performed.

#### ***Water Resources' Action: Fully implemented.***

In its one-year response, Water Resources provided evidence that it updated various policy manuals establishing expectations for conducting site visits and ensuring that deliverables are obtained. For example, Water Resources' division of flood management developed a desk reference manual that includes project close-out procedures and a checklist for staff to follow. Key aspects of this close-out process include ensuring and documenting that project objectives are met. Similarly, Water Resources' Division of Integrated Regional Water Management developed written procedures establishing expectations for conducting site visits and specifying items to evaluate during such visits. Water Resources also provided examples of documented site visits it had performed.

**Recommendation 1.2—See pages 31—34 of the audit report for information on the related finding.**

To provide the public with accurate and complete information on the bond-funded projects it administers, Water Resources should develop and consistently use a formalized, documented review process that will provide greater assurance that project information posted to the Bond Accountability Web site is regularly updated and contains accurate information.

***Water Resources' Action: No action taken.***

In its one-year response, Water Resources indicated that it had implemented our recommendation but did not provide evidence to substantiate its assertion. We requested Water Resources provide evidence of a systemic and documented review process for information posted to the Bond Accountability Web site. Specifically, we asked Water Resources to provide evidence that its management had reviewed and approved the information posted for three projects listed on the Bond Accountability Web site. Water Resources was unable to provide documentary evidence of these approvals.

**Recommendation 1.3—See pages 36—42 of the audit report for information on the related finding.**

To enhance transparency and accountability regarding the State's use of general obligation bond funds, the governor should require administering agencies to report actual amounts spent on bond funded projects and update the expenditure information at least semiannually.

***Governor's Action: Unknown.***

We are unaware of any additional guidance issued by the Governor's Office.

**Recommendation 1.4.a—See pages 36—42 of the audit report for information on the related finding.**

To enhance the value of the Bond Accountability Web site, Finance should require administering agencies to provide information about the actual amounts of bond funds spent on posted projects at least semiannually.

***Finance's Action: No action taken.***

Finance does not intend to implement this recommendation. In its 60-day update to the audit, Finance stated that its current practice requires state departments and agencies to post the amounts awarded for specific projects on the Bond Accountability Web site. Finance further explained its expectation that state departments and agencies update a project's awarded amount with actual expenditures if there is a difference once the project is complete. Finance maintains that its current policies comply with the former governor's executive order. Further, Finance questions the benefits of this recommendation and stated that it would be costly for many state departments and agencies to implement. Finance did not provide a six-month or one-year response to the audit.

**Recommendation 1.4.b—See pages 42—45 of the audit report for information on the related finding.**

To enhance the value of the Bond Accountability Web site, Finance should develop a tracking and review process to periodically assess the completeness of the project information posted to the Bond Accountability Web site. Such a process should include a review of whether state agencies are describing, in terms the public can easily understand, the expected or realized benefits of bond-funded projects.

*Finance's Action: No action taken.*

Finance does not intend to take any additional steps to implement this recommendation. In its 60-day update, Finance stated that it will continue to review state agencies compliance during department audits and during special project reporting compliance reviews. Finance explained that its audits include a review of whether state departments are appropriately reporting project information. Finance did not provide a six-month or one-year response to the audit.

**Recommendation 1.5—See pages 45—47 of the audit report for information on the related finding.**

To ensure that expenditures were consistent with bond laws and that the project achieved the intended benefits or outcomes agreed to when the project was originally awarded, Finance should conduct audits of, or approve and assure that, Water Resources and other agencies obtain audits of, Strategic Growth Plan (SGP) bond expenditures.

*Finance's Action: Partially implemented.*

In its 60-day update, Finance stated that since the audit was published, Finance has issued four additional audit reports, for a total of six SGP bond audit reports in fiscal year 2010–11. Additionally, Finance indicated that all state agencies administering SGP bonds have either entered into interagency agreements with Finance to conduct audits or have made arrangements with other entities, with the approval of Finance, to conduct the required audits. Accordingly, Finance intends to continue to conduct audits as required by the former governor's executive order. Finance's 60-day update did not provide any additional material to corroborate its assertions. Finance did not provide a six-month or one-year response to the audit.



# California Conservation Corps

## Failure to Follow State Contracting Laws (Case I2008-1021)

### REPORT NUMBER I2010-2, CHAPTER 2, ISSUED JANUARY 2011

This report concludes that the California Conservation Corps (Conservation Corps) evaded competitive bidding requirements by splitting contracts to purchase uniforms costing \$64,666 from a single vendor. In addition, the Conservation Corps did not properly obtain price quotations when approving two other uniform purchases totaling \$19,812 from the same vendor.

In the report, the California State Auditor (state auditor) made the below recommendations to the Conservation Corps. The state auditor's determination regarding the current status of recommendations is based on the Conservation Corps' response to the state auditor as of April 2011.

#### **Recommendation 1—See pages 15—17 of the investigative report for information on the related finding.**

The Conservation Corps should take appropriate corrective action against the employees responsible for the improper purchases.

##### *Conservation Corps' Action: Fully implemented.*

The Conservation Corps reported in December 2010 that it had issued a corrective action memorandum to each employee responsible for the improper purchases.

#### **Recommendation 2—See pages 15—17 of the investigative report for information on the related finding.**

The Conservation Corps should implement controls to ensure that staff do not split contracts to evade competitive bidding requirements and that staff obtain and document in the procurement file the appropriate number of price quotations from certified small businesses prior to purchasing goods.

##### *Conservation Corps' Action: Fully implemented.*

The Conservation Corps created a new procedure in February 2011 that requires field staff to submit bid information with every purchase or service order to ensure that staff follow the proper procedures regarding bidding documents and price quotations. The procedure also requires business services staff to review the information to ensure compliance. The Conservation Corps also told us that it randomly had conducted reviews of purchase orders from fiscal years 2007–08 through 2010–11, but it did not keep documentation of the results of these reviews.

#### **Recommendation 3—See pages 15—17 of the investigative report for information on the related finding.**

The Conservation Corps should provide adequate training to staff responsible for preparing and approving purchases.

##### *Conservation Corps' Action: Fully implemented.*

The Conservation Corps stated that it holds quarterly meetings with its business services officers to discuss procurement matters, including new policies and procedures. In March 2011 it held training for business services officers that focused on proper bidding procedures and other procurement activities. Further, the Conservation Corps stated that it had provided procurement training to its staff in 2007, 2008, and 2009.

**Recommendation 4—See pages 15—17 of the investigative report for information on the related finding.**

The Conservation Corps should correct inconsistent accounting practices and require staff to associate expenditures directly with the purchase orders that authorized the expenditures.

***Conservation Corps' Action: Fully implemented.***

To correct inconsistent accounting practices, the Conservation Corps reported that it planned to provide additional training to supervisors who authorize purchasing documents to ensure consistency in basic accounting principles. In March 2011 it held training for business services officers that focused on proper bidding procedures and other procurement activities.

# Department of Corrections and Rehabilitation

## Improper Overtime Reporting (Case I2007-0887)

### REPORT NUMBER I2010-2, CHAPTER 8, ISSUED JANUARY 2011

This report concludes that an employee with the Department of Corrections and Rehabilitation (Corrections) improperly reported 16 hours of overtime for responding to building alarm activations that never occurred. Because Corrections did not have adequate controls to detect the improper reporting, it compensated the employee \$446 in overtime pay she did not earn. After discovering the employee's misconduct, it failed to take appropriate actions to establish controls, discipline the employee, or collect the improper pay.

In the report, the California State Auditor (state auditor) made the below recommendations to Corrections. The state auditor's determination regarding the current status of recommendations is based on Corrections' response to the state auditor as of December 2010.

#### **Recommendation 1—See pages 41—43 of the investigative report for information on the related finding.**

Take appropriate disciplinary actions against the employee and pursue collection efforts for the compensation she did not earn.

#### ***Corrections' Action: No action taken.***

Corrections reported in December 2010 that, based on its review of the findings, the employee did not engage in any misconduct. Therefore, it has declined to implement our recommendations. Corrections did not provide us any information or evidence that would call into question the accuracy of our findings.

#### **Recommendation 2—See pages 41—43 of the investigative report for information on the related finding.**

Obtain monthly logs from the alarm company and verify that overtime reported for responding to building alarm activations is consistent with the logs.

#### ***Corrections' Action: No action taken.***

Corrections reported in December 2010 that, based on its review of the findings, the employee did not engage in any misconduct. Therefore, it has declined to implement our recommendations. Corrections did not provide us any information or evidence that would call into question the accuracy of our findings.



# Department of Corrections and Rehabilitation

## Delay in Reassigning an Incompetent Psychiatrist, Waste of State Funds (Case I2009-0607)

### REPORT NUMBER I2010-2, CHAPTER 1, ISSUED JANUARY 2011

This report concludes that the Department of Corrections and Rehabilitation (Corrections) placed parolees at risk by allowing a psychiatrist to continue to treat them for four months after it received allegations of his incompetence. In addition, Corrections wasted at least \$366,656 in state funds by not conducting a timely investigation of the allegations. Because it identified the investigation as low priority, Corrections took 35 months to complete it, resulting in the psychiatrist performing only administrative duties for 31 months before being discharged. Nonetheless, during the 35-month investigation, he received over \$600,000 in salary, including two separate merit-based salary increases of \$1,027 and \$818 per month, and he also accrued 226 hours of leave for which Corrections paid him an additional \$29,149 upon his termination.

In the report, the California State Auditor (state auditor) made the following recommendations to Corrections. The state auditor's determination regarding the current status of recommendations is based on Corrections' response to the state auditor as of November 2011.

#### **Recommendation 1—See pages 7—11 of the investigative report for information on the related finding.**

Corrections should establish a protocol to ensure that upon receiving credible information that a medical professional may not be capable of treating patients competently, it promptly relieves that professional from treating patients, pending an investigation.

#### ***Corrections' Action: Fully implemented.***

Corrections established a task force to discuss its policies and procedures for removing the medical professional from treating patients, pending investigation. In June 2011 Corrections reported that it established policies and procedures for collecting information about the costs related to health care employees who are either assigned alternate duties or on administrative time off.

#### **Recommendation 2—See pages 7—11 of the investigative report for information on the related finding.**

Corrections should increase the priority the Office of Internal Affairs (Internal Affairs) assigns to the investigation of high-salaried employees.

#### ***Corrections' Action: Fully implemented.***

Corrections reported that to reduce the fiscal impact to the State, Internal Affairs considers expediting investigations that involve high-salaried employees who are assigned alternate duties. In November 2011 Corrections distributed a memorandum to executive staff members stressing the importance of consulting with Internal Affairs prior to assigning alternate duties to an employee so that Internal Affairs can—among other purposes—consider the case for expedited processing. In addition, Corrections stated that it uses a case management system to track investigations of Corrections employees within Internal Affairs. The tracking includes information about when Internal Affairs was notified about employees under investigation who have been assigned alternate duties or are placed on administrative time off.

**Recommendation 3—See pages 7—11 of the investigative report for information on the related finding.**

Corrections should develop procedures to ensure that Internal Affairs assigns a higher priority for completion of investigations into employee misconduct involving employees who have been assigned alternate duties.

***Corrections' Action: Fully implemented.***

Corrections stated that Internal Affairs communicates with the proper authorities to determine whether an employee under investigation has been removed from primary duties and considers expediting the completion of investigations involving high-salaried staff assigned alternate duties. Corrections identified its procedures in the November 2011 memorandum to executive staff. In addition, Corrections reported in November 2011 that it had conducted eight formal training events in 2011 and stated that Internal Affairs provided the training as needed in various forums, including one-on-one training. It also noted that Internal Affairs usually conducts the training annually with an open invitation to staff members with roles in the employee discipline process.

## Department of General Services

### Misuse of State Resources (Case I2008-1024)

#### REPORT NUMBER I2010-2, CHAPTER 5, ISSUED JANUARY 2011

This report concludes that a manager with the Department of General Services (General Services) improperly used state vehicles for his daily commute for nine years. The cost of the misuse from July 2006 through July 2009, the three years for which complete records are available, totaled an estimated \$12,379. Because the records were not retained, we were not able to accurately estimate the cost to the State for the remaining six years.

In the report, the California State Auditor (state auditor) made the below recommendations to General Services. The state auditor's determination regarding the current status of recommendations is based on General Services' response to the state auditor as of June 2011.

#### **Recommendation 1—See pages 29—31 of the investigative report for information on the related finding.**

General Services should seek reimbursement from the manager for the costs associated with his misuse of state vehicles.

#### ***General Services' Action: Fully implemented.***

In June 2011 General Services and the manager signed an agreement directing the manager to reimburse the State \$12,379 in costs arising from his misuse of state vehicles. The terms of the agreement require the manager to repay the State \$200 a month from June 2011 through August 2016. Through April 2012, the manager had made 11 monthly installment payments, leaving a remaining balance of \$10,179.

#### **Recommendation 2—See pages 15—17 of the investigative report for information on the related finding.**

General Services should issue a memorandum regarding the appropriate use of state-owned vehicles to all fleet division employees with access to state vehicles.

#### ***General Services' Action: Fully implemented.***

General Services stated that in March 2010, before the completion of our investigation, it issued a number of operating policies to its employees that prohibit the use of state-owned vehicles for travel to and from an employee's home without express permission.



# California Department of Transportation

## Inexcusable Neglect of Duty (Case I2008-0731)

### REPORT NUMBER I2011-1, CHAPTER 4, ISSUED AUGUST 2011

This report found that for nearly three years, a transportation planning supervisor for the California Department of Transportation (Caltrans) neglected his duty to supervise the work of a subordinate transportation planner, resulting in the transportation planner receiving compensation, including overtime pay, for which the State lacked assurance that the transportation planner performed adequate work to justify the compensation.

In the report, the California State Auditor (state auditor) made the following recommendations to Caltrans. The state auditor's determination regarding the current status of recommendations is based on Caltrans' response to the state auditor as of January 2012.

#### **Recommendation 1.a—See pages 28—31 of the investigative report for information on the related finding.**

To address the inexcusable neglect of duty, Caltrans should take appropriate corrective action against the senior transportation planner for neglecting his duty to supervise the transportation planner.

##### *Caltrans' Action: Fully implemented.*

Caltrans reported that it issued a corrective memorandum to the supervisor and placed a copy in the supervisor's personnel file. However, it stated that the memorandum would be removed from the file after one year, provided that the supervisor does not engage in similar actions or otherwise fail in his duties.

#### **Recommendation 1.b—See page 29 of the investigative report for information on the related finding.**

To prevent similar improper acts from occurring, Caltrans should institute training to ensure that all Caltrans employees are aware of the requirement that all overtime work be preapproved.

##### *Caltrans' Action: Fully implemented.*

Caltrans reported in December 2011 that it revised its overtime policy. In January 2012 Caltrans reported that it required its supervisors and managers to review the policy with all of their employees.

#### **Recommendation 1.c—See pages 29 and 30 of the investigative report for information on the related finding.**

Caltrans should establish controls to ensure that its telecommuting agreements are reviewed and renewed annually in order for an employee to be allowed to continue telecommuting.

##### *Caltrans' Action: Fully implemented.*

In July 2011 Caltrans revised its employee telework directive, which defines the responsibilities of managers and supervisors to ensure that telecommuting agreements are reviewed annually. It reported subsequently that its telework unit distributes notifications monthly to supervisors about the need to review telecommuting agreements nearing their expiration.

**Recommendation 1.d—See pages 29—31 of the investigative report for information on the related finding.**

Caltrans should revise its telecommuting policy to require that employees participating in the telecommuting program provide regular documentation of the work they perform away from the office.

***Caltrans' Action: Fully implemented.***

Caltrans reported that it had revised its Telework Program Policy and Procedures guidelines in March 2011. According to Caltrans, these guidelines require managers and supervisors to provide specific, measurable, and attainable performance expectations for their telecommuting employees. The agreements must define in writing detailed work tasks, corresponding deadlines, and expected work performance. The policy also requires managers and supervisors to review their expectations with their telecommuting employees at least quarterly.

# California Energy Commission

## Falsification of Time and Attendance Records (Case I2010-0844)

### REPORT NUMBER I2011-1, CHAPTER 3, ISSUED AUGUST 2011

This investigation found that an employee and a personnel specialist at the California Energy Commission (Energy Commission) falsified time and attendance records to enable the employee—at the time of her retirement—to receive a payment for unused annual leave that was higher than the amount to which she was entitled, costing the State an estimated \$6,589.

In the report, the California State Auditor (state auditor) made the following recommendations to the Energy Commission. The state auditor's determination regarding the current status of recommendations is based on the Energy Commission's response to the state auditor as of December 2011.

#### **Recommendation 1—See pages 23—25 of the investigative report for information on the related finding.**

The Energy Commission should seek to recover the amount it improperly paid the retiring employee for unused annual leave hours. If it is unable to recover any or all of this reimbursement, the Energy Commission should explain and document its reasons for not obtaining recovery of the funds.

#### ***Energy Commission's Action: Fully implemented.***

The Energy Commission reported that in December 2011 the retired employee reimbursed it for leave hours she used inappropriately.

#### **Recommendation 2.a—See pages 24 and 25 of the investigative report for information on the related finding.**

The Energy Commission should take appropriate disciplinary action against the personnel specialist for making unauthorized changes to the retiring employee's leave balances.

#### ***Energy Commission's Action: Fully implemented.***

The Energy Commission reported that the personnel specialist retired in June 2011. Nevertheless, in October 2011 the Energy Commission reported it had placed a memorandum in the personnel specialist's personnel file describing her actions related to the falsification of the retiring employee's time sheets and the unauthorized changes she made to the employee's leave balances.

#### **Recommendation 2.b—See page 22 of the investigative report for information on the related finding.**

The Energy Commission should monitor the personnel specialist's payroll and leave balance transactions to ensure that she follows Energy Commission policies.

#### ***Energy Commission's Action: Fully implemented.***

The Energy Commission reported that the personnel specialist retired in June 2011, before it learned of our recommendation. Nevertheless, as previously mentioned, it placed a memorandum in her personnel file describing her improper activities.

**Recommendation 2.c—See page 22 of the investigative report for information on the related finding.**

The Energy Commission should provide training to employees responsible for managing leave balance and time-sheet transactions to ensure that they understand the Energy Commission's policies for safeguarding their accuracy and respecting the limitations on the use of sick leave for family member illness as specified by the law and applicable collective bargaining agreements.

***Energy Commission's Action: Fully implemented.***

The Energy Commission stated that it provided training to its personnel specialists in September 2011. It stated that it stressed the importance of accuracy and thoroughness in processing leave usage, the limitations on the use of sick leave for family member illnesses as specified in various bargaining unit agreements, and obtaining supervisory approval on all amended time sheets.

# Department of Corrections and Rehabilitation

## Misuse of State Resources (Case I2009-1203)

### REPORT NUMBER I2011-1, CHAPTER 2, ISSUED AUGUST 2011

This report found that the chief psychologist at a correctional facility operated by the Department of Corrections and Rehabilitation (Corrections) used his state-compensated time and state equipment to perform work related to his private psychology practice, costing the State up to an estimated \$212,261 in lost productivity.

In the report, the California State Auditor (state auditor) made the following recommendations to Corrections. The state auditor's determination regarding the current status of recommendations is based on Corrections' response to the state auditor as of November 2012.

#### **Recommendation 1.a—See pages 15—17 of the investigative report for information on the related finding.**

To ensure that the chief psychologist does not misuse state resources, Corrections should take appropriate disciplinary action against the psychologist for misusing state resources.

#### ***Corrections' Action: Fully implemented.***

Corrections reported that in January 2011 the chief psychologist voluntarily demoted to a staff psychologist position. In addition, Corrections stated that before his voluntary demotion, health care management had attempted to make the chief psychologist comply with Corrections' policies and procedures regarding hours of work and secondary employment. In February 2012 Corrections formally reprimanded the former chief psychologist.

#### **Recommendation 1.b—See pages 15—17 of the investigative report for information on the related finding.**

To ensure that the chief psychologist and other Corrections employees do not misuse state resources, Corrections should require psychology staff at the correctional facility, including the chief psychologist, to specify hours of duty.

#### ***Corrections' Action: Fully implemented.***

To ensure that psychology staff at the correctional facility specify hours of duty, Corrections reported that it requires each affected employee to have a signed duty statement, secondary employment approval, and documentation of his or her work schedule in the supervisory files. It stated that in September 2011 it trained its supervisors on these requirements and informed staff of the expectations. It also informed us that as of September 2011, the supervisors had provided proof that each employee had signed a copy of his or her duty statement, secondary employment approval form, and documentation of his or her work schedule.

#### **Recommendation 1.c—See pages 15—17 of the investigative report for information on the related finding.**

To ensure that the chief psychologist and other Corrections' employees do not misuse state resources, Corrections should establish a system for monitoring whether psychology staff at the correctional facility, including the chief psychologist, is working during specified hours of duty.

***Corrections' Action: Partially implemented.***

Corrections issued a memorandum to staff and created an operating procedure that outlined the requirement for staff to complete requests for leave or notify a supervisor when leaving work early. It also indicated that its staff is required to use sign-in and sign-out sheets, and that supervisors check the sheets and compare them with approved time-off calendars. However, Corrections' actions will not fully ensure that psychology staff is working during specified hours of duty. For instance, the use of sign-in and sign-out sheets relies heavily on the truthfulness and accuracy of the information that each employee reports on the sheets, which limits the reliability of this control. In addition, it has not formally documented in a policy, procedure, or otherwise the supervisors' responsibilities to monitor the sign-in and sign-out sheets and compare them to attendance reports.

# Department of Fish and Game

## Misuse of a State Vehicle, Improper Travel Reimbursements (Case I2009-0601)

### REPORT NUMBER I2011-1, CHAPTER 5, ISSUED AUGUST 2011

This report found that a manager at the Department of Fish and Game<sup>1</sup> (Fish and Game) improperly directed an employee under his supervision to use a state vehicle for commuting between her home and work locations at a cost to the State of \$8,282 during a nine-month period. In addition, the employee improperly requested—and the manager improperly approved—reimbursement for \$595 in lodging and meal expenses incurred by the employee near her headquarters.

In the report, the California State Auditor (state auditor) made the following recommendations to Fish and Game. The state auditor's determination regarding the current status of recommendations is based on Fish and Game's response to the state auditor as of September 2012.

#### **Recommendation 1.a—See pages 35 and 36 of the investigative report for information on the related finding.**

To recover the cost of the improper use of the state vehicle, Fish and Game should follow the guidelines established in state regulations and initiate repayment from the manager for the costs associated with the misuse of the state vehicle.

##### *Fish and Game's Action: No action taken.*

In September 2012 Fish and Game provided us with an update to this case; however, it did not indicate any action taken in response to this recommendation.



#### **Recommendation 1.b—See page 36 of the investigative report for information on the related finding.**

To recover the cost of the improper travel reimbursements, Fish and Game should seek recovery of the \$595 in lodging and meal reimbursements that were paid to the employee.

##### *Fish and Game's Action: No action taken.*

Fish and Game provided an update in September 2012; however, it did not indicate any action taken in response to this recommendation.



#### **Recommendation 1.c—See pages 35 and 36 of the investigative report on the related finding.**

Fish and Game should take appropriate disciplinary action against the manager for directing the misuse of a state vehicle.

##### *Fish and Game's Action: Fully implemented.*

Fish and Game reported that it issued a corrective counseling memo to the supervisor in June 2011.

#### **Recommendation 1.d—See pages 33—36 of the investigative report for information on the related finding.**

Fish and Game should provide training to the manager and the employee about state rules for the payment of employee travel expenses.

<sup>1</sup> As of January 1, 2013, the Department of Fish and Game became the Department of Fish and Wildlife.

*Fish and Game's Action: Partially implemented.*

In September 2012 Fish and Game reported that it provided the manager with training related to our investigation; however, Fish and Game did not indicate that it provided the employee with any training regarding state rules for payment of employee travel expenses.

# Department of Industrial Relations

## Failure to Monitor Adequately Employees' Time Reporting (Case I2008-0902)

### REPORT NUMBER I2011-1, CHAPTER 6, ISSUED AUGUST 2011

This report found that an official and a supervisor at a district office of the Department of Industrial Relations (Industrial Relations) failed to monitor adequately the time reporting of four subordinate employees from July 2007 through June 2009.

In the report, the California State Auditor (state auditor) made the following recommendation to Industrial Relations. The state auditor's determination regarding the current status of the recommendation is based on Industrial Relations' response to the state auditor as of September 2011.

**Recommendation—See pages 39 and 40 of the investigative report for information on the related finding.**

To ensure that employees at this district office follow time-reporting requirements in accordance with applicable state law and department policies, Industrial Relations should continue to monitor the time-reporting practices of the official and his staff.

***Industrial Relations' Action: Fully implemented.***

Industrial Relations reported that it provided further time-reporting and record-keeping training to all of its managers and supervisors. In addition, Industrial Relations issued a memorandum about attendance and reporting requirements to all of its district offices. Finally, Industrial Relations stated that it had provided training to all attendance reporting officers about the proper documentation of all hours worked and leave taken.



# Department of Mental Health

## Waste of State Funds, Misuse of State Resources (Case I2009-0644)

### REPORT NUMBER I2011-1, CHAPTER 1, ISSUED AUGUST 2011

The report found that an executive at the Department of Mental Health<sup>1</sup> (Mental Health) wasted at least \$51,244 in state funds in 2009, the one-year period that we examined, by employing a long-time senior official to perform activities that either were undertaken on behalf of a nonstate organization or did not serve a state purpose. In fall 2010 the executive directed the senior official to discontinue using state-compensated time for activities that we found did not benefit the State. Soon thereafter the executive retired from state service, and the senior official began using leave while he awaited new work assignments.

In the report, the California State Auditor (state auditor) made the following recommendations to Mental Health. The state auditor's determination regarding the current status of recommendations is based on Mental Health's response to the state auditor as of June 2011.

#### **Recommendation 1.a—See pages 5—12 of the investigative report for information on the related finding.**

To address the waste and misuse of state resources, Mental Health should evaluate the need for the senior official's position.

#### ***Mental Health's Action: Fully implemented.***

Mental Health reported that in following our recommendations, it reevaluated the necessity of the senior official's position and concluded that the position was unnecessary. Mental Health stated that although a former administration created the position for desirable purposes, it determined that these functions were no longer essential and should not be maintained given current fiscal constraints. The senior official resigned from state service in May 2011 and Mental Health eliminated his position.

#### **Recommendation 1.b—See pages 10 and 11 of the investigative report for information on the related finding.**

If Mental Health determines that the senior official's position can provide a benefit to the State, clarify the job duties associated with the position and increase oversight of the position's activities to ensure that the State receives material benefits from the activities.

#### ***Mental Health's Action: Fully implemented.***

Mental Health eliminated the senior official's position. Thus, it had no need to clarify the job duties and increase oversight for this position.

#### **Recommendation 1.c—See pages 6—12 of the investigative report for information on the related finding.**

Mental Health should evaluate the senior official's workdays during the past three years to determine whether the senior official should have charged leave on workdays that he claimed to have worked but actually devoted himself to nonstate activities.

<sup>1</sup> As of July 1, 2012, the Department of Mental Health became the Department of State Hospitals.

***Mental Health's Action: Fully implemented.***

Mental Health reported that it was unable to evaluate fully the senior official's workdays during the past three years to determine whether the senior official should have charged more leave. Instead, Mental Health stated that it found scant evidence of how the senior official spent his workdays even though it tried to reconstruct his daily work activities. Mental Health thus concluded that compiling the necessary evidence would require extensive work by staff to evaluate daily activities that occurred "long ago." The official resigned from state service in May 2011.

**Recommendation 1.d—See pages 7—9 of the investigative report for information on the related finding.**

Mental Health should require the senior official to use leave for workdays on which he did not actually perform work for the State or to repay the State the amount of salary he received for those days.

***Mental Health's Action: Fully implemented.***

Mental Health stated that it is unlikely to recover any portion of the senior official's salary. In addition to its inability to evaluate the senior official's workdays, Mental Health stated that even though it expected a 40-hour workweek from the senior official, more or less than eight hours on individual days was permissible. Further, it stated that it had no documented evidence that the senior official failed to perform many of his duties. Finally, Mental Health indicated that even if it were able to determine the salary amount the senior official earned on workdays he did not actually perform work for the State, it could not seek to recover those costs since he no longer is employed by the State.

## State Controller's Office

### Failure to Report Absences, Failure to Monitor Adequately an Employee's Time Reporting (Case I2009-1476)

#### REPORT NUMBER I2011-1, CHAPTER 7, ISSUED AUGUST 2011

This report found that an employee of the State Controller's Office (Controller's Office) failed to report an estimated 322 hours of absences over an 18-month period. Because her supervisor, a high-level official, failed to monitor adequately her time reporting, the State paid the employee \$6,591 for hours she did not work.

In the report, the California State Auditor (state auditor) made the following recommendations to the Controller's Office. The state auditor's determination regarding the current status of recommendations is based on the Controller's Office's response to the state auditor as of September 2011.

#### **Recommendation 1.a—See pages 44—46 of the investigative report for information on the related finding.**

To address the employee's improper time reporting, the Controller's Office should seek reimbursement from the employee for the wages she did not earn.

#### ***Controller's Office's Action: Fully implemented.***

The Controller's Office reported that before the employee's retirement in August 2010, it subtracted approximately 21 days from her leave balance, equaling \$3,613 in gross payments, and applied this leave to the employee's unauthorized time off. In addition, it established an accounts receivable for the balance of the unauthorized leave, and it notified the employee of the remaining \$2,978 owed to the State. In August 2011 the Controller's Office told us that the employee had repaid the amount owed.

#### **Recommendation 1.b—See page 46 of the investigative report for information on the related finding.**

To address the supervisor's failure to monitor the employee's time adequately, the Controller's Office should take appropriate disciplinary action against the supervisor.

#### ***Controller's Office's Action: Fully implemented.***

The Controller's Office informed us that management representatives counseled the official because it acknowledged that the official was responsible for monitoring the employee's time and that he provided insufficient oversight. It also stated that because the official's busy schedule did not allow him to monitor adequately his support staff's time, his staff was placed under the direct supervision of an office manager effective August 2010.

#### **Recommendation 1.c—See pages 43—46 of the investigative report for information on the related finding.**

The Controller's Office should provide training to the supervisor on proper time-reporting and supervisory requirements.

#### ***Controller's Office's Action: Fully implemented.***

The Controller's Office reported that its chief of Human Resources provided the supervisor with additional training on proper time-reporting and related supervisory requirements. It also provided evidence to us that it had conducted training for all supervisors on proper time-reporting and related supervisory requirements.



# California Correctional Health Care Services and Department of Corrections and Rehabilitation

## Improper Travel Expenses (Case I2009-0689)

### REPORT NUMBER I2012-1, CHAPTER 5, ISSUED DECEMBER 2012

This report concludes that a manager with California Correctional Health Care Services (Correctional Health Services) improperly authorized Department of Corrections and Rehabilitation (Corrections) employees to use rental cars and receive mileage reimbursements for their commutes. The manager also improperly authorized these employees to receive reimbursements for expenses they incurred near their homes and headquarters and for which Corrections inappropriately approved payment. As a result, the State paid a total of 23 employees \$55,053 in travel benefits to which the employees were not entitled.

In the report, the California State Auditor (state auditor) made the following recommendations to Correctional Health Services and Corrections. The state auditor's determination regarding the current status of recommendations is based on the responses provided to the state auditor as of December 2012.

#### **Recommendation 1—See pages 31 through 34 of the investigative report for information on the related finding.**

Correctional Health Services should provide training to the manager and supervisors involved in the claim authorization process regarding the state rules applicable to claiming travel expenses.

#### ***Correctional Health Services' Action: Pending.***

Correctional Health Services reported that it was considering developing a "lesson plan" regarding state travel laws and regulations.

#### **Recommendation 2—See pages 31 through 34 of the investigative report for information on the related finding.**

Correctional Health Services should discontinue reimbursing employees for expenses claimed in violation of state regulations.

#### ***Correctional Health Services' Action: Partially implemented.***

Correctional Health Services reported that to help detect any improper reimbursements and to ensure compliance with policies and procedures, it would initiate spot reviews of travel claims.

#### **Recommendation 3—See page 35 of the investigative report for information on the related finding.**

Corrections should provide training to its accounting staff regarding state regulations and the applicable collective bargaining agreements that relate to travel reimbursements.

#### ***Corrections' Action: Fully implemented.***

Corrections reported that it consolidated its travel functions to a regional office composed of well-trained staff. It also stated that all new regional office employees now receive training and are provided with all pertinent policies and training manuals to perform their duties effectively.

**Recommendation 4—See page 35 of the investigative report for information on the related finding.**

Corrections should develop procedures to ensure that it provides accurate, clear responses when employees seek clarification of state travel rules.

***Corrections' Action: Fully implemented.***

Corrections reported that it allows employees to obtain answers to travel-related questions by contacting its help desk, which is staffed and supervised by employees who have received extensive training regarding travel procedures to ensure that the information provided is clear and accurate.

# California Correctional Health Care Services and Department of Corrections and Rehabilitation

## False Claims, Inefficiency, and Inexcusable Neglect of Duty (Case I2010-1151)

### REPORT NUMBER I2012-1, CHAPTER 7, ISSUED DECEMBER 2012

This report concludes that a supervising registered nurse at the California Training Facility in Soledad (facility) falsely claimed to have worked 183 hours of regular, overtime, and on-call hours that would have resulted in \$9,724 of overpayments. However, because staff at the facility's personnel office made numerous errors in processing the nurse's time sheets, the State ultimately overpaid the nurse \$8,647. In addition, the nurse's supervisor neglected her duty to ensure that the nurse's time sheets were accurate, thus facilitating the nurse's ability to claim payment for hours she did not work. The nurse returned to work at the facility in July 2012 after nearly a two-year absence on medical leave but left again after only one month. Personnel staff at the facility reported that they have begun the process to collect the overpayments identified in this report.

In the report, the California State Auditor (state auditor) made the following recommendations to California Correctional Health Care Services (Correctional Health Services) and the Department of Corrections and Rehabilitation (Corrections). The state auditor's determination regarding the current status of recommendations is based on responses to the state auditor as of December 2012.

#### **Recommendation 1—See pages 43 and 44 of the investigative report for information on the related finding.**

Corrections should collect all of the improper payments the State made to the nurse and seek corrective action for the time the nurse falsely claimed to work.

#### ***Corrections' Action: Partially implemented.***

Corrections reported that its office of internal affairs has approved a request to investigate the nurse's actions. Corrections' legal counsel is reviewing the documents obtained from the state auditor. If the facility sustains the misconduct and imposes a penalty, it expects to serve the adverse action by March of 2013.

#### **Recommendation 2—See pages 45 and 46 of the investigative report for information on the related finding.**

Corrections should provide training to the supervisor related to timekeeping requirements and the proper procedures for taking disciplinary actions.

#### ***Corrections' and Correctional Health Services' Actions: Partially implemented.***

Corrections reported that it issued a memorandum that required its wardens and chief executive officers to ensure on-the-job training regarding timekeeping requirements is provided to all staff, including supervisors and managers within 45 days of the issuance of the memorandum. Both departments completed the training on November 30, 2012. Training on disciplinary actions is still pending.

#### **Recommendation 3—See pages 45 and 46 of the investigative report for information on the related finding.**

Corrections and Correctional Health Services should seek corrective action for the supervisor's failure to monitor and discipline the nurse adequately.

***Corrections' and Correctional Health Services' Actions: Partially implemented.***

Corrections reported that it issued a letter of expectation to the supervisor regarding the nurse's time sheets. It also issued a letter of instruction to the supervisor regarding her approval of the nurse's March, June, and July 2010 time sheets. Lastly, Corrections and Correctional Health Services reported that they completed a performance appraisal summary and individual development plan for the supervisor identifying improvements needed in supervising the work of others and personnel management practices. Corrections is considering taking additional disciplinary actions against the supervisor.

**Recommendation 4—See pages 44 and 45 of the investigative report for information on the related finding.**

Corrections should provide training to the facility's personnel office staff related to the application of the terms of the collective bargaining agreements for medical staff, the processing of docked pay, and the processing of on-call hours.

***Corrections' Action: Partially implemented.***

Corrections reported that it has and will continue to send all personnel specialists to training provided by the State Controller's Office. In addition, it stated that the facility's personnel supervisors met with all of its personnel specialist and trained them on docking employees, bargaining unit contracts, and the rules and regulations for on-call hours. The state auditor has not yet received evidence that the training occurred.

**Recommendation 5—See pages 44 and 45 of the investigative report for information on the related finding.**

Corrections should implement additional controls within the facility's personnel office to ensure that supervisors regularly monitor and review their staff's processing of time sheets.

***Corrections' Action: Partially implemented.***

Corrections reported that it will conduct supervisory audits of personnel specialists' time sheet files to ensure the integrity of its time and attendance reporting. However, Corrections did not specify how supervisory audits will ensure that all time sheets are processed correctly.

# California Department of Education

## Misuse of State Resources, Inexcusable Neglect of Duty (Case I2011-1083)

### REPORT NUMBER I2012-1, CHAPTER 9, ISSUED DECEMBER 2012

This report concluded that a California Department of Education (Education) employee misused state time and equipment when he posted nearly 4,900 comments on *The Sacramento Bee's* news Web site during state time. The employee also performed work for a third party using state resources during state time. The employee's former supervisor failed to supervise the employee appropriately, thus enabling the employee's misuse of state time and equipment.

In the report, the California State Auditor (state auditor) made the following recommendations to Education. The state auditor's determination regarding the current status of recommendations is based on Education's response to the state auditor as of December 2012.

#### **Recommendation 1—See pages 58 and 59 of the investigative report for information on the related finding.**

Education should block *The Sacramento Bee's* Web site from the employee's computer station for a specified period.

#### ***Education's Action: Fully implemented.***

Education reported that the employee resigned in November 2012, and that the recommendation no longer is applicable.

#### **Recommendation 2—See pages 58 and 59 of the investigative report for information on the related finding.**

Education should evaluate the necessity of the employee's direct access to *The Sacramento Bee's* Web site and take appropriate actions to prevent further abuses of state resources. These actions may include blocking other specific Web sites or periodically monitoring the employee's Internet usage.

#### ***Education's Action: Fully implemented.***

Education reported that the employee resigned in November 2012, and that the recommendation no longer is applicable.

#### **Recommendation 3—See pages 58—60 of the investigative report for information on the related finding.**

Education should take appropriate corrective action against the employee for misusing state resources.

#### ***Education's Action: No action taken.***

Education reported that the employee resigned in November 2012, and that the recommendation no longer is applicable. However, Education had at least one month after we notified it of the activity in October 2012 to pursue corrective action, and could still take action to ensure that the employee's misconduct is noted in the employee's official personnel file.

#### **Recommendation 4—See pages 60 and 61 of the investigative report for information on the related finding.**

Education should take appropriate corrective action against Supervisor A for failing to adequately monitor and discipline the employee.

*Education's Action: Partially implemented.*

Education reported that Supervisor A attended its in-house training on personnel management. Education claimed that this training was designed to improve the supervisor's personnel management knowledge and skills, including awareness of incompatible activities, progressive discipline, and employee disciplinary actions. However, this training does not constitute taking corrective action against the supervisor for neglecting his duty to monitor and discipline the employee.

# California State Athletic Commission

## Improper Overtime Payments (Case I2009-1341)

### REPORT NUMBER I2012-1, CHAPTER 3, ISSUED DECEMBER 2012

This report concludes that the California State Athletic Commission (athletic commission) overpaid a total of \$118,650 to 18 athletic inspectors from January 2009 through December 2010 because it inappropriately paid them an hourly overtime rate rather than an hourly straight-time rate for the work they performed.

In the report, the California State Auditor (state auditor) made the following recommendations to the athletic commission. The state auditor's determination regarding the current status of recommendations is based on the athletic commission's response to the state auditor as of December 2012.

#### **Recommendation 1—See pages 18—22 of the investigative report for information on the related finding.**

The athletic commission immediately should cease paying the 18 athletic inspectors discussed in the report an overtime rate for work they perform and inform all athletic inspectors that it will compensate them at the classification's straight-time rate unless their work meets the criteria for receiving overtime under the Fair Labor Standards Act of 1938.

#### ***Athletic Commission's Action: Fully implemented.***

The athletic commission ceased paying overtime to the employees in October 2012. It is working with the Department of Consumer Affairs to recoup overpayments that it made the last three years.

#### **Recommendation 2—See pages 22 and 23 of the investigative report for information on the related finding.**

The athletic commission should make greater efforts to broaden its hiring and increase the number of applicants who are not full-time state employees by posting hiring announcements at locations where the athletic commission has a presence, such as gyms and venues at which it holds events.

#### ***Athletic Commission's Action: Pending.***

The athletic commission is exploring options to broaden the applicant pool for the athletic inspector classification.



# Department of Fish and Game

## Improper Use of Lease Proceeds (Case I2009-1218)

### REPORT NUMBER I2012-1, CHAPTER 4, ISSUED DECEMBER 2012

This report concludes that a supervisor with the Department of Fish and Game (Fish and Game)<sup>1</sup> improperly implemented an agricultural lease agreement. He directed the lessee to use state funds derived from the lease to purchase \$53,813 in goods and services that did not provide the improvements and repairs the lease required. In addition, the supervisor required the lessee to provide the State with \$5,000 in Home Depot gift cards, but the supervisor could not demonstrate that the purchases he and other state employees made with the gift cards paid for improvements or for any identifiable state purpose.

In the report, the California State Auditor (state auditor) made the following recommendations to Fish and Game. The state auditor's determination regarding the current status of recommendations is based on Fish and Game's failure to respond as of December 2012.

#### **Recommendation 1—See pages 27—29 of the investigative report for information on the related finding.**

Fish and Game should seek either corrective or disciplinary action against the supervisor for his failure to ensure that Fish and Game used lease proceeds in accordance with the terms of the lease and to ensure that these proceeds were accounted for in the State Treasury where necessary.

#### *Fish and Game's Action: No action taken.*

Fish and Game has failed to provide a response.



#### **Recommendation 2—See pages 27—29 of the investigative report for information on the related finding.**

Fish and Game should amend the terms of its leases either to require that the lessee make lease payments to the State or to include specific improvements and repairs of comparable value that the lessee must perform in lieu of making lease payments. In either instance, Fish and Game should include a provision in the lease for payment if the lessee owes money to the State at the end of the lease period. If it decides that future leases should require a lessee to make specific improvements and repairs, Fish and Game should do the following:

- Develop a system to track all pertinent information related to a lessee's cost for improvements and repairs to be credited against the lease.
- Require the supervisor to reconcile payment records at least annually with each lessee to ensure that the State's records are accurate and that the State receives full benefit from leasing the state property.

#### *Fish and Game's Action: No action taken.*

Fish and Game has failed to provide a response.



#### **Recommendation 3—See pages 27—29 of the investigative report for information on the related finding.**

Fish and Game should provide training to those involved with the lease to ensure that it properly accounts for and reconciles future work and payments related to the leased property, that it does not pay operational and equipment expenses with proceeds derived from the lease, and that all parties understand what work Fish and Game expects as the result of the agreement.

<sup>1</sup> As of January 1, 2013, the Department of Fish and Game became the Department of Fish and Wildlife.

*Fish and Game's Action: No action taken.*

- ➔ Fish and Game has failed to provide a response.

# Employment Development Department

## Conspiracy to Commit Mail Fraud (Case I2008-1217)

### REPORT NUMBER I2012-1, CHAPTER 2, ISSUED DECEMBER 2012

This report concludes that a former Employment Development Department (EDD) accounting technician and two accomplices committed and were convicted of conspiracy to commit mail fraud for executing a scheme to redirect unemployment insurance (unemployment) benefits from the State to ineligible recipients. Through falsifying a bankrupt company's wage information regarding laid-off employees, the accounting technician enabled her two coconspirators to file unemployment claims for benefits to which they were not entitled. During the duration of the scheme, from August 2008 through October 2010, the two accomplices used the U.S. mail to receive \$92,826 in unemployment claims on wages they did not earn. The accounting technician and one of her accomplices were sentenced to serve time in federal prison. The second accomplice was sentenced to three years of probation.

In the report, the California State Auditor (state auditor) made the following recommendation to EDD. The state auditor's determination regarding the current status of the recommendation is based on EDD's response to the state auditor as of October 2012.

#### **Recommendation 1—See pages 13—15 of the investigative report for information on the related finding.**

To minimize the potential for unauthorized changes to employers' wage information, EDD should strengthen its controls surrounding employees' access and authorization to change data for companies reporting employment information used in EDD's unemployment system.

#### ***EDD's Action: Fully implemented.***

EDD reported that it created a new daily transaction report to alert managers when changes are made to employment records. Most importantly, this report identifies changes made to names, social security numbers, or wage records on the unemployment system by EDD employees when no business need for such changes appears to exist. Finally, this new report provides managers with a tool to monitor transactions performed by accounting technicians.



# Franchise Tax Board and Office of the Secretary of State

## Bribery (Case I2009-0634)

### REPORT NUMBER I2012-1, CHAPTER 1, ISSUED DECEMBER 2012

This report concludes that a Franchise Tax Board (board) employee, an Office of the Secretary of State (secretary of state) employee, and a courier service owner engaged in an elaborate scheme that enabled the courier service owner to steal nearly a quarter of a million dollars from the State. The three individuals were convicted of bribery and ordered to pay a total of \$227,430 in restitution to the board and the secretary of state. The failure of the board and the secretary of state to maintain adequate controls contributed to these individuals' ability to perpetrate fraud. Consequently, as of October 2012 both entities determined that their existing internal control environments had weaknesses contributing to the fraud and reacted appropriately to strengthen their processes.

Both state agencies strengthened their internal controls in response to the bribery scheme. The board implemented an automated process that eliminated the need for businesses to pay for the services that had led to the bribery and it established a reconciliation process to ensure the proper accounting for transactions related to the services. The secretary of state strengthened its controls for cash receipts and related transactions. Furthermore, it ordered two of its regional offices to cease providing the services that had led to the bribery. As of October 2012 we determined that the board and the secretary of state have addressed fully the improper activities identified in this report. Thus, the California State Auditor made no recommendations to them.



# Natural Resources Agency

## Improper Travel Expenses (Case I2009-1321)

### REPORT NUMBER I2012-1, CHAPTER 6, ISSUED DECEMBER 2012

This report concludes that from January 2009 through June 2011, an executive with the Natural Resources Agency (Resources) circumvented state travel regulations by improperly reimbursing an official and an employee \$47,944 in state funds for commutes between their homes and headquarters. In addition, Resources improperly reimbursed the official \$209 for lodging and meal expenses incurred near the Resources' headquarters. The official left employment with the State in September 2011.

In the report, the California State Auditor (state auditor) made the following recommendations to Resources. The state auditor's determination regarding the current status of recommendations is based on Resources' response to the state auditor as of October 2012.

#### **Recommendation 1—See pages 37—40 of the investigative report for information on the related finding.**

Resources should designate the employee's headquarters as Resources headquarters in Sacramento.

#### ***Resources' Action: Fully implemented.***

Resources reported that previously it had designated the employee's headquarters in Sacramento.

#### **Recommendation 2—See pages 37—40 of the investigative report for information on the related finding.**

Resources should discontinue reimbursing employees improperly for their commute-related expenses and lodging and for meal expenses incurred within 50 miles of their headquarters.

#### ***Resources' Action: Fully implemented.***

Resources reported that it had stopped all commute-related expense reimbursements to the employee and it stated that it has directed that no employees will be headquartered at a location other than Sacramento.



# University of California, Office of the President

## Waste of State Funds (Case I2010-1022)

### REPORT NUMBER I2012-1, CHAPTER 8, ISSUED DECEMBER 2012

This report concludes that the University of California, Office of the President (university) improperly reimbursed a university official \$6,074 in wasteful travel expenses from July 2008 through July 2011. Specifically, the official incurred \$4,186 of the wasteful expenses before we issued a previous report in December 2009, and he incurred \$1,888 after that date. We also determined that although the university increased its monitoring of the official's travel expenses, its absence of defined limits for lodging expenses led to some of these wasteful expenditures.

In the report, the California State Auditor (state auditor) made the following recommendations to the university. The state auditor's determination regarding the current status of recommendations is based on the university's response to the state auditor as of December 2012.

#### **Recommendation 1—See pages 50—53 of the investigative report for information on the related finding.**

To address the improper acts we identified, the university should collect \$1,802 from the official for the wasteful expenses he claimed for lodging and meals during his trip to England, the expenses he incurred within the vicinity of his headquarters, and the business meal expenses.

#### ***University's Action: Partially implemented.***

The university reported that it has notified the official of the expenses to be collected. In May 2011 the official reimbursed the university \$738 for expenses incurred in England as well as other expenses. The university reported the official is obligated to pay the balance before he leaves the university in December 2012.

#### **Recommendation 2—See pages 54 and 55 of the investigative report for information on the related finding.**

The university should revise the policies to allow employees to claim only actual lodging expenses up to established rates for international travel.

#### ***University's Action: Pending.***

The university has assigned its chief financial officer (CFO) to analyze this recommendation and the feasibility of incorporating it into university policy. The CFO has convened the campus controllers to begin the process of reviewing existing policies.

#### **Recommendation 3—See pages 52 and 53 of the investigative report for information on the related finding.**

The university should include a policy specific to parking to assist supervisors in determining appropriate expenses.

#### ***University's Action: Pending.***

The university has assigned its CFO to analyze this recommendation and the feasibility of incorporating it into university policy. The CFO has convened the campus controllers to begin the process of reviewing existing policies.

**Recommendation 4—See pages 52 and 53 of the investigative report for information on the related finding.**

The university should clarify policies to include a distance test for expenses that employees incur within the vicinity of their headquarters.

***University's Action: Pending.***

The university has assigned its CFO to analyze this recommendation and the feasibility of incorporating it into university policy. The CFO has convened the campus controllers to begin the process of reviewing existing policies.

**Recommendation 5—See pages 54 and 55 of the investigative report for information on the related finding.**

The university should revise policies to establish defined maximum limits for the reimbursement of domestic lodging costs and establish controls that allow for exceptions to the limits under specific circumstances only.

***University's Action: Pending.***

The university has assigned its CFO to analyze this recommendation and the feasibility of incorporating it into university policy. The CFO has convened the campus controllers to begin the process of reviewing existing policies.

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\* As of July 5, 2011, Prison Health Care Services became California Correctional Health Care Services.

† As of January 1, 2013, the Department of Fish and Game became the Department of Fish and Wildlife.

‡ As of July 1, 2012, the Department of Mental Health became the Department of State Hospitals.