

California Legislature

Joint Legislative Audit Committee

REPORT ON ACTIVITIES

DECEMBER 31, 1972



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Chairman

MIKE CULLEN

RAY E. JOHNSON

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Joint Legislative Audit Committee

GOVERNMENT CODE: SECTIONS 10500-10504

California Legislature

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The Honorable President of the Senate
The Honorable Speaker of the Assembly
The Honorable Members of the Senate, and
The Assembly of the Legislature of California

We transmit herewith our report covering the recent activities of your Joint Legislative Audit Committee.

This report describes the duties and responsibilities of the committee and its staff, the Office of the Auditor General. Presented in the report are comments on selected audit findings and related benefits derived by the public and the Legislature from the committee's work.

Appendix A lists 266 reports which were issued by the committee in the last four years. The variety of report titles is indicative of the wide range of governmental organizations and activities covered by our audits and investigations. Legislators, federal, state, and local officials, as well as private individuals and organizations receive copies of our reports.

Benefits attributable to our work cannot always be fully measured because of the nature of many of our activities. Following are some of those which resulted in the collection or the savings of state funds.

Children Centers - The state was not claiming federal reimbursement for all eligible participants. \$11 million was recovered.

Payments to Deceased Welfare Recipients - Welfare checks were issued up to one year after the death of the recipients. Over \$4 million of outstanding warrants were cancelled resulting in \$2 million being returned to the state's General Fund and \$2 million to the federal government.

Members of the Legislature

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Long Beach Tidelands - An underpayment of \$1 million is being recovered by the state.

Termination of Highway Construction Damaged by Earthquake of February 9, 1971 - The audits produced a net savings of \$155,000.

State Colleges' International Program - Approximately \$200,000 has been refunded to 1,100 students who had been overcharged.

The use of our reports by legislators and public officials has resulted in improved services and more efficient and effective governmental programs.

Your committee pledges itself to continue to serve the Legislature and the people of California to improve the effectiveness and efficiency of state governmental operations.

Respectfully submitted,



Mike Cullen



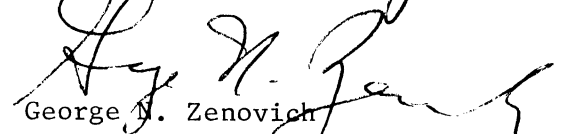
Ray E. Johnson



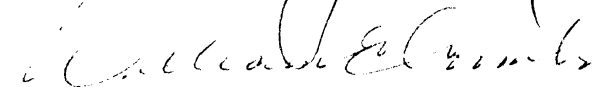
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Vice Chairman

THE JOINT LEGISLATIVE AUDIT COMMITTEE

California's Legislature established the Joint Legislative Audit Committee by statute in 1955. Government Code Sections 10500 through 10528 and other applicable statutes are reproduced as Appendix B of this report.

In establishing the committee, the Legislature recognized the need for a postaudit independent from the executive branch of the state government. It was intended that through its own audits and investigations, the Legislature could test the reliability of the financial and operating information that it uses in the decision-making process.

The Joint Legislative Audit Committee consists of three Members of the State Senate and three Members of the State Assembly. Members of the committee are appointed under the provisions of the Joint Rules of the Senate and Assembly. Senate members are appointed by the Senate Committee on Rules, and Assembly members are appointed by the Speaker.

The statutes specify that the committee shall have continuing existence and that it may meet, act, and conduct business at any time and place within the state.

The duties and responsibilities of the Joint Legislative Audit Committee are to:

- Determine the policies of the Auditor General.
- Appoint an Auditor General, deputies, and staff, and set salaries.

- Set priorities and assign all work to be done by the Auditor General.
- Ascertain facts.
- Review reports and take action thereon.
- Make reports and recommendations to the Legislature.

The committee is authorized to make rules governing its own proceedings. It may also establish subcommittees from its membership and assign to such subcommittees any study, inquiry, investigation, or hearing which the committee, itself, has authority to undertake or hold. The committee has the powers and authority granted to investigating committees under the Joint Rules of the Senate and the Assembly. Under these rules, the committee is empowered to subpoena witnesses. Also, every department and agency of state government and every political subdivision of, or in, the state is required to furnish the committee such information or records as the committee deems necessary for the accomplishment of its purpose.

Requests from Members of the Legislature for audits, investigations, and special studies receive top priority in assigning work to the Auditor General. Requests should be made by letter addressed to the Chairman of the Joint Legislative Audit Committee. Upon approval of the Audit Committee, the Auditor General is directed to provide the services in accordance with the request.

AUDITOR GENERAL

The Auditor General is appointed by the Joint Legislative Audit Committee to perform the audits and investigations authorized by the committee. A staff of 45 professional auditors, investigators, and consultants is directed by the Auditor General.

The Auditor General, subject to the approval of the Audit Committee, examines and reports on the financial statements and operations of all state agencies, boards, commissions, and programs, whether created by constitution or otherwise.

By statute, the audits conducted by the Auditor General are intended to be broad in scope. Depending on circumstances, all or part of the following types of audits are made:

- Financial
- Performance
- Investigations
- Special studies.

The Auditor General is authorized to examine and report objectively his findings and recommendations to the Legislature through the Joint Legislative Audit Committee. He has no authority to enforce recommendations or to otherwise influence executive or legislative action.

DEVELOPMENT OF LEGISLATIVE POST AUDITING IN CALIFORNIA

When the Joint Legislative Audit Committee began operations in 1956, the major audit effort was on the then traditional review of financial statements. At that time when the Legislature wanted financial information, it had to select the information from reports issued by the Director of Finance, the State Controller, the State Treasurer, and various agencies. These reports were prepared on differing bases which produced different results.

Substantial improvement has been made in financial reporting and control since 1956. The Controller's office produces financial reports from controlled accounting data. Fund balances and financial operations reported by the Department of Finance in the Governor's Budget are in agreement with the Controller's reports. State Treasurer's balances are in agreement with the Controller's records. Uniform accounting systems, accounting codes, titles, and classifications have been developed and maintained. The scope of internal audits has been broadened to better serve management.

In response to legislators' demands for more complete information regarding the executive departments operational accountability, the Joint Legislative Audit Committee in 1966 directed the Auditor General to conduct performance audits. The objective of performance audits, as described by the committee in 1966, is to determine:

- Whether or not programs have been administered in accordance with promises made to the Legislature and with legislative intent.

- Whether or not program accomplishments have been achieved by using the least cost combination of resources with a minimum of waste.

- Whether or not planned program objectives have been met.

Performance audits are made of programs, operations, or activities of an agency to determine compliance, efficiency and economy, and effectiveness.

A recent publication of the Federal Government Accountants' Association quoted several public officials on performance auditing. Several of those quotations are presented as follows:

Governor Nelson A. Rockefeller, New York: "Finally, no discussion of our efforts to reduce the cost of providing services to the public would be complete without mention of the Comptroller's continuing audit program. His audits of State agencies and public authorities continue to produce substantial savings as well as improvements in operations and procedures."

Governor Reubin O'D. Askew, Florida: "As you know, performance auditing is effective only where quantified objectives have been clearly stated and measures of performance have been developed. Florida has made substantial progress in both of these areas..."

Vincent Thomas, Chairman, Joint Legislative Audit Committee, California Legislature: "Since we have shifted the main thrust of our activities away from financial audits toward performance audits, there has been a steady increase in requests from legislators for the services of the Joint Legislative Audit Committee and the Auditor General.

Legislators are demanding more information regarding the Executive departments accountability for compliance with Legislative intent, efficiency of operations and effectiveness of programs."

Governor Robert Docking, Kansas: "The program is just getting started in Kansas and it will be a year or so before we can fully adjudge its success. I will be following its progress with great interest since I endorsed the concept of performance type audits and was pleased to sign the statute enacting this very important piece of legislation."

AUDIT STANDARDS

The Joint Legislative Audit Committee has directed the Auditor General to comply with the recently published Standards for Audit of Governmental Organizations, Programs, Activities, and Functions. These standards are the product of several years of extensive research and study of the auditing needs and practices of federal, state, and local governmental agencies. The audit standards project was conducted by the United States General Accounting Office under the direction of Elmer B. Staats, Comptroller General of the United States.

The introduction and summary of the GAO publication is reproduced as follows:

PART I--INTRODUCTION

PURPOSE

This statement contains a body of audit standards that are intended for application to audits of all government organizations, programs, activities, and functions--whether they are performed by auditors employed by Federal, State, or local Governments; independent public accountants; or others qualified to perform parts of the audit work contemplated under these standards. These standards are also intended to apply to both internal audits and audits of contractors, grantees, and other external organizations performed by or for a governmental entity. These audit standards relate to the scope and quality of audit effort and to the characteristics of a professional and meaningful audit report.

The American Institute of Certified Public Accountants (AICPA) has adopted standards and procedures that are applicable to audits performed to express opinions on the fairness with which financial statements present the financial position and results of operations. (The basic standards are included in "Statements on Auditing Procedure No. 33," issued by the Committee on Auditing Procedure of the American Institute of Certified

Public Accountants.) These standards are generally accepted for such audits and have been incorporated into this statement. However, the interests of many users of reports on Government audits are broader than those that can be satisfied by audits performed to establish the credibility of financial reports. To provide for audits that will fulfill these broader interests, the standards in this statement include the essence of those prescribed by the American Institute of Certified Public Accountants and additional standards for audits of a broader scope as will be explained subsequently.

SCOPE

A fundamental tenet of a democratic society holds that governments and agencies entrusted with public resources and the authority for applying them have a responsibility to render a full accounting of their activities. This accountability is inherent in the governmental process and is not always specifically identified by legislative provision. This governmental accountability should identify not only the objects for which the public resources have been devoted but also the manner and effect of their application.

This concept of accountability is woven into the basic premises supporting these standards. These standards provide for a scope of audit that includes not only financial and compliance auditing but also auditing for economy, efficiency, and achievement of desired results. Provision for such a scope of audit is not intended to imply that all audits are presently being conducted this way or that such an extensive scope is always desirable. However, an audit that would include provision for the interests of all potential users of government audits would ordinarily include provision for auditing all the above elements of the accountability of the responsible officials.

Definitions of the three elements of such an audit follow:

1. Financial and compliance--determines (a) whether financial operations are properly conducted, (b) whether the financial reports of an audited entity are presented fairly, and (c) whether the entity has complied with applicable laws and regulations.
2. Economy and efficiency--determines whether the entity is managing or utilizing its resources (personnel, property, space, and so forth) in an economical and efficient manner and the causes of any inefficiencies or uneconomical practices, including inadequacies in management information systems, administrative procedures, or organizational structure.

3. Program results--determines whether the desired results or benefits are being achieved, whether the objectives established by the legislature or other authorizing body are being met, and whether the agency has considered alternatives which might yield desired results at a lower cost.

The audit standards are intended to be more than the mere codification of current practices, tailored to existing audit capabilities. Purposely forward-looking, these standards include some concepts and areas of audit coverage which are still evolving in practice but which are vital to the accountability objectives sought in the audit of governments and of intergovernmental programs. Therefore, the audit standards have been structured so that each of the three elements of audit can be performed separately if this is deemed desirable.

It should be recognized that a concurrent audit of all three parts would probably be the most economical manner of audit, but often this may not be practical. Furthermore, it may not be practical or necessary to perform all three elements of the audit in particular circumstances. For most government programs or activities, however, the interests of many potential government users will not be satisfied unless all three elements are performed.

In memorandums of engagements between governments and independent public accountants or other audit organizations, the arrangements should specifically identify whether all, or specifically which, of the three elements of the audit are to be conducted. Such agreements are needed to ensure that the scope of audit to be made is understood by all concerned.

BASIC PREMISES

The following certain basic premises underlie these standards and were considered in their development.

1. The term "audit" may be used to describe not only work done by accountants in examining financial reports but also work done in reviewing (a) compliance with applicable laws and regulations, (b) efficiency and economy of operations, and (c) effectiveness in achieving program results.
2. Public office carries with it the responsibility to apply resources in an efficient, economical, and effective manner to achieve the purposes for which the resources were furnished. This responsibility applies to all resources, whether entrusted to the public officials by their own constituency or by other levels of government.

3. A public official is accountable to those who provide the resources he uses to carry out governmental programs. He is accountable both to other levels of government for the resources such levels have provided and to the electorate, the ultimate source of all governmental funds. Consequently he should be providing appropriate reports to those to whom he is accountable. Unless legal restrictions or other valid reasons prevent him from doing so, the auditor should make the results of audits available to other levels of government that have supplied resources and to the electorate.
4. Auditing is an important part of the accountability process since it provides independent judgments of the credibility of public officials' statements about the manner in which they have carried out their responsibilities. Auditing also can help decisionmakers improve the efficiency, economy, and effectiveness of governmental operations by identifying where improvements are needed.
5. The interests of individual governments in many financially assisted programs often cannot be isolated because the resources applied have been commingled. Different levels of government share common interests in many programs. Therefore an audit should be designed to satisfy both the common and discrete accountability interests of each contributing government.
6. Cooperation by Federal, State, and local governments in auditing programs of common interest with a minimum of duplication is of mutual benefit to all concerned and is a practical method of auditing intergovernmental operations.
7. Auditors may rely upon the work of auditors at other levels of government if they satisfy themselves as to the other auditors' capabilities by appropriate tests of their work or by other acceptable methods.

An inherent assumption that underlies all the standards is that governments will cooperate in making audits in which they have mutual interests. For many programs that are federally assisted, it would be neither practical nor economical to have every auditor at every level of government do his own background research on the laws, regulations, objectives, and goals of his segment of the program. Therefore, to provide the auditor with the necessary background information and to guide his judgment in the application of the accompanying standards, Federal or State agencies that request State, local, or other levels to make audits are expected to prepare broad, comprehensive audit instructions, tailored to particular programs or program areas.

The content of such audit guidance should include a digest of, or as a minimum, citations to applicable statutes, regulations, instructions, manuals, grant agreements, and other program documents; identification of specific audit objectives and reporting requirements in terms of matters of primary interest in such areas as program compliance, economy, and effectiveness; and other audit guidelines covering specific areas in which the auditor is expected to perform.

PART II--SUMMARY

Part II is a summary of the standards. Parts III, IV, and V explain the standards more fully.

PART III--GENERAL STANDARDS

1. The full scope of an audit of a governmental program, function, activity, or organization should encompass:
 - a. An examination of financial transactions, accounts, and reports, including an evaluation of compliance with applicable laws and regulations.
 - b. A review of efficiency and economy in the use of resources.
 - c. A review to determine whether desired results are effectively achieved.

In determining the scope for a particular audit, responsible officials should give consideration to the needs of the potential users of the results of that audit.

2. The auditors assigned to perform the audit must collectively possess adequate professional proficiency for the tasks required.
3. In all matters relating to the audit work, the audit organization and the individual auditors shall maintain an independent attitude.
4. Due professional care is to be used in conducting the audit and in preparing related reports.

PART IV--EXAMINATION AND EVALUATION STANDARDS

1. Work is to be adequately planned.
2. Assistants are to be properly supervised.
3. A review is to be made of compliance with legal and regulatory requirements.

4. An evaluation is to be made of the system of internal control to assess the extent it can be relied upon to ensure accurate information, to ensure compliance with laws and regulations, and to provide for efficient and effective operations.
5. Sufficient, competent, and relevant evidence is to be obtained to afford a reasonable basis for the auditor's opinions, judgments, conclusions, and recommendations.

PART V--REPORTING STANDARDS

1. Written audit reports are to be submitted to the appropriate officials of the organizations requiring or arranging for the audits. Copies of the reports should be sent to other officials who may be responsible for taking action on audit findings and recommendations and to others responsible or authorized to receive such reports. Copies should also be made available for public inspection.
2. Reports are to be issued on or before the dates specified by law, regulation, or other arrangement and, in any event, as promptly as possible so as to make the information available for timely use by management and by legislative officials.
3. Each report shall:
 - a. Be as concise as possible but, at the same time, clear and complete enough to be understood by the users.
 - b. Present factual matter accurately, completely, and fairly.
 - c. Present findings and conclusions objectively and in language as clear and simple as the subject matter permits.
 - d. Include only factual information, findings, and conclusions that are adequately supported by enough evidence in the auditor's working papers to demonstrate or prove, when called upon, the bases for the matters reported and their correctness and reasonableness. Detailed supporting information should be included in the report to the extent necessary to make a convincing presentation.
 - e. Include, when possible, the auditor's recommendations for actions to effect improvements in problem areas noted in his audit and to otherwise make improvements in operations. Information on underlying causes of problems reported should be included to assist in implementing or devising corrective actions.

- f. Place primary emphasis on improvement rather than on criticism of the past; critical comments should be presented in balanced perspective, recognizing any unusual difficulties or circumstances faced by the operating officials concerned.
 - g. Identify and explain issues and questions needing further study and consideration by the auditor or others.
 - h. Include recognition of noteworthy accomplishments, particularly when management improvements in one program or activity may be applicable elsewhere.
 - i. Include recognition of the views of responsible officials of the organization, program, function, or activity audited on the auditor's findings, conclusions, and recommendations. Except where the possibility of fraud or other compelling reason may require different treatment, the auditor's tentative findings and conclusions should be reviewed with such officials. When possible, without undue delay, their views should be obtained in writing and objectively considered and presented in preparing the final report.
 - j. Clearly explain the scope and objectives of the audit.
 - k. State whether any significant pertinent information has been omitted because it is deemed privileged or confidential. The nature of such information should be described, and the law or other basis under which it is withheld should be stated.
4. Each audit report containing financial reports shall:
- a. Contain an expression of the auditor's opinion on whether the information contained in the financial reports is presented fairly. If the auditor cannot express an opinion, the reasons therefor should be stated in the audit report.
 - b. State whether the financial reports have been prepared in accordance with generally accepted or prescribed accounting principles applicable to the organization, program, function, or activity audited and on a consistent basis from one period to the next. Material changes in accounting policies and procedures and their effect on the financial reports are to be explained in the audit report.

- c. Contain appropriate supplementary explanatory information about the contents of the financial reports as may be necessary for full and informative disclosure about the financial operations of the organization, program, function, or activity audited. Violations of legal or other regulatory requirements, including instances of noncompliance, shall be explained in the audit report.

- c. Contain appropriate supplementary explanatory information about the contents of the financial reports as may be necessary for full and informative disclosure about the financial operations of the organization, program, function, or activity audited. Violations of legal or other regulatory requirements, including instances of noncompliance, shall be explained in the audit report.

SCHOOL DISTRICT FINANCIAL PROBLEMS

School districts have used up reserve funds in recent years because of rising costs which are not being matched by increased revenues. The lack of reserve funds creates cash flow problems for districts because local property taxes, the principal source of funds for most districts, are received for the most part in December and April of each year. Temporary loans from county treasury funds and banks are used to cover shortages during lean months. The financial problems of many districts became so severe that these temporary loans were insufficient.

REQUESTS FOR SPECIAL LEGISLATION

Many school districts requested special legislation to alleviate their problems. Prior to passing on such requests, the Senate and Assembly Education Committees called upon the Audit Committee for a quick review by the Auditor General of the district's financial problems. When it was found that problems could not be resolved by other means, special legislation was passed granting a loan repayable from future apportionments.

The verification performed by the Auditor General enabled the policy committees to give prompt assistance to districts with severe problems while at the same time assuring themselves that only school districts that had made a genuine effort to solve their own problems received the special emergency loans.

EXAMPLES OF FINANCIAL PROBLEMS

Examples of financial problems experienced in recent years by some of the school districts which our auditors reviewed follow:

Meadows Union School District

The Meadows Union School District in Imperial County ran out of funds early in 1971. A dispute over the assessed value of the district's largest taxpayer had held up the district's revenues and caused the financial problem. Legislation by Senator James Mills and Assemblyman Raymond Seeley provided the district with emergency funds to meet its payroll and other obligations. Also the revenue and tax code was changed to limit the impounding of property taxes paid under protest to the portion in dispute, rather than the full amount.

Lakeside Union Elementary School District

Lakeside Union Elementary School District in Kings County obtained a loan of \$75,000 in 1970 and was unable to repay it in 1971 out of state apportionments. A review of the district's financial condition disclosed that reserve funds were used up by costs increasing faster than revenues. Decreased enrollment reduced state apportionments. Assessed valuation was lost on farm and other lands which qualified under the California Land Conservation Act.

Legislation in 1971 extended the repayment date of the loan. At the same time the district's voters approved an increase in the tax rate.

Tax legislation passed in the 1971 first extraordinary session allows the Superintendent of Public Instruction to reimburse school districts out of state funds for revenues lost on land placed under open-space restrictions.

Newhall Elementary School District

Newhall in Los Angeles County incurred a loss of \$196,428 because of the February 9, 1971 earthquake. At the request of the Assembly Education Committee, this loss was reviewed by our auditors. No immediate need for special legislation was found. Federal funds were claimed and until received, the district experienced a tight cash flow situation. It was recommended that the Los Angeles County Superintendent of Schools review other districts' losses to determine if federal funds were being claimed by all districts for earthquake losses including losses of revenues. A favorable reply was received from the Los Angeles Superintendent with more than \$16 million of federal funds being claimed for earthquake losses by school districts.

Marysville Joint Unified School District

The Department of Education made errors totaling \$263,378 by apportioning more than they should have to the Marysville District. Because of commitments to improve certain programs the district was unable to return the funds in total when the error was discovered. Special legislation by Assemblyman Eugene Chappie allowed the district to repay the state over a five-year period with interest.

MANAGEMENT ANALYSIS UNIT

A management analysis unit has since been established in the Department of Education. The unit established in 1971 by the newly elected Superintendent of Public Instruction, Dr. Wilson C. Riles, will review school district financial and management problems such as those reported herein, and work out solutions with the districts or state agencies.

CHILDREN CENTERS

Since 1969, several reports were issued on the children centers' program which provides child care and educational services for pre-school and young school-age children. The reports repeatedly disclosed that the state was not claiming federal reimbursements for all eligible participants in the program.

The Department of Education administers the program with the Department of Social Welfare certifying eligibility and claiming federal funds.

Children eligible for federal funding include:

- AFDC recipients
- Residents of low income target areas
- Children certified by county welfare departments as former or potential AFDC recipients

California lost an estimated \$10 million by failing to identify former and potential recipients who were enrolled in the program during the period November 1968 through June 30, 1970.

As a follow up on the audit reports, Assemblyman Willie Brown, Jr., Chairman of the Ways and Means Committee, and Assemblyman Mike Cullen, Chairman of the Efficiency and Cost Control Committee, conducted public hearings on the financing of children centers. These hearings put a stop to the losses and resulted in the state receiving \$11 million which was claimed only after the committees took action.

PERMISSIVE OVERRIDE TAXES

By statute school districts are allowed to levy permissive override taxes for up to 43 specific purposes. These taxes increase taxes above the general purpose rate but are not subject to the voters' approval.

Audits were made of certain selected school districts' use of permissive override taxes for the following specific purposes:

- Adult education
- Regional occupational training
- Community services
- Excess costs of 7th and 8th grades.

These audits disclosed that:

- Permissive override taxes were being used in part to support general education programs especially where voters had rejected increasing general purpose taxes.
- School district accounting systems and practices were inadequate to assure effective control over accumulating costs and setting tax rates in accordance with statutory requirements.
- Audit coverage and reporting on permissive override taxes by school district auditors needed to be improved.

No state funds are involved in these exceptions. Millions of local tax funds are involved. Taxpayers filed a suit against one district where some \$3 million of permissive override taxes were used over several years for general purposes.

Senate Bill 90, the 1972 school finance and tax reform legislation, provides for the elimination of most of the permissive override taxes as of July 1, 1973. Programs formerly financed from override taxes will be financed out of general purpose taxes.

Permissive override taxes will continue to be used for children's centers, construction to eliminate health and safety hazards, bond interest and redemption, school building aid, and area wide foundation programs.

PUBLIC UTILITY ASSESSMENT PRACTICES

At the request of Assemblyman Leroy F. Greene, Chairman of the Assembly Education Committee, a study was made of the public utility assessment practices of the State Board of Equalization to determine if such practices represented a potential loss of revenues to school districts. The study disclosed that changes in the Board's assessment practices had resulted in a major property tax reduction for public utilities with a corresponding reduction in school district income. Where as most property in the state is assessed for property tax purposes by county assessors, public utility property is assessed for property tax purposes by the State Board of Equalization.

The study disclosed that in contrast to the 25 percent of current market value used by county assessors in making property tax assessments the State Board of Equalization bases assessments of property owned by public utilities on historical cost less depreciation.

Offsetting the generally lower historical cost basis used by the board for public utility owned property was the board's higher assessment ratio.

The study found, however, that the assessment ratio on public utility owned property had been reduced from 50 percent in 1957-58 to 31 percent in 1970-71 and that the board planned to continue reducing the ratio two percent per year until the 25 percent ratio used for non-public utility property is reached.

Since the old historical cost basis was to be maintained, the net effect was a major property tax reduction for the public utilities. School

districts have lost undetermined millions of dollars of potential revenues because of these reductions in assessment ratios.

Uniform assessment practices and ratios require further study by the Legislature along with the proposals for a state-wide property tax to equalize support of public schools.

STATE COLLEGES' INTERNATIONAL PROGRAM

This review was requested by Assemblyman Willie Brown, Jr., Chairman of the Assembly Ways and Means Committee. The Auditor General's report covered the overseas travel expenses incurred by non-students and a general review of the International Program. Numerous improprieties were noted. The most serious problem was that the students were overcharged resulting in a recorded surplus of \$310,545 as of June 30, 1971. The Legislature had formally expressed its intent by establishing a \$50,000 contingency reserve and directing that excess reimbursements be abated against student fees. The surplus of student revenues over expenditures constituted an unauthorized tuition.

The Chancellor's Office, with assistance from the Department of Finance, made adjustments and later determined the unauthorized surplus as of June 30, 1971 to be approximately \$224,000. The Chancellor's Office has attempted to contact 1,222 students entitled to refunds. As of June 30, 1972, 1,098 students had been contacted and approximately \$195,000 was refunded. The Chancellor's Office is holding the remaining \$29,000 in trust to be refunded to students when they are located.

The program has been reorganized. New rules, regulations and controls for control of the use of funds have been adopted. Administration of the program has been centralized in the Chancellor's Office under the direction of the Assistant Executive Vice Chancellor.

STATE COLLEGES ' PROCUREMENT

Senator John L. Harmer requested the Audit Committee's assistance in determining the feasibility of his proposed legislation which exempted college purchases of \$500 to \$1,000 from purchasing supervision of the Department of General Services. Also reviewed was the effect of Senate Bill 29 of 1969 which had exempted college purchases from \$25 to \$500. Both bills were in accord with findings contained in a 1969 report prepared by the Auditor General.

Most commonly used items are ordered by the using state agency from the Department of General Services central stores or directly from suppliers at prices previously contracted for by the Department of General Services.

To obtain most items which cost more than \$50 (raised from \$25 in 1970) and which are not available from central stores or state supply contract, the agencies provide the Department of General Services with a purchase request containing:

- A description of the item to be purchased
- Three vendors which will provide the item
- The price of each vendor
- The vendor recommended by the agency.

The Auditor General's 1969 report based upon statistically evaluated random samples of the department's records had indicated that 96 percent of the purchase orders issued by the Department of General Services for less than \$1,000 were issued without formal bidding. Of these purchase orders issued for less than \$1,000:

- 61 percent were issued to the vendor recommended by the agency on the purchase request without obtaining prices from additional vendors.
- 35 percent were issued after informal price quotations were requested by the Department of General Services.

Only four percent of the purchase orders under \$1,000 were issued after formal bids were requested by the Department of General Services. For the other 96 percent, the Department of General Services was simply duplicating what the agency purchasing office had already done.

The 1969 study also indicated that the average time required by the Department of General Services for processing of purchase orders was from three to seven weeks.

- The overall average intervals for processing purchase orders was:
 - Sacramento 44.7 days
 - Los Angeles 31.9 days
- The average interval for processing purchase orders under \$100 was:
 - Sacramento 42.5 days
 - Los Angeles 27.9 days

Relative to the feasibility of Senate Bill 39 of 1971, and the effect of Senate Bill 29 of 1969, a subsequent review of college purchases was made. It was found that:

- Commonly purchased items were purchased on state supply contract or from central stores provided by the Department of General Services.

- Most of the \$500 to \$1,000 purchases were unique to a specific instructional program and there was little time or opportunity to obtain better prices through consolidation of orders.
- 42.5 percent of college purchase orders of \$500 to \$1,000 were issued to the vendor referred by the college without requesting prices from additional vendors or obtaining bids. The reasons why the department did not competitively bid these items related primarily to the nature of the items.
- The department's processing of college purchase orders \$500 to \$1,000 in 1971 took an average of 27 days.
- The workload of the department decreased substantially as a result of the enactment of Senate Bill 29 of 1969. The number of college purchase orders issued by the Office of Procurement decreased 83 percent from 1968 to 1971. The number of purchase orders for all other state agencies (reflecting the change in the monetary limit on exempt purchases from \$25 to \$50 and the increased usage of supply contracts) decreased 52 percent.
- The decrease in the number of college purchase orders issued by the department contributed to a reduction of the department's staff with no increase in the procurement staff of the colleges.

State college faculty who originate purchase orders for special items are not available until near the start of the school year. Courses generally run no longer than four and one half months. Materials were often not received when needed. The enactment of Senate Bill 29 of 1969 and Senate Bill 39 of 1971 eliminated delays in the receipt of materials needed for college courses.

WORK INCENTIVE PROGRAM

A review was made of the Work Incentive Program (WIN) in California to determine costs, the effectiveness of the program in achieving goals, and the efficiency of operations. The release of the report generated an unusual amount of interest statewide.

The audit disclosed that:

- From the September 1968 start of the program to March 31, 1971 (31 months), \$67 million was spent on the WIN program in California. At the same time, \$103 million in AFDC grants was paid to WIN participants. WIN program costs were financed by \$50 million of federal funds, \$11 million of state funds, and \$6 million of county funds. The AFDC grants were funded from \$51 million of federal, \$35 million of state, and \$17 million of county funds. Sufficient state and county cost and statistical data are not available. The March 31, 1971 data were developed during the audit.
- The objective of the WIN program is to restore AFDC families to independence through employment in the regular economy. In the first 31 months of operation, the program has resulted in an annual savings of only \$4 million in AFDC grants. Only 2,957 or 2 percent of the 143,720 recipients referred to the program have been employed and remain off welfare.

Some 28,000 others received services and were recorded as unsuccessful terminations. The report states that the program has not had a discernible effect on welfare caseloads. The needs of those referred to it have not been met. WIN has not held the interest of those enrolled in the program.

- It is difficult to measure the effectiveness of the program. Many of those enrolled in the program possessed marketable job skills but were on welfare because of the general depressed economy. Conversely, many of those referred to the program by counties were not enrolled or terminated because of physical, emotional, or other handicaps. Counties must refer unemployed fathers to the program or risk the loss of federal AFDC grants. Only 51,077 were enrolled in the program out of the 143,720 referrals.
- WIN personnel at both headquarters and local offices do not have sufficient information regarding enrollee achievement in the various educational and training programs. It is not known whether or not an enrollee completes a course or accomplishes an objective.
- State administration and operation of the WIN program is divided between the Departments of Human Resources Development and Social Welfare. This division of responsibility has created misunderstanding and antagonism between these departments along with conflicting instructions to county

welfare departments. No one agency has the responsibility to produce satisfactory results for the millions spent.

- The organizational structure of the Department of Human Resources Development precludes the most efficient utilization of WIN personnel. It is impossible for the WIN chief to effect a concerted effort toward the goals established for the WIN program.

- HRD has implemented the federal Department of Labor recommended team concept of staffing WIN field operations. Team members are concerned mainly with their own area of specialization. Supervision and direction are lacking. No one is responsible for the overall welfare or progress of individual enrollees.

The report contains 17 recommendations to improve services, establish fiscal and operating control, and to provide data essential for the evaluation of program costs and benefits.

AID TO THE DISABLED PROGRAM

Federal regulations require that applications for Aid to the Disabled Program be processed within 60 days. We found that the state and counties were not meeting this requirement and recommended various means by which this processing could be achieved within federal requirements.

Subsequently, the State Department of Social Welfare was a defendant in a suit in Superior Court dealing with the delay in the processing of applications for Aid to the Disabled. Our report was introduced in the case and referred to by both parties. The decision of the court required the State Department of Social Welfare to add sufficient staff to its medical review teams, as recommended by the report, to reduce the processing time to the required 60-day period. The additional staff provided has resulted in the state being able to meet its obligation under the program.

PAYMENTS TO DECEASED WELFARE RECIPIENTS

It was called to the attention of the Audit Committee chairman by a constituent that OAS payments were being issued long after the intended recipient had died. Upon investigation, a series of cases were found in Los Angeles County which showed that welfare checks were issued up to one year after the death of the recipients. In some cases, forged endorsements were noted. As the result of these reports, over \$4 million of outstanding warrants were cancelled resulting in \$2 million being returned to the state's General Fund and \$2 million to the federal government. The State Department of Social Welfare has not yet implemented recommendations to use death certificate information contained in Department of Public Health's computers to discontinue welfare aid to deceased recipients.

CATALOG OF HEALTH CARE PROGRAMS

Legislation was passed in 1971 to provide financial and technical assistance through state loans to stimulate the development of private community health service institutions and organizations. In response to a request from constituents of Chairman Vincent Thomas, it was found that an inventory of other available state, federal, and privately funded health care programs was needed. The committee directed that the Auditor General prepare an inventory of these programs.

The report identifies 244 programs available in 1971-72 which probably will be continued in subsequent years. The federally funded programs amount to \$7.3 billion of which California should receive around ten percent or \$730 million. The amount of federal funds the California state, local and private health agencies have received was not determined. State funded programs amounting to \$140 million are reported. Privately funded programs amounting to \$14 million are reported.

Each program is described in sufficient detail to disclose its authorization, objectives, type of assistance, the amount of funds available, eligibility for funds, and how the funds may be used. Also listed are the contact agencies through which information and applications for the funds and programs may be obtained.

It is anticipated that this report will help governmental and private agencies to implement health care programs.

MEDI-CAL PAYMENT PROCEDURES
FOR AMBULANCE SERVICES

Assemblyman Ray E. Johnson requested a review of the Department of Health Care Services and Blue Shield practices and procedures as they relate to the payment of medical claims, particularly in the area of ambulance service.

Ambulance service vendors provided copies of 876 claims which they alleged had not been paid by the Medi-Cal program. Most of these claims were for services rendered prior to 1972 and some had dates of service as far back as 1968. The review was made to determine the disposition of the 876 claims, and to determine the problems faced by ambulance service vendors in rendering service to Medi-Cal program recipients.

The report disclosed that of the 876 claims submitted by the ambulance service vendors, Blue Shield's (the fiscal intermediary for the Medi-Cal program) records indicated that as of September 30, 1972, payment had been denied on 133, 48 were still in process, and 249 had been paid, of which 121 were paid after the review began. Blue Shield had no record for 446 of the 876 claims researched. The report identifies several conditions that can result in a claim not being recorded by Blue Shield.

The report discusses procedures and operations of the Department of Health Care Services and Blue Shield that can and do cause excessive delays in Medi-Cal payments on ambulance and other types of medical claims.

The report points out three areas of department practice and procedure which create serious problems for ambulance service vendors.

- The department requireme nt that claims for payment include an authorized Medi-Cal P roof of Eligibility (POE) creates an undue hardship on ambulance service vendors, especially in an emergency situation because they cannot refuse service regardless of the availa bility of the POE and may not be able to obtain the POE because of the condition of the patient. If subsequent attempts by the ambulance service vendor to obtain the POE from the recipient fail, then the claim will not be paid.

The department will not assist any ambulance service vendor in obtaining POE's nor will county or state welfare agencies.

- The department also requires that providers submit claims to Blue Shield within two months after the month in which service was rendered. Under current law, the director may extend the two month billing limitation up to one year if the delay in claim submission was caused by circumstances beyond the control of the service vendor. The refusal of a recipient of ambulance service to provide a service vendor with a POE or the inability of the service vendor to otherwise obtain a POE has not been designated as a condition warranting extention of the two-month billing period.
- Current department policy regarding the types of nonemergency ambulance service the department will approve is vague and subject to interpretation. As a result, ambulance companies

are particularly vulnerable to not receiving payment for services rendered because unlike other medical vendors ambulance service vendors frequently render nonemergency service which is subject to subsequent department approval.

Seven recommendations are made in the report including recommendations

to:

- Improve the system of controlling and processing claims for payment
- Relax certain regulations, and
- Implement state wide, the treatment authorization procedures implemented in the Sacramento District Medi-Cal Consultants Office during the review.

LOS ANGELES TRIAL COURTS

In 1970, at the request of the Joint Legislative Audit Committee, the Auditor General's office reviewed the operations and management of the trial courts in Los Angeles County.

The purpose of the review was to find ways to improve the efficiency and effectiveness of the judicial system, with the goal of reducing court backlogs and shortening the time required for disposition of criminal and civil cases.

In contrast to most other court reform proposals, which are concerned primarily with reducing the amount of work before the courts or increasing the number of people available to do it, this report concentrates on improvement of the internal management and organization of the court system so that more can be accomplished with the same or fewer resources.

Most of the recommendations in the report have statewide application. None of them requires a major modification in the rights of civil litigants, prosecutors, or criminal defendants, nor in the manner in which judges are chosen. The recommendations should enable the courts to reduce their backlogs without major increases in judicial manpower.

At the request of the Joint Legislative Audit Committee, the report was assigned to the Senate and Assembly Judiciary Committees for their consideration.

Following are the 20 recommendations contained in the report for improving trial court operations:

1. Provide a longer term for presiding judges, and limit the power of the other judges to remove them once in office.
2. Rotate courtroom personnel among judges at reasonable intervals.
3. Establish training courses in courtroom procedure for newly-hired district attorney and public defender personnel.
4. Establish a mandatory retirement age beyond which a judge can serve only through annual reappointments by the Chief Justice.
5. Maintain a daily log for each courtroom, showing the clock time when each hearing begins and ends.
6. Require trial judges to submit monthly attendance reports to their presiding judge or to the Administrative Office of the Courts.
7. Assign each case to the same judge for all civil pre-trial hearings.
8. Establish a statewide training program to provide training for new judges.

9. Conduct felony preliminary hearings in the Superior Court rather than in the Municipal Courts.
10. Make the district attorney responsible for all misdemeanor prosecutions.
11. Prohibit refiling or re-indictment on charges dismissed at a preliminary hearing (except in unusual cases), but permit dismissals to be appealed by the prosecution.
12. Permit Superior Courts to hire their own court clerks and other supporting personnel.
13. Permit the Los Angeles Superior Court to hire its own bailiffs.
14. Combine the Los Angeles County Municipal and Superior Court bailiff systems.
15. Substantially reduce the size of the Los Angeles County Clerk's staff.
16. Increase jurors' compensation.
17. Place Municipal and Justice Courts under the administrative control of the Superior Court in each county.
18. Establish a case inventory system for Superior and Municipal Courts.
19. Provide for interest on judgements in personal injury, death, and property damage cases from the date of injury.

20. Reduce the size of juries used in minor criminal matters and in civil cases where a small amount is at dispute.

The report has received wide distribution and publicity both favorable and unfavorable. The Audit Committee has received communications from the Sheriff of Los Angeles County, the District Attorney, the Presiding Judge of the Superior Court, the County Clerk, and the Los Angeles City Attorney. A special subcommittee of the Executive Committee of the Los Angeles Superior Court was appointed by the Presiding Judge to study the report.

The Audit Committee is pleased by the general response the report has received, and the opportunity the report has given for in-depth discussion and consideration of needed changes in the operations and management of the state's trial courts.

LONG BEACH TIDELANDS

The statutes have required that the Auditor General audit the Long Beach Tidelands each year. In recent years, the state has received the following as its share of the oil and gas revenues:

1967-68 fiscal year	\$19.8 million
1968-69 fiscal year	\$20.6 million
1969-70 fiscal year	\$29 million
1970-71 fiscal year	\$18.2 million

In accordance with contracts, 60 months of advance royalty payments on the Long Beach unit terminated in March of 1970. As of September 1971, the field contractor had recovered the development costs and advanced royalties out of operating revenues. Since September 1971, the city, state, other working interest owners, and the field contractor share in the net profits of the Long Beach unit. Oil revenues received by the state were used for water projects, capital outlay for higher education, and the Southern California Rapid Transit District as provided by the statutes.

In the Auditor General's report for the fiscal year 1967-68, it was reported that the city had adopted a basis for computing payments to the state that resulted in an underpayment to the state which amounted to \$1,011,168. The city and state studied this audit finding and a repayment was agreed upon by the city and the State Lands Commission at the Commission's October 1971 meeting.

Several reviews were made of the Queen Mary project. The State Lands Commission has "conditionally non-obje cted" allowing \$34 million of tideland oil revenue funds held in trust by the city to be spent on the Queen Mary project. As of June 30, 1971, \$46 million of tideland oil revenues held in trust by the city have been spent on t he project. By special agreement, the State Lands Commission may object up to two years after the city completes the project.

The auditors raised several questions regarding the legality of certain expenditures. These questions were referred to the Legislative Counsel. The Legislative Counsel stated that it was entirely conceivable that a court would determine that the particular facilities in question were so closely related to and essential to the operation of this unique maritime museum that expenditures of tideland oil revenue for ship conversion and site development are consistent with the provisions of the 1964 act.

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

The Public Employees' Retirement System manages a \$5 billion fund derived from contributions from some 500,000 employees and their employers. State employees constitute about 40 percent of the membership in the system. Employees of contracting public agencies such as cities, counties, school districts and other political subdivisions make up 60 percent of the membership.

Audit reports issued in 1971 disclosed that a \$600 million unfunded service liability for state employee members existed as of June 30, 1969. The liability for the contract agency members was not determined until after the audit reports were issued.

Major changes in benefits and costs have occurred since 1969. Increased contribution rates and anticipated increased investment income are expected to fund the system on a current basis in 30 years. It has been estimated that the actuarial deficit exceeds \$1 billion at present.

Updated actuarial evaluations will be made in 1973 and 1974 which should disclose the effect of the changes since 1969 on the soundness of the system.

Members of the Joint Legislative Audit Committee coauthored 1972 legislation which provides for annual audits of the Public Employees' Retirement System and the State Teachers' Retirement System. These audits will be conducted by independent public accountants not in state employment. This will provide the many different employer and employee contributors with an added assurance that the state is administering their funds properly.

STATE CONSULTING CONTRACTS

The Audit Committee had a study made of the extent to which consultants were being used by state agencies and of the existing state controls over the use of consultants.

The resulting report prepared by the Auditor General disclosed that state agencies' consulting contracts for management services, computer systems, research, technical, legal and other professional services exceeded \$32 million in recent years. A complete listing of all contracts for each year was not readily available, however, contracts on file in the Department of General Services totaled \$31,937,848.

Contracts listed for the 1970-71 fiscal year totaled \$6.2 million. (Excluded from this amount and from the Department of General Services files are contracts executed by the University of California, State Compensation Insurance Fund, State College Auxiliary Enterprises, and contracts entered into by local agencies who spend state and federal subventions and grants.)

The report also disclosed that the Department of Finance, Department of General Services and State Personnel Board exercise very limited control over consulting contracts. Having granted exemptions or waivers of normal controls they rely upon the representations of the contracting agencies in approving the contracts.

In transmitting this report to the Legislature, Chairman Vincent Thomas stated:

"Millions of dollars could be saved by the state if properly trained state employees were available and used to perform

many of the services let to consultants on contracts. Consultants' fees are usually more than double the salary rates of comparable state employees doing the same types of work."

"...We are recommending that the Legislature initiate a complete study of the state agencies' use of consultants to determine:

- Why millions are being spent on outside help that state employees could perform at a lower cost?
- The availability and capability of state officials and employees to provide essential services without continued reliance on outside help.
- The adequacy of controls over contract services.
- The cost and benefits of such services."

The report was referred to the Committee on Ways and Means. In response to numerous requests, the report received wide distribution. Several other states have since made similar studies.

CONTRACTING FOR PRINTING

Chairman Vincent Thomas requested specific information in regard to state printing performed outside of the State Printing Plant and state printing performed outside of the state. The Auditor General's report stated:

- In the twelve months ended November 30, 1971, the state purchased \$3.1 million of printing from others and produced about \$21 million of printing in the State Printing Plant.
- The plant was operating at about 90 percent of capacity while 13 percent of the state's printing was being obtained from others.
- The lack of specialized equipment at the state plant required the contracting for \$2.7 million of printing in the past year.
- Continuous and perforated forms along with snap-out and carbon interleaf forms accounted for \$1.8 million of the work that required specialized equipment. The remainder consisted of medical identification cards, tab cards and warrants, a five color publication, and bonds and coupons.
- Printing totaling \$375,000 was purchased because the state plant did not have the capacity in specific production centers at a particular time in order to meet delivery dates set by state agencies. This printing consisted of \$286,000 of textbooks, \$46,000 for the California Driver's Handbook, and \$43,000 for income tax booklets.

- The amount of state-purchased printing produced outside of California is not readily available. Some of the companies providing printing to the state have plants both within and outside of California. At least \$330,000 which was mostly textbook printing was purchased by the state and manufactured out-of-state.

- An Attorney General's opinion dated February 11, 1970, concluded that the California Preference Law was unconstitutional. As a result of this opinion, out-of-state manufacture of textbook printing purchased by the state is expected to increase. The loss of state and local taxes and other economic losses to California could eliminate out-of-state price advantages.

- The feasibility of equipping the State Printing Plant to do more of the specialized printing purchases by the state requires further study.

TERMINATION OF HIGHWAY CONSTRUCTION DAMAGED BY
EARTHQUAKE OF FEBRUARY 9, 1971

In order to prevent the performance of further construction before the completion of investigations into the sufficiency and safety of such construction, the Legislature authorized the Department of Public Works to terminate contracts for state highway construction where the work was substantially damaged or destroyed by the earthquake provided that such termination was to the mutual consent of the contracting parties.

The Legislature directed that the compensation received by the contractors for work performed prior to the earthquake would be the reasonable cost of the performance of such work as it could be reasonably ascertained without the inclusion of profit, provided that such costs were not in excess of the contract price of such work.

The Auditor General was directed to audit all financial aspects of the terminations and seek from the Division of Highways engineering representations necessary to permit expression of an opinion on the compliance with the terms of the act.

The audits of contractors' records and other financial aspects of the terminations were conducted jointly with the Department of Public Works. The audits were made so as not to delay termination settlements between the department and the contractors. The audits produced net savings of approximately \$155,000.

The report specified the following:

- The Department of Public Works and the contractors have complied with terms of the controlling statute.

- The amounts paid the contractors \$10,646,264 and \$19,048,309 are the lower of contract price or reasonable cost excluding profit.

REPORTS OF THE JOINT LEGISLATIVE AUDIT COMMITTEE
ISSUED DURING THE FOUR YEARS
ENDED DECEMBER 31, 1972

LEGISLATIVE

Review of Accounting Records and Fiscal Procedures of Senate Contingent Fund (October 31, 1969), 21pp., attachment 11pp.

Examination of Senate Contingent Fund, Year Ended June 30, 1969 (November 3, 1969), 1p., 3 statements.

Examination of Assembly Contingent Fund, Year Ended June 30, 1969 (February 6, 1970), 1p., 1 statement.

Examination of Contingent Funds of the Assembly and Senate, Year Ended June 30, 1969 (February 19, 1970), 1p., 4 statements.

Review of Accounting Records and Fiscal Procedures in the Operation of the Contingent Funds of the Assembly and Senate, February 1970 (April 6, 1970), 15pp.

Review of Cashiering Procedures and Controls in the Legislative Bill Room, February 1970 (April 6, 1970), 4pp., attachment 2pp.

Review of Legislative Printing Operations and Controls, February 1970 (April 7, 1970), 15pp., attachment 1p.

Review of Project Records for the Federal Urban Mass Transportation Demonstration Grant Made to the Assembly Rules Committee (June 9, 1970), 4pp.

Review of Accounting Procedures of Participants in the Federal Urban Mass Transportation Demonstration Grant Made to the Assembly Rules Committee (September 28, 1970), 3pp.

Examination of Assembly Contingent Fund, Year Ended June 30, 1970 (December 31, 1970), 3pp., 1 statement.

Examination of Assembly Contingent Fund, Year Ended June 30, 1971 (February 9, 1972), 1p., 1 statement.

Examination of Contractors' Records re Phase I of the Steam Bus Project (April 5, 1972), 4pp.

Excerpts From Reports Issued By the Joint Legislative Audit Committee, 1960 Winter Olympics Squaw Valley (November 29, 1972), 11pp.

JUDICIAL

Examination of Judges' Retirement Fund, Year Ended June 30, 1968 (August 5, 1969), 28pp., 2 statements, attachment 8pp.

Review of Court Reporting Procedures and Preparation of Transcripts in the Los Angeles Trial Courts, December 1970 (December 31, 1970), 17pp.

Review of Court Procedures, Los Angeles, County Trial Courts (March 31, 1971), 81pp.

CRIMINAL JUSTICE

Preliminary Report on Description of Organization and Operation (March 1, 1971), 29pp., appendix 2pp.

Review of Staff Support (April 21, 1971), 7pp.

Review of Staff Assistance to Regions, May 1971 (May 26, 1971), 12pp.

Task Force Costs and Consultant Costs (June 9, 1971), 11pp., appendix 14pp.

Analysis of Contract Costs, California Crime Technological Research Foundation (June 17, 1971), 5pp.

Review of Council Operations (December 17, 1971), 32pp.

Review on Nonexpendable Property (December 21, 1971), 5pp.

Review of Contracts for Consulting Services (January 21, 1972), 3pp.

Review of Cost Project - Phase I (January 24, 1972), 6pp.

Examination of General Fund Accounts, Years Ended June 30, 1969, 1970, and 1971 (February 23, 1972), 13pp., 4 statements.

Examination of Special Deposit Fund Accounts, Years Ended June 30, 1969, 1970, and 1971 (February 23, 1972), 2pp., 3 statements.

California Criminal Justice Information System (CJIS), (October 20, 1972), 6pp.

CONTROLLER

Review of Data Processing Operations (August 13, 1969), 35pp.

Examination of General Fund, Year Ended June 30, 1969 (December 31, 1969), 3pp., 7 statements.

Examination of General Fund, Year Ended June 30, 1970 (February 4, 1971), 5pp., 7 statements.

CONTROLLER (cont.)

Review of Accounting and Reporting on Revenues of the General Fund (March 1, 1971), 7pp.

Review of Accrued Obligations of the General Fund to Retirement Systems (March 5, 1971), 14pp.

Review of Compliance with Section 20 of the Budget Act of 1970 (June 18, 1971), 5pp.

Review of Operations (January 31, 1972), 8pp.

Review of Compliance with Section 20 of Budget Act re Vacant Positions (February 16, 1972), 2pp., exhibit 1p.

SECRETARY OF STATE

Review of Operations (October 28, 1971), 8pp.

TREASURER

Review of Daily Balances of the Surplus Money Investment Fund, Period March 1, 1969 through April 24, 1970 (April 30, 1970), 1p., attachment 1p.

Analysis of the Investment Program of the State Highway Fund (March 14, 1972), 4pp.

EQUALIZATION

Revenues of Board of Equalization, Years Ended June 30, 1967 and 1968 (March 31, 1969), 1p.

Review of Data Processing Operations (August 27, 1969), 33pp.

Survey of Compliance Operations and Procedures for the Retail Sales and Use Tax Law (September 30, 1969), 1p.

Revenues of Board of Equalization, Year Ended June 30, 1969 (December 31, 1969), 1p.

Review of Security Deposit Requirement to Insure Compliance with the Retail Sales and Use Tax Law (March 16, 1970), 4pp., attachment 2pp.

Revenues of Board of Equalization, Year Ended June 30, 1970 (December 30, 1970), 1p.

Review of Public Utility Assessment Practices and Effect on Revenue to School Districts (April 30, 1971), 19pp.

FRANCHISE TAX BOARD

Tax Revenues Collected by the Franchise Tax Board (December 31, 1969), 1p.

Tax Revenues Collected by the Franchise Tax Board (December 30, 1970), 1p.

Review of Operations, December 1970 (April 30, 1971), 56pp.

Audit of Data Processing Operations (July 12, 1971), 111pp.

Review of Facility Modification Costs (February 28, 1972), 4pp.

EXECUTIVE DEPARTMENTS AND AGENCIES

Agriculture

Examination of Accounts of the Department of Agriculture, Year Ended June 30, 1969 (January 26, 1970), 12pp., 10 statements.

Examination of Agriculture Building Fund, Year Ended June 30, 1969 (March 3, 1970), 3pp., 3 statements.

Athletic Commission

Review Effects of the General Fund Operations (July 19, 1971), 29pp.

Information re Medical and Funeral Expense Plans in Effect for Boxers and Wrestlers (November 29, 1971), 8pp., attachment 10pp.

Banking

Examination of State Banking Fund, Year Ended June 30, 1968 (February 18, 1969), 3pp., 2 statements.

Bay Toll Crossings

Analysis of Severance Pay Claim of Former Employees of the San Diego-Coronado Ferry (October 12, 1971), 6pp., attachment 5pp.

Information re Commuter Toll Plans in Effect on the Various State Toll Bridges (June 18, 1971), 6pp.

EXECUTIVE DEPARTMENTS AND AGENCIES (cont.)

Colleges and Universities

Review of Managerial Functions at Sacramento State College (June 12, 1969), 14pp.

Review of Teacher Education Programs (October 1969), 11pp.

Review of Enrollment Policies and Procedures at Sacramento State College (October 21, 1969), 15pp.

Review of Chico State College's Involvement in the Private Development of Student Residential Centers (February 3, 1970), 4pp.

Review of Educational Opportunity Program (EOP) at San Fernando Valley State College and California State College at Los Angeles (July 23, 1970), 17pp.

Review of Late Payments to Employees at the Board of Community Colleges (September 1, 1970), 2pp.

Review of Investigation into Certain Allegations Regarding the Peralta Junior College District and Merritt College (September 10, 1970), 12pp.

Report on Investigation of Loan Transactions of the University of California, Pursuant to H.R. 147, 1970 Session (October 6, 1970), 11pp., attachment 2pp.

Examination of Associated Students, San Francisco State College, Year Ended August 31, 1969 (December 30, 1970), 22pp.

Review Overseas Travel Expenses Incurred by Non-Students (November 23, 1971), 5pp., exhibit 12pp.

Review of California State College at Fullerton Foundation, Inc. (December 16, 1971), 6pp., appendix 9pp.

Review of San Francisco State College Foundation Accounting Firm's Audit Report (February 11, 1972), 4pp., attachment 21pp.

Conservation

Examination of Accounts of the Department of Conservation, Year Ended June 30, 1968 (July 8, 1969), 4pp., 5 statements.

Consumer Affairs

Review Costs of Investigations and Inspections (March 29, 1972), 13pp., attachment 4pp.

EXECUTIVE DEPARTMENTS AND AGENCIES (cont.)

Corrections

Review the Economic Efficiency of the California Correctional Industries, Pursuant to H.R. 130, 1970 Session (January 7, 1971), 30pp.

Education

Review of Costs and Methods of Financing Driver Instruction in Secondary Schools, Pursuant to SCR 17, 1968 Session (February 1, 1969), 25pp., attachment 2pp.

Progress Report on Review of Children's Centers Program (June 16, 1969), 1p.

Progress Report on Review of Instructional Television Programs (June 23, 1969), 2pp.

Review of Financial Implications of AB 2350, 1969 Session re Enterprise School District (July 14, 1969), 2pp.

Review of Increase in the Net Ending Balances of the State's School Districts (July 29, 1969), 3pp.

Progress Report on Review of Children's Centers Program (September 10, 1969), 2pp.

Progress Report on Program Audit of Title III Funds (Elementary and Secondary Education Act of 1965), (October 1969), 11pp.

Examination of Certain Expenditures of the Oakland Unified School District (December 29, 1969), 9pp.

Review of Financing and Operation of the Children's Centers Program, Pursuant to ACR 228 and H.R. 375, 1969 Session (January 8, 1970), 4pp.

Review of Instructional Television Program, Pursuant to ACR 222, 1969 Session (January 9, 1970), 17pp.

Progress Report on Review of Data Collection Procedures for Reports on Staffing and Cost Reporting Per Unit of ADA (February 17, 1970), 4pp.

Review of School Districts with Deficit Balances as of June 30, 1969 (February 26, 1970), 3pp.

Review of the Financial Problem Facing the Grass Valley Elementary School District (March 27, 1970), 7pp., attachment 3pp.

Review of the Financial Problem Facing the Fairfield-Suisun Unified School District (April 28, 1970), 14pp., 1 statement.

EXECUTIVE DEPARTMENTS AND AGENCIES (cont.)

Education (cont.)

Review of the Financial Problem Facing the Ravenswood Elementary School District (May 12, 1970), 4pp.

Review of Use of Federal Funds Available Under Title III of the Elementary and Secondary Education Act of 1965 (June 3, 1970), 20pp., attachment 2pp.

Review of the Financial Problem Facing the Sacramento City Unified School District (June 9, 1970), 11pp.

Review of Survey of School Districts Regarding their Estimated Financial Condition at June 30, 1970 (June 18, 1970), 5pp.

Review of Administration and Teaching Costs of School Districts (July 1, 1970), 5pp., attachment 14pp.

Review of the Financial Problem Facing Mountain View Elementary School District (July 2, 1970), 4pp.

Review of the Financial Problem Facing the Lakeside Elementary School District (July 3, 1970), 3pp.

Review and Summary of Net Ending Balances of Surplus Funds of the State's School Districts and Community Colleges for the 1968-69 Fiscal Year (July 29, 1970), 6pp.

Review of the Financial Problem Facing the Hanford Elementary School District (August 6, 1970), 5pp.

Review Financial Condition of the Vallecito Elementary School District (February 11, 1971), 4pp.

Review Financial Condition of the Live Oak School District (February 11, 1971), 4pp.

Review Federal Reimbursements for the Children's Centers Program as Contracted by the Departments of Social Welfare and Education (February 16, 1971), 5pp.

Review Financial Emergency of Meadows Union School District (April 9, 1971), 5pp.

Review Financial Problems of Lakeside Union Elementary School District (April 13, 1971), 6pp.

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- Catalog of Health Care Programs (November 30, 1972).
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STATUTES PERTAINING TO THE
JOINT LEGISLATIVE AUDIT COMMITTEE
AND THE AUDITOR GENERAL

GOVERNMENT CODE

Article 1. Joint Legislative Audit Committee

10500. The Legislature finds that auditing is now conducted by various state agencies and recognizes the needs of the executive branch of the state government for periodic and special audits of the revenues and expenditures of any state agency, and the accounting and fiscal reporting systems established in state agencies, as a means of insuring the proper and lawful expenditure of state funds. The Legislature, also, recognizes the necessity of an independent audit, in addition to the audit conducted within the executive branch of state government, for the use of both the executive and legislative branches of the state government in establishing a sound fiscal and administrative policy for the government of the state.

Therefore, it is the desire of this Legislature that the internal auditing be coordinated in the executive branch of the government in the interest of economy and efficiency. It is also the desire of the Legislature to create the office of the Auditor General, whose primary duties shall be to examine and report annually upon the financial statements prepared by the executive branch of the state and to perform such other related assignments, including performance audits, as may be requested by the Legislature. The authority of the office under the direction of the Joint Legislative Audit Committee is confined to examining and reporting and is in no way to interfere with adequate internal audit to be conducted by the executive branch of the government.

10501. The Joint Legislative Audit Committee is hereby created. The committee shall determine the policies of the Auditor General, ascertain facts, review reports and take action thereon, and make reports and recommendations to the Legislature and to the houses thereof concerning the state audit, the revenues and expenditures of the State, its departments, subdivisions, and agencies, whether created by the Constitution or otherwise, and such other matters as may be provided for in the Joint Rules of the Senate and Assembly. The committee has a continuing existence and may meet, act, and conduct its business at any place within this State, during the sessions of the Legislature or any recess thereof, and in the interim period between sessions.

10502. The committee shall consist of three Members of the Senate and three Members of the Assembly who shall be selected in the manner provided for in the Joint Rules of the Senate and Assembly. The committee shall elect its own chairman. Vacancies occurring in the membership of the committee between general sessions of the Legislature shall be filled in the manner provided for in the Joint Rules of the Senate and Assembly. A vacancy shall be deemed to exist as to any member of the committee whose term is expiring whenever such member is not reelected at the general election.

Article 1 (Cont.)

10503. The committee is authorized to make rules governing its own proceedings and to create subcommittees from its membership and assign to such subcommittees any study, inquiry, investigation, or hearing which the committee itself has authority to undertake or hold. The provisions of Rule 36 of the Joint Rules of the Senate and Assembly relating to investigating committees shall apply to the committee and it shall have such powers, duties and responsibilities as the Joint Rules of the Senate and Assembly shall from time to time prescribe, and all the powers conferred upon committees by Section 11, Article IV, of the Constitution.

Notwithstanding any other provision of law to the contrary, the committee shall establish priorities and assign all work to be done by the Auditor General.

10504. The committee shall have authority to appoint an Auditor General, deputies and staff, who shall serve at the pleasure of the committee. The committee shall fix the salary of the Auditor General. The funds for the support of the committee shall be provided from the Contingent Funds of the Assembly and Senate in the same manner that such funds are made available to other joint committees of the Legislature.

10505. The governing board or retirement board of the retirement system of every local agency as defined in Section 54951, shall on or before six months following the close of the fiscal year transmit to the committee a report containing a description of all securities held and a comprehensive report of transactions involving the investments of their retirement funds similar to that required of a life insurance company licensed to do business in California. Such report shall include all security transactions, including whom the board purchased securities from and through whom the board purchased. The board shall also so report on all mortgage transactions, including specifically the mortgage broker, mortgage banker, and savings and loan association the board does business with, whether the transaction involved cash, and which banks or savings and loan associations the board has accounts with.

Article 2. Auditor General

10521. The Auditor General, prior to his appointment, shall possess the following minimum qualifications:

(a) He shall be in possession of a valid certificate issued by the State Board of Accountancy to practice as a certified public accountant or a public accountant, and

(b) The combination of education and experience which in the opinion of the committee is necessary.

10522. The Auditor General shall be paid the salary fixed by the Joint Legislative Audit Committee and shall be repaid all actual expenses incurred or paid by him in the discharge of his duties.

10523. The Auditor General may employ and fix the compensation, in accordance with Article XXIV of the Constitution, of such professional assistants and clerical and other employees as he deems necessary for the effective conduct of the work under his charge.

Article 2 (Cont.)

10524. The permanent office of the Auditor General shall be in Sacramento, where he shall be provided with suitable and sufficient offices. When in his judgment the conduct of his work requires, he may maintain offices at other places in the State.

10525. All books, papers, records, and correspondence of the bureau pertaining to its work are public records and shall be filed at any of the regularly maintained offices of the Auditor General, except:

(a) Papers or memoranda that are of no further use may be destroyed upon approval of the Joint Legislative Audit Committee.

(b) Personal papers and correspondence of any person receiving assistance from the Auditor General when such person has requested in writing that his papers and correspondence be kept private and confidential. Such papers and correspondence shall become public records whenever the Auditor General or the Legislature shall so order or the written request is withdrawn.

(c) Papers, correspondence or memoranda pertaining to any audit or investigation not completed, when in the judgment of the Auditor General, disclosure of such papers, correspondence, or memoranda will impede such audit or investigation.

10526. It shall be a misdemeanor for the Auditor General or any employee of the bureau to divulge or make known in any manner not permitted by law, any particulars of any record, document, or information the disclosure of which is restricted by law.

10527. The Auditor General during regular business hours shall have access to, and authority to examine, any and all books, accounts, reports, vouchers, correspondence files and other records, bank accounts, and money or other property, of any agency of the State whether created by the Constitution or otherwise, and it shall be the duty of any officer or employee of any such agency, having such records or property in his possession or under his control, to permit access to, and examination thereof upon the request of the Auditor General or his authorized representative. Any officer or person who shall fail or refuse to permit such access and examination, shall be guilty of a misdemeanor.

10528. The Auditor General, with the approval of the Joint Legislative Audit Committee, shall examine and report annually upon the financial statements prepared by the executive branch of the state to the end that the Legislature will be informed as to the adequacy of such financial statements in compliance with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year. In making such examination, he is authorized to make such audit examination of accounts and records, accounting procedures and internal auditing performance as the Joint Legislative Audit Committee may determine and specifically designate to be necessary to disclose all material facts necessary to proper reporting to the Legislature in accordance with the statement of purposes set forth in Section 10500. He shall make such special audits and investigations, including performance audits, of any state agency whether created by the Constitution or otherwise, as requested by the legislature or any committee of the Legislature.

CONSTITUTION

Art. IV, Section 11. The Legislature or either house may by resolution provide for the selection of committees necessary for the conduct of its business, including committees to ascertain facts and make recommendations to the Legislature on a subject within the scope of Legislative control. Committees may be authorized to act during sessions or after adjournment of a session.

CHAPTER 138/1964

Sec. 4(d)...and shall pay out of oil revenue to the State Lands Commission for and on behalf of the State of California each month an amount equal to the money thereafter expended by the State, as determined by the Director of Finance, in administering this act and Chapter 29, Statutes of 1956, First Extraordinary Session, including the costs of the audits by the Auditor General pursuant to Section 10 hereof, insofar as such amount pertains to the Long Beach tidelands. ...

Sec. 10. ...Each year the Auditor General shall audit the Long Beach tideland revenues and expenditures and report thereon to the Legislature. For the purposes of accomplishing this audit, the provisions of Section 10527 of the Government Code shall apply to the City of Long Beach. ...

PUBLIC RESOURCES CODE

Sec. 5019.26. Auditor General's report and recommendations: Legislature.

Within five days after the opening of bids as directed in Section 5019.20, the Auditor General shall be furnished such bid information as he may require.

The Auditor General shall ascertain, study and analyze all facts relating to such concession contracts, and report annually thereon to the Legislature to the end that the Legislature will be informed as to the adequacy of the contracts, financial statements and questionnaires in accordance with generally accepted accounting principles, and may include in his reports his recommendations for appropriate legislation.

INSURANCE CODE

Sec. 11860. Quarterly report to Governor: Audit: Publication of abstract: Other reports.

...The Auditor General shall, whenever in his professional judgment it is necessary, audit the books and records of the State Compensation Insurance Fund and cause an abstract summary thereof to be published one or more times in at least two newspapers of general circulation in the State. The Auditor General shall be reimbursed by the fund for his expenses in making such audit. ...