

AGENDA
ASSEMBLY BUDGET SUBCOMMITTEE NO. 4
ON STATE ADMINISTRATION

Assemblymember Juan Arambula, Chair

TUESDAY, FEBRUARY 27, 2007, 1:30 PM
STATE CAPITOL, ROOM 447

Bureau of State Audits Informational Hearing

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BUREAU OF STATE AUDITS INFORMATIONAL HEARING

Today's hearing will focus on the implementation process of various Bureau of State Audits' (BSA) recommendations relating to agencies under the jurisdiction of Assembly Budget Subcommittee No. 4 on State Administration.

The Subcommittee's charge includes oversight of the agencies and programs within its jurisdiction to ensure the efficient and effective expenditure of state funds and adherence to the requirements of state law.

A major function of the BSA's audits is to identify areas in which corrective action is needed to improve efficiency and effectiveness or to comply with statutory requirements.

As the State Auditor has pointed out, the BSA's audit efforts bring the greatest return when the auditee acts upon those findings and recommendations, and the budget process provides a good opportunity for the Subcommittee to explore issues raised in audits and, to the extent necessary, to reinforce the needs for corrective action.

This hearing will focus on findings and recommendations in five audits and the efforts of each agency to implement them.

The first two audits focus on meaningful reforms implemented by the agencies in question, and issues related to the maintenance of those reforms.

The last four audits represent implementation strategies that are, as yet, still in progress. Recognizing that application and initiation of audit recommendations and good management practices are an ongoing process; the Subcommittee welcomes the opportunity to explore difficulties encountered in the implementation process.

Today's hearing will lay the groundwork in identifying topical issues of interest to the Subcommittee, and the next steps would be additional follow up on areas specific to the departments and agencies represented here today.

Efforts today will continue on and be carried through the rest of the Subcommittee's general oversight duties during the budgetary process it is tasked with throughout the year.

THE STATE AUDITOR'S OVERVIEW

State Auditor Elaine M. Howle will provide a general overview of the Bureau of State Audits' (BSA) responsibilities in auditing state agencies, programs, and departments. Additionally, she will outline how her audit can assist in saving the state money through the systems already in place.

The California State Auditor promotes the efficient and effective management of public funds and programs by providing citizens and government independent, objective, accurate, and timely evaluations of state and local governments' activities.

Each year, the Auditor releases a report for each Budget Subcommittee outlining the audits undertaken during the past year for agencies falling under that particular Subcommittee's jurisdiction. By using the information contained in this report, the Subcommittees can conduct better oversight and focus its attention on those areas, entities, and services needing the greatest improvement.

THE AUDITOR'S RECOMMENDATIONS IN ACTION

The Bureau of State Audits reports can be used to improve state programs and services. This section reviews how two programs successfully used their audit recommendations to make reforms and improvements. Furthermore, this section will evaluate institutional difficulties which have been overcome in order to remove impediments and establish more effective and efficient program delivery.

Department of General Services: Opportunities Exist Within the Office of Fleet Administration to Reduce Costs (Report 2004-113)

This audit concludes that the Office of Fleet Administration (Fleet) has performed analyses of the cost-effectiveness of the vehicles that it rents to state agencies, indicating that Fleet is competitive with commercial rental companies.

However, the analyses do not fully demonstrate its cost-effectiveness because Fleet lacks assurance that the commercial rates it used in its comparisons are similar to what state agencies would actually pay.

Further, the terms of the current contracts that Fleet has with commercial rental companies and the noncompetitive method it uses to select companies may not be in the State's best interest.

To enhance the competitiveness of its motor pool, Fleet might draw on opportunities that exist to reduce its costs, such as establishing certain requirements and standards related to vehicle use, investigating the costs and

benefits of additional garage closures, and determining how much it spends performing repairs and maintenance services at its garages.

Fleet is also required to approve vehicle purchases made by most state agencies after verifying the need for the purchase, but the policy defining minimum usage, which Fleet is supposed to consider when assessing a state agency's need to purchase vehicles, may be set too low.

Therefore, Fleet may allow more purchases than are necessary.

Finally, Fleet's actions contributed to a \$1.4 million deficit on June 30, 2004, in the fund that Fleet uses to operate and maintain parking lots for state employees.

Issues to Discuss:

- How has the department pursued implementation of each recommendation?
- What difficulties were encountered in implementing the recommendations?
- How did the department address these difficulties?
- Has the department begun to measure cost savings and delivery enhancements since implementing these recommendations? If so, what has the department found?
- Does the department have any suggestions for statutory and regulatory changes which would help further the implementation of the recommendations?

Department of General Services and PERS: Pharmaceuticals: State Departments that Purchase Prescription Drugs Can Further Refine Their Cost Savings Strategies (Report 2004-033)

This audit concluded that the Department of General Services (DGS) could create savings in several areas related to prescription drug procurement, most notably in ingredient cost and overall procurement practices. DGS had the highest state cost of the three agencies audited in this report (DGS, CalPERS, and DHS). CalPERS' drug procurement information was difficult to obtain as proprietary information prohibited total cooperation with BSA.

The State Auditor states that the agencies have made great strides in implementing recommendations.

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- How has the department pursued implementation of each recommendation?
- What difficulties were encountered in implementing the recommendations?
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THE AUDITOR'S RECOMMENDATIONS – A STATUS CHECK

BSA audits offer a practical method for focusing the Subcommittee's attention on issues that need additional follow up as part of the Budget Subcommittee's oversight of state agencies.

Relying on state audits is one method used by the Subcommittee to determine where heightened subcommittee attention would be appropriate. This section will engage agencies in the process of implementing the BSA's recommendations; including a review of why some recommendations have not been implemented. Four audits will be featured:

- Office of Emergency Services: Emergency Preparedness -- California's Administration of Federal Grants for Homeland Security and Bioterrorism Preparedness Is Hampered by Inefficiencies and Ambiguity (Report 2005-118);
- Franchise Tax Board: Its Performance Measures Are Insufficient to Justify Requests for New Audit or Collection Program Staff (Report 2002-124);
- Embezzlement of Funds by State Workers (Investigation i2004-0710; Report i2005-2);
- Overpayment to Employees (Report i2004-2)

Office of Emergency Services: Emergency Preparedness -- California's Administration of Federal Grants for Homeland Security and Bioterrorism Preparedness Is Hampered by Inefficiencies and Ambiguity (Report 2005-118)

This audit concluded that several concerns exist regarding the state's administration of these two types of federal grants.

For instance, the BSA questions whether California's two statewide emergency exercises have sufficiently tested the ability of the state's medical and health systems response during emergencies. Therefore, California cannot be assured that these systems can respond adequately.

Also, the state has been slow in spending federal funds awarded to improve homeland security.

As of June 30, 2006, the state had spent only 42 percent of the \$954 million in homeland security funds awarded to it from 2001 through 2005. Another concern is that the Governor's Office of Emergency Services (OES) is behind schedule in its receipt and review of the emergency plans for 35 of California's 58 counties.

Further, OES is unaware of how recently it reviewed emergency plans for 15 of the 19 state agencies it considers critical to emergency response. Therefore, California has less assurance that these plans will effectively guide these entities in their emergency responses.

Finally, the BSA believes that the state's organizational structure for ensuring emergency preparedness is not streamlined or well defined.

Issues to Discuss:

- What progress has been made in reorganizing the department to best meet challenges, both natural and manmade?
- What recommendation presents the greatest challenge to implementation?
- What is seen as the largest impediment to implementation of the recommendations? What actions has the department taken to mitigate those impediments?
- Does the department have any recommendations for statutory or regulatory changes to help overcome impediments in implementation?

Franchise Tax Board: Its Performance Measures Are Insufficient to Justify Requests for New Audit or Collection Program Staff (Report 2002-124)

This audit concluded the board's performance measures are not sufficient to justify requests for new audit or collection program staff.

The board uses a variety of performance measures, with various cost components, for its audit and collection programs, potentially causing confusion about prospective and actual program results.

Board documents requesting new staff for its programs typically refer to a projected return of at least \$5 of benefit for each \$1 of cost for these staff.

In fact, between fiscal years 1998–99 and 2001–02, the board's 340 newest audit positions returned only \$2.71 in assessments—potential revenue—for each \$1 of cost, without adjusting for the likelihood or cost of collecting the assessed amounts.

Due to various limitations in collecting program data, including a change in accounting treatment, the BSA was unable to determine the incremental revenue resulting from the newest 175 collection program positions.

However, the board has allowed some approved collection program positions to go unfilled in order to achieve savings to pay for other expenses, such as merit salary adjustments.

Issues to Discuss:

- What is seen as the largest impediment to implementation of the recommendations? What actions has the department taken to mitigate those impediments?
- Does the department have any recommendations for statutory or regulatory changes to help overcome impediments in implementation?
- What measures have been taken to improve the estimates of the cost-effectiveness of audit and collection staff, fills positions, and improve actual revenue collection?

California Military Department

A. Embezzlement of Funds by State Workers (Investigation i2004-0710; Report i2005-2)

The audit concluded that a supervisor at the California Military Department (Military Department) embezzled public funds. This finding grew out of a whistleblower's complaint.

The BSA investigated and substantiated the allegation. The supervisor committed certain acts between 1996 and 2004, which resulted in the embezzlement of at least \$132,523 from the State's General Fund.

B. Overpayment to Employees (Report i2004-2)

This audit concluded that the Military Department improperly granted employees an increase in pay they were not entitled to receive. This finding grew out of a whistleblower's complaint.

The BSA investigated and substantiated the allegation. They found that between July 1, 2001, and June 30, 2003, 19 employees at two of the Military Department's three training centers received increased pay associated with inmate supervision even though they did not supervise inmates of the California

Department of Corrections for the minimum number of hours required to receive the pay.

For the two years the BSA reviewed, the Military Department paid these employees \$128,400 more than they were entitled to receive.

The BSA was unable to determine to what extent, if any, the Military Department's third training center also improperly granted its employees the increased pay because it was not able to provide supporting documents for 23 of the 24 months the BSA requested.

At least 10 of its employees received the pay increase at some time during that two-year period.

Issues to Discuss:

- To what extent has, the Military Department incorporated the recommendations?
- What is the largest impediment to implementation of the recommendations? What actions has the department taken to mitigate those impediments?
- Does the department have any recommendations for statutory or regulatory changes to help overcome impediments in implementation?
- What safeguards have been put in place to prevent future occurrences of worker fraud and overcompensation?
- How are whistleblower complaints handled at the Department?