

AGENDA
ASSEMBLY BUDGET SUBCOMMITTEE NO. 4
ON STATE ADMINISTRATION

Assemblymember Rudy Bermudez, Chair

MAY 19, 2005, 1:30 PM
STATE CAPITOL, ROOM 126

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ITEMS TO BE HEARD

ITEM 8860 DEPARTMENT OF FINANCE & BUREAU OF STATE AUDITS

ISSUE 1: REDIRECTION OF INSPECTOR GENERAL PROPOSAL

At an earlier hearing Subcommittee #4 rejected the Governor's proposal to create another governmental entity, proposed to be called the Office of Inspector General.

COMMENTS

While the creation of yet another state department did not make sense to the committee, the Legislature has long been committed to strengthening oversight of state departments.

Therefore, the subcommittee should consider investing the same amount of resources as the Governor in providing oversight and auditing functions, but do so in a way that builds on the quality work of the Department of Finance and the Bureau of State Audits rather than creating an entirely new bureaucracy.

The action is as follows:

- Augment the Bureau of State Audits budget by \$1.15 million to provide staffing and associated resources for expanded audits in accordance with the authority provided in Chapter 251, Statutes of 2004, (SB 1437, Speier).
- Augment the Department of Finance budget by \$1.15 million to provide staffing and associated resources for audits by the Office of State Audits and Evaluations.
- Adopt the following budget bill language in Item 8860-001-0001:

It is the intent of the Legislature that newly reorganized departmental entities maintain effective systems of internal accounting and administrative control as an integral part of its management practices. No less than \$1,150,000 in this item shall be used for the purpose of assessing and strengthening the systems of internal accounting and administrative control to minimize fraud, errors, abuse, and waste of government funds within any department or agency reorganized in the 2005-06 Legislative Session. The Department shall report to the fiscal committees of Legislature by December 1, 2005 on its preliminary review of the reorganized departmental entities, with a final report due no later than April 15, 2006.

ITEM 9840 AUGMENTATION FOR CONTINGENCIES AND EMERGENCIES**ISSUE 1: SPECIAL ELECTION COSTS**

The Governor has consistently discussed his intention to call a special election for November.

The budget for the Secretary of State contains nearly \$12 million for election related costs for the state, but that amount is what is anticipated to be necessary for the June Primary election.

COMMENTS

The Governor has not proposed any new funds for the Secretary of State for a special election, nor has he proposed any new funds to reimburse counties for their costs of a special election – a cost estimated to be \$80 million.

There is a legitimate concern that Item 9840 would inappropriately be used to cover the cost of a special election, should one be called. The main reason such a use would be inappropriate is that the Item 9840 is to be used for expenses that were not anticipated at the time of the May Revision. Clearly, the Administration has been anticipating a special election long before and up through the release of the May Revision.

Should a special election be called, the funding should come from the Legislature through an appropriation bill or a budget amendment.

To make it clear that Item 9840 is not an appropriate funding source the changes to provision 2 of 9840-001-0001 should be adopted:

2. The Director of Finance may not approve a transfer under this item, nor may any funds appropriated in augmentation of this item be allocated to fund any of the following: (a) capital outlay, (b) any expense attributable to a prior fiscal year, (c) any expense related to legislation enacted without an appropriation, (d) startup costs of programs not yet authorized by the Legislature, (e) costs that the administration had knowledge of in time to include in the May Revision, ~~or~~ (f) costs that the administration has the discretion to incur or not incur, (g) any cost associated with a statewide special election, or (h) any costs associated with the June 2006 Primary Election if funds from Item 0890-001-0001 (3) are used to support a statewide special election.

CS 4.10 UNALLOCATED REDUCTIONS**ISSUE 1: INFORMATION REPORTING FOR UNALLOCATED REDUCTIONS**

The Governor's Budget includes (as modified by the May Revision) unallocated reductions totaling \$100 million General Fund. Departments will have the flexibility to use lay-offs, hiring freezes, procurement reductions, or other administrative means to achieve their designated level of savings. The Administration believes that that these reductions will not reduce revenues or affect emergency services.

COMMENTS

Given the uncertainty over how the reductions will be applied, the Legislature should be appropriately informed of the reductions and have the opportunity to review or otherwise respond to the reductions. Accordingly, the following language is recommended:

Control Section 4.10. *The Director of Finance shall report to the Chairperson of the Joint Legislative Budget Committee and the chairpersons of the fiscal committees of each house by December 10, 2005, on the reductions made pursuant to the unallocated reductions included in the 2005-06 Budget Act. The report shall include: the specific reductions, by department, agency, and program; an indication of whether the reduction is one-time or ongoing; the programmatic effects; the number and description of positions affected; and other descriptive information for each reduction necessary to fully disclose the impact of the unallocated reduction.*

Note: This action is on the Senate subcommittee agenda for today.

CONTROL SECTION 8.53 NOTICE OF FEDERAL AUDITS**ISSUE 1: TIMELY INFORMATION ON FEDERAL AUDIT FINDINGS**

The federal government periodically audits states to verify that federal funds are appropriately utilized. When their audits find ineligible or inappropriate expenditures, the federal government issues an audit describing the reasons for and amount of reduction. Under current practice, the Legislature is notified of the amounts of audited reductions only after budget reductions have occurred.

COMMENTS

A recent federal audit of Medi-Cal expenditures resulted in a more than \$5 million General Fund reduction to the current-year budget. Based on recent federal trends, the frequency of audits is expected to grow, particularly in the area of Medi-Cal expenditures.

In order to keep the Legislature abreast of current-year budget developments and enable appropriate oversight on the use of federal funds, it is recommended that departments provide the Joint Legislative Budget Committee with copies of final audits and letters of deferral. Adoption of the following budget control section will provide for this notice:

Control Section 8.53. *It is the intent of the Legislature that reductions to the enacted budget resulting from federal audits be communicated to the Legislature in a timely manner. Notwithstanding any other provision of law, final federal audits and letters of deferral shall be provided to the Chairperson of the Joint Legislative Budget Committee not less than 30 days after any state agency, department, or other state entity receives a copy of that federal audit or deferral letter. Notification shall include a copy of the final federal audit or deferral letter.*

Note: This action also has been taken by the Senate subcommittee.

ITEM 7350 DEPARTMENT OF INDUSTRIAL RELATIONS**ISSUE 1: DIVISION OF LABOR STANDARDS ENFORCEMENT POSITIONS**

The Subcommittee will consider revising its previous action on Division of Labor Standards and Enforcement Positions.

BACKGROUND:

The Bureau of Field Enforcement is part of the Department of Industrial Relations' Division of Labor Standards Enforcement. The Bureau of Field Enforcement is responsible for investigation and enforcement of statutes covering workers' compensation insurance coverage, child labor, cash pay, unlicensed contractors, Industrial Welfare Commission orders, as well as group claims involving minimum wage and overtime claims. Bureau of Field Enforcement also handles criminal investigations involving these group claims. The Governor's Budget includes 407.1 positions costing \$22 million to staff the entire Division of Labor Standards.

On May 10, 2005 the Subcommittee appropriated \$5 million for additional field enforcement by the Department of Industrial Relations' Bureau of Field Enforcement. The Senate has not taken action on this issue. On May 18, the Subcommittee reduced this amount to \$1.5 million.

On May 19, 2005, Senate Subcommittee #5 took the same action as the Assembly, but allocated \$3 million.

STAFF COMMENT

The Subcommittee could compromise with the Senate by increasing the augmentation to \$3 million