

1978 ANNUAL REPORT

A Report of the Auditor General
to the
Joint Legislative Audit Committee
and the
California Legislature

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SUMMARY OF 1978 ACTIVITIES

1978 was a significant year for the Office of the Auditor General. We issued 48 audit reports on matters of concern to the Legislature and the people of California. Our staff also provided testimony before legislative committees and policy-setting boards.

This year the Joint Revenue Sharing Task Force was created to perform the financial audits mandated by Congress in the State and Local Fiscal Assistance Amendments of 1976. The task force is an independent audit group under direction of the Auditor General composed of staff of both the Department of Finance and the Office of the Auditor General. The task force's performance of these audits enables the continued receipt of federal revenue sharing funds, which were approximately \$275 million during the current year, while saving approximately \$2.5 million annually in audit costs.

We have continued to stress our availability as a resource to the Legislature and state agencies in efforts to maximize the effectiveness and efficiency of State Government.

***Number of Reports Issued
January - December 1978***

<u>Addressee</u>	<u>Number of Reports Issued</u>
Business and Transportation Agency	7
Consumer Services Agency	3
Department of Education	6
Health and Welfare Agency	16
Resources Agency	1
University of California	6
Miscellaneous	<u>9</u>
Total	48

Audits in Progress

Our auditors are currently working on 26 different audits. As the following list shows, the variety of our work is tremendous.

- * Mass Transit
- * University of California
- * Cal Expo Operations
- * Revenue Sharing Audits
- * Non-English Speaking Census
- * Housing Finance
- * Rehabilitation
- * Veterans Affairs
- * Food Stamp Program
- * Consumer Affairs
- * Water Management
- * Procurement
- * Vocational Education
- * Security Loans
- * School Audit Standards
- * Children and Youth Programs
- * Older Americans Act
- * School Attendance
- * Teale Data Center
- * Special Education Programs
- * Medical School Billings
- * Child Nutrition Program
- * OSHA
- * Child Care
- * Contractor License Board
- * Assessment Practices

Use of ADP

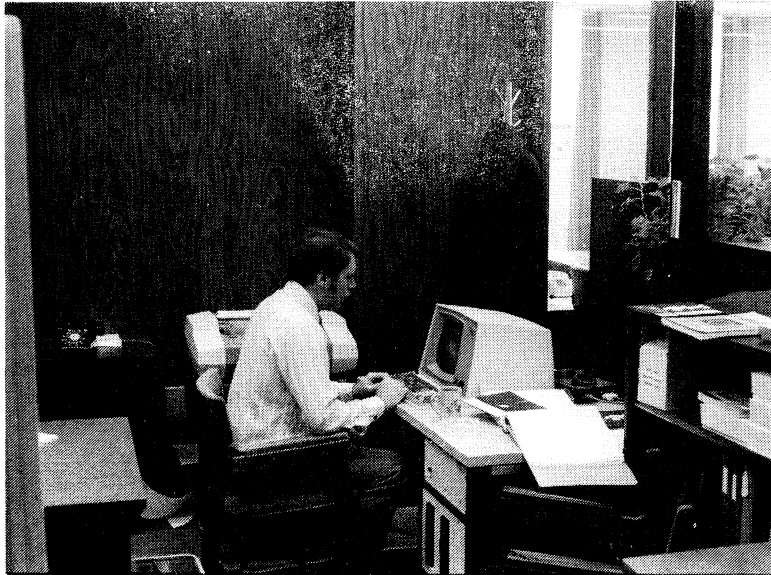
The computer plays an important role in a number of our audit assignments. The Office of the Auditor General owns a fully self-contained mini-computer, the WANG WCS/20 System. The system has mass storage (disk) capability, a line printer for report preparation, a data-entry keyboard and a CRT (television screen) station. It is a very "user-oriented" system, and our auditors are trained in both computer programming and computer systems design.

During the past year we have used our system to perform analyses that would be too cumbersome or time-consuming to perform manually. For example, we have used our computer to:

- Calculate Transportation Development Act expenditures by counties
- Summarize expenditures for services to children and youth
- Evaluate contracting procedures at the Energy Commission
- Determine costs for state vocational education projects and the attendant revenues to the schools
- Provide a basis for evaluating the Mentally Gifted Minors Program
- Calculate the surplus transportation funds held by local governments.

In addition to using the computer on direct audit assignments, we also have an internal job costing system to monitor the time and costs of each audit assignment. For large data processing problems where the mini-computer may be too small, we have the ability to telecommunicate to the State's Stephen P. Teale Data Center.

The Office of the Auditor General is one of the leaders in the country in the use of state-of-the-art computer technology in performing in-depth program analysis and evaluation.



Word Processing System

This year the Office upgraded its word processing system. The number of audits has increased over the past years, and the typists have been faced with short deadlines. To reduce overtime and report turn-around time without decreasing efficiency, the Office adopted the computerized power typewriter (CPT) system.

The CPT system consists of two keyboards with full page CRT screens and one printer. With this system, three audit reports can be processed simultaneously: two being typed and one printed. This system should enable the Office to continue to produce superior and timely products to better serve the Legislature.

OPERATIONS

To establish sound fiscal and administrative policies, State Government needs straightforward facts about program operations and expenditures. Today in every major state agency, internal auditors are studying, analyzing and recommending improvements in their own operations. At the same time, our independent evaluations of agency operations are available to legislators. With access to internal and independent audit information, legislative committees are better prepared to make the budget and policy decisions that confront them each year.

Joint Legislative Audit Committee

The Joint Legislative Audit Committee consists of four members of the Senate and four members of the Assembly. Under the Legislature's Joint Rules, The Senate and Assembly fiscal committee chairpersons are two of the eight members. Senate members are appointed by the Senate Committee on Rules, and Assembly members are appointed by the Speaker of the Assembly.

Any legislative committee may request the Auditor General to conduct an audit or special investigation. All such requests, however, must be authorized by the Joint Legislative Audit Committee. The Committee then establishes work priorities and directs the Auditor General to commence the audit.

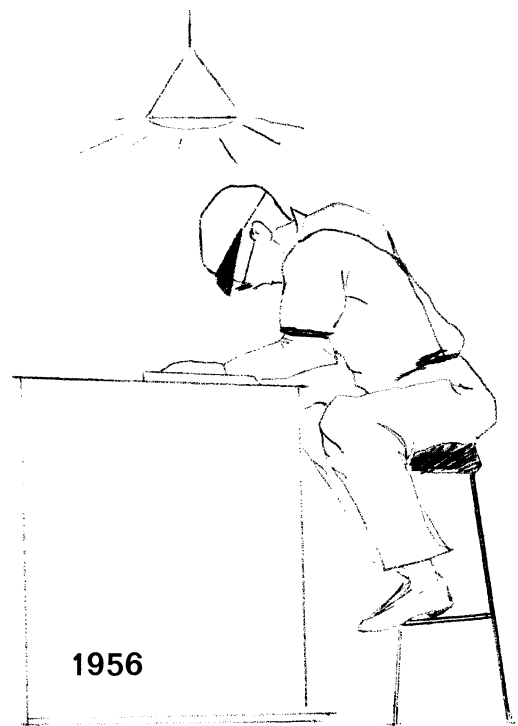
Auditor General

Once a specific request is approved by the Joint Legislative Audit Committee, the Auditor General may "make such special audits and investigations, including performance audits, of any state agency whether created by the Constitution or otherwise." Our professional staff is trained to conduct in-depth interviews, to observe, and to review and analyze records to get the facts. When we have assembled the facts, we submit to the Audit Committee an objective and nonpartisan report of our findings and recommendations. Our reports are a legislative resource for systematic and timely information on executive branch program operations and results.

Responsibilities & Objectives

As directed by the Joint Legislative Audit Committee, the Auditor General conducts financial audits and performance reviews of state agencies.

When our work began in 1956, our audits concentrated on the traditional financial review, determining if fiscal operations were properly conducted and if financial statements were presented fairly. After 1956, however, financial reporting in the executive branch improved; the scope of their own internal audits broadened to better serve management and the Legislature.



As financial reporting improved, legislators wanted more in-depth information on the Governor's programs. Moreover, they wanted to have this information provided, or at least concurred in, by someone who was not an advocate of the program but who was independent and objective. The Joint Legislative Audit Committee responded to the changing needs of the Legislature and directed the Auditor General to conduct performance audits. In the past ten years, we have experienced a dramatic shift in our work from the traditional financial audits to the broad-scope performance audits.

The potential benefit from performance audits is tremendous:

- Increased legislative understanding of selected programs
- Improved government operations and services
- Identification of ways to save money by increasing revenues or decreasing expenditures.

The objective of performance audits is to evaluate:

Legal Compliance

- Are programs administered in accordance with their governing laws?
- Do agency programs comply with legislative intent?

Efficiency and Economy

- Are programs administered using the least cost combination of public funds and other resources?
- Do programs duplicate or overlap each other?

Program Results

- Are desired program results or benefits being achieved?
- Do program costs exceed benefits?

Our goal is to help achieve the most efficient, effective, and economical government possible by providing the Legislature and the taxpayers with quality, independent audit reports that present thoroughly documented facts and appropriate recommendations.

We encourage wide distribution of our reports, understanding that it is public response that frequently brings about or speeds up needed governmental reform. Reports are distributed to all legislators, the Governor and other elected officials, heads of state agencies, the press, and anyone who asks for them.

We serve as an independent source of information on the accountability of public administrators for their programs. The public--who pays for and whose good is expected to be served by such programs--should be able to

hold public officials accountable for their performance. The Joint Legislative Audit Committee and the Office of the Auditor General provide the Legislature and the public one important means of accomplishing this objective.

Audit Standards

The Office of the Auditor General has adopted the standards for auditing developed and issued by the United States General Accounting Office (GAO), our counterpart at the national level. These standards are the product of extensive study of the auditing needs and practices of federal, state, and local governments, and are printed in the GAO booklet, Standards for Audit of Governmental Organizations, Programs, Activities and Functions.

Staff

AUDITOR GENERAL:	JOHN H. WILLIAMS, CPA; BA-Business Administration/Accounting; MBA-Accounting
Assistant Auditor General:	Wesley E. Voss, CPA; BA-Business Administration/Accounting
Assistant Auditor General:	Thomas W. Hayes, BA-Business; MBA- Finance
Training Director:	Karl W. Dolk, CPA; BS-Business Administration/Accounting
Editor & Technical Asst:	Melanie M. Kee; BA-Political Science, Journalism
Office Manager:	Peggy L. Lusk
Assistant Office Manager:	Patty Seto, BA-Fine Arts

AUDIT OPERATIONS

Audit Manager

Harold L. Turner, BS-Accounting

Supervising Auditors

Joan S. Bissell, BA-Sociology; MA-Education; EdD

Curt Davis, CPA; BA-Accounting

Richard I. LaRock, CPA; BA-Accounting

Michael Zimmerling, CPA; BS-Business Administration/Accounting

Auditors

William S. Aldrich, BS-Electrical Engineering, Vocational Industrial
Education; MBA

Ann Arneill, BA-Communication Studies

Jacques Barber, BS-Public Administration; MPA-Finance

J. Peter Bouvier, BA-Biology; JD

Thomas Britting, BS-Accounting; MPA

Cora L. Bryant, BS-Business Administration

Robert E. Christophel, BA-Economics; MBA

Samuel D. Cochran, BA-Political Science; MBA

Michael Dedoshka, BS-Plant Science

Enrique Farias, BA-Business Administration/Accounting

Andrew Fusso, BA-Management; MPA

Leslie Greening, BS-Business Administration/Accounting

Geraldine Heins, BA-Social Science, MBA

Steven M. Hendrickson, BA-Political Science; MPA

Kathleen A. Herdell, BA-Political Science

Cynthia M. Hoffart, BS-Business Administration/Accounting

Mildred Kiesel, CPA; BS-Business Administration/Accounting

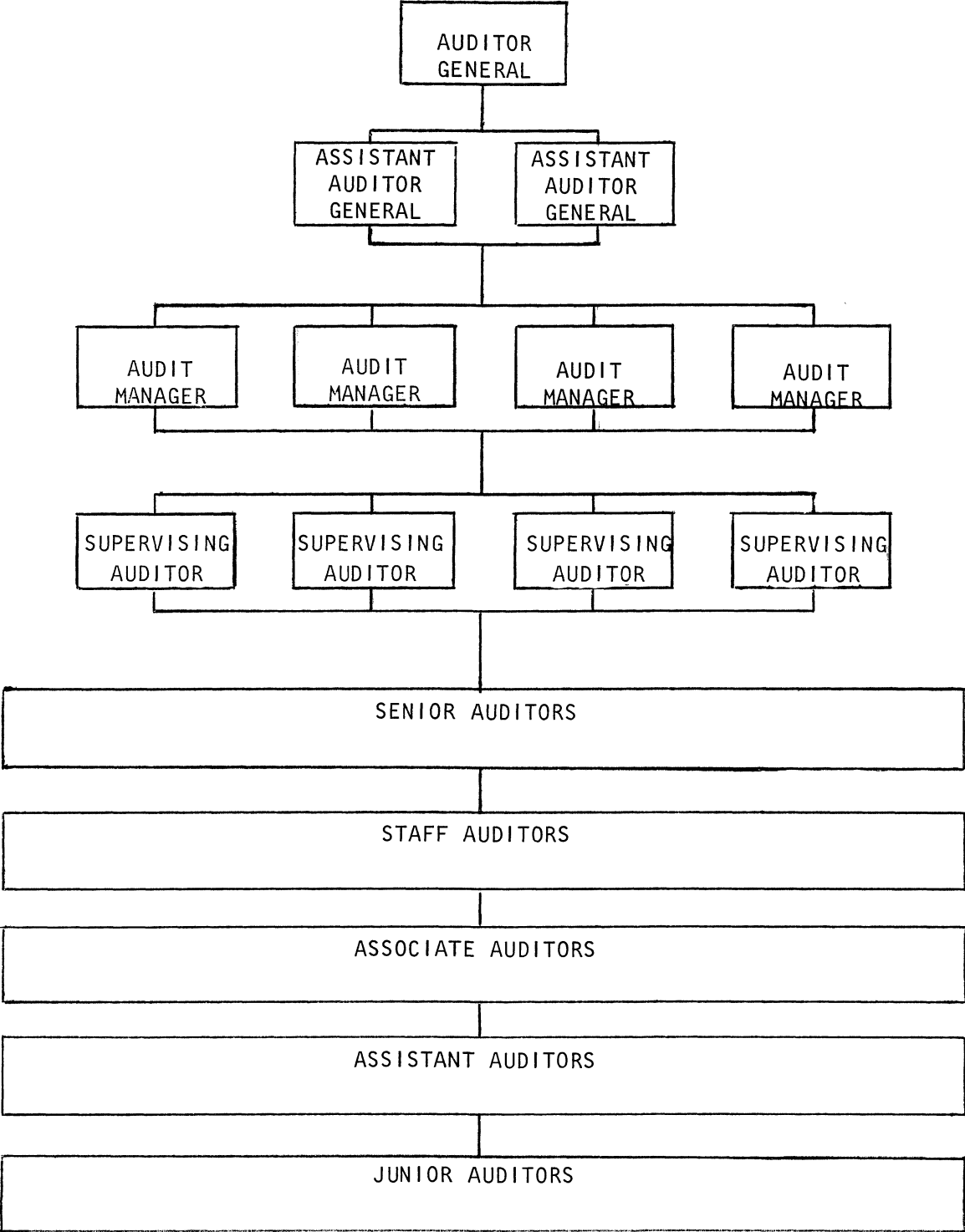
Eileen Kraskouskas, BA-German; MA-Higher Education Administration

Arthur C. Longmire, BS-Industrial Arts Education, Industrial Engineering
Ross Luna, CPA; BS-Commerce
Richard C. Mahan, BA-Public Administration; MPA-Management
Robert J. Maloney, BS-History; MPA
Kenneth Mason, BS-Accounting
James McAlister, BS-Physical Science; MBA-Accounting
Jeffrey L. Mikles, BS-Education; MA-Education
Patricia Nishi, BS-Mathematics
Robert T. O'Neill, BA-Economics; MPA
Ulrich Pelz, BA-Economics; MBA; DBA
Eugene T. Potter, BA-Business Administration; MBA
Mimi Quiett, BA-Economics; MBA-Marketing
Ann Reicherter, BA-Accounting
Walter Reno, BS-Accounting
Gary S. Ross, AA-Engineering; BA-Business; MS-Finance
Steven Schutte, BS-Accounting
Dennis Sequeira, BS-Marketing; MBA
Edwin H. Shepherd, BS-Business/Accounting
Allison Sprader, BA-American Studies; MBA
Albert Tamayo , BA-Economics; JD
Dore C. Tanner, CPA; BS-Accounting
Merrill E. Tompkins, CPA; BA-Business Administration/Accounting
Richard C. Tracy, BA-History, Management; MPA
Martha Valdes, BA-Comparative Literature; JD
Richard Weisberg, BA-Anthropology; JD
Douglas L. Williams, BS-Business Administration; MBA; LLB
Peter Wolfe, BS-Agriculture Economics/Business Management

Support Staff

Cindy Babcock
Lucy Chin, AA-General Secretary
Beverly Gish
Pamela G. Heon
Denise Lueth, BS-Wildlife & Fisheries Biology
Ann R. MacAdam, AA-Secretarial Science
Barbara Neal
Nancy C. Robinson, BA-Fine Arts
Linda Smith
Pamela York

Organization Chart



Professional Career Development

The Office of the Auditor General recognizes the need for continuing education for auditors in a dynamic governmental environment. We have developed a comprehensive Professional Career Development Program for the staff. Three training objectives form the framework of the program:

- To maintain the technical audit skills acquired in school and on the job
- To enlarge the scope of knowledge of specialized professionals as the state of the art advances
- To prepare the staff to assume the greater responsibilities of higher position classifications.

Matching Responsibilities and Training

Our training program is designed to address the varied and increasing responsibilities encountered by the staff as they move up in the organization. We choose courses that deal with operational audit techniques and theoretical concepts which all auditors must work with. We recognize that computers are here to stay and we provide progressively complex training in audits involving electronic data processing.

Several training courses stress communication--both oral and written. Good counseling and supervising skills are also essential, and we offer training sessions in both the technical and practical applications of managing people.

Delivering the Program

We employ various methods of delivering our Professional Career Development Program. Our staff has expertise in a wide range of disciplines, and we rely heavily upon our own staff to conduct in-house training programs where appropriate. Our staff has become increasingly active in developing courses tailored to our specific needs.

Our auditors also attend courses conducted by outside sponsors. The U.S. Civil Service Commission and the State of California's Personnel Development Center offer many training opportunities which we utilize. Private accounting firms, colleges and universities conduct educational seminars, and their excellent instructors assist us in both consulting and delivery capacities.

1978

REPORT SUMMARIES 

BUSINESS & TRANSPORTATION

No. 803

Management of Transportation Development

Act Funds Under Article 8 Provisions

September 19, 1978

Transportation Development Act (TDA) funds were made available in July 1972, by allowing counties to impose a one-quarter percent retail sales tax. Part of these funds are available for construction and maintenance of streets and roads. Approximately \$165.3 million had been allocated for street and road purposes through June 30, 1978.

As of June 30, 1977, at least \$22.3 million in sales tax revenue which was set aside primarily for construction and maintenance of streets and roads was unspent. Further, \$482,000 of interest earned on these funds had not been properly credited to the TDA funds.

The Legislature may wish to establish regulations to control the allocation of TDA Article 8 funds and the interest earned on them.

No. 812

The Effect of Environmental Impact

Reports on Highway Construction

June 30, 1978

Although compliance with requirements of environmental laws and regulations has caused delays on some highway construction projects, the delays encountered appear justified. This is especially true for major projects approaching the construction stage when the environmental laws were passed. For new projects, the Department of Transportation (Caltrans) is simultaneously performing the environmental review process and other planning. Thus, delays can be minimized or eliminated.

Delays in highway construction can occur because of environmental laws and complexities inherent in coordinating a statewide transportation plan. For example, Caltrans must (1) incorporate all new environmental laws, standards and regulations into its ongoing reviews; (2) coordinate and/or negotiate aspects of each project that have environmental implications with as many as 50 federal, state and local agencies; and (3) continually evaluate and, as necessary, change its priorities to be responsive to the State's changing needs.

The environmental review process has resulted in certain recommendations either changing planned construction or adding mitigating measures to reduce the construction's impact on the

environment. Caltrans employees have stated that completing environmental studies has made them sensitive to the environment, so they now consider possible environmental effects early in the project planning stage.

No. 817
Review of the Mobile Home
Revolving Fund
December 22, 1978

Federal and state law provide for the assessment of fees against mobile home manufacturers to pay the actual cost of work related to administering and enforcing regulations relating to construction and safety standards. Since January 1, 1974, the Mobile Home Revolving Fund has been the depository for program fees. The Department of Housing and Community Development, however, has not yet developed a consistent verifiable method of allocating indirect administrative overhead costs. Information is not available therefore to report to the Legislature or the industry on the fairness of these allocations.

The Legislature, through the Supplemental Report of the Committee of Conference on the Budget Bill for fiscal year 1978-79, specified that the Department of Housing and Community Development report to the Legislature regarding departmental overhead costs and the basis for distributing such costs to special funds or federal grants. This should encourage the Department to define and develop its cost allocation system and justify the equity of the system.

No. 854
Availability of Transportation Funds
December 5, 1978

The Auditor General and the Legislative Analyst conducted studies to determine the balances of funds available for transportation services and street and road purposes. This study disclosed that as of June 30, 1978 approximately \$1.2 billion in undisbursed funds was available statewide for transportation services, streets and roads, and highway construction.

The Auditor General found that:

- Approximately \$170 million of Transportation Development Act (TDA) funds was held in local transportation funds or by claimants
- Cities and counties held approximately \$545 million of street and road funds

- Other specific transportation fund accumulations amounted to \$35 million.

The Legislative Analyst found that:

- The State Highway Account in the State Transportation Fund held approximately \$483 million.

CONSUMER SERVICES

No. 710.1

Opportunities to Improve the Franchise
Tax Board's Management Information
July 7, 1978

In January 1978, the Revenue and Taxation Committee requested the Joint Legislative Audit Committee to evaluate the Franchise Tax Board's (FTB) management information system and respond to the following questions relating to the FTB's Bank and Corporation Tax Program:

- Is the FTB maximizing state revenue from corporate audit activities?
- Is the FTB closing corporate audits on a timely basis?
- Do opportunities exist to improve the computerization of relevant data from corporate tax returns?

We concluded that FTB management does not have enough management information available to 1) determine if state revenues from corporate audit activities are being maximized, or 2) determine if corporate audits are being closed on a timely basis. Further, the computerization of relevant data from corporate tax returns could be improved.

Currently, the management information received by the FTB is manually summarized, a process which does not provide the data in a manner useful for planning, measuring and controlling FTB corporate activities. FTB's current computer capacity is capable of handling additional corporate taxpayer data. If the FTB automated such data, it would be able to provide more accurate and timely corporate tax information to the Legislature and other state agencies and would be able to select for audit those corporate tax returns with the most potential for tax adjustment.

In this report, we have suggested a number of opportunities to enhance the FTB's management information system.

No. 726
Review of the State's Liability
For Workers' Compensation
November 13, 1978

We have determined that the State's total estimated outstanding liability for workers' compensation for injured and disabled employees, exclusive of certain law enforcement employees, is \$127 million. This liability exists because most state agencies are legally uninsured; that is, they pay workers' compensation benefits as they are due, rather than cover the liability through an insurance policy. All workers' compensation claims against state agencies which are legally uninsured are adjusted by the State Compensation Insurance Fund (SCIF) according to the provisions of a contract between the State and SCIF. All state agencies that insure against their liability do so with SCIF.

In addition to the State's liability for its own employees, the State also provides for workers' compensation benefits as specified in a number of special programs, including the Subsequent Injuries Fund, the Disaster Service Workers' Fund, the Uninsured Employers' Fund and the In-Home Supportive Services Program. The report estimates the State's outstanding liability as of December 31, 1977 for the first three of these funds. The liability for the In-Home Supportive Services Program cannot be determined at this time.

No. 736
Program Deficiencies, Bureau of
Automotive Repair
May 9, 1978

The Bureau of Automotive Repair (Bureau) registers and regulates most automotive repair dealers (ARDs); licenses and regulates official smog, lamp and brake stations; administers examinations and issues licenses for installer/adjusters at official stations; and mediates consumer complaints.

The Bureau has directed its resources toward its complaint mediation program to the detriment of its other functions. Specifically,

- The Bureau has not maintained the frequency of contact necessary to ensure that official smog stations properly inspect and certify pollution control equipment. Sixty-two percent of the 562 official smog stations inspected in February 1978 had deficiencies that inhibited the accurate inspection and certification of vehicle pollution control devices.

- The Bureau has discontinued its program of periodic inspections of official lamp and official brake stations. As a result, there is virtually no assurance that these stations are adequately correcting or certifying correction of these safety defects.

The complaint mediation program itself is limited because the Bureau does not mediate mechanic incompetence allegations, the leading consumer complaint. The Bureau's jurisdiction for mediating consumer complaints is limited in practice to complaints involving registration or disclosure violations.

We have made specific recommendations to correct these and a number of other management deficiencies.

DEPARTMENT OF EDUCATION

No. 285.4
Deficiencies of Textbook Procurement
Practices in California
April 11, 1978

In October 1977, the Office of the Auditor General issued Report 285.2, Deficiencies of Textbook Procurement Practices in California. The report identified several areas in which the State of California and local school districts do not always receive the most favorable price for their instructional material purchases. This second report on the subject is issued to provide the 34 publishers involved in the contract comparisons of the original report an opportunity to express their views on the contents of that report.

Report 285.2 identified the following major instructional material procurement deficiencies:

- Some publishers surveyed charge California a higher instructional material price for the same textbook title than other states with similar contract dates
- Price guarantees for state-adopted instructional materials are inadequate
- Price guarantees for non-state-adopted instructional materials are inadequate.

While this report provides an opportunity for publishers to defend their position, our conclusions and recommendations as contained in the first report remain the same.

No. 723.2
Opportunities to Improve Responsiveness
Of Vocational Education
April 17, 1978

Federal and state legislation requires that vocational training programs be responsive to current and anticipated employment opportunities. The principal objective of vocational education in California is to prepare students for successful employment in occupations requiring other than a baccalaureate or advanced degree.

We found that large enrollments persist in some traditional program areas that have limited relationship to current or anticipated job opportunities. In addition, apparent misalignments exist between the demand for and the supply of workers in some specific skill areas. As a result, students may have difficulty obtaining employment in fields for which they were trained, and there is no assurance that manpower needs are being addressed.

We also found that occupational data is neither collected nor disseminated in a form that satisfies the informational needs of vocational education administrators and planners. Consequently, it is difficult to assess the appropriateness and responsiveness of vocational training programs.

No. 725
The State Preschool Program: A Review
Of Funding, Administration and Controls
February 1, 1978

The State Preschool Program is a state-supported part-day educational service for prekindergarten age children. The primary purpose of the program is to prepare children of low-income or disadvantaged families to be successful in school. The program is administered by the State Department of Education (SDE).

Our audit revealed that the amount of state funds allocated per child to local agencies varies greatly, causing possible inequitable educational opportunities for the children served. Further, SDE's organization of State Preschool Program management is uncoordinated and results in inconsistent site monitoring practices, ineffective review of fiscal reports and duplication of effort. Consequently, local agencies are not complying with SDE program guidelines.

We recommend that SDE improve its fund allocation methods by adopting reasonable per capita funding standards, consider a periodic funding cycle and perform a periodic needs assessment. We also

recommend that SDE improve its fund allocation methods by adopting reasonable per capita funding standards, consider a periodic funding cycle and perform a periodic needs assessment. We also recommend that SDE coordinate its management of the State Preschool Program and establish other necessary controls and responsibilities.

No. 818

State Vocational Education Contracts With
Private Schools Yield Excessive Public School Revenues
August 10, 1978

Public educational agencies may provide vocational training to students through contracts with private vocational schools. Public schools receive full state and local funding for students trained under vocational contracts although the costs of the contracts to public entities average only a fraction of the revenue generated. Total statewide costs for private vocational education contracts were approximately \$6.8 million in 1977-78 and total state and local revenues generated by these programs were approximately \$24 million, with public school entities receiving the residual \$17.2 million.

The management of vocational education contracts with private schools needs improvement. Contract administration has been ineffective regarding: requirements for labor market needs assessments and for ensuring no unnecessary program duplication; implementation of contract cost and payment standards and required award procedures; and collection of enrollment, completion and job placement data.

In addition, the question of the constitutionality of vocational contracting with private schools has been raised on a number of occasions. The California courts have not ruled on the specific subject, and unresolved issues raised by recent court decisions indicate it is not entirely clear whether private vocational contracting is constitutional.

No. 820

California's Policies for Education of Gifted
Pupils Need Legislative Redefinition
October 4, 1978

California's Mentally Gifted Minor (MGM) program provides funding for school districts to offer "qualitatively different" educational programs for gifted pupils. State funding for the program was approximately \$15 million in 1977-78.

Our review of MGM identified numerous problems including:

- Statutory enrollment limitations for the program have been exceeded, leading to per pupil funding below the legislatively prescribed minimum
- A principal eligibility criterion has been general intellectual ability, measured largely by performance on IQ tests. High-achieving pupils or those from culturally disadvantaged backgrounds may not have had the opportunity to participate
- A substantial number of already high revenue districts have received state funds for disproportionately large numbers of pupils. In addition, districts can receive overlapping state support under MGM and the School Improvement Program.

Due to these and other problems, we are recommending that the Legislature redefine policies for education of gifted pupils.

No. 828.1

Review of the Census of Limited-English-Speaking and Non-English-Speaking Pupils
June 1, 1978

The Chacon-Moscone Bilingual-Bicultural Education Act of 1976 contained detailed requirements for a uniform census of limited-English-speaking and non-English-speaking pupils to be taken annually by all school districts in the State. The purpose of this report is to identify methods for maximizing the efficiency of this census.

We have concluded that efficiency could be promoted in the 1978-79 census by not requiring that it include a full reassessment of each pupil's language classification. A language status determination could be required for only those pupils not assessed in 1977-78 (e.g., new enrollees) or for pupils whose previous language classification is in question. This would reduce substantially the magnitude of the 1978-79 census in relation to that conducted this year.

Additional efficiencies could potentially be achieved by allowing school districts to select from a variety of approved procedures the testing instrument which best meets their needs. However, based on the Legislative Counsel's opinion, this would be impermissible since the current statute requires "uniform census-taking" methods. Legislative action to modify present statutory language would be necessary.

HEALTH & WELFARE

No. 282.5

Correctional Industry Product Cost
Determinations, Supplement to Report 282.4

February 9, 1978

According to a Legislative Counsel opinion, Correctional Industries may not use profits from the sale of license plates and validation stickers to offset the losses of other industries within the program.

For fiscal year 1976-77, 10 correctional industries operated at a combined profit of \$1,200,000 and 18 industries operated at a combined loss of \$1,559,000; resulting in an overall net loss of \$359,000 in the Correctional Industries Revolving Fund.

Of the \$1.2 million profits, we determined that \$863,000 was contributed by two industries: the license plate factory at Folsom State Prison, \$517,000 and the Specialty Printing industry at the California Men's Colony, \$346,000, which produces motor vehicle license plate validation stickers. The profits of these two industries are used to offset the losses of other industries in the Correctional Industries Revolving Fund.

The Legislative Counsel stated that if monies paid by the Department of Motor Vehicles are in excess of the costs incurred by Correctional Industries to produce license plates and validation stickers, and if these profits come from transportation-related funds, they can only be used for transportation purposes as specified by Article XIX of the California Constitution. Consequently, in the Legislative Counsel's opinion, the \$863,000 in profits that we determined were earned from the sale of license plates and stickers cannot be used to offset the costs of producing other industry products within the Correctional Industries program and such use would be unconstitutional.

No. 722.2

Survey of State Hospital Licensing
And Certification Procedures

March 15, 1978

The Health and Safety Code requires the Department of Health to inspect each of the State's 633 licensed hospitals at least once every two years to assure compliance with licensing standards embodied in Title 22 of the California Administrative Code. The standards for "Acute Care Facilities" encompass the staffing, supplies, facilities and administrative policies for each hospital.

Under Health and Safety Code, Section 1282, the Department of Health is permitted to contract with private organizations to conduct inspections on behalf of or in conjunction with the State. The Department contracts with the Joint Commission on Accreditation of Hospitals (JCAH) and the California Medical Association (CMA) to make annual or biennial inspections of almost 93 percent of California's licensed acute care hospitals.

The Department states it is prevented by law from waiving regulations regarding deficiencies in acute care facilities. The Department, however, uses two procedures which in effect waive selected Title 22 violations. One procedure they employ, called program flexibility, permits some remote hospitals to continue operation despite the unavailability of medical specialists. Another procedure grants exceptionally long correction periods.

No. 723.1
Review of California Employment
And Training Advisory Office
March 7, 1978

The California Employment and Training Advisory Office (CETA Office) has taken steps during the past year to correct many of the deficiencies described in our report of October 1976.* They have failed, however, to take effective action to remedy problems relative to the State Manpower Services (SMS) Grant goals, objectives and expenditure delays.

We recommend that the CETA Office develop a detailed policy that addresses the goals of the SMS Grant with respect to the coordination of statewide manpower services. The plan should provide the rationale for decisions on program objectives, project funding priorities and appropriate expenditure levels.

In addition, we recommend that the CETA Office include a description of this policy, and its progress toward implementation in their next Annual Report to the Governor.

*Need for Improved Administration of the CETA State Manpower
Services Grant--Employment Development Department.

No. 728
Attendance Reporting Practices of
Physicians at State Hospitals
April 18, 1978

California state hospitals do not have a uniform system of employee attendance reporting as required by state law. Consequently,

attendance reporting systems for physicians within the state hospitals have resulted in instances of nonadherence to state regulations and salary over and underpayments. We recommend that the Department of Health establish uniform regulations for attendance reporting practices of the state hospitals and establish policies to ensure that such regulations are followed.

In addition, state hospitals are not complying with the State Administrative Manual when contracting for professional consulting services in that when three qualifying proposals are not obtained prior to awarding the contract, a full explanation of the reasons therefore is not provided. The state hospitals should follow the requirements of the State Administrative Manual in acquiring the services of medical consultants.

No. 732
Investigation of Allegations of Irregularities,
Department of the Youth Authority
March 10, 1978

In July 1977, the Joint Legislative Audit Committee was presented with a list of allegations of inappropriate management practices at the Department of the Youth Authority (CYA). In October 1977, the Office of the Auditor General began an investigation to determine if the allegations were true. This report presents the results of that investigation.

In general, the allegations concerned conflict of interest, misuse of state and federal monies, improper personnel management practices and inadequate management control. Among the allegations which we were able to verify were:

- Between January 1, 1977 and June 1, 1977, CYA improperly used about \$14,000 to temporarily fund the salary of a new deputy director of parole position created under a reorganization
- Currently, 14 state cars are permanently assigned to management personnel at various institutions. Proper justification has not been prepared in most cases and need is questionable
- Profits from the Paso Robles canteen operation have not reverted to the Ward Benefit Fund as intended. CYA officials are unaware of any burglaries which may have occurred at the institution.

We also found that some of the issues raised are dated and have already been corrected.

No. 734
Review of the Cash Management
Of the Health Care Deposit Fund
March 23, 1978

The Health Care Deposit Fund (HCDF) was established by Section 14157 of the Welfare and Institutions Code to receive and disburse all funds for the California Medical Assistance Program (Medi-Cal). The program is administered by the Department of Health and the Department of Benefit Payments. The sources of funds supporting the HCDF are (1) federal grants, (2) State General Fund appropriations, and (3) county payments.

The HCDF does not have a permanent cash advance or cash balance sufficient to meet cash flow needs. The need for General Fund loans will continue, unless changes are made in the provisions for obtaining funds or a one-time appropriation is made to the HCDF for working capital.

The need for General Fund loans occurs, in part, because some counties have been delinquent in paying their shares to the State. However, new procedures for collecting delinquent county shares provide a reasonable means under existing law to encourage counties to pay their shares on a more timely basis and have contributed to a reduction in General Fund loans.

The State's management of HCDF cash after receipt satisfactorily protects the State's entitlement to interest income. The amount of interest income lost to the General Fund is not as much as the amount of the General Fund loans would suggest because the General Fund earns interest income on cash in the HCDF and on cash representing outstanding warrants.

No. 738
Review of SSI/SSP Cost-of-Living Calculations
February 21, 1978

We reviewed the method for calculating cost-of-living increases for Social Security Income--State Supplemental Payment (SSI/SSP) recipients of nonmedical out-of-home care. SSI/SSP cost-of-living adjustments for each fiscal year are based on changes in the Consumer Price Index that occurred through the end of the preceding calendar year. This results in a lag of 6 to 18 months between changes in prices and the receipt of a compensating cost-of-living adjustment by SSI/SSP recipients.

Should the Legislature wish to accelerate the SSI/SSP cost-of-living adjustment to more closely reflect the changes in current prices, the change in the CPI could be projected to the beginning of each fiscal year and the cost-of-living factor adjusted accordingly. Such a change would require legislation.

We also reviewed selected portions of the Department of Health's draft regulations relating to community care. According to Department of Health officials, some of the proposed community care regulations will increase operating costs by an undetermined amount. The full extent of the financial burden these regulations will place on community care operations may not be determined until the regulations have completed the Department's review process.

We recommend that the Department of Health, or the appropriate agency under the reorganization implemented by Chapter 1252 of the Statutes of 1977 (SB 363), provide the Legislature with an analysis of the fiscal impact these new regulations will have on community care operations and with recommendations to offset any additional costs. The fiscal analysis should be presented prior to issuing the regulations.

No. 802
Deficiencies in State Hospital
Staffing Standards
October 16, 1978

California statutes require state hospitals to be staffed according to the 1973 Staffing Standards, or any modified version of the Standards. In fiscal year 1977-78, state hospital staffing cost an estimated \$303 million. Approximately 60 percent of the nearly 20,000 positions budgeted in state hospitals are to be determined on the basis of the Standards.

Our review of the 1973 Staffing Standards revealed significant difficulties with their use in determining state hospital staffing needs. As a result, actual staffing does not conform with Standard Staffing and the 1973 Staffing Standards are of questionable effectiveness in assessing state hospital staffing needs.

We recommend specific issues which the Departments of Developmental Services and Mental Health, and the Legislature should consider in modifying or altering the Standards.

No. 813
Review of California Department of
Aging's Use of Staff Time And Funds
In Administering Older Americans Act Programs
April 18, 1978

The California Department of Aging (CDA) is responsible for coordinating and assisting public and nonprofit private agencies in planning and developing programs for older persons, with a view

toward establishing a statewide network of comprehensive, coordinated services and opportunities for such persons. The Department is also responsible for administering funds allocated to California through the federal Older Americans Act of 1965, as amended.

Because CDA does not maintain timekeeping records which account for employee time by program or activity, it cannot routinely identify the amounts of staff time spent administering the various Older Americans Act programs. Moreover, lack of programmatic accountability precludes productivity measurement.

No. 816.1
Services to Children and Youth Administered
Through State Agencies in California
June 20, 1978

This report presents a catalogue of state-administered services to children and youth. It identifies: the state agencies which currently provide services to children and youth; the cost and funding of each program serving children; the goals of each of these programs; the types of services provided; the numbers of children served; the eligibility criteria; and the local service delivery agency(ies).

Services to children and youth include education, child care, nutrition, physical and mental health care, delinquency prevention, vocational training, drug and alcohol abuse/prevention, recreation and a variety of diagnostic and screening, counseling and information and referral services. These services are presently administered through 7 principal state departments and an additional 30 state agencies, departments, offices or commissions. Eligibility for these services is governed by over 25 separate categories related to financial tests, diagnostic conditions and specific target populations and by over 35 different age designations. Services are delivered by over 20 different types of agencies at the local level.

Proposed 1978-79 state and federal expenditures for children's and youth services were over \$6.2 billion and represented an increase of approximately 12.5 percent over 1977-78 expenditures. This figure is based on proposed expenditures prior to passage of Proposition 13 (the Jarvis-Gann Property Tax Initiative).

No. 816.2
Improvements Are Needed in Coordination
Of Services for Children and Youth in California
October 3, 1978

Improved coordination is needed in state-level planning, budgeting, administration and evaluation of the more than 160 programs which provide services to children and youth in California.

Due to the absence of effective coordination:

- Program priorities have been established independently
- Opportunity for increased federal financing has been foregone
- Administrative problems have occurred in areas of joint agency responsibility
- Multiple and inconsistent local agency accounting and reporting requirements exist.

We are recommending that these problems be addressed in the Master Plan for Services to Children and Youth which the Health and Welfare Agency is required to develop by July 1, 1980.

No. 819
A Review of the California Youth
Authority's Education Program
December 4, 1978

State regulations require the California Youth Authority (CYA) to provide academic and vocational education for wards at each facility. The total CYA education budget was approximately \$10.9 million in 1977-78.

Our review of the CYA education program identified the following problems:

- The educational diagnostic and placement process is inadequate for assessing ward educational needs and for placement purposes
- The academic program does not address the particular needs of educationally handicapped wards
- The vocational program is not responsive to labor market needs
- Comprehensive educational program evaluation is lacking.

Due to these problems, we recommend that CYA take specific corrective action to increase the effectiveness of the education program.

No. 827.1
California Department of Aging's Expenditure
Of Older Americans Act Monies
May 1, 1978

The California Department of Aging (CDA) is the single state agency responsible for administering grant awards to provide a wide range of supportive services and meals for the elderly. The grant monies are made available to the Department through a letter of credit authorized by the U.S. Department of Health, Education and Welfare (HEW). The present letter of credit allows the Department to draw up to a maximum of \$3.5 million per month under Title III (coordinated supportive services) and Title VII (nutrition projects) of the Older Americans Act. The terms of this letter of credit may be revised upon application to HEW.

Monies drawn by CDA are disbursed to the various community supportive services and nutrition projects under contract with the Department. Payments are made to these projects only after the projects file a claim with the Department showing actual expenditures incurred to date and projected expenditures for the ensuing month.

Since 1974, the State of California has been awarded a total of \$118.7 million in federal grants from Title III and Title VII of the Older Americans Act. As of March 31, 1978, total expenditures of Title III and Title VII programs were \$76.5 million. The remaining \$42.2 million represents total cumulative unexpended funds for these programs.

The information presented in this report was extracted from department records which we did not audit.

No. 827.2
California Department of Aging's Expenditure
Of Older Americans Act Monies
August 28, 1978

The Department of Aging (CDA) is responsible for administering federal grant awards to develop comprehensive and coordinated service systems for older persons and to provide them low-cost nutritional meals under Title III and Title IV of the Older Americans Act.

This report provides an update on total cumulative unexpended monies for Title III and Title IV programs for the nine-month period ending June 30, 1978. As of that date, total cumulative unexpended funds were approximately \$32.4 million, or 27 percent of total grant awards.

The report outlines three expenditure premises to reduce Title III and Title IV unexpended funds and projects the amounts of these funds to September 30, 1978 based on these premises.

No. 827.3

California Department of Aging's Expenditure
Of Older Americans Act Monies
December 22, 1978

This report provides an update on the California Department of Aging's expenditure of monies made available under Title III and Title VII of the Older Americans Act through September 30, 1978. As of September 30, 1978, the end of the federal fiscal year, total expenditures of Title III and Title VII funds were \$98.8 million. Total cumulative unexpended funds were approximately \$19.9 million, or 17 percent of total grant awards.

The Department has not developed an expenditure plan for federal fiscal year 1979 because Congress has not yet appropriated the portion of the U.S. Department of Health, Education and Welfare's budget for Older Americans Act funds. Until Congress reconvenes in January and makes new appropriations under the Older Americans Act, the Department will operate at the funding levels established for federal fiscal year 1977-78.

Should the Department receive more Older Americans Act funds than it received in federal fiscal year 1977-78, the Department may well again face a high carry-over balance of unexpended funds before the current fiscal year is over.

RESOURCES

No. 841

A Program Review of the
California Conservation Corps
November 27, 1978

The California Conservation Corps (CCC) was established in 1976 to accomplish conservation work and to provide employment and training opportunities to the State's young men and women.

Although the CCC has completed many worthwhile conservation projects, we found that:

- Weaknesses in CCC's project selection procedures allow some projects to be completed that are not aligned with legislative selection criteria

- CCC has little impact on youth unemployment because there are no requirements to hire unemployed applicants
- Appropriate Technology program activities limit the accomplishment of conservation projects
- CCC's 1978-79 goals are unrealistic in light of the high corpsmember attrition rate.

We make recommendations for consideration by the CCC and the Legislature which we believe will alleviate the above problems.

UNIVERSITY OF CALIFORNIA

No. 715.4

University of California's
Management of Real Estate
February 17, 1978

The University of California has an ownership interest in approximately 58,000 acres of land located in 37 counties within California and 4,765 acres located in eight other states. There are in excess of 10,000 structures on university property with a replacement value for insurance purposes of \$1.9 billion. All real property owned or leased by the University is exempt from property taxes.

We found several management weaknesses in the University's real estate program. All university real property used for "academic purposes" is the responsibility of the President, while the Treasurer controls real property held for endowment or investment purposes. However, responsibility for procedural real estate matters involving real property used for academic purposes is not formally assigned to a functional unit. As a result, the Treasurer's Office of Real Estate is performing much of this activity on an informal basis at the request of the President and other officers of the University.

Further, the University has not clearly defined the "academic purpose" designation of real property and does not have an adequate real estate information system. The University also lacks a consistent policy on real property investment and a formal program for orderly disposal of surplus real property.

We have outlined recommendations in the report to improve the University's real property management.

No. 715.5
The University of California System:
Review of the Management of the
Private Support Program
June 28, 1978

This report, the fifth in a series dealing with operations and activities of the University of California, analyzes the University's performance in the management and utilization of property acquired by private donations. During fiscal year 1976-77, the Regents of the University of California received a total of \$58.2 million in private support.

Our audit indicates that: (1) some research funded by private support violated university regulations related to investigations of a purely commercial nature and avoided established research review and indirect cost application processes; (2) the University has inadequately controlled certain activities which are either an integral part of the private support program or are directly affected by it; and (3) the University has inadequately controlled the operations of affiliated fund-raising organizations.

We recommend that the University examine the appropriateness of commercial research activities, the application of indirect cost rates and review processes and restrictive conditions on publication results. We also recommend that the University improve its cash handling, inventory control, sales or disposal of unneeded personal property and adherence to donors' instructions. In addition, the University should add private support activities to its internal audit program. Our final recommendation suggests substantive changes in the University's policies and procedures pertaining to operations of affiliated fund-raising organizations.

No. 715.6
Review of the University of California's
Opportunity Fund
July 17, 1978

This report provides information on the sources and applications of funds for the University Opportunity Fund. Since this fund is categorized as discretionary and lacks criteria for measuring the propriety and reasonableness of the allocations, we have made no conclusions or recommendations.

The University Opportunity Fund is the largest of the UC Regents' Funds. The current objective of the fund is to provide funding for high-priority purposes for which state funding is unavailable, such as:

- Student Aid--fellowships, scholarships, grants in aid, loans and work study
- Educational enrichment programs
- Regents' faculty fellowships
- Urgent operating budget needs
- University construction projects.

The major funding source of the University Opportunity Fund is indirect cost recoveries (overhead) on federal grants and contracts. Funds are also generated from investment income, indirect cost recoveries from the State, loan repayments and return of prior years' unused allocations. For 1976-77, the University Opportunity Fund received \$25,513,600 in funding.

During the same time period, the Board of Regents authorized the allocation of \$29,826,800 from the fund, based on the president's recommendation. A brief description of the programs and the amounts allocated by the Regents is shown in the report.

No. 715.7
Review of Certain Capital Outlays
At the University of California
 July 17, 1978

Allegations made against the University of California charged improper activities by the University regarding the School of Dentistry building at the San Francisco campus and the School of Veterinary Medicine building at the Davis campus.

The allegations of misconduct regarding the San Francisco campus School of Dentistry building were previously investigated by the Department of Finance. The allegations concerning the School of Veterinary Medicine building at the Davis campus had been investigated by the Federal Department of Health, Education, and Welfare. In both cases, no improper actions were found. We therefore determined that any further audit by us would be unnecessary.

No. 715.8
Review of the University of
California's Investment Policies
 August 1, 1978

This report reviews the investment policies of the University of California's (UC) Regents' Committee on Investments and the

related procedures of the Treasurer of the UC Regents, who is responsible for administering the Committee's investment policies.

The scope of our work included (1) investment portfolio comparison between the University of California Retirement System (UCRS) and those of other comparable institutional investors such as the Public Employees Retirement System (PERS) and the State Teachers Retirement System (STRS), (2) review of UC short-term investment purchases and securities lending operations, and (3) review of possible conflicts of interest arising out of Regents' ownership or control over companies in which the UC invests.

The University of California has investment portfolios with an aggregate value in excess of \$1.8 billion. The composition of its portfolios is approximately 60 percent equities and 40 percent fixed-income securities. The portfolio rate of return on UCRS investments is less than PERS and STRS due to the UC's high equity ratio. The short-term portfolio holdings of the UC are shifting to a longer maturity term (90 days-1 year) with a corresponding increase in yield.

We also found that the security lending practices of the University need review to ensure that contractual relationships with brokers are being adhered to. We found no evidence of conflict of interest involving investment decisions on the part of the Regents or officers of the University.

No. 715.9
University of California: Review
Of Privately Supported Research
September 1, 1978

The University of California is not following its own policies and regulations regarding privately supported research. Consequently, the State is subsidizing research sponsored by private, profit-motivated entities.

University regulations require full recovery of all expenses, both direct and indirect, incurred by the University for extramurally sponsored projects. We estimate, however, that at least 64 percent of research sponsored by private, profit-motivated entities is subsidized by the State through reduced or eliminated indirect (overhead) charges or free use of the principal investigator's time.

Often, the University improperly classifies a research project as a gift instead of a contract or grant. Research projects classified as gifts are not assessed indirect charges and bypass the controls normally exercised on contracts and grants.

Further, when indirect charges are paid by private sponsors, the University does not reimburse the State, although activities comprising the indirect charges are paid primarily from state funds.

We have made recommendations that, if implemented, would ensure a higher cost recovery on research projects sponsored by private entities.

MISCELLANEOUS

No. 719

A Review of Food Procurement Procedures

April 4, 1978

We reviewed the food procurement programs of the Department of General Services, the University of California and a sample of school districts. Food purchased by these agencies is used to provide meals at correctional facilities, state hospitals, various state schools and other state institutions; at University of California (UC) student residence halls and other UC campus food service facilities; and at individual public schools within the districts.

We concentrated on the effectiveness of each agency's food purchasing programs and reviewed: laws and policies pertaining to food procurement, procurement methods used, bidding procedures and evaluation methods, and specifications.

We found that for various reasons none of these agencies is purchasing food in the most cost-effective manner. We identified procurement problems in each of these agencies and made recommendations for improvement.

No. 739

Survey of State Departments'

Bilingual Printing

March 20, 1978

We surveyed the state departments' printing of materials and forms in languages other than English. We identified what materials were ordered; what quantities were ordered; when materials were ordered; and what quantities are in inventory.

We reviewed the Departments of Motor Vehicles, Employment Development, Benefit Payments and Health because these departments have significant public contact and are known to produce multilingual materials. We distributed a questionnaire to the 40 remaining departments. The 4 departments we reviewed and 20 of the 35 departments responding to our questionnaire printed materials in languages other than English. The majority of non-English language materials are printed in Spanish.

We also identified the following potential problem areas concerning multilingual printing services: (1) difficulties associated with identifying the need for multilingual services; (2) varying qualities of translations by departments; and (3) the absence of established guidelines and procedures regarding what materials and forms should be translated.

No. 814.1
Improvements Needed In Planning And
Monitoring Research And Development
Of Alternative Energy Sources
November 28, 1978

Since fiscal year 1975–76, the California Energy Commission has spent almost \$14 million assessing and screening numerous research areas to determine which ones California should pursue.

To ensure that expenditures for research and development of alternative energy sources provide maximum benefits to the State, the Commission needs to modify its planning and monitoring system to include:

- Development of specific criteria for evaluating and prioritizing research programs and projects
- Planning of research on a project-life basis, identifying quantifiable objectives, time-phased milestones and total estimated project costs
- Requirements to conduct a literature search of completed and ongoing research prior to initial project approval
- Establishment of a research advisory committee to provide planning input and peer review of research contracts
- Implementation of a formal process for monitoring and evaluating the effectiveness of research projects.

No. 814.2
Improvements Needed In Controlling
Contracts Awarded by the
California Energy Commission
December 22, 1978

From fiscal year 1974–75 through 1977–78, the California Energy Commission spent about \$20 million on contracts--42 percent of its total budget for that period.

The Commission has inadequately complied with mandates of the California Government Code and directives of the State Administrative Manual regarding contract management.

Specifically, the Commission has:

- Awarded sole source contracts without adequate justification
- Allowed some contractors to initiate and complete contracted work prior to control agency approval
- Failed to prepare and file evaluations on contractor performance
- Improperly purchased personnel services from outside the civil service system
- Failed to develop methods for keeping records.

We recommend the Commission develop stronger contract controls and provide training to contract managers.

No. 837

Review of the California Arts Council
November 2, 1978

The California Arts Council (CAC) was created to (1) encourage artistic awareness, participation and expression; (2) help independent local groups develop their own art programs; (3) promote the employment of artists and those skilled in crafts in both the public and private sector; and (4) provide for the exhibition of art works in public buildings throughout California. Approximately 80 percent of CAC's budget for 1977-78 supported their grant programs.

In fiscal year 1977-78, CAC was awarded funding from only eight federal assistance programs. We identified 17 federal assistance programs available to state arts agencies. Within these programs there are 31 funding categories available. CAC should review all available funding sources and identify those programs which could be implemented. Additional federal funds would enable CAC to provide broader program coverage.

Additionally, in 55 percent of the grant projects we reviewed, project activities changed from those specified in the original agreement. In 60 percent of the projects, the agreement did not specify time schedules for activities.

FINANCIAL AUDIT REPORTS

No. 136

Financial Audit Report, State Banking Department, Year Ended June 30, 1977. Report issued July 28, 1978.

No. 288

Financial Audit Report, Military Department, Year Ended June 30, 1977. Report issued May 4, 1978.

No. 306.3

Financial Audit Report, Department of Rehabilitation, Special Deposit Fund, State and Federal Vending Stand Accounts, Year Ended June 30, 1977. Report issued April 5, 1978.

No. 377

Financial Audit Report, Department of Savings and Loan, Year Ended June 30, 1977. Report issued October 2, 1978.

No. 655

Financial Audit Report, Department of Corporations, Year Ended June 30, 1978. Report issued December 14, 1978.

No. 704.2

Financial Audit Report, Fair Political Practices Commission, Year Ended June 30, 1977. Report issued January 2, 1978.

No. 713

Financial Audit Report, Department of Justice, Year Ended June 30, 1977. Report issued June 7, 1978.

No. 811

Financial Audit Report, Lloyd Arnold's Food Services Statement of Income for the Ten Months Ended December 31, 1977. Report issued November 29, 1978.

***SUMMARY OF 1978
RECOMMENDATIONS TO THE LEGISLATURE***

Our reports frequently recommend action to be taken by the Legislature. Specific recommendations for legislative action made this year are listed below.

Should legislators wish to sponsor bills based on these recommendations, the Auditor General will provide technical information and access to audit workpapers.

Report 713, Financial Audit Report, Department of Justice, Year Ended June 30, 1977, recommends that the Legislature consider amending Government Code Section 11044 to provide consistency in the method of accounting and budgeting for the legal services provided by the Department of Justice.

Report 723.2, Opportunities to Improve Responsiveness of Vocational Education, discusses the deficiencies of occupational data available to educational administrators and planners. The report recommends that, regarding the California Manpower Management Information System, legislation authorizing the California Occupational Information System should require the State Occupational Information Coordinating Committees to develop a detailed timetable for the completion of specific administrative actions related to staffing, salaries, organizational regulations, provision of facilities and assessment of computer needs.

Report 736, Program Deficiencies, Bureau of Automotive Repair, recommends that the Bureau present to the Legislature by January 1979 a comprehensive proposal, including recommendations for additional legislation, enabling the Bureau to mediate allegations of mechanic incompetence.

Report 738, Review of SSI/SSP Cost of Living Calculations, recommends that should the Legislature wish to accelerate the Social Security Income-State Supplemental Payment (SSI/SSP) cost of living adjustment to more closely reflect the changes in current prices, the change in the Consumer Price Index could be projected to the beginning of each fiscal year and the cost of living factor adjusted accordingly.

Report 803, Management of Transportation Development Act Funds Under Article 8 Provisions, recommends that the Legislature amend the Transportation Development Act (TDA) to require that:

- A transportation planning agency shall make no further allocations of TDA monies to any claimant not properly handling interest earned on TDA funds until compliance with statutes and appropriate rules and regulations occurs, and
- TDA Article 8 monies and related interest earned thereon shall not be commingled with the claimants' other accounts or funds.

The Legislature may also wish to amend the TDA to provide for greater near-term utilization and flexibility in the use of TDA funds made available under Article 8 provisions. In addition, we recommend the Legislature consider establishing uniform statewide criteria for street and road projects, not to exceed the criteria established by the State Controller's Office for auditing street and road expenditures of other state funds.

Report 816.2, Improvements Are Needed in Coordination of Services for Children and Youth in California, recommends that the Legislature consider requiring each of the seven departments serving children to designate an individual at the deputy level responsible for coordinating services with other state departments and between programs within the department itself. The report also lists procedures used by other states to coordinate services for children and youth.

Report 820, California's Policies for Education of Gifted Pupils Need Legislative Redefinition, recommends that the Legislature (1) redefine the State's policy for identifying "gifted" pupils, (2) redefine funding policies for the education of gifted pupils, and (3) reconsider the policy of maintaining a separately funded and administered program for education of gifted pupils. Finally, as part of a long-term strategy for examining alternative approaches for education of gifted pupils, the Legislature should designate an entity independent of the Department of Education to evaluate such programs.

Report 841, A program Review of the California Conservation Corps, suggests the Legislature may wish to evaluate CCC's role in addressing youth unemployment and state conservation needs. If the Legislature desires greater impact from the CCC, it could (1) clarify the intent of the legislation by assigning corpsmember recruitment and selection priority to unemployed applicants and (2) clarify the statutory authority to conduct the Appropriate Technology Program.

Report 854, Availability of Transportation Funds, suggests that with the apparent cutbacks in the availability of local support for public transportation, the Legislature may wish to consider alternatives which would provide greater flexibility to the funds made available by the Transportation Development Act and would best utilize the existing accumulations of TDA funds.

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Staff Members

Our professional audit staff is composed of men and women with a rich variety of backgrounds. All have college degrees, and 52 percent have advanced degrees. Of the 55 positions currently filled, 10 are certified public accountants and 5 are lawyers. The balance of our staff has professional expertise in such fields as social welfare, budgeting, economics, electronic data processing, banking and finance, statistics, education, writing and editing, health, investments, marketing, political science and engineering.

COMPOSITION OF PROFESSIONAL STAFF (December 31, 1978)

Academic Discipline:

Certified Public Accountant	10
Juris Doctor	5
Doctor of Business Administration	1
Doctor of Education	1
Master of Business Administration	14
Master of Public Administration	7
Other Advanced Degrees	4
Bachelor Degrees	58

In addition to formal classroom training, we place a strong emphasis on practical on-the-job training experiences. We again utilize the skills and talents of our multi-disciplined staff by rotating audit personnel at the conclusion of each assignment to provide a broad base of exposure for all staff levels.

No professional development program can succeed without the support of an organization's top management. Both the Office of the Auditor General and the Joint Legislative Audit Committee have demonstrated their strong commitment to continued progress through a training program designed to benefit the staff, the Office and ultimately the citizens of the State of California.

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Cost Analysis of Selected Housing Units--Department of Corrections, October 1977	282.3

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Questionable Contracting Practices for the 1976 Voters' Pamphlet, March 1977	285.1
Impact of Alternative Fee Schedules, Business Enterprise Program, July 1977	306.1
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Financing and Evaluating Public Transit Systems in California, January 1977	295
Regional Transportation Planning Agencies Management of the Transportation Development Act, July 1977	707
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AUTHORITY

PERTINENT STATUTES RELATING 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.

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.

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.

JOINT RULES OF THE SENATE AND ASSEMBLY (1973-74)

37.3 The Joint Legislative Audit Committee is created pursuant to the Legislature's rulemaking authority and specific constitutional authority by Chapter 4 (commencing with Section 10500) of Part 2, Division 2, Title 2 of the Government Code. The committee shall consist of four Members of the Senate and four Members of the Assembly who shall be selected in the manner provided for in these rules, of which one shall be the Chairman of the fiscal committee for the Senate and one the chairman of the fiscal committee for the Assembly. Notwithstanding anything to the contrary in these rules, two members from each house constitute a quorum and the number of votes necessary to take action on any matter. The Chairman of the Joint Legislative Audit Committee, upon receiving a request by any Member of the Legislature or committee thereof for a copy of a report prepared or being prepared by the Auditor General shall provide the member or committee with a copy of such report when it is, or has been submitted by the Auditor General to the Joint Legislative Audit Committee.

AUDIT APPROVAL AND RELEASE PROCEDURES

1. Any Committee Chairman, Legislator who is an elected officer of the Legislature, or member of the Joint Legislative Audit Committee may request that the Chairman of the Joint Legislative Audit Committee authorize the Auditor General to perform an audit. (6/3/75)
2. The Chairman shall transmit the audit request to the Auditor General for the purpose of determining the feasibility of performing the requested audit. The Auditor General shall review the audit request in the context of the capabilities of his Office and return written recommendations to the Chairman within two weeks. (6/3/75)
3. No action shall be taken on an audit request until such time as the Joint Legislative Audit Committee has reviewed the audit request, and the Auditor General's recommendations on the feasibility of performing the audit request, in an open meeting at which the Legislator requesting the audit, or his authorized representative, shall appear to submit reasons for approving it. (6/3/75)
4. The Chairman shall authorize the Auditor General to initiate an audit only after the audit request is approved at an open meeting of the Joint Legislative Audit Committee. (6/3/75)
5. The committee shall consist of four Members of the Senate and four Members of the Assembly who shall be selected in the manner provided for in these rules, of which one shall be the chairman of the fiscal committee for the Senate and one for the chairman of the fiscal committee for the Assembly. Notwithstanding anything to the contrary in these rules, two members from each house constitute a quorum and the number of votes necessary to take action on any matter. (Joint Rule 37.3/1975-76)
6. Audit request of an urgent nature from a Joint Legislative Audit Committee Member may be approved with the concurrence of the Chairman and Vice-Chairman provided that:
 - a. All Joint Legislative Audit Committee members are notified in writing
 - b. Notification includes a statement that action will be deferred for 72 hours to allow any member to request the audit be deferred until the next meeting;and be it further resolved that the audit request, in any event, shall be placed on the next meeting agenda. (4/7/76)
7. An audit or survey request received during interim (recess) may be approved with the concurrence of the Chairman and Vice Chairman; and be it further resolved that no audit shall commence until five working days after notifying in writing the Joint Legislative Audit Committee members Capitol offices of the audit approval. (8/4/76)

8. Any member of the Joint Legislative Audit Committee may at any time request from the Chairman a report on the status of any audit in progress. (6/3/75)
9. At the conclusion of an audit, the Auditor General or his designated representative shall discuss the audit with the official whose office is subject to audit and submit necessary underlying facts supporting all findings and recommendations which may be included in the report. The official shall be permitted three working days to examine and evaluate the audit findings on a confidential basis and shall be permitted to submit to the Auditor General or his designated representative a written statement of concurrence, explanation or rebuttal concerning the audit findings, including a statement of action taken or under consideration relative to the audit findings and recommendations. The Chairman may extend the time permitted for such examination and evaluation where justified by special circumstances. If such a statement is not received within the time allowed, the Auditor General may submit the report to the Joint Legislative Audit Committee without it. (6/3/75)
10. Upon receiving the statement from the official whose office is subject to audit, the Auditor General shall prepare a final report. The Auditor General may comment in the final report on the statement from the official whose office is subject to audit. The Auditor General shall transmit a copy of the final report, together with the statement from the official whose office is subject to audit, to each member of the Joint Legislative Audit Committee. (6/3/75)
11. The Chairman of the Joint Legislative Audit Committee, upon receiving a request by any Member of the Legislature or committee thereof for a copy of a report prepared or being prepared by the Auditor General, shall provide the member or committee with a copy of such report when it is, or has been, submitted by the Auditor General to the Joint Legislative Audit Committee. (Joint Rule 37.3/1975-76)
12. The Chairman shall publicly release the final audit report no sooner than 48 hours after the final audit report has been transmitted to the members of the Joint Legislative Audit Committee. (6/3/75)
13. Any member of the Joint Legislative Audit Committee may request a public hearing to review the report of the Auditor General. Upon receiving such a request, the Chairman shall schedule a public hearing at a reasonable time and location and inform the members of the Joint Legislative Audit Committee. For the purpose of conducting the public hearing, the Chairman shall either convene the Joint Legislative Audit Committee or appoint a subcommittee. The Chairman, or any member of the Joint Legislative Audit Committee designated by the Chairman, shall preside. The official whose office is subject to audit together with the Auditor General, or their designated representatives, and any other person summoned by the Chairman of the Committee or subcommittee conducting the public hearing, shall appear at the hearing to supply testimony, oral and documentary, and to produce any books, accounts, reports, documents, records or papers of any kind deemed relevant by the Chairman. (6/3/75)

AUDITOR GENERAL FINANCIAL STATEMENTS

The accounting and auditing profession is relied upon by many as an independent source of information. Because of this reliance, practitioners have recognized the need to assure that their own quality controls and standards measure up to generally accepted auditing standards promulgated by the profession and expected by the public.

In June of 1976, the Joint Legislative Audit Committee opened the books of the Office of the Auditor General to public accountability. A Sacramento firm of independent certified public accountants was retained to audit the financial statements; the results were published in the Office's 1976 Annual Report. A similar audit was conducted in 1977 and in 1978. This year the Office's financial statements were examined by John F. Forbes and Company, Certified Public Accountants. Their report is reprinted on the following pages.

JOHN F. FORBES & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

MEMBER OF THE
AMERICAN GROUP OF C.P.A. FIRMS
WITH AFFILIATIONS
THROUGHOUT THE WORLD

555 CAPITOL MALL, SUITE 850
SACRAMENTO, CA 95814

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

Joint Legislative Audit Committee
Office of the Auditor General:

We have examined the balance sheet of the Office of the Auditor General at June 30, 1978 and the related statement of expenditures and comparison with budget, the statement of changes in fund balance and the statement of fixed assets for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Office of the Auditor General at June 30, 1978 and the results of its operations and changes in fund balance for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

John F. Forbes & Company

Sacramento, California
August 28, 1978

JOINT LEGISLATIVE AUDIT COMMITTEE
OFFICE OF THE AUDITOR GENERAL

BALANCE SHEET, JUNE 30, 1978

A S S E T S

REVOLVING FUND:

Cash.....	\$ 15,587	
Reimbursement receivable.....	10,237	
Travel advances (\$5,028, less amounts due employees \$852).....	<u>4,176</u>	
Total revolving fund.....		\$ 30,000

AVAILABLE FUNDS HELD IN STATE TREASURY..... 658,438

ACCOUNTS RECEIVABLE (Note 2)..... 2,316

\$ 690,754

L I A B I L I T I E S, R E S E R V E
A N D F U N D B A L A N C E

LIABILITIES - ACCOUNTS PAYABLE..... \$ 7,101

RESERVE FOR REVOLVING FUND..... 30,000

FUND BALANCE - UNEXPENDED ALLOTMENT..... 653,653

\$ 690,754

See notes to financial statements.

JOINT LEGISLATIVE AUDIT COMMITTEE
OFFICE OF THE AUDITOR GENERAL

STATEMENT OF EXPENDITURES AND
 COMPARISON WITH BUDGET
 YEAR ENDED JUNE 30, 1978

	BUDGET	ACTUAL	OVER (UNDER) BUDGET
Personnel services.....	\$ 1,685,000	\$ 1,691,063	\$ 6,063
Travel.....	100,000	98,779	(1,221)
Equipment, services and supplies.....	80,000	63,718	(16,282)
Printing.....	40,000	36,324	(3,676)
Committee expense.....	10,000	7,120	(2,880)
Training.....	20,000	14,215	(5,785)
Consultants.....	<u>300,000</u>	<u>78,260</u>	<u>(221,740)</u>
	<u>\$ 2,235,000</u>	1,989,479	<u>\$ (245,521)</u>
Expenditures reimbursed by other state agencies (Note 3).....		<u>46,212</u>	
Total expenditures.....		<u>\$ 1,943,267</u>	

See notes to financial statements.

JOINT LEGISLATIVE AUDIT COMMITTEE
OFFICE OF THE AUDITOR GENERAL

STATEMENT OF CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 1978

FUND BALANCE - UNEXPENDED ALLOTMENT, JUNE 30, 1977.....	\$ 496,920
Current year augmentation, Senate Concurrent Resolution No. 47.....	2,100,000
Expenditures.....	<u>1,943,267</u>
FUND BALANCE - UNEXPENDED ALLOTMENT, JUNE 30, 1978.....	<u>\$ 653,653</u>

See notes to financial statements.

JOINT LEGISLATIVE AUDIT COMMITTEE
OFFICE OF THE AUDITOR GENERAL

STATEMENT OF FIXED ASSETS
JUNE 30, 1978

FIXED ASSETS:

Furniture and fixtures.....	\$ 86,617
Leasehold improvements.....	<u>63,607</u>
	<u>\$ 150,224</u>

RESERVE FOR FIXED ASSETS:

Investment in fixed assets.....	<u>\$ 150,224</u>
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See notes to financial statements.

JOINT LEGISLATIVE AUDIT COMMITTEE
OFFICE OF THE AUDITOR GENERAL

NOTES TO FINANCIAL STATEMENTS

NOTE:

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Method

The accounts are maintained on a modified accrual basis of accounting which records expenditures at the time liabilities are incurred and reimbursements by other state agencies as reductions of expenditures when billed (Note 3).

Fixed Assets.

Furniture, fixtures, equipment and leasehold improvements are stated at cost. Purchases of fixed assets are charged against current operations when acquired. No depreciation or amortization is reflected on these financial statements.

Vacation Pay

Accrued liability for vacation pay is not recorded on the statements. Related expenditures are recorded when paid. The estimated liability for unused vacation at June 30, 1978 is not significantly different from the previous year.

2. ACCOUNTS RECEIVABLE

Accounts receivable represent amounts due from the sale of library books and other miscellaneous claims, all amounts are considered collectible by management.

3. REIMBURSEMENTS BY OTHER STATE AGENCIES

Fees for services rendered as an agent of the State are not normally received by the Office of the Auditor General. The State charges the various agencies for audits performed and the fees are taken into the State's General Fund. The Office was, however, reimbursed directly by two State agencies for a portion of the cost of certain audits under special contract. Due to the fact that the Office does not normally receive fees, the reimbursements are treated as an offset to expenditures when billed.

4. RETIREMENT PLAN

The Office has a retirement plan which covers substantially all of its employees. Retirement costs accrued are being funded by payments to the Public Employees Retirement System of the State of California. The total retirement plan contribution for the year ended June 30, 1978 was approximately \$167,200. The actuarially determined amounts of unfunded prior service liability as of June 30, 1978 is not determinable as the Office's liability is combined with all other agencies in the statewide retirement system.

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
Secretary of State
State Controller
State Treasurer
Legislative Analyst
Director of Finance
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Democratic/Republican Caucus
California State Department Heads
Capitol Press Corps