

OFFICE OF THE AUDITOR GENERAL

1981 Annual Report

A Report to the California Legislature



Telephone:  
(916) 445-0255

Thomas W. Hayes  
Auditor General

STATE OF CALIFORNIA  
**Office of the Auditor General**  
660 J STREET, SUITE 300  
SACRAMENTO, CALIFORNIA 95814

February 22, 1982


Chairman and Members,  
Joint Legislative Audit Committee  
925 L Street, Suite 750  
Sacramento, California 95814

Dear Mr. Chairman and Members:

I respectfully submit my Annual Report for 1981. This report presents an overview of the work completed by the Office of the Auditor General during 1981 and illustrates the broad scope of audits undertaken during the year at the request of numerous legislators.

Included are summaries of reports issued by the Financial Audit Division and the Performance Audit Division, and a summary of the activities of the Investigative Audit Division.

Respectfully submitted,

  
THOMAS W. HAYES  
Auditor General

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## SUMMARY OF 1981 ACTIVITIES

The Office of the Auditor General is the only independent auditing organization in the State with the authority to review all programs of state executive agencies and departments. The three divisions of the Office of the Auditor General--the Financial Audit Division, the Investigative Audit Division, and the Performance Audit Division--were particularly active in 1981.

Perhaps the most significant undertaking was the audit of the State's General Fund by the Financial Audit Division. This audit, which was requested by the Joint Legislative Audit Committee, was one of the largest governmental audits ever conducted. It involved a review of 96 separate state agencies and departments and is a critical step leading to an audit of all state funds in 1982. On the basis of the audit, the Auditor General issued an opinion on the financial statements of the General Fund of the State and issued 31 management letters relating to an assortment of weaknesses found in 71 different agencies or their affiliates.

In its second year of operation, the Investigative Audit Division received 265 allegations of misconduct, fraud, or waste in state government. Most of these allegations were received over the toll-free telephone hotline that the division operates 24 hours a day. One hundred five allegations merited either a field investigation by the staff or an investigation by an agency.

The Performance Audit Division issued 25 audit reports in 1981. Most of these audits were specifically requested by legislative committees. The remainder of the audits were conducted as a result of issues identified in previous audits conducted by the Auditor General. The State's Medi-Cal program was the subject of four separate performance audits, as was the Department of Education. The division also audited such activities as the procurement of sterile medflies from Peru, the State's aerial firefighting program, and the California Department of Aging's administration of programs for the elderly.

The Office of the Auditor General has proved itself to be economical. In 1981, for example, its budget was approximately \$7 million, while the recommendations it made in the reports of the same year would, if implemented, save the State between \$28 and \$41 million. Further, its ability to

render an independent opinion on the fairness of the presentation of the financial statements of the State's General Fund for the fiscal year ending June 30, 1981, allows California's bonds to maintain a favorable rating. Throughout its audit activities, the Office continues to stress its independence as well as its availability to legislators in their efforts to ensure the effectiveness and efficiency of state government.

## THE OFFICE OF THE AUDITOR GENERAL

The Office of the Auditor General is the nonpartisan auditing and investigative arm of the California Legislature. Established in 1956, the Office is responsible for objectively reporting to the Legislature and the general public the results of audits of executive agencies and departments. This section focuses on the authorization and standards of the Office, the legislative committee that directs it, and the organization of the Office.

### AUTHORIZATION AND STANDARDS

The Office of the Auditor General is authorized to perform oversight activities by Sections 10527 through 10528 of the Government Code. Section 10527 authorizes the Auditor General to "examine any and all books,...records, bank accounts, and...other property, of any agency of the State...." This section also states that any officer refusing to allow the Auditor General access to documents is guilty of a misdemeanor. Section 10528 instructs the Auditor General to "examine and report annually upon the financial statements prepared by the executive branch" and to "make such special audits and investigations, including performance, of any state agency...as requested by the Legislature...."

To ensure that it fulfills these legislative requirements, the Office of the Auditor General has adopted the standards for auditing developed and issued by the United States General Accounting Office. 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 Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, issued by the Comptroller General of the United States. The Office also has adopted the standards of the American Institute of Certified Public Accountants.

During September of 1981, an eight-member review team under the auspices of the National State Auditors' Association (NSAA) reviewed the Office of the Auditor General's system of quality control for audit work performed by the Financial Audit Division and the Performance Audit Division. All members of the team, who were selected by the NSAA Peer Review Committee, were auditors with supervisory experience.

The scope of the review included an assessment of the quality controls and procedures affecting the Office of the Auditor General and an assessment of the quality of financial and compliance audits, economy and efficiency audits, and program results audits conducted by the Financial and



Performance Divisions. (The Investigative Audit Division was not included in the review.) The review covered the period from July 1, 1979, to June 30, 1981.

On the basis of their review, the team issued an unqualified opinion:

In our opinion, the system of quality control for the auditing work of the Financial Audit Division and Performance Audit Division of the State of California, Office of the Auditor General in effect during the two years ended June 30, 1981, was appropriately comprehensive and suitably designed for the organization, adequately documented, communicated to professional personnel, and was being complied with during the period to provide reasonable assurance of conforming with the standards of the profession as promulgated by the National Intergovernmental Audit Forum and the National State Auditors Association.

#### ORGANIZATION

Before conducting an audit or investigation, the Auditor General must first receive approval from the Joint Legislative Audit Committee. The committee consists of seven members of the Senate and seven members of the Assembly. Under the Joint Rules of the California Legislature, 2 of the 14 members of the committee must be the fiscal committee chairs of

the Senate and Assembly. Senate members are appointed by the Senate Committee on Rules, and Assembly members are appointed by the Speaker of the Assembly.

The committee receives requests for audits from other legislative committees. Since the committee receives many more requests for audits than the Office of the Auditor General can complete, it must review these requests and establish work priorities. Once the order is determined, the committee directs the Auditor General to begin the audits.

In response to approved audit requests, the Auditor General directs the Financial, Investigative, and Performance Audit Divisions in conducting audits of any state or local agency receiving state funds or any federally funded agency for which the State is responsible. The Auditor General must conduct these audits independently and report on the issues in accordance with nationally recognized auditing standards. This independence applies to hiring and assigning staff, determining the scope and methodology of audits, and reporting findings and conclusions.

After a report has been completed, the Auditor General has several ways of following up on reports. The Auditor General may meet with the legislator who requested

the report to discuss its implications. Also, the Auditor General may hold periodic meetings with agency secretaries and department directors.

Further, executive departments and agencies are required to respond to the Joint Legislative Audit Committee concerning corrective action taken on reports issued by the Auditor General. These responses are to be made within 60 days, six months, and one year after the report has been issued. The Auditor General holds audit completion meetings to review the 60-day response to report recommendations. These meetings review the audit's history, its timeliness, the corrective action taken, the audit benefits and dollar savings, and the use of the report by the Legislature. The Chief Deputy Auditor General, the Assistant Auditor General, the Audit Manager, and the Audit Supervisor attend these meetings.

Meetings between the Auditor General's staff and appropriate legislative staff may also help to clarify audit results. However, to ensure the independence and acceptance of audit reports, audit staff are directed to refrain from giving unsupported opinions or from discussing unreleased formal reports.

And finally, the Joint Legislative Audit Committee may conduct hearings to oversee the action taken in response to reports.

## STAFF

The Office of the Auditor General currently employs about 150 persons who were selected after a rigorous screening process. The professional audit staff includes men and women with a variety of backgrounds. All professional staff members are college graduates; 40 hold graduate degrees, 33 are certified public accountants, 4 hold doctorates, and 2 are attorneys.

The staff has expertise not only in the fields of accounting, business administration, and economics but also in areas such as public administration, political science, communications, and engineering. In addition, professional staff members have had experience in the public, private, and military sectors.

The names of professional and administrative staff members of the Office of the Auditor General appear on the inside front cover of this report. An organization chart for the Office can be found on the inside back cover.

## Job Descriptions

Following are brief descriptions of selected professional positions in the Office of the Auditor General.

The Assistant Auditor General plans, staffs, coordinates, and monitors audits assigned by the Chief Deputy Auditor General. The Assistant Auditor General also directs divisional peer review meetings, participates in the recruitment and selection of staff, approves the final draft of audit reports, and serves as a liaison with legislators and their staffs.

The Audit Manager manages the personnel assigned to various financial, investigative, or performance audits. The Audit Manager's duties also include legislative testimony, participation in peer review meetings, instruction in staff training programs, and participation in the recruitment and selection of staff.

The Staff and Senior Auditors supervise staff in the field, review audit workpapers, provide on-the-job training, perform report referencing, and serve as liaison with legislative staff on audit requests.

The Associate Auditor is responsible for conducting preliminary surveys, preparing audit programs, assigning work to staff, developing audit findings, and presenting reports in both peer reviews and legislative briefings.

The Assistant Auditor conducts fiscal management, investigative, and program performance audits of governmental entities and operations and may have responsibility for an entire segment of an audit.

#### Career Development

The Office of the Auditor General recognizes the need for continuing education for auditors. Consequently, we have developed a comprehensive career development program for the staff. This program has three objectives: (1) to maintain and refine auditors' skills, (2) to introduce auditors to current auditing and analytical techniques, and (3) to prepare individuals for greater responsibilities. It consists of both general on-the-job training and training programs for specific skills.

## On-The-Job Training Practices

Managers and supervisors are responsible for on-the-job training of staff. This training includes a thorough introduction to the job, detailed instructions on the work assignment, development of professional skills, and review of work completed.

We notify new assistant auditors of their assignments as far in advance as possible so that they may have the opportunity to review working papers and reports from previous audits. Further, we encourage managers and supervisors to explain the nature of the role of the agency being audited and its relationship to other areas of state government. We arrange for a tour of the agency facilities and explain generally the agency's financial statements and accounts, the accounting records, methods and procedures, and the unique points of internal accounting problems anticipated. On larger assignments, preliminary meetings of the entire staff assigned to a job are held to minimize the orientation time required.

To ensure the professional development of assistants, we encourage them to view the assigned work critically and to consider ways of improving programs, audit techniques, working papers, and planning. Also, by assigning assistants to different audit phases and to different supervisors, we

cultivate diversity and prepare assistants for added responsibility. Finally, we expect staff members at all levels to review thoroughly, critically, and promptly the work of the persons they are directing.

Training Programs  
For Specific Skills

By offering training programs, the Office attempts to augment the skills of both professional and administrative staff members. For professional staff members, the first-year training programs focus on auditing techniques and basic concepts. In the second, third, and fourth years, the professional training emphasizes supervisory and audit coordinating skills. Later, additional courses are added to instruct professional staff in planning, organizing, scheduling, and controlling audits.

Professional certifications (such as a CPA Certificate, membership in the State Bar, and the Certificate in Data Processing) benefit both the individual who is certified and the organization itself. The Office, therefore, encourages employees to obtain professional certification and will subsidize the tuition for a review program designed to assist employees in passing comprehensive examinations required for professional certification.



The California State Board of Accountancy considers experience with the Office of the Auditor General equivalent to experience with public accounting firms. Consequently, we assign staff members at the associate level and below who have the prerequisite qualifications and who aspire to become licensed as Certified Public Accountants to the Financial Audit Division in order to fulfill the experience requirement.

Courses for administrative staff are designed to strengthen and augment skills. For instance, writing and proofreading courses provide a review for staff members and also enable them to accept greater responsibilities for processing correspondence and reports. The Office also provides in-house training to instruct employees in using duplicating and word-processing machines. Furthermore, we encourage the cross-training of administrative staff so that employees may assist and back up one another and thus increase their versatility and the productivity of the organization.

#### DIVISIONS

The functions and objectives of the Financial, Investigative, and Performance Audit Divisions are presented on the following pages.

## Financial Audit Division

The Financial Audit Division conducts audits of the State's financial records. These audits assess whether the State's internal accounting controls are adequate and whether the State's financial statements are fairly presented in accordance with generally accepted accounting principles.

After the Joint Legislative Audit Committee approves an audit, an Assistant Auditor General assigns the work to financial audit teams directed by managers. The audit team first performs a survey to document accounting systems and controls. After a peer review committee, which usually consists of the Chief Deputy Auditor General, an Assistant Auditor General, and two Audit Managers, reviews the audit plan, the audit team begins a detailed audit employing various statistical and analytical techniques.

The Financial Audit Division's primary responsibility in 1981 was an audit of the State's General Fund. This audit was mandated by the Joint Legislative Audit Committee and was required to meet the demands of the bond rating company. Before 1980, all funds of the State were to be audited every three years. Starting with the 1981-82 fiscal year, however, the Office of the Auditor General will audit all funds of the State, thus broadening considerably the scope of the Financial Audit Division's responsibility.

The primary objective of this financial audit was to express an opinion on the financial statements of the State's General Fund. However, the required evaluation of existing internal controls provided the basis for presenting management letters with findings and recommendations to agency management. The Comptroller General of the United States and the Auditor General of California agree that implementation and enforcement of sound internal controls are critical in reducing fraud, waste, and abuse in the 1980s. The 1981 management letters pointed out weaknesses in internal controls related to the General Fund. For example, in one agency, untimely requests for federal reimbursements resulted in over \$2,363,000 in interest lost to the General Fund. In another instance, untimely assessment and transfer practices, together with unassessed fees, resulted in lost interest of approximately \$208,000. Inadequate controls in these two organizations alone have thus resulted in the State's losing \$2.5 million in revenues during fiscal year 1980-81.

#### Investigative Audit Division

The Reporting of Improper Government Activities Act, effective January 1, 1980, provided procedures for officers and employees of the State to disclose improper governmental activities without fear of retaliation. To implement this act, the Auditor General created the Investigative Audit Division in

1980. This division responds to a large number of allegations of improper governmental activities, most of which are received over a toll-free telephone hotline that the division operates 24 hours a day.

The Investigative Audit Division investigates allegations of improper governmental activity within 30 days of their receipt. This processing time is exceeded only when the division awaits additional information from a complainant. To assist in managing the workload, the division has developed an automated data processing system. This system provides reports of allegations in 11 different categories. Through this computer system, the division can monitor the progress of investigations by month, quarter, and year, and it can locate any allegation in the files with minimal delay.

The Investigative Audit Division staff conducts field investigations to determine the extent of the alleged improper activities. These field investigations are conducted when internal audits by the agency or department involved may not be objective or adequate. The staff reports the results of the field investigations to the agency and to the Joint Legislative Audit Committee. These reports include recommendations for action.

On many occasions, investigations can be carried out by the agency or department in which the impropriety occurred. After conducting its investigation, the agency reports its findings and its corrective measures to the Auditor General. The Investigative Audit Division determines if the agency investigation was sufficient and then reports its evaluation and recommendations to the Joint Legislative Audit Committee.

In 1981, the Investigative Audit Division received 347 complaints. Of this total, 82 complaints either were referred to a more appropriate agency or did not warrant investigation. The remaining 265 resulted in preliminary investigations. Preliminary investigations are conducted to determine whether the reported impropriety falls within the jurisdiction of the Office of the Auditor General, whether there is sufficient evidence of wrongdoing to warrant further investigation, or whether any corrective action has already been taken. If any criminal activity is indicated, the matter is referred to the Attorney General. If the allegation seems credible, it either receives a field investigation or is referred to an agency for investigation.

## Performance Audit Division

The Performance Audit Division reviews programs funded by the State to determine if they are efficient, effective, and economical. These audits enable the Legislature to determine whether programs are accomplishing the objectives intended by law.

After the Joint Legislative Audit Committee approves an audit, an Assistant Auditor General assigns the work to a performance audit team whose work is directed by a manager. The audit team first performs a preliminary survey to identify specific issues warranting review. A peer review committee then reviews the audit issues and the potential for developing them into findings. After this review, the audit team begins a detailed audit employing various management and analytical techniques.

In 1981, the Performance Audit Division completed 25 audits involving 17 state agencies, departments, and programs. Most of these audits were specifically requested by the Legislature, and most agencies and departments have accepted the Auditor General's recommendations. Those audits not requested by the Legislature were conducted as a result of issues identified during previous audits conducted by the Auditor General.

State contracting procedures and management constituted one area of emphasis in the 1981 performance auditing. The Performance Audit Division reviewed contract management activities in the State Department of Education, the State Energy Resources Conservation and Development Commission, and the Department of Social Services. The division also reviewed the contract monitoring activities of the State's control agencies--the Department of Finance, the Department of General Services, and the State Personnel Board.

Many of the 1981 audits resulted in recommendations that, if implemented, would result in significant monetary savings. For example, on the basis of four of our reports, agencies have taken or are planning to take corrective action that could result in savings or increased federal revenue totaling from \$25 million to \$38 million.

Even those performance audit reports that do not show readily measurable dollar savings make recommendations that improve controls, increase effectiveness, and facilitate more efficient use of state resources.

## SUMMARIES OF REPORTS AND ACTIVITIES

### 1981 FINANCIAL AUDIT REPORTS

This section presents a review of the financial audits completed in 1981. The major effort of the Financial Audit Division during this year was an audit of the State's General Fund. In accordance with generally accepted auditing standards, the Office of the Auditor General issued a qualified opinion on the financial statements of the State's General Fund. In addition, the division issued reports on the Department of Aging, the statement of federal land payments, the Legislative Bill Room, and the Student Aid Commission.

On the following pages, we summarize our report on the General Fund and include a table showing the distribution of weaknesses in internal controls that we found during our audit. Following the discussion of the General Fund audit are summaries of the financial audit reports issued during 1981. For further reference, we have provided the page numbers of the Governor's 1981-82 Budget pertinent to each report and the date the report was issued.



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AUDIT OF THE GENERAL FUND OF THE STATE OF CALIFORNIA

Summary of Findings

We examined the financial statements of the General Fund of the State of California for the year ended June 30, 1981. As part of this examination, we studied and evaluated the State's system of internal accounting control as required by generally accepted auditing standards. In all, we issued 31 management letters that relate to 71 different agencies or their affiliates.

During the course of our examination, we reviewed and evaluated internal accounting and administrative controls at 96 state agencies. This review disclosed an assortment of weaknesses, including the following.

Because of a lack of adequate controls, some agencies have exposed cash to loss and misuse. Overall, we noted cash control weaknesses in 42 of the 96 agencies reviewed. Specifically, we noted that several agencies did not promptly deposit all collections, reconcile cash collections to supporting detailed records, or reconcile bank accounts. In addition, some agencies did not adequately separate the duties of handling cash from those of accounting for cash.

For example, we found that, on two occasions, one agency held receipts totaling \$1.5 million for more than two weeks before depositing them. Also, at one department, the June 30, 1981, uncleared collection account balance totaled approximately \$13 million; however, only about \$5 million of this amount could be supported by detailed records.

Further, several agencies did not promptly reconcile bank accounts. In one instance, an agency has been unable to reconcile its general checking account since July 1976. In another instance, the general checking account has not been in agreement with department records since October 1977. Additionally, another agency has not reconciled its bank account for at least six months.

And at some agencies, we found that employees have access both to blank warrant stock and to the check-signing machine. At one agency, this control deficiency permitted an accounting technician to prepare and issue unauthorized disbursements to himself.

Our review also disclosed that several state departments have inadequate procedures for recording and collecting amounts owed to the State. As a result, these receivables are either not being collected at all or are being collected long after they are due. Consequently, the State loses the use of millions of dollars due it and the interest income that would accrue if the money were collected and deposited. Twenty-seven of the 96 agencies audited had weaknesses in their systems for recording and collecting receivables.

We estimate, for instance, that one department could have increased the State's interest earnings by \$1,404,000 if it had requested reimbursements more promptly. These interest earnings were lost because the department did not promptly request federal reimbursements; because it did not promptly execute an interagency contract, which precluded the department from receiving federal funds; and because it did not require prompt reimbursement from counties for their share of program costs.

At another department, we estimate that the State's General Fund would have earned an additional \$281,000 in interest if reimbursements for the federal share of program costs had been requested more promptly.

At several agencies, advances made to employees for salary and travel were outstanding for prolonged periods, some in excess of one year.

We further found that many agencies had inadequate procedures for collecting delinquent amounts. One agency estimates that over \$800,000 in its receivables are uncollectible. This situation resulted in part from inadequate collection programs.

In our review, we also found that expenditures were not adequately monitored in 58 of the agencies audited. Specifically, we found a lack of separation of accounting and custodial duties, errors and omissions related to the processing and recording of attendance, and inadequate maintenance of signature files used to verify the authenticity of authorizations for expenditures.

For example, we found that in almost one-half of the agencies audited, employees who certify employees' attendance and who process other payroll documents also receive and distribute salary warrants.

Further, several agencies did not accurately post vacation and sick leave to employees' records. And in many instances, files on authorized signatures maintained by the agencies and by the State Controller did not agree.

Although the scope of our audit did not specifically include an examination of the State's fixed assets, we did review internal controls over property and equipment at 19 agencies. At each of these agencies, we noted some degree of inadequacy in the controls over property and equipment.

We found that some agencies do not make a physical inspection and count of all major equipment and expendable property at least once every three years as required by the State Administrative Manual. Also, some agencies do not promptly reconcile and adjust their property records to physical inventories taken. And finally, some agencies do not exercise adequate internal control procedures when taking physical inventories.

Our study and evaluation was designed solely to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the financial statements of the General Fund. We did not perform tests necessary for expressing an opinion on the State's system of internal accounting control. Also, we did not audit or evaluate internal accounting controls related to other funds accounted for by the State.

The following table provides a distribution of the weaknesses we found in internal accounting and administrative controls at the agencies to which we issued management letters.

DISTRIBUTION OF WEAKNESSES IN INTERNAL ACCOUNTING AND ADMINISTRATIVE CONTROLS  
 REPORTED TO THE RESPONSIBLE AGENCIES  
MANAGEMENT LETTERS ISSUED FOR THE YEAR ENDED JUNE 30, 1981<sup>a</sup>

<u>Agency</u>	<u>Procedures for Handling Cash Are Not Always Observed</u>	<u>Procedures for Recording and Collecting Receivables Are Inadequate</u>	<u>Expenditures Are Not Adequately Monitored</u>
Aging, Department of			XX
Air Resources Board, State	XX	XX	XX
California Community Colleges, Board of Governors	XX		XX
California Conservation Corps		XX	XX
California Exposition and State Fair	XX		
California Maritime Academy			XX
California Museum of Science and Industry	XX		
California State Universities and Colleges			
Bakersfield	XX		XX
Chancellor's Office	XX		XX
Chico			XX
Dominguez Hills		XX	XX
Fresno	XX	XX	XX
Fullerton	XX	XX	XX
Hayward			XX
Humboldt			XX
Long Beach	XX	XX	XX
Los Angeles	XX	XX	
Northridge	XX	XX	XX
Pomona	XX	XX	XX
Sacramento	XX	XX	XX
San Bernardino			XX
San Diego	XX	XX	XX
San Francisco	XX	XX	XX
San Jose	XX	XX	XX
San Luis Obispo	XX	XX	XX
Sonoma	XX		XX
California Youth Authority			
Departmental Administration			XX
El Paso De Robles School			XX
Northern California Youth Center			XX
Northern Reception Center - Clinic			XX
Preston School of Industry			XX
Southern Reception Center - Clinic			XX
Ventura School			XX
Youth Training School			XX

<sup>a</sup> This distribution excludes weaknesses relating to accounting for property and equipment because these were not specifically included in the scope of our audit. Also, weaknesses have been noted only once, even though they may have occurred several times within an agency.

<u>Agency</u>	<u>Procedures for Handling Cash Are Not Always Observed</u>	<u>Procedures for Recording and Collecting Receivables Are Inadequate</u>	<u>Expenditures Are Not Adequately Monitored</u>
Corrections, Department of			
California Correctional Center at Susanville	XX		XX
California Correctional Institution	XX		XX
California Institution for Men	XX		
California Institution for Women	XX		XX
California Medical Facility	XX		XX
California Men's Colony			XX
California State Prison at Folsom	XX		XX
California State Prison at San Quentin			XX
Correctional Training Facility	XX	XX	XX
Departmental Administration	XX		XX
Duel Vocational Institution			XX
Parole and Community Services	XX		XX
Sierra Conservation Center			XX
Developmental Services, Department of		XX	
Diagnostic School for Neurologically Handicapped Children	XX		XX
Education, State Department of			XX
Employment Development Department	XX	XX	XX
Equalization, Board of	XX	XX	
Fair Employment and Housing, Department of	XX		XX
Forestry, Department of		XX	XX
Health Services, Department of	XX	XX	
Insurance, Department of	XX		
Justice, Department of			XX
Mental Health, Department of	XX	XX	XX
Parks and Recreation, Department of	XX		XX
Rehabilitation, Department of	XX		
Social Services, Department of	XX	XX	
Solid Waste Management Board			XX
State Hospitals			
Agnews	XX	XX	XX
Camarillo			XX
Fairview		XX	
Lanterman		XX	
Patton	XX		XX
Porterville			XX
Sonoma	XX	XX	XX
Veterans Home of California	XX		
Water Resources, Department of	XX	XX	XX
NUMBER OF AGENCIES WHERE WEAKNESSES WERE NOTED	<u>42</u>	<u>27</u>	<u>58</u>

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UNUSED, AVAILABLE FUNDS

Summary of Findings

We surveyed local agencies that provide the elderly with nutritional and social services. The survey was intended to determine the amount of funds that are available but unused at the local level.

We found that, as of June 30, 1981, contract awards of Title IIIB and IIIC funds for fiscal year 1980-81 totaled \$47,961,572. We also discovered that providers' available cash balances at June 30, 1981, amounted to \$848,738 and that their unused contract amounts at June 30, 1981, totaled \$1,158,521. Some of these unused and available funds represent balances of contracts approved prior to the 1980-81 fiscal year. Furthermore, we determined that the unused and available amounts may have been understated because, in response to our survey, providers gave estimates or did not consider some contract awards. Understated amounts also could have resulted from inconsistent accounting procedures or from staffing changes at local agencies.

To determine providers' available cash and unused contract amounts as of June 30, 1981, we telephoned each of the 466 service providers. We sent the providers copies of our survey questions one week before placing the calls. We then visited 10 service providers to determine the reliability of their responses. These 10 service providers represent \$393,051 or 46 percent of providers' total cash balances; \$459,151 or 40 percent of their unused contract amounts at June 30, 1981; and \$3,883,747 or 8 percent of the total contracts awarded in fiscal year 1980-81.

The survey results disclose that \$367,368 of the \$848,738 in cash balances remaining at June 30, 1981, relate to contracts approved for years prior to fiscal year 1980-81. This amount represents 43 percent of the remaining cash balances according to the survey. Additionally, of the \$1,158,521 in unused contract amounts, \$406,221 (35 percent) relate to contracts approved before fiscal year 1980-81. The total of the unused contract amounts can be accounted for as follows: the Area Agencies on Aging have authorized \$204,481 to be carried forward to fiscal year 1981-82 contracts, have requested that \$398,086 be refunded, and have taken no action on the remaining \$555,954.

Through our field verification of the 10 local agencies, we found that cash balances, unused contract amounts, and 1980-81 fiscal year contracts were understated. The contract amounts for 1980-81 fiscal year were understated by \$457,580 (12 percent). Cash balances were understated by \$78,464 (20 percent), while unused contract amounts were understated by \$87,946 (19 percent).

We attributed these differences to three major causes. First, providers used estimates during the telephone survey because their books had not yet been closed. Second, some providers did not include figures for some contracts in their telephone response. And finally, some confusion may have resulted from inconsistent bookkeeping practices and staffing changes.

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STATE OF CALIFORNIA/STATEMENT OF FEDERAL LAND PAYMENTS,  
OCTOBER 1, 1979, THROUGH SEPTEMBER 30, 1980

Summary of Findings

We reviewed the State of California's Statement of Federal Land Payments. During the period from October 1, 1979, through September 30, 1980, the State of California received \$68.5 million under Public Law 94-565 as amended (31 United States Code Sections 1601 through 1607). \$25.4 million was transferred to qualified units of local government. Of the remaining \$43.1 million, \$27.6 million was transferred to school districts or county school service funds, and \$15.5 million was retained by the State. State statutes contain provisions for apportioning and disbursing these monies; the State Controller administers these provisions.

In our opinion, the State of California's Statement of Federal Land Payments presents fairly the payments made by the State of California and received by qualified local governmental subdivisions under 31 United States Code 1601 et seq., in accordance with the regulatory requirements on the basis of reporting federal land payments prescribed by the U.S. Department of the Interior Rules and Regulations (42 Federal Register 1881.0-5). The payments were also made and received in accordance with the October 16, 1978, Comptroller General of the United States Decision (B-167553).



BILL ROOM SERVICES

Summary of Findings

We reviewed the costs of bill room services charged to the Legislature by the Office of State Printing (OSP) during the last biennial session.

We found that the OSP overcharged the Legislature \$60,246 for bill room services. Specifically, \$48,718 of that amount resulted from duplicate overhead charges. The office has not reviewed the overhead rate it applies to bill room services (10 percent) since establishing the rate more than ten years ago. Additionally, \$11,528 of the overcharge resulted from clerical errors. (Invoices charged to the Legislature during the last biennial session for bill room services amounted to \$1,126,995.)

Further, we noted that the OSP charges its production centers for overhead costs associated with administering the Legislative Bill Room, even though the OSP also charges the Legislature for this overhead. As a result, the OSP allocates and recovers overhead costs in excess of the amount it incurs.

We also found that clerical errors in the OSP's billing resulted in a net overcharge to the Legislature. Specifically, the overcharge resulted when the OSP billed the Legislature for bill room salaries and wages for April 1980 using the amount of the March payroll rather than that of the April payroll. Since the March payroll exceeded April's payroll by \$18,870, the Legislature was overcharged by that amount. The undercharges were caused by a lack of supervisory review as well as failure to reconcile invoices to cost reports. The OSP did not charge the Legislature for overhead amounting to \$2,619 for December 1979 and January 1980. In addition, the Legislature was undercharged by \$4,723 when the OSP deducted bill room operating expenses for August 1980 from September's operating expenses. These conditions caused a net overcharge totaling \$11,528.

Recommendations

We recommend that the OSP amend the overhead rate it charges for bill room services to eliminate duplicate charges to the Legislature. We also recommend that the OSP reduce the overhead it allocates to the production centers by the amount it charges the Legislature for overhead costs of the Legislative Bill Room. Further, we recommend that the OSP

establish procedures for reviewing invoices for bill room services and for reconciling invoices to the monthly budget report before submitting invoices to the Legislature for payment. Finally, the OSP should credit \$60,246 to the Legislature; this amount could be offset against further bill room costs.

AUDIT OF GUARANTEED STUDENT LOAN PROGRAMS

Summary of Findings

The Guaranteed Student Loan Program was created by Chapter 1201, Statutes of 1977, which authorized the Student Aid Commission to serve as a guarantee agency for student loans. This program carries out the provisions of the Federal Guaranteed Student Loan Program instituted within the federal education amendments of 1976. The commission is responsible for guaranteeing reinsured loans to eligible students.

We examined the balance sheet of the Student Aid Commission's Guaranteed Student Loan Program as of June 30, 1980, and the related statement of revenues, expenditures, and changes in fund balance for the year then ended. Except as disclosed in the following paragraph, 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.

A substantial portion of the revenues of the Guaranteed Student Loan Program consists of insurance premiums collected on behalf of the commission by United Student Aid Funds, Incorporated, a nonprofit corporation. Also, this corporation deducts the contract fees due from the commission before remitting the commission's net proceeds. We could not practicably satisfy ourselves with respect to such revenues and expenditures beyond amounts reported by and received from United Student Aid Funds, Incorporated.

In our opinion, except for the effects, if any, of the matter discussed in the preceding paragraph, the financial statements present fairly the financial position of the Student Aid Commission's Guaranteed Student Loan Program at June 30, 1980, and the results of 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.

## 1981 INVESTIGATIVE AUDIT DIVISION ACTIVITIES

The reports that the Investigative Audit Division issues on its inquiries into allegations are confidential. These reports are released to the public only if the Joint Legislative Audit Committee deems that releasing them will serve the interests of the State. We have included information on the ways in which allegations were received, the number and types of allegations received, and the methods of case disposition. Because the case reports of the Investigative Audit Division are confidential, we cannot provide summaries of them. However, we have presented examples of certain cases that have resulted in corrective action or criminal prosecution.

Although some allegations are received through letters or through complainants' visits to the division office, 67 percent of the allegations were accepted over the toll-free telephone hotline that the division operates 24 hours a day. (The toll-free number is 800-952-5665; Sacramento residents may call 445-5577.) The following table depicts the methods by which the division received allegations for investigation during 1981 as well as the corresponding number of allegations.

TABLE 1

METHODS OF RECEIPT OF ALLEGATIONS BY  
THE INVESTIGATIVE AUDIT DIVISION

January 1, 1981, to December 31, 1981

<u>Method of Receiving Allegation</u>	<u>Number of Allegations</u>
Toll-free telephone or Sacramento number	178
Mail	60
Personal visits	<u>27</u>
Total	<u>265</u>

The Investigative Audit Division receives various types of allegations dealing with improper governmental activity, ranging from mismanagement of programs to improper personnel practices to abuse of state resources. During 1981, 20 percent of the allegations received concerned mismanagement and improper administration of programs. 18 percent dealt with misuse of state vehicles and travel claims; 17 percent dealt with abuse of time and attendance. Table 2 on the following page lists the various types of allegations received by the Investigative Audit Division during 1981.

TABLE 2

TYPES OF ALLEGATIONS RECEIVED  
BY THE INVESTIGATIVE AUDIT DIVISION

January 1, 1981, to December 31, 1981

<u>Type of Allegation</u>	<u>Number of Allegations</u>
Mismanagement and improper administration of programs	54
Misuse of state vehicles and travel claims	47
Abuse of time and attendance - inaccurate reporting and unnecessary overtime	44
Abuse of state resources	39
Improper personnel practices	26
Wasteful purchases and faulty administrative decisions	21
Improper contracting procedures	15
Conflict of interest	5
Theft and abuse of state funds and property	4
Computer fraud	1
Miscellaneous	<u>9</u>
Total allegations received	<u>265</u>

Finally, Table 3 shows the methods of disposition for cases closed during the year.

TABLE 3

CASE DISPOSITION FOR CASES CLOSED  
BY THE INVESTIGATIVE AUDIT DIVISION

January 1, 1981, to December 31, 1981

Cases closed after preliminary investigation	19
Cases closed after investigation	30
Cases closed after agency investigation	<u>111</u>
Total cases closed	<u>160</u>

On the following page, we provide examples of typical allegations received and investigated by the Investigative Audit Division.

### Case No. 1

Two state departments failed to monitor adequately contracts with a private contractor. As a result, the contractor overcharged the State \$15,350 and did not maintain adequate records for an additional \$28,018 in expenditures. As a result of our investigation, both departments have implemented new monitoring procedures. The departments have also instituted action to recover the overcharges of \$15,350 and to obtain documentation to determine what portion of the \$28,018 in expenditures should be recovered.

### Case No. 2

One state department made it a practice to employ members of the department's motor pool eight unnecessary hours per week, for which they were paid at an overtime rate. This practice resulted in a cost of approximately \$5,200 each year. As a result of our investigation, the department changed its procedures and will require motor pool employees to work overtime only when necessary services cannot be met by the members of the motor pool regularly scheduled for duty.

### Case No. 3

A department office manager used a state vehicle for personal trips, falsely claimed per diem expenses, and made personal telephone calls on state toll lines. Following our investigation, the department collected over \$217 from the employee for misusing a state vehicle and has charged the employee for the cost of his personal telephone calls. In addition, because the department initiated dismissal action against him, the employee resigned from state service.



## 1981 PERFORMANCE AUDIT REPORTS

The Office of the Auditor General issued 25 performance audit reports that dealt with 17 state agencies, departments, or other entities during 1981. The subjects of these audits ranged from the California Department of Aging's administration of programs for the elderly to the administration and attendance accounting in independent study programs to the administration of state contracts for consultant services.

Following are summaries of the findings and recommendations of all the 1981 performance audit reports issued by the Auditor General. For further reference, we have provided the date of issue and the page numbers of the Governor's 1981-82 Budget pertinent to each report.

The summaries are arranged alphabetically according to the name of the state department or other entity that was the focus of the audit. In cases where a department or agency was the subject of more than one audit, the summaries are listed alphabetically by the titles of the reports.

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IMPROVEMENTS WARRANTED IN THE CALIFORNIA DEPARTMENT OF AGING'S  
ADMINISTRATION OF PROGRAMS FOR THE ELDERLY\*

Summary of Findings

The California Department of Aging administers funds allocated to the State under the federal Older Americans Act of 1965 as amended. The department is also responsible for supervising nutritional and social service programs for the elderly. During fiscal year 1980-81, the estimated budget for the department is approximately \$79.5 million.

We found that, as of February 13, 1981, the department has not used approximately \$5.7 million in social service and nutrition funds accumulated since fiscal year 1973-74. In addition, the department has returned \$539,939 in unused fiscal year 1978-79 senior employment funds to the Federal Government.

This inefficient management of federal funds has resulted from weaknesses in the department's administration and from uncertainties in federal funding. For instance, the department has not promptly closed expired contracts with local agencies or adjusted its records after these closeouts to reflect available funds. Neither has the department detailed important transactions in its accounting records or monitored the expenditures of local agencies. The department's difficulty in fully utilizing funds also results from uncertainties regarding the amount of the federal allotment as well as unclear federal guidelines for allocating funds to local agencies that have underutilized funds.

As a result of these weaknesses, California's elderly population has not fully benefited from both nutritional and social services. Approximately 1.2 million meals could have been served with the unused nutrition funds accumulated by the department since fiscal year 1973-74. Further, approximately 110 seniors could have been employed with the senior employment funds returned unused to the Federal Government in fiscal year 1978-79.

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\* On July 23, 1981, the Auditor General issued a letter report (014.4) that analyzes the Department of Aging's 60-day response to the Auditor General's report summarized here. We have not included a summary of the letter report here, but a copy of the report may be obtained from the Office of the Auditor General.

In the department's response to our audit, the department indicated that certain actions are being taken to correct these deficiencies. Specifically, the department on March 1, 1981, implemented a new accounting system that is expected to provide management sufficient detail for decision making. Further, the department has obtained temporary assistance to close all outstanding contracts.

Our review also indicated that the department has not adequately assisted local agencies or effectively controlled their operations. Specifically, the department has not processed local agencies' requests for funds in a timely manner, supplied technical assistance and written policy, developed a needs assessment policy, or ensured that area agencies are properly operated. Consequently, the department cannot ensure the Legislature and the Federal Government that its programs for the elderly are efficiently operated and controlled or that seniors are effectively served.

The department responded that measures are being taken to ensure that area agencies are being properly operated. For example, a program manual, including federal and state regulations and department policy, will be distributed to area agencies by May 1, 1981. In addition, roles and responsibilities of staff providing technical assistance to area agencies are being clarified. The department further responded that staff responsible for processing requests for funds have been asked to expedite these funds. Finally, procedures have been instituted to correct problems in the sanction process.

#### Recommendations

In view of our findings, we recommend that the California Department of Aging immediately identify and redirect the Older Americans Act funds unused since fiscal year 1973-74 to local agencies. Also, it should close contracts and establish complete accounting records to readily identify funds available for redirection. The department should then strengthen its monitoring and control of federal funds by comparing budgeted with actual expenditures each month and by instituting procedures to redirect funds from underutilized contracts.

To ensure that the department adequately assists and controls local agencies, we further recommend that it assign priority to tasks that expedite the processing of requests for funds, complete a manual for both local agency and department use, routinely update this manual, and develop and implement a needs assessment policy for the fiscal year 1982-83 planning cycle. Further, the department should evaluate the 33 Area Agencies on Aging annually and report the results on a timely basis; develop and institute an audit program designed to review all aspects of local agency operations; and review instances of local agencies' noncompliance before issuing sanctions. We also recommend that the department report to the Legislature in 60 days concerning the implementation of these recommendations.

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WIDE VARIATIONS IN SCHOOL DISTRICT COSTS FOR ADMINISTERING THE  
STATE-MANDATED IMMUNIZATION PROGRAM

Summary of Findings

We reviewed the costs incurred by school districts to maintain student immunization records for fiscal year 1980-81. Our review disclosed wide variations in the costs incurred by school districts to administer the state-mandated immunization program. The costs ranged from \$1.09 to \$3.87 per student. This range is attributable to differences in the immunization status of students admitted to school and the type of staff used by school districts to maintain the immunization program.

In the school districts we visited, the estimated average cost to ensure that students are fully immunized is \$2.78 per student. However, the current reimbursement rate is \$2.20 per student. Based on our study, some districts may consequently receive less than the costs they incurred in meeting immunization requirements. This rate may be inequitable because the State Board of Control has not adjusted the rate since fiscal year 1979-80.

In addition, we found that some school districts in our sample improperly completed reimbursement claims filed for the 1979-80 fiscal year. These reporting errors may be the result of confusion in the reimbursement guidelines caused by changes in policy, and they have resulted in school districts' reporting fewer students than they should have. For example, three school districts in our sample claimed approximately \$8,500 less than the amount to which they were entitled. As a result, some school districts may not receive all reimbursements due from the State, a problem that could cause the total cost of the state immunization program to be understated.

Recommendations

To ensure that the state immunization reimbursement rate is equitable, we recommend that the State Board of Control consider reassessing this rate annually. To facilitate consistent claims reporting, we further recommend that the board consider revising and clarifying its guidelines to require that standard claims data be submitted by all school districts.

T-BONE STEAKS SERVED TO THE INMATES AT THE CALIFORNIA  
INSTITUTION FOR MEN AT CHINO

Summary of Findings

We reviewed the circumstances surrounding the purchasing and serving of 3,600 T-bone steaks to inmates and guests at the California Institution for Men (CIM) at Chino on Mother's Day.

Our review disclosed that the CIM paid \$4.90 per pound for T-bone steaks in accordance with the statewide contract established by the Department of General Services' Office of Procurement. The CIM could not have butchered beef carcasses to produce T-bone steaks because the facility is not equipped to handle such a volume and because insufficient personnel was available at the time.

We also found that, because the shipping document identified only the weight and not the total number of steaks, the CIM accepted more meat than was ordered to ensure that it received enough steaks.

Further, the CIM prepared a surplus number of steaks to prevent food shortages caused by improperly cooked steaks, contamination, theft, and accidents. The CIM's record-keeping system did not permit an error-free account of the steaks.

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THE STATE DEPARTMENT OF DEVELOPMENTAL SERVICES' ADMINISTRATION  
OF THE PROGRAM FOR THE DEVELOPMENTALLY DISABLED NEEDS  
IMPROVEMENT

Summary of Findings

We reviewed the State Department of Developmental Services' administration of the regional program that provides a coordinated system for delivering a full range of services for the developmentally disabled. The department contracts with private nonprofit community agencies to operate regional centers.

We found that the department needs to strengthen its monitoring of the fiscal and program operations of the regional centers. For example, the department has not conducted timely fiscal audits of the regional centers because of audit backlogs, limited audit staff, and additional assignments to audit staff. Because of untimely fiscal audits, the same audit exceptions recur each year.

Our review also disclosed that the department has not promptly issued decals to the regional centers for tagging state-owned equipment; nor has the department ensured that all equipment valued at \$150 or more is properly identified on inventory lists. Consequently, the department cannot strictly account for some of its state-owned equipment. (The total value of all the department's state-owned equipment is approximately \$4.5 million.)

Additionally, the department has not adequately monitored the program operations of the regional centers. It has not conducted timely program reviews and has conducted only limited follow-up on reviews to ensure that regional centers correct identified problems. These weaknesses have partially contributed to regional centers' noncompliance with mandates for assessing clients' needs. Ultimately, this lack of compliance means that clients may not be receiving services in accordance with legislative mandates.

We also identified several areas where the department needs to improve its policies and procedures that relate to administering the regional center system. For instance, the department's policies for processing audit appeals should be strengthened. At the time of our review, a backlog of 89 audit appeals totaling approximately \$5.8 million existed. As a

result of delays in processing appeals, the department may be losing the use of state funds that appellant centers freely use until their audit appeals have been resolved.

Additionally, the department is not adequately ensuring that regional centers determine the financial liability of parents required to pay a reimbursement. Consequently, parental reimbursements are not equitably assessed. We estimated that, for fiscal year 1979-80, the department could have collected an additional \$514,000 if all regional centers had complied with the parental fee requirement.

Finally, our review identified two other areas that need attention. These pertain to the department's authority to control contractually the regional centers and the legislative mandates requiring the regional centers to submit program budget plans.

#### Recommendations

To improve the fiscal monitoring of the regional centers, we recommend that the Department of Developmental Services give priority to completing fiscal audits of the regional centers to eliminate the backlog. It should also ensure that such fiscal audits are performed annually, within the subsequent fiscal year. We also recommend that the department enforce the requirement that regional centers receive prior approval from the department before transferring funds between budget items.

Further, we recommend that the department issue state identification decals in a timely manner and that it review current inventory lists and identify all equipment for which no state decals have been issued. Once this equipment has been identified, the department should issue state decals to ensure the accountability of this equipment. And the department should monitor inventory lists each year to ensure that all state-owned equipment is properly identified and accounted for.

In view of the problems identified regarding audit appeals and exception policies, we recommend that the department consider other department personnel who could be temporarily assigned as hearing officers to assist in eliminating the audit appeal backlog. It should also implement a schedule to conduct hearings on existing audit appeals and collect reimbursements for audit exceptions only when beneficial to the State. We



also suggest that the department amend Title 17 of the California Administrative Code to require the department to respond to appellant requests for administrative or formal hearings within a given time.

In addition, the department should allow management exceptions when warranted during fiscal audits. In these instances, the department should issue management letters when findings show management deficiencies, provide technical assistance where appropriate, and include more stringent control provisions in contracts with regional centers that fail to correct deficiencies.

We also recommend that, to improve parental reimbursement policies, the department review the parental fee schedule to ensure that it is consistent with legislative criteria. The department should also clarify the centers' uniform billing system policy and operations manual to define clearly the role of the department and the regional centers in collecting parental fees.

We further recommend that procedures be established for addressing delinquent accounts when no current payments are being made. And we recommend that the department enforce regional centers' compliance with parental reimbursement requirements, identifying in writing all noncompliance issues and requiring a written response to address what corrective actions will be taken.

To ensure that there is not excessive out-of-home placement for children, the department should conduct its planned study to determine whether children are unnecessarily placed in out-of-home facilities. Once this study is completed, the department should recommend to the Legislature whether this subject needs further review.

#### Recommendations to the Legislature

The Legislature may wish to review and clarify the department's authority to control the regional centers. The following questions could be posed: Should the department require regional centers to purchase services only from vendors that it has approved? Should the department provide prior written authorization for the reimbursement of any purchase order, subcontract, or consultant contract equal to or exceeding a specific dollar amount? Also, the department should identify for the Legislature any other matters needing clarification.

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THE DEPARTMENT OF EDUCATION OVERESTIMATED THE STATE SCHOOL FUND  
SHORTFALL

Summary of Findings

In February 1981, the Superintendent of Public Instruction certified state aid for the first principal apportionment, and the State Department of Education subsequently announced an estimated shortfall in the State School Fund of \$96.4 million. However, we determined that this estimated shortfall was overstated by between \$46.3 million and \$87.3 million. Thus, the net shortfall ranged from \$9.2 million to \$50.1 million.

Principally, three factors account for the reduction in the shortfall. First, the department did not consider that school districts' student attendance generally decreases at the second principal apportionment. Second, the department made an error in computing adjustments to districts' claims for a program that funds public education for foreign students. Last, in estimating the shortfall, the department overlooked \$8.9 million in additional revenue available to the State School Fund.

We also determined that the State Department of Education has not funded adult education programs in accordance with existing legal requirements. Consequently, some school districts may not be receiving appropriate apportionments for adult education programs.

Recommendations

When estimating the condition of the State School Fund, the State Department of Education should consider the historical decline in average daily attendance. It should also correct the computational error in the nonimmigrant, noncitizen programs and adjust school district apportionments accordingly. We further recommend that the department calculate school districts' adult education revenue limits as specified in the Education Code.

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IMPROVED ADMINISTRATION AND ATTENDANCE ACCOUNTING NEEDED IN  
INDEPENDENT STUDY PROGRAMS

Summary of Findings

Independent study, authorized by statute in 1976, is an alternative to regular classroom instruction available to students in grades kindergarten through twelve. Students engaged in independent study programs complete course work geared to their educational needs and interests. Their instructional programs are set down in written agreements. Unlike students in the regular classroom, these students are not required to be directly supervised by teachers but may be supervised by paraprofessionals or volunteers with special skills. Our review indicated that nearly 14,000 students were enrolled in independent study programs at the end of the 1979-80 school year. This figure represents a 239 percent increase in enrollment since the 1977-78 school year. Additionally, at least 419 of the 1,102 school districts and county offices of education now offer these programs.

During our review of independent study programs, we found that the State Department of Education has provided limited guidance to school districts and has not developed comprehensive guidelines for administering independent study programs. In addition, the department has not instituted district reporting requirements that would allow it to monitor these programs effectively.

The department's limited monitoring and guidance has contributed to problems in the direct administration of independent study agreements. That is, school districts are not administering independent study programs as prescribed by law. For example, 39 percent of the student case files we reviewed in twelve independent study programs contained written agreements with students that were not properly completed. Frequently, these agreements did not include a clear statement of objectives, an adequate evaluation of the student's accomplishments, or the written approval of a student's parent or guardian.

Further, our review of 12 independent study programs showed that districts have claimed average daily attendance (ADA) for students who did not fulfill minimum day requirements for school attendance. In fact, school districts had overclaimed ADA in 69 percent of the case files we reviewed because they did not adhere to minimum day requirements. As a result of this noncompliance, districts are receiving reimbursements from the State School Fund for which they did not qualify.

To clarify attendance accounting requirements for students in independent study programs, we requested an opinion from the Legislative Counsel. This opinion states that the Education Code limits the methods school districts may use in computing average daily attendance in independent study programs.

The Legislative Counsel's opinion reads in part:

Junior high school and high school pupils enrolled exclusively in independent study programs may accumulate the number of hours worked per day fulfilling independent study agreements in any 10 consecutive school days, but in no day less than three hours, for the purpose of computing the average daily attendance of a school district. Other pupils enrolled in independent study programs may not accumulate the number of hours worked per day.

Finally, we gathered information on the range of opportunities available to students in the 12 independent study programs we reviewed as well as data on the impact and cost of these programs. We found that many of the students participating in these programs had a history of truancy or had previously dropped out of school. In the 1979-80 school year, these students completed 64 percent of their written agreements. In addition, more than one-fifth of the students enrolled either graduated from high school, passed the General Education Diploma or the California High School Proficiency Exam, or transferred to another educational program within their districts.

Recommendations

Based on these findings, we recommend that the State Department of Education provide more guidance to school districts to improve the administration of independent study programs. We also recommend that the department develop sufficient reporting requirements for school districts so that independent study can be monitored more effectively. In addition, we recommend that the governing boards of school districts and the county offices of education review their independent study programs to ensure compliance with existing laws and regulations. To address the problem of school districts' overclaiming ADA for students in independent study programs, we recommend that the department develop specific regulations for attendance accounting and present them to the State Board of Education for adoption. (In its written response to our report, the department states that it does not feel that it should monitor independent study programs. The department did not comment on the problem of school districts' overclaiming ADA for students in independent study.)

To clarify attendance accounting requirements for independent study programs, we recommend that the State Department of Education develop specific regulations and present them to the State Board of Education for adoption. These regulations should describe the method to be used in determining students' compliance with minimum day requirements, the supporting documentation required, and the forms required for recording student attendance.

Further, we recommend that the governing boards of school districts and the county offices of education review their independent study programs to ensure that any existing or subsequently adopted attendance accounting requirements, particularly those relating to the minimum day, are satisfied.

Since independent study programs are designed to encourage educational alternatives for students, the Legislature may wish to consider altering the statutory limitations on the methods school districts can use for computing average daily attendance to make the requirements consistent with the intent of independent study programs.

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OVERVIEW OF THE ORGANIZATION, ROLES, AND RESPONSIBILITIES OF  
THE STATE DEPARTMENT OF EDUCATION

Summary of Findings

California operates a vast public school system comprising more than 8,000 schools that serve approximately 4.2 million students in kindergarten through grade twelve (K-12). In fiscal year 1980-82, California spent approximately \$11.9 billion in state, federal, and local funding to support this public school system. This amount included over \$7.2 billion in state funds--nearly one-third of the State's total budget.

The structure for administering California's public school system is established within the Constitution and the Education Code. These describe a group of parallel, yet autonomous, governing bodies, each of which has the authority to exercise specific powers, duties, and responsibilities. Included in this group are the State Board of Education, the State Department of Education, the County Board of Education, and the governing boards of individual school districts.

Our review focused on the State Department of Education, which in fiscal year 1980-81 administered over \$8.2 billion of the \$11.9 billion spent in support of the public school system. The department is responsible for directing various educational programs and activities under the guidance of the State Board of Education and the Director of Education. It discharges these responsibilities through its three offices: the Office of the Deputy Superintendent for Administration, the Office of the Deputy Superintendent for Programs, and the Executive Office. These offices in turn comprise eight divisions and numerous subunits.

We examined the legal responsibilities of the State Department of Education and other governing bodies that operate the State's K-12 public education system. We also examined the department's internal organization, staffing, and unit budgets. The resulting overview is informational only; consequently, we have no recommendations.

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A REVIEW OF THE STATE DEPARTMENT OF EDUCATION'S SYSTEM FOR  
MANAGING CONSULTANT CONTRACTS

Summary of Findings

We reviewed the State Department of Education's system for managing contracts for consultant services. The department employs consultants to perform services such as evaluating programs, developing curricula, and training teachers. During fiscal year 1979-80, the department spent approximately \$7.3 million on consultant services.

The department has restructured its contract management function in response to recommendations from the Legislative Analyst and changes in state law. However, deficiencies still exist in the department's system for managing contracts. Specifically, the department has not updated its contracting procedures, developed a training program for contract managers, conducted internal audits of contracting practices, or adequately controlled payments to consultants.

Additionally, we were asked to determine if employees of the State Department of Education were acting as consultants to the department. We found that 71 consultants retained by the department during 1979 and 1980 also served the department as civil servants at one time. Since the use of present and former employees as consultants is generally permissible under present law, the Legislature may want to specify the circumstances in which such consultant services should be allowed.

Recommendations

To improve the management of consultant contracts and to encourage compliance with sound contracting practices, the State Department of Education's Contracts Unit should include current and comprehensive contracting procedures in the Department Administrative Manual. The unit should also implement regular training programs for the department's contract administrators in the program. Additionally, the Internal Audit Unit should regularly audit contracting practices to provide management with information about compliance with contracting requirements.

We further recommend that the Accounting Office improve controls over payments to consultants. To do so, it should establish a clear policy that authorizes certain staff members to approve invoices for payments. It should return invoices to program staff if the authorized person has not properly approved them. It should also require proper accounting for progress payments to short-term consultants. And finally, it should require consultants working for more than one program unit to submit all invoices once each month to prevent duplicate payments.



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CONTRACT MANAGEMENT ACTIVITIES OF THE STATE ENERGY RESOURCES  
CONSERVATION AND DEVELOPMENT COMMISSION

Summary of Findings

During fiscal year 1979-80, the State Energy Resources Conservation and Development Commission encumbered more than \$9.7 million for over 300 contracts for demonstration projects, research and consulting studies, expert testimony, and other services. Our review found that the commission has developed and implemented an adequate system for controlling and managing contracts. More specifically, the commission has developed this system by planning contract needs so that contract activities coincide with commission objectives.

Additionally, the commission has implemented adequate procedures for selecting contractors and properly awarding contracts. We also verified that the commission has properly supervised contracts by developing contract manuals, delivering training programs on contracting, and by detailing responsibility for contract monitoring. Further, the commission has adequately controlled partial payments to contractors. And in reviewing contract products, we found that the commission generally uses and evaluates these products. Thus, in our tests of the commission's system, we did not find violations that would indicate significant deficiencies in the management of contracts.

The commission has established its contract management system partly as a result of a study and a comprehensive audit completed in November and December of 1978 by the Auditor General.\* The report based on the audit concluded that the commission's contract management practices were inadequate and recommended that the commission develop uniform systems and procedures for contract management. In response to this report, the Executive Director of the commission indicated that the Auditor General's recommendations had been implemented.

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\* Report P-814.1, entitled "Improvements Needed in Planning and Monitoring Research and Development of Alternative Energy Sources," was issued in November 1978. Report P-814.2, entitled "Improvements Needed in Contracts Awarded by the California Energy Commission," was issued in December 1978.

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MEASURING THE EFFECTIVENESS OF TAX AUDITING

Summary of Findings

The Franchise Tax Board and the State Board of Equalization administer California's major tax programs, including the Personal Income Tax, the Bank and Corporation Income Tax, and the Sales and Use Tax programs. To administer these programs, the two boards provide tax advice, distribute tax returns, collect delinquent taxes, and audit tax returns.

The boards consider two objectives when selecting and auditing tax returns. One objective is to influence taxpayers' voluntary compliance with tax laws. The boards address this indirect benefit of auditing by examining all categories of returns. The other objective, which relates to the direct benefits of auditing, is to protect the State's revenue base. The boards attempt to meet this objective by selecting and auditing returns having a high potential for tax discrepancies.

Even though the boards select and audit returns to achieve both the indirect and the direct benefits of tax auditing, they cannot measure the indirect benefits because of difficulties in separating the effects of tax audits from the effects of other tax administration activities such as taxpayer assistance. In addition, such external factors as inflation may influence taxpayers' compliance with tax laws. Having recognized that these limitations also exist in the federal income tax program, the Internal Revenue Service is attempting to isolate the indirect effects of auditing.

The boards are able to measure the direct benefits of auditing by examining the results of audits, such as the number of returns reviewed or the amount of additional funds assessed. Additionally, the boards use direct measures to calculate their staffing requirements. Although these direct measures are easy to compute and relate directly to the audit activity, the results of applying one type of direct measure can have several interpretations. Also, using two direct measures can lead to conflicting results.

Recommendation

In view of these findings, the Legislature should consider both objectives of the Franchise Tax Board and the State Board of Equalization when evaluating their budget proposals.

APRIL 8, 1981

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IMPROVEMENTS NEEDED IN THE ADMINISTRATION OF STATE CONTRACTS  
FOR CONSULTANT SERVICES

Summary of Findings

We reviewed the State's system for managing and overseeing contracts with consultants. In administering their programs, state departments are authorized to enter into contracts with consultants who provide expertise in specialized areas such as management training or ecological studies. However, deficiencies in the State's system for overseeing contracts and management have reduced the benefits agencies receive from consultant contracts and have increased their costs.

Our review indicated that the present system for administration of consultant contracts is insufficient. To be specific, the three control agencies--the Department of Finance, the Department of General Services, and the State Personnel Board--have not coordinated a system for comprehensively reviewing and approving contracts. The system also lacks a training program in contract management. Further, the control agencies do not conduct comprehensive post-audits of departments' contracting practices.

System weaknesses have, in part, resulted from inadequate state contracting procedures. For instance, present State Administrative Manual procedures do not ensure that contracting departments (1) secure adequate competition for contract awards, (2) review and negotiate contract costs, and (3) thoroughly analyze the need for consultant services.

Furthermore, contracting departments have not fully complied with provisions in the State Administrative Manual that, if followed, could assist agencies in managing contracts effectively. Specifically, contracting departments have not adequately specified contract tasks and products, ensured that contracts were approved before allowing contractors to begin work, or withheld at least 10 percent of progress payments pending contract completion. Neither have departments actively participated in consultant projects or evaluated the performance of contractors. Consequently, contracting departments have not sufficiently managed the activities of the contractor and thus are unable to benefit fully from the services consultants offer.

### Recommendations

To improve the State's management of consultant contracts, we recommend that the Legislature consider requiring the three control agencies to formulate a plan for restructuring the present system for overseeing contracts. In addition, the Department of General Services and the Department of Finance, in cooperation with the State Personnel Board, should revise the State Administrative Manual to ensure that contract managers justify the need for consultant contracts, increase competition for contract awards, and review and negotiate contract costs.

The restructuring plan should establish specific and comprehensive contract management procedures, including minimum requirements for agency contract manuals, contracting checklists, or charts. It should also coordinate contract review and approval and develop a training program in contract management available to agency contract administrators. And it should establish a comprehensive program for auditing state agency contracting practices. Finally, the plan should include suggestions for changes in law or policy necessary to implement its recommendations.

The revisions of the State Administrative Manual should require contract managers to justify the need for each consultant contract. Specifically, the managers should determine if the contract resulted from an unsolicited proposal, if it is essential to the department's function, how the department will use the contract product, and if alternative sources of the required information exist.

Managers should also increase competition for contract awards by publishing a central register of available consultant contracts throughout state government and by listing a variety of potential sources of consultant referrals in the State Administrative Manual.

Further, managers should review cost elements for all contracts, whether competitively bid or not, by including a specific description of each consultant's qualifications and the amount of time each will spend on the contract as well as a justification of each consultant's rate of pay. This justification should include rates paid by other employers in the past. Other contract costs such as travel expenses,

equipment, overhead, and profit should also be specifically described and justified. Contract managers can use this analysis to negotiate sole-source contract costs. They should also consider matters of cost when deciding whether to select a contractor or reject all proposals for competitively awarded contracts.

Finally, we recommend that, as a policy matter, the Legislature consider the circumstances under which present and former state employees should perform consultant services for state agencies.

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PROCUREMENT OF STERILE MEDFLIES FROM PERU: RESPONSE TO  
QUESTIONS POSED BY THE LEGISLATURE

Summary of Findings

The California Department of Food and Agriculture and the United States Department of Agriculture (USDA), under a cooperative agreement, are sharing responsibilities and some costs of a program to eradicate the Mediterranean fruit fly (medfly) detected in the Santa Clara Valley in June 1980.

To answer specific questions posed by the Legislature, we reviewed the procurement and use of sterile Mediterranean fruit flies from Peru under this cooperative agreement.

The USDA alone negotiated the contract for procuring the medflies from Peru. According to an opinion rendered by the Legislative Counsel, the contract contains no provisions allowing California to recover damages.

Also, our review of quality control procedures disclosed that the laboratory in Peru is responsible for ensuring that its medflies are, in fact, sterile. Specifically, the contract with the USDA requires the laboratory to perform certain sterilization procedures and quality control tests. According to federal officials who visited the Peruvian laboratory, these procedures were adequate to ensure the sterility of the medflies. Since we did not visit the laboratory in Peru, however, we could not verify that those procedures were followed.

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A REVIEW OF THE CALIFORNIA DEPARTMENT OF FORESTRY'S AERIAL  
FIREFIGHTING PROGRAM

Summary of Findings

We reviewed the aerial firefighting program of the California Department of Forestry (CDF) and found that it is providing competent and responsive airtanker services. Having competent and responsive firefighting services, however, will not always protect homeowners and wildlands from fire. Environmental and meteorological factors often reduce the effectiveness of even the best airtanker operations. Under certain conditions of weather and topography, some fires burn so hot and spread so quickly that any attempts to suppress them are relatively ineffective. Occasionally, darkness, high winds, turbulent flying conditions, unusually rough terrain, and low visibility from smoke preclude the use of airtankers.

We found CDF pilots to be qualified and proficient, having undergone a stringent training and testing process. Further, the system for dispatching aircraft, coupled with the strategic location of air bases, ensures that airtankers reach most fires within 20 minutes.

In addition, the California Air National Guard plays a supplemental aerial firefighting role for the State. That is, the guard's aircraft cannot be dispatched until all commercial airtankers under federal contract have been either committed to fires or determined to be unavailable. This process can require up to 24 hours. Nevertheless, having the guard's aircraft available protects California when additional airtankers are needed.

Our review also indicated that the CDF's contracts with commercial airtanker operators provide for effective cost control. These contracts contain provisions detailing performance requirements for contractors as well as penalties for unsatisfactory performance. We noted that contractors have generally complied with provisions of the contracts. Additionally, the CDF has implemented these contract provisions by adopting procedures that effectively control the costs associated with aerial firefighting.

We examined the roles of state-leased and contractor-owned aircraft in aerial firefighting and found them to be similar. Both are used for initial air attack, and both are supplemental to ground firefighting forces. They differ, however, in that contractor-owned aircraft carry more chemical retardant, are more costly to operate, and are out of service more frequently than are aircraft leased by the State.



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CALIFORNIA'S HAZARDOUS WASTE MANAGEMENT PROGRAM DOES NOT FULLY  
PROTECT THE PUBLIC FROM THE HARMFUL EFFECTS OF HAZARDOUS WASTE

Summary of Findings

We reviewed the Department of Health Services' program for managing and controlling hazardous wastes. The primary goal of the program is to protect the public health and the environment from the improper storage, treatment, transportation, and disposal of hazardous waste materials. We found, however, that the department has made limited progress in implementing legislative requirements and has ineffectively enforced hazardous waste control laws. As a result, neither the public nor the environment is sufficiently protected from the harmful effects of hazardous waste.

The department's program for issuing permits to facilities treating, storing, or disposing of hazardous waste is intended to upgrade facilities' operations and to provide the department with a means for applying and enforcing standards. Yet, we found that the department has only issued permits to 18 of the estimated 1,200 hazardous waste facilities in California--that is, less than 2 percent of all facilities statewide have been issued permits. Moreover, these 18 facilities do not include all of those receiving the most hazardous wastes. Because of these conditions, the department cannot assure that hazardous waste facilities are operated in compliance with state standards. With the assistance of our consultants, we found examples of facilities not in compliance with minimum operating standards and instances where facilities were using unsafe operating practices. Although the department cites limited staffing and an increased workload as causes for these conditions, it failed to lower its workload standards and goals to reflect the actual time required to process permits.

In addition, the department lacks an effective enforcement program to identify and correct violations of hazardous waste control laws. Because it has not routinely inspected most of the State's hazardous waste facilities, it cannot effectively assess their compliance with state standards or identify violations. Also, the department does not consistently resolve violations of hazardous waste control laws. In several incidences of illegal and improper waste handling, the department failed to take adequate steps to ensure corrective action. And because the department lacks enforcement criteria, it does not apply sufficient sanctions and penalties to deter

those violating hazardous waste control laws. Primarily, these problems have resulted from insufficient staffing and from the department not having developed a system for managing its enforcement efforts.

Finally, the department has not effectively monitored and controlled the transportation of hazardous waste. Because the department has not adopted regulations implementing legislation passed almost two years ago, it has improperly registered waste haulers and has not ensured that transport vehicles are inspected for compliance with safety standards. Also, the department's system for monitoring waste shipments from production to final disposal is faulty. The department, consequently, cannot detect improper disposal practices and cannot ensure that wastes arrive safely at authorized disposal sites.

The Department of Health Services has recognized many of the problems detailed in this report and has planned and initiated corrective action to improve its performance in implementing legislative requirements; however, additional improvements are needed.

### Recommendations

To address the weaknesses in the hazardous waste management program, we recommend that the Department of Health Services institute comprehensive plans for implementing a program by establishing quantitative goals and objectives and performance effectiveness measures for each program. The department should also develop and implement written program procedures and systems for managing the workload, guiding program activities, and monitoring staff performance.

We further recommend that the department develop workload standards for its programs in order to establish staffing limits and justify staffing requests. Also, it should streamline procedures for reviewing and approving regulations. And finally, it should develop and adopt a comprehensive management information and reporting system.

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THE CSC HAS AUTHORIZED AT LEAST \$12.6 MILLION IN RECOVERABLE  
MEDI-CAL OVERPAYMENTS THAT AN IMPROVED QUALITY ASSURANCE  
PROGRAM MAY HAVE DETECTED\*

Summary of Findings

In 1978, the Department of Health Services awarded a \$129 million contract to the Computer Sciences Corporation (CSC) to process Medi-Cal claims. To help ensure that claims are processed accurately, this contract requires the CSC to develop a quality assurance program. During our review, we found that this program has been inadequate for three reasons. First, the CSC's testing of both the system design and all system modifications has not identified certain basic errors. Second, the CSC's quality assurance program is incomplete since a key unit is still not functioning. Finally, the CSC has not ensured that the data file used for processing claims is updated and that all data are recorded accurately. We conducted six computerized tests of payment accuracy for certain claims processed during a 15-month period and identified overpayments totaling between \$12.6 million and \$25.3 million. A comprehensive quality assurance program could have detected some of these overpayments. Under the contract, the CSC is responsible for recovering all overpayments and crediting them to the Medi-Cal program.

Because the CSC's quality assurance program has been inadequate, it has not detected some errors that have caused providers of Medi-Cal services to be overpaid. We identified recoverable overpayments and estimated that they total between \$12.6 million and \$25.3 million. Some of the system errors causing these overpayments could have been promptly detected by a comprehensive quality assurance program. By conducting a limited number of computerized tests against a CSC history file of paid claims, we found the following specific overpayments:

- Between \$6.7 million and \$10.7 million in erroneous duplicate payments to the same providers for the same services;

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\* The Office of the Auditor General issued three other performance audit reports on the Medi-Cal program in 1981: Reports 021, 011, and 021.1

- Between \$2 million and \$2.7 million in erroneous payments due to improper deductions of payments received from third parties, such as health insurance carriers;
- Between \$1.9 million and \$4.8 million in unauthorized payments for claims exceeding the state-mandated deadline for submission;
- Between \$990,000 and \$3.9 million in unauthorized payments resulting from erroneously overridden edits and audits--the prepayment controls that screen claims for conformance to state policy;
- Between \$840,000 and \$2.3 million in erroneous payments on billings that should have been reduced because the services were rendered outside the provider's normal place of service; and
- Between \$170,000 and \$850,000 in erroneous payments for claims in which the amount paid actually exceeded the amount billed.

We also found other types of errors which indicate that the system generated additional overpayments; however, we did not estimate the magnitude of such errors because we did not specifically test for them. Further, additional erroneous payments are possible because the CSC neglected to update the history file used for processing claims.

#### Recommendations

To correct the CSC's quality assurance deficiencies and to recover the erroneous payments detailed above, we recommend that the Department of Health Services review and approve the CSC's quality assurance plan, ensuring that it meets all contractual requirements. We also recommend that the department conduct tests to determine whether the CSC's claims processing is accurate. Furthermore, the department should require the CSC to implement the EDP/Operational Audit Unit, to update and maintain the data history file, and, finally, to recoup all overpayments to providers.

Additionally, we found that the department has not implemented a system that sufficiently tracks the status of edits and audits in the CSC claims processing system. Without this information, the department cannot ensure that claims are processed in accordance with the policy and intent of the State. We recommend that the department implement a system to track effectively the status of edits and audits.

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THE DEPARTMENT OF HEALTH SERVICES' MONITORING OF THE MEDI-CAL  
CONTRACT WITH THE COMPUTER SCIENCES CORPORATION\*

Summary of Findings

In 1978 the Department of Health Services awarded a 5½-year, \$129 million contract to the Computer Sciences Corporation (CSC) to process and pay medical billings for services received by Medi-Cal beneficiaries. Since 1978, the department has focused its overall contract management efforts on implementing the Medicaid Management Information System, which processes millions of Medi-Cal claims each month. The department is responsible for the implementation of this system and for monitoring the CSC's performance.

Although the CSC began processing claims over 18 months ago, the department has not adequately planned and implemented a complete performance monitoring system, nor has it eliminated restrictions on its monitoring system. It has not monitored the accuracy of the claims processing system; it has not obtained complete access to the CSC's sites, systems documentation, and records; and it has not defined measurements or methods to calculate performance standards necessary to determine whether the CSC has performed its contracted functions.

In the absence of such a complete monitoring plan, the department has underestimated the number of staff necessary to check the CSC's performance. Also, because of limited staff, an insufficient number of existing staff has been allocated to conduct initial monitoring functions. Finally, the department has not provided adequate training to personnel who perform monitoring functions.

Without the complete information that thorough monitoring would provide, the department cannot ensure that the CSC has met contract performance standards. Further, this lack of adequate monitoring could affect the department's ability to make decisions about subsequent fiscal intermediaries.

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\* The Office of the Auditor General issued three other performance audit reports on the Medi-Cal Program in 1981: Reports 044, 011, and 021.1.

Recommendations

To ensure that the CSC performs its contracted functions, we recommend that the department plan and institute a comprehensive monitoring system that includes all monitoring provisions required by the contract and by federal regulations. We also recommend that the department implement adequate methods for independently verifying information from the CSC and for monitoring the performance of the CSC. The department should eliminate constraints to its monitoring by asserting its authority under the contract to acquire and maintain access to CSC sites, documentation, and records.

We further recommend that the department establish formal definitions of measurements or methods necessary to calculate performance standards and to compel the CSC to meet those standards. The department should also evaluate staff requirements to implement adequately the comprehensive monitoring plan; and it should actively recruit personnel with the data-processing expertise needed to design and implement independent review. As an alternative to this recruitment, the department might consider using independent contractors where the technical expertise may not be available within state resources. Finally, we recommend that the department increase training to acquaint its staff with aspects of fixed-price contracting and with the CSC's computer processing system.

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NEW STATUTES, POLICIES, AND PROCEDURES COULD INCREASE MEDI-CAL  
RECOVERIES BY AT LEAST \$4.3 MILLION ANNUALLY\*

Summary of Findings

Medi-Cal, a \$4.3 billion health service program for which approximately 3 million persons qualify monthly, is administered by the Department of Health Services, which has a variety of responsibilities, including identifying and recovering Medi-Cal overpayments. An overpayment identification and recovery system administers this responsibility through the activities of seven primary program units. Our review of the overpayment identification and recovery system focused on opportunities to increase Medi-Cal recoveries, to improve the sharing of information, and to strengthen the management of workloads.

We found that Medi-Cal's overpayment identification and recovery system could increase recoveries of program expenditures by an estimated \$4.3 million annually. By using data available from the Workers' Compensation Appeals Board, the department's Casualty Insurance Unit could identify cases in which Medi-Cal paid for medical services for work-related injuries and thus augment recoveries by nearly \$1.3 million. In addition, the Medi-Cal program could recover an additional \$3 million per year if the State instituted an estate recovery program for certain beneficiaries.

We further noted that certain units within the Medi-Cal program need to improve their sharing of information. The department's Medicaid Management Information System has not provided certain required reports to program units; consequently, the system has impeded the identification of overpayments and the investigation of fraud and abuse in the Medi-Cal program. Also, the Licensing and Certification Division has not routinely informed system units when institutional providers change ownership or close. These problems have jeopardized the identification and collection of providers' debts.

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\* The Office of the Auditor General issued three other performance audit reports on the Medi-Cal program in 1981: Reports 044, 021, and 021.1.



In reviewing the department's workload management practices, we found that the Audits Branch has not given the required priority to auditing hospitals that have closed or changed ownership. Also, the Compliance Unit's Southern Region offices have not adhered to procedures for following up on collection efforts or for addressing high priority cases. Departmental units responsible for identifying and recovering Medi-Cal overpayments have not monitored the fiscal intermediary's accuracy in calculating interest charges on past due accounts receivable; as a result, the department has not identified errors in interest assessments. Again, these conditions have jeopardized the collection of overpayments and interest charges due the Medi-Cal program.

Finally, certain statutes and regulations have prevented the Medi-Cal program from realizing maximum recoveries. Specifically, a regulation governing the provider appeals process allows providers to defer repayment of disputed amounts until the appeal has been adjudicated. Another regulation requires that debtors of the Medi-Cal program be assessed a low interest rate on any unpaid debts. Our review showed that if these statutes were revised to allow the Medi-Cal program to collect overpayments before the appeals process and to assess higher interest rates, the program could have earned additional interest revenues on selected appeals filed in fiscal year 1977-78.

#### Recommendations

To increase Medi-Cal recoveries, we recommend that the department use data from Workers' Compensation Appeals Board (WCAB) to identify Medi-Cal benefits paid on workers' compensation cases and that the Legislature consider implementing an estate recovery program. The Legislature may also wish to consider the safeguards specified in Maryland state law relating to protection of survivors.

To improve the sharing of information, we recommend that the department continue to monitor closely the fiscal intermediary's operation of the Medicaid Management Information System and to ensure that all Licensing and Certification field offices send prompt, written notices of all changes of ownership and closures to units in the system that need this information.

To improve the workload management of units in the system, we recommend that the department require all Recovery Section regional offices to adhere to procedures for following up on collection efforts and for handling top priority cases. The department should also fix responsibility for monitoring the fiscal intermediary's accuracy in calculating interest on accounts that are past due. To maximize recoveries, we recommend that the department change regulations so that overpayments can be collected before the provider-appeals process. We also recommend that the Legislature consider increasing the interest rate that the Medi-Cal program is legally allowed to charge debtors of the program.

Further, we recommend that the department enter into an interagency agreement with the Workers' Compensation Appeals Board so that WCAB applications may be referred to the Casualty Insurance Unit. This agreement should contain a provision for modifying the current application form to include a section on Medi-Cal participation. The department should also explore the possibility of matching the names of Medi-Cal eligibles with WCAB cases by computer.

If the department secures such an agreement, we recommend that it increase its staff for this function commensurate with the number of cases identified. Furthermore, we recommend that the department evaluate the actual benefits of this referral system and report this information to the Legislature by January 1, 1983.

We further recommend that the department continue to monitor closely the Computer Science Corporation's (CSC) performance and to assess liquidated damages when indicated. The department should also conduct a study to determine whether the Compliance Unit's collection procedures could be automated with mini-computers or other automated systems at each regional office. Automating the current follow-up system would assist the tax representatives in handling their increasing workloads. Mini-computers could perform such functions as mailing demand letters and instructing the fiscal intermediary to withhold payments. The study should consider whether the potential for increased recoveries would offset the costs of automating the collection system.

Additionally, the department should fix the responsibility for monitoring the accuracy of the CSC's Statements of Account Status issued as a result of adjudicated appeals. We further recommended that, once this responsibility has been assigned, the unit selected should immediately review all prior CSC statements for inaccurate assessments.

Last, we recommend that the Department of Health Services consider the results of our review in deciding whether to change Title 22, California Administrative Code, Section 51047. This proposed change would provide for collection of overpayments before the appeals process.

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REVIEW OF THE COMPUTER SCIENCES CORPORATION'S COMPLIANCE WITH  
MEDI-CAL CLAIMS PROCESSING STANDARDS\*

Summary of Findings

In 1978, the State Department of Health Services contracted with the Computer Sciences Corporation (CSC) for the processing and payment of medical billings for services to Medi-Cal recipients. We independently reviewed the CSC's conformance with the contract performance standards, as evidenced by the CSC's computer records for the five-month period June through October 1980. We based our review on the interpretation used by the CSC and the department and on a literal reading of the contract wording. We found that the CSC has not fully conformed to the contract standards, but that its performance is improving and is significantly better than was disclosed during an earlier review by the Auditor General.

Claims volume has tripled (from 1.7 million claims per month to 5.7 million per month), and the final two types of claims have been added to the system since the previous Auditor General study, which covered the period June 1979 through February 1980. At the same time, although CSC timeliness in adjudicating claims has generally improved, it still does not meet all contract performance standards under any of the three contract interpretations.

The CSC met the processing time performance standards for total claims processed during each of the five months reviewed under all three interpretations. However, the CSC did not meet the processing standards for medical review claims at all during the five months under any of the three interpretations. Depending upon the interpretation used, the CSC did not meet the various processing standards for two or three claim types besides medical review claims for one to three of the five months reviewed. During September and October, the CSC met the processing standards for total claims and for all claim types except medical review claims under all three interpretations.

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\* The Office of the Auditor General issued three other performance audit reports on the Medi-Cal program in 1981: Reports 044, 011, and 021.

Our analysis of the CSC's claims that were in inventory more than 30 days disclosed that, using the CSC's interpretation, the CSC conformed to the contract standard for total claims for all months reviewed. Using the department's interpretation, the CSC conformed to the contract standard for total claims for the last three of the five months reviewed. Using the literal interpretation, the CSC did not conform to the contract standard at all during the five-month period reviewed.

We also examined the time it takes the CSC to enter claims into the system after they are received and the time it takes to process Resubmission Turnaround Documents. (Resubmission Turnaround Documents consist of claims with errors that are returned to the providers, who are to correct and resubmit them to the CSC.) This examination disclosed that from 11.5 to 55.7 percent of the claims received each month required more than seven days to be entered into the CSC's claim system. It also showed that from 39.0 to 72.1 percent of the Resubmission Turnaround Documents required more than 18 days to be sent to the provider and from 18.4 to 53.7 percent required more than 30 days.

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THE SHORT-DOYLE PROGRAM IN THE DEPARTMENTS OF HEALTH SERVICES,  
MENTAL HEALTH, AND DRUG AND ALCOHOL PROGRAMS

Summary of Findings

The Short-Doyle Program provides mental health services to alleviate and prevent serious mental disorders. In addition, the program provides services to assist persons who are institutionalized or experiencing psychological problems. Approximately 450,000 persons will receive Short-Doyle services at a projected cost of about \$730 million in fiscal year 1981-82.

We examined the feasibility and advisability of consolidating the staff committed to resolving federally identified deficiencies in the Medi-Cal component of the Short-Doyle Program. These staff members are assigned to the Department of Health Services, the Department of Mental Health, and the Department of Alcohol and Drug Programs.

These departments are attempting jointly to resolve the federally identified deficiencies in the Medi-Cal component of the Short-Doyle Program. We found no duplication among the departments in their efforts to comply with federal requirements. Further, the State has developed plans to automate the processing of Medi-Cal claims within the Short-Doyle Program. Because this system has not been implemented, however, we could not determine the impact of these plans on the future need for staffing.

In addition, we found that the State lost income because state funds had to be used for Medi-Cal services that may have been eligible for federal reimbursement. We further discovered that some Medi-Cal services similarly eligible for federal reimbursement received no reimbursement because claim forms submitted by the three departments were incomplete. Because state funds were used instead of federal funds, the State lost approximately \$800,000 in interest income.

Recommendations

Until the Federal Government approves the State's plans for the automated claim-processing system, we recommend that the Department of Health Services, the Department of Mental Health, and the Department of Alcohol and Drug Programs maintain their current arrangement of staff assigned to try to eradicate the deficiencies in the Medi-Cal component of the Short-Doyle Program. Once the plan is approved, the three departments should assess this staffing arrangement and determine the feasibility of consolidating staffs.

JANUARY 30, 1981

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CALIFORNIA OCCUPATIONAL INFORMATION COORDINATING  
COMMITTEE--CALIFORNIA OCCUPATION INFORMATION SYSTEM

Summary Of Findings

The California Occupational Information System (COIS) is not currently disseminating occupational information. However, the California Occupational Information Coordinating Committee (COICC) has collected data and performed technical work to design and implement an information system. Participating agencies of the committee have provided data, although not all sources were able to supply data as required. We found that the projections of job opportunities were based on appropriate assumptions and that supply data were from appropriate sources. However, the accuracy of the data has not been verified. Further, we were unable to assess the utility of the COIS products and of the methods for promoting the use of these products because the system is not in operation yet.

We also found that during the committee's first three years of operation, it frequently did not accomplish planned objectives specified in annual work plans. A lack of committee staff as well as administrative problems were, in part, responsible for this difficulty.

From October 1, 1977, to September 30, 1980, the committee expended approximately \$600,000 of its \$830,000 federal grant. The approximately \$230,000 remaining was returned to the federal funding source. The COICC member agencies have also helped develop data for the COIS and have expended funds not included in the federal grant amount.

Further, the COICC is not disseminating occupational information to program planners, counselors, job placement specialists, and individuals looking for employment opportunities. As a result, these people may lack adequate information to assist them in effectively planning and selecting training programs and in selecting and evaluating career opportunities. We found that delays in implementing the California Occupation Information System primarily stem from administrative and staffing problems experienced during its first three years of operation.



The COICC plans to disseminate an Occupational Supply and Demand Report in early 1981 and to adjust it periodically as additional and revised information is developed. The committee also plans to test the information to be used in a Career Information Delivery System at various sites.

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A REVIEW OF THE COMMUNITY TRANSIT SERVICES PROGRAM OF THE  
TRANSPORTATION DEVELOPMENT ACT

Summary of Findings

We reviewed the Community Transit Services Program, which was established in 1977 by Article 4.5 of the California Transportation Development Act (TDA). The program provides transportation services connecting intracommunity origins and destinations primarily for elderly and handicapped persons.

Five Regional Transportation Planning Agencies (RTPAs) are eligible for administering the Community Transit Services Program in nine counties: Alameda, Contra Costa, San Francisco, San Mateo, Santa Clara, Los Angeles, Orange, San Diego, and Sacramento. Under the requirements of Article 4.5 of the TDA, the RTPAs are to establish program criteria; to review claims from cities, counties, or transit districts; and to allocate funds for services.

We found that the RTPAs and the transit operators have implemented the Community Transit Services Programs without satisfying all the requirements stipulated by Article 4.5. The RTPAs have not adequately assessed the transit needs of the disabled nor have they demonstrated the effectiveness of the services provided. Furthermore, in some instances, the RTPAs allocated funds to continue ongoing programs rather than to begin new services.

In our review of transit operators, we found that operators have been unable to collect in their fare boxes the percentage of costs designated by Article 4.5 for fiscal year 1980-81. In addition, the operators made only limited attempts at marketing their services. Furthermore, Section 99279 of the Public Utilities Code required that we consider five specific performance measures of services. We found that although the measures can be used to monitor an operation over time or to indicate areas with potential problems, they should not be used for direct comparisons between operations. Finally, we found that operators often need county or municipal support to help offset the administrative costs of implementing community transit services.

Recommendations

In determining whether the program should be extended, amended, or terminated, the Legislature may wish to consider (1) requiring the RTPAs to use a fixed percentage of TDA funds for the Community Transit Services Program, (2) appropriating a fixed funding amount, (3) requiring the RTPAs to study all unmet transit needs and allocate TDA funds accordingly, (4) allowing municipal contributions and subsidies to be included in fare-box collections, (5) fixing a fare-box percentage to be applicable to all types of service within the Community Transit Services Program, and (6) clarifying the intent of Article 4.5 of the TDA.

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IMPROVEMENTS NEEDED IN THE DEPARTMENT OF SOCIAL SERVICES'  
ADMINISTRATION OF PERSONAL SERVICE CONTRACTS

Summary of Findings

We reviewed the Department of Social Services' administration of personal services contracts. In administering its program, the department is authorized to enter into contracts to provide such needed services as rape counseling, assistance to Indochinese refugees, food stamp outreach, and maternity home care.

During our review, we found that although the department is complying with most state requirements, it is not fully complying with all of them. Specifically, some noncompetitively bid contracts were awarded without justification. In addition, the department did not obtain control agency approval for some contracts when required. Also, for many contracts we reviewed, we found that contractors began work before their contracts received final approval. Further, contractor evaluations were not promptly submitted. Finally, we identified several contracts that appear to have been awarded in a questionable manner.

As a result of these conditions, the department appears to be restricting competition and may be incurring unnecessary costs. Moreover, the department may have assumed a liability for which it was not protected by the terms of a properly completed contract. Additionally, since the department did not submit some contracts to the state control agencies for approval, these agencies were prevented from performing their duties of ensuring that state contracting is critically reviewed for adherence to state guidelines.

Recommendations

We recommend that the Department of Social Services comply with current state policies in order to improve its administration of contracts. Specifically, we recommend that the department seek competition for all contracted services. In those instances where competition cannot be obtained, the department should provide a detailed justification fully supporting this condition.

Further, the department should advertise services to be contracted for through the California State Contracts Register. And it should ensure that all contract files contain detailed documentation demonstrating how contracts are awarded. This documentation should include lists of bidders, a copy of the request for proposal, and copies of the bids submitted.

We also recommend that the department submit to the state control agencies all contracts requiring their approval. Also, the department should obtain clarification from the State Personnel Board about which types of contract services are exempt from its review.

The department should also ensure that all contractors are told that no work is to begin before a contract is approved and that any work begun before the contract is approved is done so at the contractor's own risk.

Finally, we recommend that the department submit contractor performance evaluations to the Department of General Services within the specified time period.

Note: During the time of our review, the department began actions that will address deficiencies noted in our report. Specifically, the department issued a memorandum to its staff informing them that all noncompetitively bid contracts, regardless of value, must include a written justification in the contract file. Further, the department implemented a filing system by which requests for proposals are recorded and kept on file for five years. Last, the department instituted a system for ensuring that all contractor evaluations are completed and submitted to the Department of General Services.

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THE NEEDS OF CHILDREN IN THE FOSTER CARE AND ADOPTION PROGRAMS  
ARE NOT BEING MET

Summary of Findings

We reviewed the Department of Social Services' (DSS) administration of the foster care and adoption programs. The foster care program serves children who need the care and protection of persons other than their parents, whereas the adoption program allows parents to take a minor as their own child. The DSS is responsible for monitoring the foster care program, which is administered by county welfare departments. Further, these county departments direct the adoption program within 28 counties while the DSS administers the program in the remaining 30 counties.

California's foster care system does not meet the needs of all foster children. Specifically, we found problems associated with emergency shelters, which are designed for the temporary care of children. For example, 18 percent of the children in our sample have remained in emergency shelters over the mandated 30-day limit. And in receiving homes, a type of emergency shelter, we noted that children with behavioral and psychological problems were being detained with victims of abuse and neglect. As a result, these children are exposed to deviant behavior and may learn such behavior. Further, receiving homes are the most costly form of emergency shelter. Until these areas are improved, emergency shelter placements may be detrimental to children as well as costly.

We also discovered problems associated with supervision of foster children and their parents or guardians. Social workers did not conduct 34 percent of required supervision visits to foster children. Also, social workers have conducted only 46 percent of the required visits to parents of children placed in foster homes. Unless these required visits are conducted, the State cannot assure that children's health, safety, and developmental needs are protected. Neither can social workers assess whether parents are correcting the problems that caused their children to be removed from the home.

In addition to these problems in the foster care system, we also found weaknesses in the adoption program. Many children in this program have special needs that could limit their chances for adoption. For example, some children in the program are over the age of three; some are from minority backgrounds; and some have physical, mental, or emotional handicaps. Within the adoption program, we found two barriers to the placement of these children. First, there is no statewide program for recruiting parents, and second, the computerized adoption referral process is deficient.

### Recommendations

To ensure that the foster care system is meeting the needs of foster children, we recommend that the Department of Social Services assess the availability of placement resources for foster children in California, and, if necessary, develop additional resources to meet the needs identified.

The department should also develop a plan that explores alternate methods of providing emergency shelter care and that will enable receiving homes or institutionalized care to be eliminated. This plan, prepared for submission to the Legislature, should include a method of care, such as the one used in the Washington State Crisis Residential Center Program, that will avoid mixing different types of children in emergency shelters.

We also recommend that the department submit a report to the Legislature specifying the county staffing requirements needed to meet the objectives of the foster care program. This report should include an analysis of the number of staff required to supervise foster children and their parents properly.

We further recommend that the county welfare departments conduct the required supervision visits to foster children and their parents and also enforce emergency shelter time limits.

To address the problems that limit adoptions, we recommend that the Department of Social Services establish a coordinated program throughout the State to recruit families willing to adopt children who have special needs. The department should also develop an effective statewide computer system for matching available children with adoptive families.

Finally, we recommend that the department institute procedures to ensure that all adoption agencies register families and children in the Adoption Resource Referral Center. These procedures could include levying sanctions against agencies to motivate them to comply with state law.



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STATE'S EFFECTIVENESS IN AUDITING THE FEDERALLY ADMINISTERED  
SUPPLEMENTAL SECURITY INCOME/STATE SUPPLEMENTARY PROGRAM  
(SSI/SSP)

Summary of Findings

We reviewed the State's effectiveness in auditing the federally administered Supplemental Security Income/State Supplementary Program (SSI/SSP), which finances the basic living expenses of aged, blind, or disabled individuals under Title XVI of the Social Security Act. We found that the State needs more effective audit coverage of the Social Security Administration's payment operation. Past state SSI/SSP audits could have been more frequent and more complete. In addition, SSI/SSP audits performed or reviewed by other organizations inadequately ensure the protection of California's monetary interests.

Recommendations

The Department of Social Services should ensure that the State audits the operations of the SSI/SSP for the federal fiscal year 1979-80. The Department of Social Services should also determine whether, under the current contract, the letter submitted to the Social Security Administration constitutes a formal notification of California's intention to audit the 1979-80 fiscal year operation of the SSI/SSP. In addition, the Department of Social Services, in conjunction with the Department of Finance and the State Controller's Office, should develop a formal SSI/SSP monitoring plan. This plan should specify objectives for each year's audit, assign monitoring tasks to designated state agencies, specify completion dates for audits, take into account the results of the SSI State Audit Committee reviews, and establish procedures for communicating formally with the Social Security Administration. We further recommend that the Department of Social Services request formal reports from the Department of Finance and State Controller's Office regarding the work of the SSI State Audit Committee. These reports should identify federal audit findings pertinent to California's program, and they should determine whether such audit work ensures the accuracy of California's payments and reimbursements.

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CALIFORNIA STATE UNIVERSITY AND COLLEGES: TUITION RATE AND  
ADMISSION PRACTICES FOR NONRESIDENT STUDENTS NEED REASSESSMENT

Summary of Findings

We reviewed the tuition rate and admission policies for nonresident students entering the California State University and Colleges (CSUC). We found that, because the current nonresident tuition rate does not reflect all costs, the CSUC does not recover General Fund costs resulting from the enrollment of nonresident students. Also, the CSUC assesses the tuition of nonresidents based on an academic workload of up to 15 units per term; thus, any units attempted over the maximum are financed by the General Fund. Because of these conditions, the General Fund may have subsidized nonresidents' education in academic year 1980-81 by about \$7 million.

We further found that the CSUC has underestimated the amount of nonresident tuition it collects each year. Also, it has inconsistently enforced its tuition payment policy, and it has allowed some students to defer registration fees as well as tuition. Nor has the CSUC reviewed or adjusted the service charge payment plan. Finally, the campuses admit some nonresidents into impacted or oversubscribed programs; thus, although state law gives California residents admission priority, some California residents may be denied admission into these programs.

Recommendations

We recommend that the CSUC adopt policies to ensure that the nonresident tuition rate reflects variable costs to the General Fund for nonresident students. Such policies should also require nonresident students to pay tuition based upon total units of workload. We further recommend that the CSUC develop procedures to predict nonresident tuition reimbursements more accurately in budget proposals.

To ensure that the installment payment plan is self-supporting, the CSUC should promptly disenroll students who have outstanding obligations; ensure the recovery of service charges sufficient to finance the cost of the plan; and comply with provisions of the Education Code that allow deferral of tuition only.

Further, the CSUC should develop and institute a policy for denying all nonresident students admission into crowded programs. It should also write a policy for the whole system that gives California residents admission priority for oversubscribed academic programs. This policy should be consistent with the Education Code.