

OFFICE OF THE AUDITOR GENERAL

1985-86 Annual Report

A Report to the California Legislature

REPORT BY THE
OFFICE OF THE AUDITOR GENERAL

1985-86 ANNUAL REPORT

AUGUST 1986

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INTRODUCTION

The Auditor General is the only independent auditing organization in the State with authority to review programs of state executive agencies and other agencies that receive state money. By conducting financial, investigative, and performance audits and by performing special studies, the Auditor General provides the Legislature, the Governor, and the citizens of California with objective information about the State's financial condition and the performance of the State's many agencies and programs. The Auditor General thus aids the Legislature in ensuring that state government is accountable to the citizens of California. In fulfilling this audit function, the Auditor General issued more than 50 reports during the past fiscal year. This annual report to the Legislature summarizes work performed by the Auditor General from July 1, 1985, to June 30, 1986.

A major project of the Auditor General was the financial and compliance audit of the State's combined financial statements for fiscal year 1984-85. This audit, which the Auditor General has conducted every year since 1982, covered revenues of more than \$58 billion and continues to be the largest financial audit of a governmental entity ever conducted. It involved a review of 32 state agencies. On the basis of the audit, the Auditor General issued an opinion on the State's General Purpose Financial Statements and issued letters relating to weaknesses in internal controls found in 22 agencies or their affiliates. As a result of this audit, California continues to comply with federal statutes that require this audit as a condition of eligibility for over \$8 billion in federal funds annually.

The Auditor General received and investigated, or is in the process of investigating, 89 allegations of misconduct, fraud, or waste in state government since July 1, 1985. Most of these allegations were received over the toll-free telephone hotline that the Auditor General

operates 24 hours a day. The bulk of the allegations concerned time and attendance abuses, the improper use of state vehicles, and the misuse of state employees or property. The Auditor General substantiated occurrences of improper governmental activity in 53 percent of the allegations investigated. In June 1986, the Auditor General issued a public report of investigations conducted from January 1, 1985, through March 31, 1986.

The Auditor General issued 39 audit reports dealing with the efficiency and effectiveness of state programs during the past fiscal year. The audits concerned programs operated by 26 different agencies and dealt with topics as varied as hazardous waste, state prison operations, regulation of passenger vehicles, complaints against the insurance industry, home loans for veterans, and proposals to increase telephone rates.

BENEFITS DERIVED FROM AUDITS BY THE AUDITOR GENERAL

The Auditor General is the only state audit organization that the United States Government and the bond rating community recognize as meeting the nationally accepted audit standards for independence. The Auditor General's annual comprehensive financial and compliance audit of the State's combined financial statements saves millions of dollars in future interest expense by ensuring a continued bond rating from the international bond rating companies. The comprehensive audit also enables the State to remain eligible for the \$8 billion of federal grant funds that the State annually receives. Recommendations that the Auditor General made in both financial and performance audits during fiscal year 1985-86 should save the State at least \$123 million in the first year after these recommendations are fully implemented. The State will also experience additional savings in future years.

Although not all Auditor General reports yield savings that are easy to measure, the reports make recommendations that result in

improved controls, increased effectiveness, and more efficient use of state resources. For example, the State loses millions of dollars annually in foregone interest, bad debts, and lost assets because of weaknesses in internal control systems intended to safeguard the State's assets. Common examples of control weaknesses that the Auditor General has identified include inadequate billing and collection activities, inadequate accounting for property and equipment, and inadequate monitoring of expenditures. While the opportunity to recover past losses is limited, the State can prevent many losses in future years by implementing the tighter controls that the Auditor General has recommended.

In addition to recommending changes that save the State money, the Auditor General also recommended changes in procedures that should enable state agencies to better perform their functions. Table 1 on the following page shows examples of procedural changes that the Auditor General recommended in recent reports.

TABLE 1
EXAMPLES OF RECOMMENDATIONS FOR PROCEDURAL CHANGES
FISCAL YEAR 1985-86

<u>Job No.</u>	<u>Report Title</u>	<u>Date Issued</u>	<u>Recommendations</u>
356	The Public Utilities Commission Could Trim Additional Millions From Telephone Company Rate Increase Proposals	10/24/85	The Public Utilities Commission should improve the procedures that the commission staff use to analyze telephone company rate increase proposals. These new procedures will result in better coordination and more accurate and thorough staff work.
490	Lack of Management Controls and Self-Generated Revenue Has Led to the California Exposition and State Fair's Lack of Fiscal Independence	01/10/86	The California Exposition and State Fair should improve management controls to increase its ability to become financially independent from the State's General Fund.
529.3	A Review of Management Practices at Folsom State Prison, the Deuel Vocational Institution, and the California Institution for Men	04/03/86	The Department of Corrections is planning corrective action in nearly every area reviewed. For example, a formal preventive maintenance program for all prisons is in the design stage; controls over food equipment, supplies, and drugs are being improved; and procurement practices are being revised.
548	Better Administration at the Department of Veterans Affairs Can Improve Services to Veterans	12/02/85	The Department of Veterans Affairs should improve its management of the loan processing system to ensure that veterans receive Cal-Vet

<u>Job No.</u>	<u>Report Title</u>	<u>Date Issued</u>	<u>Recommendations</u>
			loans more promptly and receive preference in purchasing repossessed Cal-Vet properties.
575	The Department of Insurance Should Be More Responsive to Consumer Complaints Against the Insurance Industry	05/12/86	To protect consumers against unfair insurance practices, the Department of Insurance should more promptly process consumer complaints and increase the public's ability to request assistance in resolving insurance disputes.
582.1	The Department of Health Services Needs Better Control of Hazardous Waste Contracts	03/13/86	The Department of Health Services should improve its contract procurement and management to ensure that the State receives the 90 percent reimbursement from federal funds.

The Auditor General's investigative function also benefits the State in ways not easy to quantify. To implement the Reporting of Improper Governmental Activities Act, effective January 1, 1980, the Auditor General installed a toll-free telephone "hotline" for state employees and private citizens to report actions they deem improper. Since January 1980, the Auditor General has received nearly 13,000 contacts, resulting in nearly 1,067 complaints filed. As a result of investigations of these complaints, guilty state employees have been fired or reprimanded, misappropriated state funds have been recovered, and systems to help prevent improper governmental activities from recurring have been strengthened.

LEGISLATION GENERATED BY AUDITS

Reports issued by the Auditor General have provided legislators with information useful in framing laws and in performing other legislative functions. Several bills passed by the Legislature during fiscal year 1985-86 were based on Auditor General reports issued before July 1, 1985. Table 2 shows Auditor General reports issued during fiscal year 1985-86 that contributed to specific legislation.

TABLE 2
LEGISLATION GENERATED BY AUDITOR GENERAL REPORTS
FISCAL YEAR 1985-86

<u>Report Number</u>	<u>Report Title</u>	<u>Bill Number</u>	<u>Subject</u>
490	Lack of Management Controls and Self-Generated Revenue Has Led to the California Exposition and State Fair's Lack of Fiscal Independence	AB 2581	Requires the Auditor General to report annually on the fiscal status of Cal Expo; establishes the California Exposition and State Fair Enterprise Fund; requires Cal Expo to deposit all funds received into this new fund.
430.1	The Short-Term General Fund Loan to the Unemployment Compensation Disability Fund	SB 1633 (pending)	Revises the formula used to fund unemployment compensation disability benefits.
529 and 529.3	A Comprehensive Review of Management Practices at Folsom State Prison; A Review of Management Practices at Folsom State Prison, the Deuel Vocational Institution, and the California Institution for Men	SB 550 (pending)	Requires the Board of Corrections and the Board of Pharmacy to conduct a study of the acquisition, storage, labeling, packaging, and dispensing of drugs in state and local detention or correctional facilities.
534	Estimates of the Number of Single-Family Houses That May Need Additional Ceiling Insulation	SCR 89 (pending)	Requests that the Public Utilities Commission continue low-income weatherization programs at least through 1990, as long as there is proven need.

<u>Report Number</u>	<u>Report Title</u>	<u>Bill Number</u>	<u>Subject</u>
562	A Review of the Public Utilities Commission's Regulation of Passenger Vehicle Operations	AB 3262 (pending)	Requires the denial, suspension, or revocation of a permit or certificate of a charter-party carrier of passengers for a specified time for specified violations; extends to tour buses and tour bus drivers the California Highway Patrol's equipment, maintenance, and operation regulations; requires bus owners to obtain quarterly reports of drivers' traffic violation records; requires the Public Utilities Commission to review and increase insurance requirements for tour bus operators.

TESTIMONY AT LEGISLATIVE HEARINGS

During the fiscal year, the Auditor General provided testimony before committees of the Legislature on 23 occasions. Table 3 on the following page provides examples of hearings at which the Auditor General provided testimony.

TABLE 3

**EXAMPLES OF LEGISLATIVE HEARINGS AT WHICH
THE AUDITOR GENERAL PROVIDED TESTIMONY
FISCAL YEAR 1985-86**

<u>Report Number</u>	<u>Subject of Testimony and Committee</u>	<u>Date of Testimony</u>
--	Testimony on AB 129 concerning hazardous waste--Senate Rules Committee	08-21-85
P-546	Testimony on release of the report "The Department of Fish and Game Is Not Collecting All Revenues Owed to the State"--Assembly Water, Parks and Wildlife Committee	12-04-85
P-430.1	Testimony on release of letter concerning the Unemployment Compensation Disability Fund--Assembly Finance and Insurance Sub-Committee on Unemployment and Disability Insurance	12-17-85
P-582	Joint Legislative Audit Committee hearing on whether the Auditor General should conduct an audit of the contracting procedures used to select and monitor contractors at toxic waste cleanup sites and of the performance of the Department of Health Services in managing these contracts	01-08-86
P-575	Testimony on release of the report "The Department of Insurance Should Be More Responsive to Consumer Complaints Against the Insurance Industry"--Assembly Ways and Means Subcommittee	05-13-86
P-562	Testimony on the report "A Review of the Public Utilities Commission's Regulation of Passenger Vehicle Operations"--Assembly Transportation Committee	06-11-86
P-629.1	Testimony on release of the report "The Department of Transportation Has Mismanaged Employee Travel and Overtime"--Assembly Transportation Committee	06-25-86

TECHNOLOGY AND EFFICIENCY
IN GOVERNMENTAL AUDITING

The Office of the Auditor General has continued to improve its efficiency by applying microcomputer technology to governmental auditing. Audit staff now have the use of 87 microcomputers, 51 of which are portable. Auditors use the microcomputers to produce sophisticated analytical material quickly and accurately while they are still at the audit site. Often they perform detailed analyses that they could not have previously attempted.

In addition, auditors may use the microcomputers to transmit data and text by telephone to the Sacramento office from audit sites throughout the State. Because microcomputers enable auditors to easily consolidate and review audit results during an audit, audit managers can monitor the progress of an audit to determine quickly the additional data that are needed to produce a comprehensive audit. Each audit manager is assigned a desk-top microcomputer that is used in controlling audit progress and reviewing audit results. The early review and assessment of audits by managers using microcomputers has enabled the Auditor General to develop high quality audit reports at reduced costs.

The Auditor General has also established a computer laboratory with desk-top microcomputers, printers, and plotters. The laboratory is available to audit staff when they are in the office, leaving the portable microcomputers free for use at the audit sites.

Microcomputers are also used to link audit staff and management with the large mainframe computers used by many state agencies. Information can be transferred from the large computers to the microcomputers, where it can be analyzed and evaluated by audit staff. In addition, our desk-top microcomputers are linked with the Legislative Data Center in the State Capitol so that we can review and track pending legislation that may affect state programs or budgets.

As its progressive use of microcomputer technology demonstrates, the Office of the Auditor General manifests the same concerns for efficiency in its own operations that it urges for other state agencies. We have been heralded as one of the leading audit organizations in the nation in the use of microcomputer technology in auditing. As a result of the Auditor General's continuing emphasis on audit efficiency, California has one of the lowest ratios of audit costs to statewide expenditures in the nation.

FINANCIAL AUDITS

The major effort of the Financial Audit Division was an audit of the State's General Purpose Financial Statements for fiscal year 1984-85. This audit covered revenues of over \$58 billion, making it the largest financial audit of a governmental entity ever conducted. As a result of this audit, we issued letters detailing weaknesses in internal controls in 22 state agencies. These letters identify control weaknesses that cost the State millions of dollars each year. The audit also enables the State to maintain a favored rating by bond rating agencies, resulting in significant savings to the State through lower interest rates on issued bonds. In addition, California continues to comply with the Office of Management and Budget's requirement for organization-wide audits as a condition of receiving federal funds.

In addition to the audit report on the State's General Purpose Financial Statements, the Financial Audit Division issued 11 audit reports during the fiscal year. We reported that the Board of Osteopathic Examiners improperly spent state money to support its legal action against seating two public members and that the State could more equitably allocate pro-rata costs. We also reported on the financial condition of both the Oakland Unified School District and the Peralta Community College District as well as on the status of the state loan to the Alameda County Office of Education. In addition, we completed an audit of the State Department of Education's Surplus Property-Hardware program and the California Student Aid Commission's Guaranteed Loan Reserve Fund. Finally, we reported on the projected cash flow of the Architecture Revolving Fund and on the statement of security accountability of the State Treasurer.

On the following pages, we summarize our audit of the General Purpose Financial Statements and discuss weaknesses in internal controls that we found during our audit. Additionally, we include summaries of other financial audit reports issued during the 12 months.

STATE OF CALIFORNIA
FINANCIAL REPORT
YEAR ENDED JUNE 30, 1985

Summary of Findings

We examined the General Purpose Financial Statements of the State of California as of and for the year ended June 30, 1985. Except as explained in the following two paragraphs, 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. We did not examine the financial statements of the Pension Trust Funds, which reflect total assets constituting 67 percent of the Fiduciary Funds. We also did not examine the financial statements of certain Enterprise Funds, which reflect total assets and revenues constituting 60 percent, respectively, of the Enterprise Funds. In addition, we did not examine the University of California Funds. Except for the financial statements of the State Teachers' Retirement System, as explained in the following paragraph, the financial statements of the Pension Trust Funds, certain Enterprise Funds, and the University of California Funds referred to above were examined by other auditors who furnished their reports to us. Thus, our opinion, insofar as it relates to the audited amounts included in the Pension Trust Funds, certain Enterprise Funds, and the University of California Funds, is based solely upon the reports of other independent auditors.

The General Purpose Financial Statements referred to above include the financial activities of the State Teachers' Retirement System, which represents 24 percent of the assets of the Fiduciary Fund Type and 37 percent of the revenues of the Pension Trust Funds. We did not audit the State Teachers' Retirement System, and we were unable to obtain audited financial statements because the audit of that fund by other independent auditors was not completed by the date our report was issued.

The State has not maintained adequate fixed asset records for its governmental fund type property, plant, and equipment. Consequently, the General Fixed Assets Account Group is not presented in the accompanying financial statements prepared according to generally accepted accounting principles.

In our opinion, based upon our examination and the reports of the other independent auditors, the General Purpose Financial Statements referred to in the first paragraph present fairly the financial position of the State of California as of June 30, 1985, and the results of its operations and the changes in financial position of its Proprietary Funds and Pension Trust Funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

THE STATE OF CALIFORNIA MUST PLACE GREATER EMPHASIS ON IMPROVING THE
CONTROL OF ITS FINANCIAL OPERATIONS

Summary of Findings

The State of California has taken some action to improve its financial controls and accountability in recent years. Nevertheless, the State must place greater emphasis on and allocate a larger portion of available resources toward improving its accounting, auditing, financial, and administrative control systems. These systems are the key to ensuring that all state funds are accounted for properly, that budgets are not exceeded, that cash and other assets are protected from loss or theft, and that accurate financial information is available to the Governor and the Legislature for budgetary decisions. Breakdowns in these control systems continue to increase state costs or limit the State's effectiveness in areas such as managing state contracts with private sector firms, approving loans to California veterans, and monitoring spending by local school districts.

While the State of California corrected some of the individual weaknesses in internal controls that we reported last year, the State lost at least \$2 million in foregone interest and discounts, and it will not be able to collect over \$1 million of accounts receivable because of internal control weaknesses that we have reported each year since 1983. Furthermore, based on reports that the Auditor General issued from July 1, 1984, through December 31, 1985, we estimate that the State could have earned an additional \$8 million in interest and other types of revenue, that it spent \$58 million for nonfunctional items, and that it risks losing \$3 million in accounts receivable. These losses and potential losses have occurred because the State's overall fiscal control system did not measurably improve during this 18-month period. These losses are based on samples of the State's financial transactions and are not intended to illustrate all of the State's losses due to weaknesses in financial controls.

During our audit of the State's financial statements for fiscal year 1984-85, we found that 22 of the 32 agencies in which we performed in-depth reviews had weaknesses in the internal controls that apply to financial operations, electronic data processing, internal audits, or compliance with federal regulations governing the State's administration of federal grants. These 32 agencies account for approximately 80 percent of the State's spending. Although the opportunity to recover past losses is limited, executive agencies can prevent losses in the future by improving their internal controls. The Auditor General has made specific recommendations to help the various executive agencies make such improvements.

The State's ability to produce financial statements on time continues to be a problem. We noted weaknesses in 16 of the state agencies whose

financial operations we reviewed in detail. These 16 agencies account for approximately 75 percent of the State's spending. Fourteen agencies had deficiencies in reporting practices. These deficiencies include improperly recording transactions in the accounting records and inadequately preparing various reconciliations and year-end financial reports. As a result of these deficiencies, some agencies' financial reports were neither complete nor accurate.

Nine agencies did not adequately control the collection of revenues. Six agencies did not promptly bill for goods or services rendered or were slow in collecting money owed the State. Two agencies did not promptly deposit collections. As a result, we estimate that at least \$1.3 million of the State's potential revenues are now uncollectible, and the State lost potential interest earnings of at least \$1.5 million.

Fifteen agencies had weaknesses in controlling expenditures. As a result of the poor payment procedures in many of these agencies, two agencies spent \$11 million more than the State had authorized, the State lost approximately \$10,000 in foregone vendor discounts, and some employees were not paid appropriately. In addition, employees were allowed to terminate employment before returning state property and repaying outstanding advances.

The State cannot identify all of the assets that it owns because it continues to exercise poor accounting control over billions of dollars in fixed assets, including machinery, office equipment, and computers. For this reason, the State is exposed to an increased risk of loss of assets and cannot accurately report on general fixed assets in its financial statements.

Finally, in maintaining its accounting records, the State does not fully comply with generally accepted accounting principles, which are recognized throughout the nation. As a consequence, the State Controller must continue to spend state time and money to convert the State's financial reports so that they comply with these principles and are comparable to those of other governmental entities and, therefore, are understandable and acceptable to the investment community. Although the State has made some progress in gaining a greater degree of compliance with generally accepted accounting principles, it should continue to move toward full compliance.

We reviewed electronic data processing (EDP) activities in 13 state agencies; 8 of these agencies did not properly control their EDP activities. Failure to control EDP activities can result in unauthorized changes to computer programs and files and the processing of improper distribution of state funds. Agencies did not adequately separate incompatible duties, did not maintain good systems and program documentation to control program changes, and did not properly control access to hardware, files, and documentation.

Six of the 13 internal audit units we reviewed did not completely comply with the professional standards established by the Institute of Internal Auditors, Inc. California Government Code Section 1236 requires state agencies having internal audit units to adhere to these standards.

In three areas, agencies did not comply with state regulations that help the State maintain adequate control over budgeting, collecting, and disbursing state monies. We noted weaknesses in purchasing, school apportionments, and agency audits of service providers and educational agencies. Furthermore, in numerous instances, state agencies were not complying with federal requirements for administering federal grants.

STATE OF CALIFORNIA
STATEMENT OF FEDERAL LAND PAYMENTS
OCTOBER 1, 1983 THROUGH SEPTEMBER 30, 1984

Summary of Findings

We examined the State of California's Statement of Federal Land Payments covering the period from October 1, 1983, through September 30, 1984. Federal law requires that the Governor or the Governor's delegate submit this statement to the Bureau of Land Management within the Department of the Interior. We made our examination in accordance with both the standards for audit of governmental organizations, programs, activities, and functions, issued by the Comptroller General of the United States, as they apply to financial and compliance examinations, and the Audit Guide for the Bureau of Land Management Payments in Lieu of Taxes Program prepared by the Office of the Inspector General, U.S. Department of the Interior. Our examination included such tests of the accounting records and such other auditing procedures as we considered necessary under the circumstances.

The Statement of Federal Land Payments was prepared on the basis of cash disbursements made by the State of California to counties of the State for distribution to eligible units of local government under Title 31, United States Code, Section 6901 et seq. This basis of reporting federal land payments is prescribed by U.S. Department of the Interior Rules and Regulations (Title 43, Code of Federal Regulations, Section 1881.0-5) and is in accordance with the provisions of the October 16, 1978, decision of the Comptroller General of the United States (B-167553). The Statement of Federal Land Payments is not intended to be presented in conformity with generally accepted accounting principles. This report is intended solely for filing with governmental regulatory agencies and is not intended for any other purpose.

In our opinion, the Statement of Federal Land Payments for the period from October 1, 1983, through September 30, 1984, presents fairly the payments made by the State of California to counties of the State for distribution to qualified units of local government under Title 31, United States Code, Section 6901 et seq., in accordance with the regulatory requirements pertaining to the basis of accounting described in the preceding paragraph, a basis that was applied in a manner consistent with that of the preceding year.

STATE OF CALIFORNIA
STATEMENT OF SECURITY ACCOUNTABILITY
OF THE STATE TREASURER
JUNE 30, 1985

Summary of Findings

We have examined the Statement of Security Accountability of the State Treasurer as of June 30, 1985. We made our examination in accordance with generally accepted auditing standards and California Government Code Section 13299.1. Our examination included a count of all securities held for safekeeping purposes in the State Treasurer's vault and included such other tests of the accounting records and auditing procedures as we considered necessary in the circumstances.

In our opinion, the statement presents fairly the security accountability of the State Treasurer as of June 30, 1985, in accordance with the basis of accounting described in Note 1.

STATUS REPORT: THE STATE LOAN TO THE ALAMEDA COUNTY OFFICE OF EDUCATIONSummary of Findings

In August 1985, the Alameda County Office of Education (ACOE) issued a \$162,507 warrant for the final payment on the principal of its \$5.5 million loan from the State. Chapter 46, Statutes of 1984, allowed the ACOE five years to repay this loan. When preparing its 1984-85 budget, the ACOE projected that there would be a balance payable on the loan principal as of June 30, 1985, of \$1,248,350. However, the actual balance payable on the loan principal as of June 30, 1985, was \$162,507, a decrease of \$1,085,843. Therefore, the ACOE was able to repay the loan more quickly than it had originally anticipated.

Two factors were primarily responsible for the decrease in the loan principal as of June 30, 1985. First, representatives of the State's Superintendent of Public Instruction changed the loan repayment method. As a result, more funds were applied from the transportation apportionment than the ACOE originally anticipated. Second, the ACOE originally anticipated a deficit for the transportation program, but the State ultimately funded the program in full. The effect of these two factors on the loan repayment was partially offset because the ACOE's regular apportionment during 1984-85 was not reduced by as much as it had originally planned.

On September 3, 1985, the Alameda County Board of Education approved the 1985-86 budget submitted by the ACOE. The budget anticipates total income of \$10,686,152 and expenditures of \$10,595,578; thus, income exceeds expenditures by \$90,574. This \$90,574, combined with the beginning fund balance of \$383,492, allowed the ACOE to make the final payment on the loan principal of \$162,507 in August 1985 and still have an ending balance of \$311,559, which has been reserved for contingencies.

The ACOE ended the 1984-85 fiscal year with a cash balance of \$958,638. To maintain a positive cash balance throughout 1985-86, the ACOE requested that the Alameda County Treasurer advance funds to the ACOE's account. If the ACOE is able to realize its cash flow projection for 1985-86, it will have a positive cash balance as of April 1986, the date by which the ACOE must repay any advance it may have received from the Alameda County Treasurer.

The ACOE has implemented several procedures to ensure that the fiscal problems it experienced in the past do not recur. During 1984-85, the county superintendent of schools issued the "Superintendent's Management Plan for the Improvement and Review of Services and Programs." This plan includes policies and procedures related to the

county board of education's role, the county superintendent of schools' role, and specific account budget management systems to be employed. If followed, the procedures included in the plan should provide a reasonable basis for the ACOE's continuing financial stability.

STATE DEPARTMENT OF EDUCATION
SURPLUS PROPERTY - HARDWARE PROGRAM
FINANCIAL AND COMPLIANCE AUDIT REPORT
YEARS ENDED JUNE 30, 1983 AND 1984

Summary of Findings

We examined the balance sheets of the California State Department of Education's Surplus Property - Hardware Program (Hardware Program) as of June 30, 1983 and 1984, and the related statements of revenues, expenses, and changes in retained earnings and changes in financial position for the years then ended. Except as set forth in the second through fourth paragraphs, we made our examination 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.

The Hardware Program has incurred significant losses in the past but has been able to continue to operate through cash advanced by the Commodities Program. The amount of the cash advanced is shown as Due to Commodities Program. We could not determine the accuracy of the balance of the Cash account and the Due to Commodities Program account because it was not practicable to audit the cash activity of both the Hardware Program and the Commodities Program, since the two programs were separated into individual accounts within the Surplus Property Revolving Fund on July 1, 1981.

In addition, prior to December 1983, the State of California did not require retention of purchase documents beyond four years. Consequently, the State Department of Education does not maintain sufficient records to support the acquisition cost of equipment. The accounting records do not permit the application of alternative auditing procedures regarding the balance of the Equipment account in the amounts of \$372,400 at June 30, 1983, and \$382,327 at June 30, 1984, and the related Accumulated Depreciation balances of \$365,738 and \$368,508, respectively.

Furthermore, many of the expenses are allocated first at the fund level and frequently again at the program level. Because the State Department of Education's accounting system does not provide an adequate audit trail, we found it impracticable to test transactions at the program level. We could not apply alternative procedures regarding the expenses by category; therefore, we could not determine the accuracy of the balances in the various operating expense accounts.

Chapter 196, Statutes of 1984, required the transfer of the Hardware Program's assets and liabilities, except for the amount due to the Commodities Program, from the State Department of Education to the Department of General Services on July 1, 1984. However, the State

Department of Education transferred only the Hardware Program's equipment and continued to account for the remaining assets and liabilities. On February 11, 1985, the federal government agreed to allow the State Department of Education to transfer the remaining assets and liabilities of the Hardware Program to the Commodities Program and specifically approved the State Department of Education's request to forgive the loan from the Commodities Program to the Hardware Program.

Because we were unable to apply alternative auditing procedures to enable us to determine the accuracy of the balance of the Cash, Equipment, Due to Commodities Program, Retained Earnings, and various operating expense accounts, we are unable to express, and we do not express, an opinion on the financial statements referred to above.

SOME PRO-RATA COSTS COULD BE MORE EQUITABLY ALLOCATED

Summary of Findings

The Department of Finance's (department) methods of allocating overhead (pro-rata) costs appear reasonable and appropriate, with two exceptions. Some of the costs for Health Benefits for Retired Annuitants (HBRA) are inappropriately allocated to all state agencies. In addition, the costs of providing personnel and payroll services to state agencies would be more equitably allocated on the basis of personnel positions rather than personnel years, as the costs are now allocated.

The HBRA costs that are allocated to state agencies include the costs for retired judges, who are not retired state employees. The costs for the retired judges should be allocated to the Judges' Retirement System rather than to all state agencies. In fiscal year 1984-85, the health benefit costs for these retirees amounted to approximately \$960,000. In addition, pro-rata allocations include the costs of health benefits that the State pays for retirees of the district agricultural associations. Presently, these costs are not allocated to the district agricultural associations, which should pay the health benefit costs of their retirees. For fiscal year 1984-85, the health benefit costs for retirees of the district agricultural associations amounted to approximately \$337,000.

As an alternative to the department's method, we developed a model to allocate pro-rata costs for HBRA. Our model distributes the costs for HBRA on the basis of the actual number of retirees from state agencies rather than the cost of health benefits for current employees. We also developed a model to allocate pro-rata costs for services to meet the personnel and payroll needs of state agencies. Our model measures the level of service provided to each state agency on the basis of personnel positions rather than personnel years. Our model resulted in an increase of \$830,900 (3.3 percent) to funds that are not billed for pro-rata costs and a decrease of \$830,900 (6.4 percent) to funds that are billed for pro-rata costs for fiscal year 1984-85. We believe that the costs for central services provided to state agencies are more equitably allocated under our model than they are under the department's current method of allocation.

RECOMMENDATIONS

In allocating costs for Health Benefits for Retired Annuitants, the Department of Finance should include costs for retirees of state agencies only. The department should not include in the pro-rata allocation the State's costs for health benefits for retired judges and retired employees of district agricultural associations. The costs of health benefits for these retirees should be paid by the Judges' Retirement System and the district agricultural associations.

To more equitably allocate the central service agencies' costs to provide personnel and payroll services to state agencies, the department should use personnel positions rather than personnel years as the workload measure.

THE OAKLAND UNIFIED SCHOOL DISTRICT MAY HAVE A GENERAL FUND DEFICIT BY
JUNE 30, 1986

Summary of Findings

In the current fiscal year and in each of the previous four fiscal years, the Oakland Unified School District (district) has budgeted expenditures that exceeded its anticipated revenues. In addition, the district has failed to adhere to its budget and has bypassed budgetary controls. As a result, unless the district receives additional revenue or substantially reduces its expenditures, it will have a general fund deficit of approximately \$2 million by June 30, 1986. If the district continues to spend more than it receives in revenues, it will incur a deficit of up to \$6 million by the end of 1986-87 and \$14 million by the end of 1987-88.

Although the district may end fiscal year 1985-86 with a deficit in its general fund, it will have adequate cash balances to meet its current needs. If the district complies with our recommendations, it should not require financial assistance in the future.

Between June 30, 1982, and June 30, 1985, the district reduced the fund balance in its general fund from \$6.8 million to \$2.1 million because the district planned each year to spend more than it received. Since its June 30, 1985, fund balance will not cover the difference between the current fiscal year's revenues and expenditures, we project that the district will have a deficit of approximately \$2 million in its general fund by June 30, 1986.

Furthermore, the district does not adhere to its budget. In fiscal years 1984-85 and 1985-86, the district's seven-member board approved salary increases that exceeded the amounts budgeted for salaries and the resources available to the district. For example, in fiscal year 1984-85, the district spent approximately \$900,000 more than it budgeted in its child development fund for salaries and related benefits. Each salary increase has resulted in, or will result in, a deficit in the fund used to pay the increase.

The district also does not comply with procedures it has adopted to control the hiring and transfer of employees, and the district sometimes bypasses its budgetary controls. As a result, the board approved the hiring of at least four employees for whom no formal request had been made. The board also approved the hiring of two employees for whom no authorized budgeted position was available. In addition, the district transferred five employees for whom no authorized budgeted position was available. Finally, the Position Control Budget Report, which the district uses to determine whether an authorized position exists, contains errors that could lead the district to erroneously approve or reject a request for the hire or transfer of an employee.

Recommendations

The Oakland Unified School District should plan to spend less than it receives until its deficit is eliminated and an adequate fund balance is established. In addition, the district should follow the board's policies when employees are hired, transferred, or promoted. Finally, the Legislature should not provide the district with a loan.

THE BOARD OF OSTEOPATHIC EXAMINERS IMPROPERLY SPENT STATE MONEY TO
SUPPORT ITS LEGAL ACTION AGAINST SEATING TWO PUBLIC MEMBERS

Summary of Findings

In fiscal year 1984-85, the Board of Osteopathic Examiners (board) contracted with an attorney to take legal action against the Legislature's authorization to seat two public members on the board. Based on provisions in the Budget Act of 1984, the board had no authority to contract for these legal services after July 1, 1984. The attorney has billed the board \$19,432 for services rendered without a valid contract. The board attempted to pay the attorney with state funds, but it could not do so because it did not have a valid contract and could not obtain a waiver of the budgetary provisions. Private individuals have paid approximately \$12,500 of these legal costs, but these payments were not reflected on the attorney's confirmation of the balance due to him.

Furthermore, the board spent \$1,500 for costs directly attributable to the lawsuit. Additional costs were incurred in conjunction with valid board business, but we cannot identify specific costs related to the lawsuit because the board members and staff did not maintain time records.

In addition, the board inappropriately deposited into a commercial bank account instead of the State Treasury a \$40,000 fine received from a disciplinary action. This money was then transferred to the corporation "Doctors for the Support of Osteopathic Medicine, Inc." The State has lost not only \$40,000 but also approximately \$4,400 in interest.

Finally, inappropriate expenses incurred by the former executive director and former general counsel were paid by the board. These charges, totaling more than \$17,113, include travel, storage of the general counsel's personal office items, and telephone costs.

Recommendations

The Board of Osteopathic Examiners should ask the Office of the Attorney General to pursue recovery of the \$40,000 plus accrued interest. The board should also consider asking the Attorney General or the appropriate district attorney to pursue criminal action against the parties involved in the transactions with "Doctors for the Support of Osteopathic Medicine, Inc." Furthermore, the board should recover from the former board members and responsible staff the \$1,500 paid for supporting the board's legal action against seating the public board members. Finally, the board should attempt to recover at least \$16,806 in improper travel, moving and storage, and telephone costs from the former general counsel and \$307 in improper telephone charges from the former executive director.

REPORT ON THE FINANCIAL CONDITION OF THE PERALTA COMMUNITY COLLEGE DISTRICT

The Auditor General contracted with a private consultant to provide an analysis of the financial condition of the Peralta Community College District (district) to determine whether actions taken by the district are likely to resolve the financial problems of the district. Since the district board had taken no action as of January 2, 1986, to resolve the district's projected financial problems, the analysis of this report focuses on trends and projections of district expenditures, revenues, and average daily attendance (ADA).

Summary of Findings

At the beginning of the 1985-86 fiscal year, the district had a negative general fund balance of approximately \$4.2 million. The budget prepared by the district chancellor for 1985-86 projected a negative general fund balance of approximately \$1.17 million in addition to an obligation to repay the \$2.0 million loan to the State. However, our projections indicate that the district will have a negative general fund balance at the end of the 1985-86 fiscal year of approximately \$2.12 million. Furthermore, district financial projections indicate that the district will face a deficit of approximately \$11.8 million by the end of 1988-89 if no budgetary adjustments are made. The expenditure reduction plan that has been submitted to the district board projects a \$1.4 million surplus by the end of 1988-89. However, our projections indicate that, based on past district experience, the district would need approximately \$4.44 million in additional revenues or additional expenditure reductions beyond those contained in the financial plan submitted by the district chancellor to the district board.

The principal source of district revenue is state funds which are provided on the basis of ADA. The district's ADA is projected to drop from over 19,000 in 1982-83 to less than 15,000 in 1985-86. The district has not reduced its staff to correspond to declines in enrollments over the past several years. The district's ADA has declined by approximately 26 percent since 1982-83 while the number of staff positions has declined by 5.6 percent.

Recommendation

Based on these projections, we recommend that the district board ask the district chancellor to prepare plans for additional expenditure reductions beyond those already submitted to the district board.

CALIFORNIA STUDENT AID COMMISSION
STATE GUARANTEED LOAN RESERVE FUND
FINANCIAL AUDIT REPORT
YEARS ENDED JUNE 30, 1984 AND 1985

Summary of Findings

The California Student Aid Commission (commission) requested this audit to meet its obligation to provide audited financial statements to lenders participating in the California Educational Loan programs. The State Guaranteed Loan Reserve Fund reflects the financial activities of three programs: the Guaranteed Loan Program, the State Guaranteed Loan Program, and the California Loans To Assist Students Program. Because the Guaranteed Loan Program has been replaced by the State Guaranteed Loan Program, the Guaranteed Loan Program no longer provides loans and contains only residual activity. The State Guaranteed Loan Program and the California Loans To Assist Students Program are collectively known as the California Educational Loan Programs.

This audit shows that the student loan programs accumulated a fund balance of \$85 million as of June 30, 1985. This represents an increase of approximately \$23 million since the end of the previous fiscal year. Loan defaults during the year amounted to approximately \$126 million. The State's share of the loan defaults amounted to approximately \$9 million, an increase of almost \$7 million over the previous fiscal year.

In our opinion, the commission's financial statements present fairly the financial position of the State Guaranteed Loan Reserve Fund as of June 30, 1985, and the results of its operations and the changes in fund balance for the year then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

INVESTIGATIVE AUDITS

Since January 1980, when the Reporting of Improper Governmental Activities Act went into effect, nearly 13,000 state employees and other people interested in reporting wrongdoing in state government have contacted the Investigative Audit Unit. While many of these contacts did not result in the filing of a complaint, 1,067 complaints have been filed; 89 of these were filed during the 12 months covered by this summary. What follows is a general discussion of the complaints we received and some specific examples of complaints we have investigated.

The Investigative Audit Unit receives most allegations of improper governmental activity over the Auditor General's Hotline, which is a toll-free telephone line available throughout the State. (The toll-free number is 800-952-5665.) Some complaints are received by mail and some through personal visits by complainants. In September 1985, the Auditor General initiated an aggressive campaign to advertise the hotline. We distributed over 165,000 leaflets to state and university employees throughout California to inform them of the hotline's existence and to encourage them to report wasteful, inefficient, or fraudulent activities. During the three months before the leaflets were distributed, we received 301 calls that resulted in 6 investigations. During the nine months following the distribution of the leaflets, we received over 3,400 calls on the hotline. These calls have resulted in 83 investigations.

Each complaint filed with the Investigative Audit Unit results in a preliminary investigation to determine if the reported impropriety falls within the Auditor General's jurisdiction and whether there is sufficient evidence of wrongdoing to warrant a formal investigation. If the preliminary investigation reveals proper jurisdiction and sufficient evidence, the Auditor General initiates a formal investigation of the complaint. Table 1 shows the disposition of the

89 complaints that were filed with the Investigative Audit Unit during fiscal year 1985-86. Our investigations substantiated the occurrence of an improper governmental activity in 17 of the 33 cases that were closed.

TABLE 4
DISPOSITION OF COMPLAINTS
JULY 1, 1985 TO JUNE 30, 1986

	<u>Number</u>	<u>Percent</u>
Cases closed after preliminary investigation	20	22
Cases closed after formal investigation	13	15
Investigations in progress	<u>56</u>	<u>63</u>
Total	<u>89</u>	<u>100</u>

Allegations of improper governmental activity fall into four major categories: mismanagement, improper personnel practices, abuse of state resources, and misuse of state vehicles. Most of the allegations concerned improper personnel practices and abuse of state resources. In both categories, the Investigative Audit Unit substantiated a total of 50 percent or more of the allegations that it investigated. Table 2 on the following page shows the types of allegations received since July 1, 1985, and the number that have been substantiated.

TABLE 5
**TYPES OF COMPLAINTS
 RECEIVED AND INVESTIGATED
 JULY 1, 1985 TO JUNE 30, 1986**

<u>Type</u>	<u>Complaints Received</u>	<u>Complaints Substantiated</u>	<u>Complaints Unsubstantiated</u>	<u>Investigations in Progress</u>
MISMANAGEMENT				
Poor administrative decisions	1	0	0	1
Improper contracting procedures	<u>5</u>	<u>0</u>	<u>1</u>	<u>4</u>
Subtotal	<u>6</u>	<u>0</u>	<u>1</u>	<u>5</u>
IMPROPER PERSONNEL PRACTICES				
Time and attendance abuses	24	4	2	18
Failure to follow personnel rules	<u>10</u>	<u>2</u>	<u>2</u>	<u>6</u>
Subtotal	<u>34</u>	<u>6</u>	<u>4</u>	<u>24</u>
ABUSE OF STATE RESOURCES				
False travel claims	5	0	3	2
Waste of state funds	3	0	1	2
Misuse of employees or property	18	5	3	10
Miscellaneous	<u>5</u>	<u>1</u>	<u>1</u>	<u>3</u>
Subtotal	<u>31</u>	<u>6</u>	<u>8</u>	<u>17</u>
MISUSE OF STATE VEHICLES				
Used for improper purposes	<u>18</u>	<u>5</u>	<u>3</u>	<u>10</u>
Total	<u>89</u>	<u>17</u>	<u>16</u>	<u>56</u>

In the following sections, we describe each of the four types of improper governmental activity and provide examples of some of the complaints that we investigated and substantiated. Each case also shows the action taken by the responsible state agency.

MISMANAGEMENT

State agencies and employees sometimes fail to meet their responsibilities to manage state programs in the most efficient and effective manner. They may initiate wasteful purchases or fail to follow proper contracting or bid procedures. In other instances, state employees may make poor administrative decisions. These kinds of practices typically result in misuse or waste of state funds or in a violation of administration rules or regulations. Case A provides an example of mismanagement.

Case A

An agency employee failed to act promptly on a complaint filed against a real estate licensee. The employee had gathered evidence that would have allowed the agency to file charges against the licensee. Although the employee had sufficient time to complete his investigation, file a report, and make an appropriate recommendation, the employee allowed the statute of limitations to run out, and the agency was prohibited from taking any action.

As a result of the Auditor General's investigation, the employee was counseled, and the incident was recorded in the employee's personnel file. A similar incident in the future will result in punitive action against the employee.

IMPROPER PERSONNEL PRACTICES

State agencies and state employees sometimes fail to meet their responsibilities as employer and employee. An employing agency may fail to follow the rules and regulations governing the hiring, promoting, and dismissing of employees. An employee, on the other hand, may not work a full eight-hour day but still receive full pay, or an employee may conduct personal business on state time. Activities

such as these typically result in a violation of fair employment practices or in a misuse or waste of state resources. The following cases present examples of improper personnel practices.

Case B

A vocational rehabilitation counselor was guilty of unprofessional conduct toward his clients and his co-workers. Two of the counselor's clients had complained of sexual harassment; a third client had not complained for fear of losing her rehabilitative training.

As a result of the Auditor General's investigation, additional cases of misconduct toward clients and co-workers were revealed, and the counselor was dismissed from state service.

Case C

An agency employee was not working a full eight-hour shift. The employee was placed under surveillance and was observed not working the required eight hours. The employee concealed his unauthorized absences by falsifying his attendance record.

As a result of the Auditor General's investigation, the employee was dismissed from state service.

Case D

Two agency employees submitted false information on their applications for a Civil Service examination.

As a result of the Auditor General's investigation, the employees' names were withdrawn from the examination, and they received formal letters of reprimand, which were placed in their personnel folders.

ABUSE OF STATE RESOURCES

State agencies and employees sometimes misuse or misappropriate state resources. Such misuse can occur through the filing of false travel claims, the use of state personnel for nongovernmental purposes, or the use of state telephones and postage for personal purposes. Practices of this type typically result in a waste of state funds and sometimes border on fraud and embezzlement. The following cases illustrate allegations of the abuse of state resources that the Auditor General investigated.

Case E

Two agency employees filed false travel claims. The employees traveled on Tuesdays and returned on Thursdays but claimed out-of-town expenses for the entire week. The per diem and salary costs associated with these employees' false travel claims totaled over \$3,600.

As a result of the Auditor General's investigation, one of the employees was suspended for 90 days without pay and was required to repay his portion of the unsubstantiated travel claims. The other employee was dismissed from state service.

Case F

An agency employee misappropriated state property and influenced a subordinate to make a false statement concerning the employee's use of the property. The employee used state funds to purchase a carburetor. On the requisition form, the employee stated that he needed the carburetor to repair a specific agency vehicle. The employee claimed to have installed the carburetor on the vehicle, and a subordinate stated that he had observed the employee installing the carburetor. However, the carburetor was not designed to fit the vehicle in question or any other vehicle that the agency owned.

As a result of the Auditor General's investigation, the employee was dismissed from state service, and the subordinate received a 5 percent pay reduction for six months.

MISUSE OF STATE VEHICLES

State employees are sometimes authorized to use state automobiles and trucks in conducting their official duties. Employees sometimes abuse this privilege, however, by using the vehicles for personal purposes or for unauthorized trips. In other instances, state employees may fail to observe all traffic laws. Practices such as these may result in a waste of state funds or in a threat to the safety of the state employee and the general public. The following case illustrates allegations of misuse of state vehicles that the Auditor General investigated.

Case G

An agency employee used a state vehicle to commute between his home and the location of his temporary work assignment. The employee also claimed and received reimbursement for lodging expenses that he did not incur while staying at home.

As a result of the Auditor General's investigation, the employee received a 21-day suspension without pay and was required to reimburse the State for \$2,880 of unauthorized per diem.

PERFORMANCE AUDITS

The Performance Audit Division assists the Legislature in determining whether state agencies and other agencies receiving state funds are conducting programs economically, efficiently, and effectively. From July 1, 1985, through June 30, 1986, the Performance Audit Division issued 39 reports concerning programs conducted by 26 different agencies. These reports included recommendations that should save the State more than \$121 million. We also recommended changes in procedures that should enable state agencies to function more effectively.

Among the major subjects we discussed in our audit reports were the following: management controls at the California Exposition and State Fair and at local fairs, management of state vehicles, methods for determining rates for clients in residential care facilities, the State's administration of its hazardous waste management program, and the management practices of state prisons.

RESULTS OF THE PLEBISCITE OF MEMBERS OF THE STATE BAR OF CALIFORNIASummary of Findings

Chapter Two, Statutes of 1985, directed the Auditor General to conduct a plebiscite of the members of the State Bar of California on the appropriate functions of the State Bar. To conduct the plebiscite, the Auditor General mailed questionnaires to 101,000 members of the State Bar, asking for their opinions on issues such as the appropriate role of the State Bar in disciplining attorneys and advocating legislation. In the nine-question survey, the Auditor General also asked State Bar members which activities of the State Bar should be supported by the membership fee, whether attorneys should be required to carry malpractice insurance, and whether the State Bar is the appropriate organization to investigate complaints against attorneys. As required by the statute, the Auditor General had the survey's questions approved by the chairs and the vice-chairs of both the Senate Judiciary Committee and the Assembly Judiciary Committee before it was mailed.

The Auditor General received responses from 44,988 members of the State Bar. This report presents the results of the survey in three ways: it details the total number and percent of responses to each question; it categorizes responses according to the number of years the respondent has practiced law; and it categorizes responses according to the type of law the respondent practices.

According to the responses to some of the survey's questions, 45.3 percent of the respondents believe that the State Bar is doing an adequate job of disciplining attorneys involved in misconduct; 38 percent do not believe the State Bar is doing an adequate job. Responding to a separate question, 79.9 percent of the respondents said they believe that the State Bar is the appropriate organization to receive and investigate complaints against attorneys; 16.4 percent would delegate this responsibility to a state agency that is independent of the State Bar. In addition, 45.5 percent of the respondents believe that the State Bar's advocacy of legislation should be limited to supporting only issues directly related to the regulation of the legal profession; 48.8 percent believe that the State Bar should be able to support or oppose other legislation as well. When asked whether advocacy of legislation related to the regulation of the legal profession should be paid for by mandatory or voluntary fees, 60.7 percent of the respondents checked "mandatory," while 31 percent checked "voluntary." On the other hand, only 24.2 percent of the respondents believe that mandatory fees should be used to support proposals not directly related to the legal profession; 69.2 percent believe this type of advocacy should be paid for by voluntary fees.

THE STATE'S ROLE IN THE REGULATION OF THE WESTERN COMMUNITY MONEYCENTERSummary of Findings

The Department of Corporations (department) does not have adequate methods of detecting the conditions that led to the failure of the Western Community MoneyCenter (MoneyCenter). As a result of the failure of the MoneyCenter, the State is at risk to the extent that the MoneyCenter's assets are insufficient to repay the \$63 million loan that the State guaranteed to pay off the MoneyCenter's thriftholders.

The department did not adequately examine and monitor the financial condition of the MoneyCenter during the time that the MoneyCenter was rapidly expanding. Therefore, the department did not detect sooner the poor management practices at the MoneyCenter that resulted in major losses from delinquent loans. Nor did the department's examination procedures address the quality of the loans that the MoneyCenter was making. The rapid growth that the MoneyCenter experienced between August 1981 and July 1983 would have triggered a special examination of loan quality by the FDIC.

In addition, the department did not examine and monitor the MoneyCenter frequently enough to detect problems. The department's policy is to conduct a quarterly examination within 60 to 90 days of a change in ownership. However, the department conducted its first quarterly examination six months after the change of ownership. Furthermore, the department's policy is to conduct a full regulatory examination once each year. However, the department did not conduct a full regulatory examination during 1982. The department began its first full regulatory examination in June 1983. In addition, the department failed to document its review of the MoneyCenter's reports for the 11 months between August 1982 and June 1983 when the MoneyCenter's thrift obligations increased by almost 400 percent.

Finally, the department did not use the authority it had to disapprove the MoneyCenter's request for additional branch offices. The department's examiners became aware of material weaknesses in the internal financial controls at the MoneyCenter during June and July 1983. Nevertheless, on August 22, 1983, the department approved the MoneyCenter's requests for four new branches despite evidence that the company's financial condition, as represented by its financial statements, could not be relied upon. One of these branches actually opened, and thriftholders associated with the new branch were needlessly placed at risk.

Recommendations

To provide the same level of supervision that the FDIC-insured industrial loan companies have, the department should develop a

comprehensive examination and monitoring program for the industrial loan companies that do not have or will not obtain FDIC insurance for their thriftholders' accounts. In the course of developing the joint examination program with the FDIC, the department should apply the same principles and procedures to the remaining industrial loan companies not insured by the FDIC. Furthermore, in developing its instruction manual for its examiners, the department should include instructions that require examiners to document their reviews of periodic reports sent to the department by industrial loan companies.

A COMPREHENSIVE REVIEW OF MANAGEMENT PRACTICES AT FOLSOM STATE PRISON

Our report on the management practices at Folsom was issued in two volumes. Report P-529, Volume 1, provides an overview of our findings. Report P-529, Volume 2, presents detailed audit findings and recommendations that are intended to strengthen overall administrative and physical controls at the prison.

Summary of Findings

The overall management and administration of Folsom State Prison needs to be improved. In fiscal year 1984-85, the State of California expended more than \$43 million to house approximately 3,000 inmates, many of whom are among the most dangerous in the state prison system. Folsom's numerous problems in running this 105-year-old facility are costing the State hundreds of thousands of dollars annually. Through better administrative control, these costs could be reduced and operations streamlined. Folsom's warden has been very responsive to our audit findings and has agreed to implement many of our recommendations.

The administrative problems at Folsom State Prison are wide-ranging but correctable. For example, the prison is annually spending at least \$129,000 more on meat than necessary to feed inmates adequate meals. Prison staff are eating food that was purchased for inmates, and weak controls are resulting in theft and excess consumption of food by inmates. Further, the State could save approximately \$93,300 if it hired more full-time staff rather than paying overtime to meet the staffing needs of the prison. Additionally, the State could increase its revenues by approximately \$47,000 annually if it charged more competitive rental rates to tenants living in state-owned houses on prison property. Moreover, Folsom is costing the State an undetermined amount of money for unnecessary repairs and deterioration to facilities because it lacks a preventive maintenance program. Also, the State is paying the cost to incarcerate inmates longer than legally necessary because Folsom is not providing inmates with sufficient work assignments by which to reduce their prison terms.

The prison is making errors in determining inmates' classification scores and in reporting worktime credits that inmates earn. Further, processing of inmates' appeals is not prompt, and inmates are paying unnecessarily high prices to items purchased from outside vendors because the prison is restricting inmates' choice of vendors.

In a number of areas, management performance was satisfactory. For example, meals provided to inmates are nutritionally adequate. Also, the prison no longer suspends visiting during lockdowns and appears to deny entry to visitors only for those reasons specified in the law. Further, nepotism does not appear to be a problem, and the prison has

initiated measures to reduce sexual harassment. Finally, the prison is complying with most state regulations for hiring staff, and the prison is exercising generally adequate accounting controls over disbursements.

Recommendations

The Auditor General made a variety of recommendations for improving management practices at Folsom State Prison. Recommendations were related to, among other things, maintaining prison facilities, procuring goods and services, accounting for state funds, ensuring equal opportunities for employees, and following state hiring procedures.

A REVIEW OF MANAGEMENT PRACTICES AT FOLSOM STATE PRISON, THE DEUEL VOCATIONAL INSTITUTION, AND THE CALIFORNIA INSTITUTION FOR MEN

Summary of Findings

Our review of Folsom State Prison (Folsom), the Deuel Vocational Institution (DVI), and the California Institution for Men (CIM) indicates that various problems in running these prisons are costing the State hundreds of thousands of dollars annually. While each of the prisons we reviewed has operational problems, the problems at Folsom are more serious than those at the DVI and the CIM. However, through better administrative control, the costs to run these prisons could be reduced and the operations improved.

Compared to other government agencies, Folsom, the DVI, and the CIM have very weak preventive maintenance programs for routinely inspecting and servicing their plant and equipment. For example, none of the prisons had itemized checklists for their plant and equipment or formally scheduled any preventive maintenance. In addition, in most cases the prisons had incomplete records of the date of service and staff time spent on the maintenance of buildings and equipment.

The Department of Corrections is spending a significantly greater amount on food than is necessary to feed inmates adequate meals. Because prisons have deficient management practices for restricting food consumption, prison staff are inappropriately eating food that should be eaten only by inmates, inmates are being served more food than prison policy allows, and inmates are stealing food. We estimate that the excess consumption of meat alone at the three prisons costs the Department of Corrections at least \$509,000 annually.

Each of the three prisons has deficient practices for controlling equipment, supplies, and drugs. Some of these deficiencies have resulted in the loss or theft of highly desirable items such as calculators, a television, and an exercise bicycle. In addition, at each of the three prisons, medical staff are prescribing and dispensing dangerous drugs even though they are not authorized to do so by state law.

Procurement practices at the three prisons we reviewed are deficient. All three prisons made purchases without obtaining more than one price quotation, made purchases at retail prices of items that were available at lower prices on state contracts, made purchases without approval by authorized prison staff, and made purchases without attempting to include state-certified small businesses. Further, the prisons procured services and repairs worth thousands of dollars without following appropriate procurement procedures. As a result, the prisons are unfairly limiting the number of vendors having an opportunity to do business with the prisons and are unnecessarily paying higher prices for supplies.

The Department of Corrections does not always plan effectively for all of its staffing requirements. Specifically, Folsom and the CIM require their custody personnel to work extensive overtime, which costs more than hiring regular full-time employees. Folsom and the CIM could hire a total of 67 additional full-time personnel for relief positions in lieu of paying overtime and still save approximately \$146,000 a year. Further, some Folsom, DVI, and CIM employees are working out of their job classifications in violation of state law. As a result, employees may not be adequately trained for the duties they are performing, and the State is incurring unnecessary costs when employees perform duties appropriate to job classifications that pay a lower salary. For example, if four of the employees in our sample worked in the correct job classifications, the State could have avoided salary costs of \$33,132 annually.

Two of the three prisons we reviewed are not providing a sufficient number of inmates with work, training, or education assignments as intended by state law and Department of Corrections policy. As of November 7, 1985, 23 percent (482 of 2,126) of Folsom's general population inmates were not assigned, and, as of February 3, 1986, 16 percent (465 of 2,886) of the DVI's inmates were not assigned. The inmates who are not assigned are earning time off their sentences without developing good work habits, occupying their time productively, or helping defray prison operational costs. Additionally, inmates who are legally eligible to earn work time credits at the accelerated rate are unable to reduce their prison terms as quickly as the law allows, and the State must pay the extra cost to incarcerate these inmates longer than legally necessary.

Supervisors of the vocational education programs at Folsom, the DVI, and the CIM are not following several of the Department of Corrections' policies. Class attendance records and timecards at all three prisons were inaccurate; instructors at Folsom, the DVI, and the CIM did not complete statewide job market surveys as required by Department of Corrections policies; and instructors at Folsom and the CIM did not maintain trade advisory committees for their courses for fiscal year 1984-85 as required. As a result of these deficiencies, inmates received incorrect credit for the number of hours they attended class, courses the prisons offer may not accurately reflect opportunities for employment, and labor and industry support may be lacking.

The Department of Corrections' central office could help prevent and detect many of the problems we identified at the prisons. Various units within the central office have not provided the prisons with guidelines for performing certain functions and have not adequately monitored prison activities for which they are responsible.

Recommendations

The Auditor General made wide-ranging recommendations for specific improvements in preventive maintenance, food services, controls over procuring and using equipment and supplies, fiscal controls, and vocational and academic training programs.

A REPORT ON AN AUDIT OF SECURITY MEASURES AT TWO CALIFORNIA PRISONS

The Auditor General contracted with a private consultant to assess the security measures at Folsom State Prison (Folsom) and at two of the facilities at the California Institution for Men, Chino (CIM): the CIM Reception Central (RCC) and the CIM East. The auditors analyzed a sample of serious security incidents at each prison, identified existing policies for controlling prisoners, determined the prisons' compliance with these policies, evaluated the Department of Corrections' existing policies and procedures, and reviewed the staffing at each of the three prisons.

Summary of Findings

The review of security incidents did not disclose any clear causes for the weaknesses in security. However, although the Department of Corrections' policies are generally adequate, security personnel at the prisons were not complying with some of these policies. For example, random cell searches were not thorough, documentation for other types of searches was not adequate, the movement and separation of openwalk officers was inconsistent, and appropriate procedures for controlling keys and tools were not always observed. In addition, the auditors found that the staffing at Folsom and the CIM East was generally adequate. However, the staffing at the RCC was inadequate. The auditors recommended increasing the staff by 19.3 positions.

Recommendations

The auditors recommended that Folsom construct some new inmate movement routes, add a facility to conduct strip searches, and provide showers for inmates working in prison industries. At the RCC, the auditors recommended substantial expansion in the receiving and release area and construction of a second perimeter fence around both the RCC and the CIM East. At both the RCC and the CIM East, the auditors recommended more emergency generators and emergency lighting systems.

A REVIEW OF ALLEGATIONS OF SERVICE DISRUPTIONS FOR DEVELOPMENTALLY
DISABLED CLIENTS OF THE SAN GABRIEL VALLEY REGIONAL CENTER

Summary of Findings

The services of some developmentally disabled clients in the San Gabriel Valley were disrupted after the Department of Developmental Services (department) awarded the regional center contract for the San Gabriel Valley to Inland Counties Regional Center (IRC). The service disruptions occurred when the IRC introduced a new case management system, implemented accounting controls, and revised policies for the purchasing of services for clients. However, we could not substantiate the claims made by parents and service providers that the IRC has drastically reduced or eliminated client services or improperly sought to limit or deny regional center services. In addition, according to a court decision, the developmentally disabled clients are not adequately represented on the IRC's board of directors by residents of the area served by the IRC.

Before July 1, 1985, the department contracted with the San Gabriel Valley Regional Center, Inc. (SGVRC), to operate a developmental disabilities regional center in the San Gabriel Valley. The department did not renew the SGVRC contract for fiscal year 1985-86 because the SGVRC was not properly managing the regional center. On July 1, 1985, the IRC assumed responsibility for the San Gabriel Valley regional center at the same location used by the SGVRC.

Many clients' services were disrupted after the IRC introduced a new case management system. The IRC introduced a new case management system to ensure that each client had a case counselor and to limit the caseload ratio to 62 clients to each counselor. In the process of introducing the new system, the IRC changed the counselors of many clients, and, in the process, disrupted service for these clients.

Moreover, clients' services were disrupted after the IRC implemented accounting controls. The SGVRC sent SSI payments to clients before it had received the funds from the federal government. However, the IRC implemented accounting controls that prohibit monies from being paid out before they are received from the federal government. Consequently, clients received their SSI payments later in the month from the IRC than from the SGVRC.

Clients also experienced service disruptions after the IRC revised the SGVRC policies for purchasing client services. For example, the SGVRC's policy had allowed 36 hours of respite care per month to give a client's relatives or guardians rest or vacation from caring for the client. In contrast, the IRC policy restricts the use of the 36 hours of respite care to emergencies or to the protection of the client's health. As a result, the IRC denied respite services for some parents and guardians.

In addition, the services to some clients were disrupted when the IRC made policy changes to adhere to the statutory requirement that the regional center is not to purchase services that are available through agencies that receive public funds to provide such services.

The Developmental Disabilities Area Board X and a coalition of parents filed suit against the department claiming that the IRC board was not sufficiently representative of their community and, therefore, deprived them of local control of the regional center. On March 3, 1986, a Los Angeles County Superior Court agreed and ordered that the department contract with a new governing board that meets the requirements of geographical representation by July 1, 1986.

Recommendations

To ease future transitions between regional center contractors and to provide for adequate local control, the Department of Developmental Services should contractually require a transition plan similar to the IRC's corrective action plan. The plan should specify the policies for providing and purchasing services, specify the services that the new contractor must bring into compliance with state law and regulation, and specify the procedures for meeting the statutory requirements for local representation. The plan should also establish a timetable for completing the takeover of the new service area and provide for department monitoring during and after the takeover.

RECOMMENDATION FOR A RESIDENTIAL CARE RATE STRUCTURE

Summary of Findings

In establishing a rate structure for clients in residential care facilities, the State of California should use the following cost categories: basic living costs, indirect costs of operating a facility, and costs mandated by legislation or licensing requirements. Basic living costs are applicable to all client groups and include the salaries of the staff who provide the basic care such as housekeeping, laundry, and food preparation. These costs also include the costs for food, utilities, clothing, and personal care items. Indirect costs include items such as employee benefits, supplies, special programs, repairs and maintenance, transportation, and taxes. Mandated costs are those that residential care facility owners incur as a result of legislative, departmental, or county requirements. Mandated costs include expenses such as employer training, bonding of certain employees, providing clients access to telephones, and installing facility improvements to meet safety standards. Finally, the private owners of residential care facilities should receive a return on their investment.

An annual review of the residential care rate structure ensures that the rates reflect the current cost of living. If state agencies do not review the rate for residential care each year, the agencies should use economic indices, such as the Consumer Price Index or the California Necessity Index, to adjust the rate to reflect the current cost of living.

Recommendations

We recommend that the State of California, in developing a rate structure for clients in residential care facilities, use the following categories of cost: basic living costs, indirect costs of operating a facility, costs mandated by legislation or state licensing requirements, and a reasonable return on investment for privately owned facilities. If state agencies do not review residential care rates annually, we recommend that these agencies use an economic index, such as the Consumer Price Index or the California Necessity Index, to adjust the rate to reflect the current cost of living.

To determine if there are significant differences in costs attributable to the geographic location of a facility, state agencies should include in their statewide rate studies residential facilities in both urban and rural areas.

A REVIEW OF THE STATE DEPARTMENT OF EDUCATION'S ADMINISTRATION OF CHILD DEVELOPMENT PROGRAMS

Summary of Findings

Contractors who run child development programs generally comply with the State's standards for the use of child development funds. The Department of Education (department) ensures that contractors receive only those funds they earn and that appropriate action is taken to recover state funds when overpayments are made. However, contractors do not always comply with the State's standards for program quality, and while the department's Child Development Division (CDD) conducts program quality reviews to identify such problems, the CDD does not always ensure that these deficiencies are corrected. The director of the CDD has stated that a lack of staff limits the department's ability to monitor program quality but that some additional resources will be available for monitoring during the 1986-87 fiscal year.

Because most programs are full, subsidized child care is not immediately available to some children who are at risk of being abused, neglected, or exploited. According to the director of the CDD, overall demand for subsidized child development programs exceeds their availability. Officials at children's protective services agencies have stated that children at risk often must wait two months or more before they are enrolled in a subsidized child care program.

A REVIEW OF LOCAL EMERGENCY MEDICAL SERVICES SYSTEMS

Summary of Findings

In 1981, Division 2.5 of the Health and Safety Code established the State Emergency Medical Services Authority (authority) to coordinate and integrate all state activities concerning emergency medical services. While the State does not yet have a standardized, coordinated emergency medical services (EMS) system, the authority is establishing statewide standards for developing EMS systems and for training and certifying emergency medical technicians. The authority is also drafting regulations concerning the implementation of trauma care systems.

Neither the authority nor the local EMS agencies are adequately assessing the effectiveness of their hospital services or the effectiveness of their EMS systems in reducing incidents of death and disability. Most local agencies gather some data to analyze prehospital services and to assist them in decisions such as how to use ambulance and communications units. However, because hospitals are reluctant to provide information, the agencies have collected from the hospitals only limited data, if any, that could be used to assess EMS systems. Another barrier to the assessment of local EMS agencies is that the authority has not yet completed its development of a statewide data management system.

Furthermore, at least three hospitals in Alameda and Contra Costa counties have not provided the emergency medical services they were licensed to provide. The division's files on hospitals in Alameda and Contra Costa counties indicate that at least 20 potentially life-threatening incidents occurred between January 1984 and August 1985 when surgical treatment of some patients was delayed because emergency room neurosurgeons were not available. In some instances, patients were taken to three different hospitals before neurosurgical services could be obtained.

Recommendations

The Emergency Medical Services Authority should complete its development of a statewide data management system that includes data compiled at both the state and local levels and develop a plan that will ensure that hospitals provide EMS agencies with assessment data. The authority should also publish and implement its trauma care regulations as soon as possible.

The Alameda County and Contra Costa County EMS agencies should proceed with the implementation of trauma care systems within their counties.

Finally, the Department of Health Services' Licensing and Certification Division should clarify the definition of "unusual occurrences" as it appears in Section 70737(a) of the California Administrative Code. This section requires hospitals to report incidents that threaten the welfare, safety, or health of patients. The division should also ensure that hospitals comply with this requirement.

LACK OF MANAGEMENT CONTROLS AND SELF-GENERATED REVENUE HAS LED TO THE CALIFORNIA EXPOSITION AND STATE FAIR'S LACK OF FISCAL INDEPENDENCESummary of Findings

The California Exposition and State Fair (Cal Expo) has not been financially self-sufficient and will probably not become financially self-sufficient if it relies on historical sources of income. Cal Expo's budget for fiscal year 1984-85 was approximately \$11.54 million, approximately \$1.75 million of which it received from the State's General Fund. Cal Expo's poor management controls have contributed to its failure to become self-sufficient. For example, Cal Expo does not have an adequate fiscal reporting system, does not follow proper contracting procedures, does not control its assets to prevent loss or theft, does not follow a program of regular maintenance to prevent its facilities from deteriorating into a state of disrepair, and does not fully promote the rental of its facilities during the period between fairs. However, even if Cal Expo's management corrects the foregoing deficiencies, Cal Expo may not attain self-sufficiency and may continue to require additional financial support.

Although state law requires Cal Expo to work toward a goal of fiscal independence from the State's General Fund, Cal Expo has not yet achieved this goal but continues to rely on the General Fund. For fiscal year 1984-85, Cal Expo had a \$1.45 million operating deficit.

Some of Cal Expo's financial problems can be attributed to the fact that Cal Expo does not have a fiscal reporting system that provides adequate information for effective fiscal management. For example, for fiscal years 1982-83 and 1983-84, Cal Expo did not have records of budgeted and actual expenditures. Although Cal Expo began maintaining records of budgeted and actual expenditures during fiscal year 1984-85, these records were inaccurate because staff did not encumber approximately \$570,000 in expenditures related to contracts and purchases of goods and services. Because of the lack of an accurate fiscal reporting system, Cal Expo has been unable to adequately monitor its revenue and control its expenditures. In one instance, Cal Expo had to obtain \$198,000 in emergency funding to prevent a utility company from turning off its electricity.

Additionally, Cal Expo is not using proper contracting procedures. Cal Expo does not monitor revenue-producing contracts to ensure that the proper amount of revenue is received from contractors and that contractors' payments to the State are prompt. For example, because it did not monitor a contract, Cal Expo may have lost at least \$100,000 of a \$142,000 obligation from a contractor. Also, by not enforcing contract terms to ensure the best interests of the State, Cal Expo may have lost the opportunity for substantial capital improvements required of a contractor. We question at least \$785,800 of improvements that the contractor claims to have made at Cal Expo.

In addition, because of poor inventory control procedures, Cal Expo has not properly protected its physical assets against loss or theft. For example, Cal Expo does not have sufficient procedures to ensure that all equipment is included on the inventory records, that equipment which is disposed of is removed from the listing, that sensitive equipment is properly controlled, that equipment is assigned to locations or responsible officials, and that accounting records are reconciled to inventory records. Because of these weaknesses, 264 pieces of equipment worth approximately \$106,000 were on the inventory listing but could not be located, and 339 pieces of equipment worth approximately \$125,500 were not on the inventory but should have been. Further, we estimate that the value of 290 pieces of equipment on the inventory is understated by approximately \$175,000.

Further, Cal Expo is incurring additional costs because it does not have a program for routine and preventive maintenance. Engineers from the California Department of Food and Agriculture estimated that it will cost \$4.6 million to repair Cal Expo's facilities. Because Cal Expo does not have an adequate maintenance program, some of Cal Expo's facilities are prematurely deteriorating, necessitating additional repair costs and limiting the useful life of the facility.

Finally, although Cal Expo has increased its revenue by renting its facilities over the last two years, Cal Expo's rental practices do not ensure maximum rental revenue. Although certain physical limitations of the facilities may inhibit their use, Cal Expo does not adequately market its facilities, it does not identify its cost of operating rental facilities, and it allows renters too many days to set up and tear down events.

Since our audit began, Cal Expo has taken steps to correct some of the deficiencies identified in this report. To improve its fiscal reporting system, Cal Expo's accounting division has set up an allotment expenditure ledger to record budgeted and actual expenditures for fiscal year 1985-86. The accounting division also set up a system to monitor payments received from long-term, revenue-producing contracts. Cal Expo also began using a new contract form to ensure that the contract division receives completed, signed copies of each contract. Additionally, Cal Expo has taken action to improve its inventory control procedures.

Further, according to Cal Expo's general manager, at least three maintenance projects are scheduled for fiscal year 1985-86, including reroofing the Exposition Center, repairing sidewalks in parking lots, and painting stables in the area behind the racetrack.

Recommendations

To improve its fiscal reporting system and to provide more effective fiscal management, we recommend that Cal Expo maintain an allotment expenditure ledger, collect revenue from contracts promptly, prepare invoices as promptly as possible after amounts are due, review accounts receivable regularly, review unreimbursed expenditures made from the Revolving Fund to determine which are collectible, and cancel outstanding checks more than two years old and remit those amounts to the Special Deposit Fund.

To correct the deficiencies in its contracting practices, Cal Expo should follow all state laws and guidelines pertaining to the administration of contracts. Cal Expo should also improve its control over its physical assets, develop and implement a preventive maintenance plan to reduce the cost of repairs, and more fully use its facilities during the interim between state fairs and to maximize rental revenue.

Finally, to meet the State's directive to become less financially dependent on the State's General Fund, Cal Expo management should continue to explore alternatives to increase revenues. Cal Expo should implement practical alternatives to gain additional funding as soon as possible.

THE DEPARTMENT OF FISH AND GAME IS NOT COLLECTING ALL REVENUES OWED TO THE STATE

Summary of Findings

The Department of Fish and Game (department) has not collected all revenue required by statute from the sale of fishing and hunting licenses and from fish taxes. As a result, the Fish and Game Preservation Fund did not receive an estimated \$2.8 million in revenues and interest income, Fish and Game Codes have not been followed, and problems exist that allow for undetected losses of hunting and fishing licenses and related revenues.

The department did not collect approximately \$1.6 million in commercial fish taxes owed to the State because of poor administrative practices. The department is not levying all statutory fish taxes correctly nor taxing all sales of fish between licensed wholesalers and dealers. Also, the department is not effectively monitoring the tax activities of all fish dealers and wholesalers in the State, and the department is not reviewing the status of dealers to ensure that all dealers are properly licensed.

The department has not received an estimated \$900,000 in revenues and may have lost up to \$303,000 in interest income because it did not adequately administer the sale of fishing, hunting, and other licenses. The department is not ensuring that license agents return expired licenses, that agents are paying license fees promptly, that collections are promptly deposited and accounted for in the Fish and Game Preservation Fund, that agents are consigned licenses in amounts within stated credit limits, and that agents report lost licenses promptly.

Finally, the department's electronic data processing operations lack the controls necessary to ensure that all license revenue data maintained on the department's electronic data processing system are authorized, complete, and accurate. In addition, the department lacks a backup system that would enable it to continue data processing operations in the event of a major catastrophe.

Recommendations

The department should assess and collect the taxes owed by the shrimp dealers identified in the department's audit reports and should also assess taxes on all sales of fish between licensed dealers. If the department computes the costs of collecting these taxes and finds that this effort is not cost effective or finds that a different taxing methodology is better, the department should work with the Legislature to change the present law.

The department should impose an interest charge on late payments, develop collection procedures, formally assign collection responsibilities to staff, and track late payments. The department should also maintain balances of dealer accounts, monitor sales of fish, and monitor license renewals.

THE STATE OF CALIFORNIA COULD BETTER PROTECT COMMERCIAL FISHING
RESOURCES

Summary of Findings

The Marine Resources Region (region) of the Department of Fish and Game (department) is responsible for enforcing commercial fishing regulations along the State's coast. However, some violations go undetected because warden vacancy and turnover rates are high and because some fish dealers and fishermen submit inaccurate data to the department. The region attempts to counteract these deficiencies by placing high enforcement priority on known and suspected violations and by monitoring those activities in which violations are likely to occur. In addition, the hiring practices of some permit holders restrict the number of new fishermen who can gain experience in fishing for herring, and commercial herring regulations restrict the number of vessels used for herring fishing.

Warden vacancy and turnover rates in the southern metropolitan areas hinder the region's ability to enforce commercial fishing regulations. For example, in the Los Angeles area in mid-1984, three of the area's seven warden positions were vacant, two wardens were assigned to monitor commercial fishing activities, and two wardens were assigned to other enforcement duties. Because so few wardens were monitoring commercial fishermen, some violations have gone undetected.

The department's efficiency in enforcing commercial fishing regulations is further hindered because some fish dealers and fishermen do not submit required information accurately to the department. Section 8576 of the Fish and Game Code restricts fishermen who use gill nets from catching each month more pounds of swordfish than shark. However, data from some swordfish and shark dealers and fishermen, which should indicate when violations are occurring, are inaccurate, causing the region to delay its enforcement action against violators for several months while the violations are being verified.

Each year the department issues a limited number of gill net permits for herring fishing to the most experienced fishermen. To increase the number of herring fishermen and to limit the number of vessels in the confined fishing areas at one time, different vessels and permit holders fish in two alternating fleets of vessels, called "platoons." However, the hiring practices used by some permit holders restrict rather than maximize the number of fishermen who can gain experience as crew members. One hundred and forty-four (31 percent) of the permit holders in one platoon hire permit holders from the other platoon as crew members. Recent regulations of the commission further limit the number of different vessels used in the herring fleet. Vessels used in an early season platoon in San Francisco Bay may also be used in one of the two alternating platoons during the latter part of the season.

However, there are other vessels available, including 144 vessels that were denied permits in the 1982-83 fishing season, that could be used in the herring fleet.

Recommendations

The Department of Fish and Game should review its hiring practices to determine ways of obtaining wardens for metropolitan areas who will stay long enough to reduce the high turnover rates and stabilize the region's enforcement program.

To allow more fishermen to be eligible for the herring permits, the commission should consider an applicant's gill net experience in other fisheries if the experience is similar to experience gained in the herring fishery. In addition, to increase the number of vessels available for herring fishing, the commission should not allow herring vessels in San Francisco Bay to be used in more than one platoon unless the commission determines that a sufficient number of adequate vessels is not available.

THE STATE OF CALIFORNIA NEEDS TO IMPROVE THE MANAGEMENT OF ITS LOCAL FAIRS PROGRAM

Summary of Findings

The State of California needs to improve the management of its local fairs program. The Department of Food and Agriculture (department) has not ensured that its Fairs and Expositions Division (division) and the district fairs have followed proper contracting procedures, have spent state funds properly, and have repaid their loans to the State promptly. The department also has not followed proper personnel practices in setting the salaries of district fair managers and in allowing district fairs to retain temporary employees longer than six months. Furthermore, the department has not ensured that local fairs have adequate internal controls over equipment, cash and disbursements, and travel expenses. In addition, the district fairs have not maximized their revenues by charging admissions and by renting their facilities between fair times. Finally, the local fairs have not followed a program of regular preventive maintenance to keep their facilities from deteriorating. The department has taken corrective action on several deficiencies noted in this report.

The division and the Big Fresno Fair, the Orange County Fair, the San Joaquin County Fair, and the Yolo County Fair have not followed proper contracting procedures to ensure that the State is legally protected by properly completed contracts or that state funds are spent properly. Furthermore, during 1985, six of California's district fairs did not use competitive bid prices for procuring carnival contracts and did not sufficiently consider the price bid in awarding carnival contracts. Therefore, the district fairs cannot guarantee that they are maximizing revenues from carnivals' operations.

Both the department and the district fairs have made inappropriate or questionable use of state funds. The department inappropriately spent \$20,496 of state funds designated for local fairs to purchase office equipment, services, and supplies and inappropriately spent \$29,502 to pay for a part-time employee and student interns to work for the department without obtaining approval from the Department of Finance. In addition, during 1984, three of the four district fairs that we reviewed made improper or questionable expenditures of state funds for publicity, meals, parties, and gifts.

The Business and Professions Code gives the department the authority to loan state funds to district and county fairs. These loans are to be paid back to the State's General Fund within 15 years. For example, the Big Fresno Fair has borrowed \$4.1 million from the State. However, as of December 31, 1984, the Big Fresno Fair has failed to remit principal and estimated accrued interest payments to the State totaling over \$3.6 million. Although the Big Fresno Fair and the California

Mid-Winter Fair are not in a financial position to repay their loans, the department has not worked with these fairs to develop ways to increase revenues and cut costs so that these fairs can meet their loan obligations to the State.

It is the department's policy that local fairs take advantage of opportunities to maximize their revenues. However, some local fairs have not taken opportunities to increase revenues by charging admissions and by promoting the rental of their facilities for interim events. Although the majority of fairs charge admission fees, 8 of the 80 local fairs did not charge fees to offset the costs of operating their fairs during 1984. Furthermore, some district fairs have not actively promoted the rental of their facilities. In addition, from July 1, 1983, to June 30, 1985, the department allowed 21 district fair managers to be paid a total of \$55,502 more than these managers should have been paid because the department did not adhere to criteria for establishing a manager's salary.

The Big Fresno Fair, the Orange County Fair, and the San Joaquin County Fair also violated the California Constitution by employing 34 temporary-exempt employees for more than six months in one calendar year. If district fair employees are employed longer than six months in a calendar year, they no longer qualify as temporary-exempt employees and must be employed according to the State's civil service laws.

The department has not thoroughly audited local fairs to ensure that they have adequate internal controls over equipment, cash receipts and disbursements, and travel expenses. If the local fairs do not have adequate internal controls, the department cannot be certain that local fairs' assets, such as equipment and cash, are adequately protected from fraud, waste, and abuse.

Finally, district fairs place little emphasis on routine maintenance of their facilities and grounds. None of the district fairs that we visited had an established preventive maintenance program. Most of the district fairs' maintenance resources are devoted to emergency and cosmetic repairs. Consequently, the district fairs have fallen into a state of disrepair. Two current studies performed by the department indicate that it will take over \$21 million to correct the existing deteriorated condition of California's local fairs.

The department has taken corrective action on several of the deficiencies noted in this report. Specifically, the department has cancelled one contract that was not properly approved by the Department of General Services, the department held a training session for district fair managers on appropriate contracting procedures, and the department developed evaluation criteria that district fairs must follow in evaluating carnival contract proposals. Also, the department

began a comprehensive review of the local fairs' classification system to enable the department to determine the appropriate salaries for local fair managers. Lastly, the department has approved the use of capital outlay funds by local fairs to correct top priority maintenance problems.

Recommendations

To correct the deficiencies in its contracting practices, the Department of Food and Agriculture should follow all state laws and regulations pertaining to contract administration and contract procedures. In addition, the department should correct the deficiencies in the use of public funds, improve its collections on loans due to the State from district fairs, and encourage local fairs to charge admission and aggressively market rental of fair facilities between fair times. The department should also ensure that its Division of Fairs and Expositions grant salary increases in accordance with the policies of the department. Finally, the department should establish a periodic schedule of audits of local fairs, and require district fairs to develop and implement preventive maintenance programs.

SEPTEMBER 10, 1985

THE STATE IS INCURRING UNNECESSARY COSTS THROUGH INEFFECTIVE STATE
VEHICLE MANAGEMENT

Summary of Findings

The State is incurring unnecessary costs because some of its vehicle management practices are inefficient and because some employees inappropriately commute in state vehicles. We reviewed the use of 5,458 vehicles at the Department of Food and Agriculture, the Department of General Services, the Department of Parks and Recreation, and the Department of Water Resources. We estimate that, in 1984, these agencies did not need to retain at least 277 (5 percent) of these vehicles. Furthermore, our sample results indicate that the State incurred at least \$90,700, but more likely around \$176,700, in unnecessary insurance fees, inspection fees, and depreciation costs for these vehicles. Our sample results also indicate that the State could have recovered at least \$379,000 but more likely around \$645,100 from the sale of these unnecessary passenger vehicles. The agencies incurred these costs because they have not routinely monitored vehicle use or effectively managed their vehicle fleets. Similar problems could exist in other state agencies.

The State owned approximately 18,000 passenger vehicles as of December 31, 1984. However, some state agencies have more vehicles than they require because they mismanage their vehicle fleets. They are not reassigning vehicles within the agency from units with low vehicle mileage requirements to units with high vehicle mileage requirements. In addition, some agencies are not immediately turning in for sale all vehicles that they replace. Furthermore, some of the agencies either do not have sufficiently detailed information or do not periodically use the information they do have to assess their vehicle needs and determine if they have surplus vehicles or need to reassign their vehicles. Similarly, the Office of Fleet Administration (OFA) does not routinely review the vehicle management practices at the agencies to ensure that they effectively use and dispose of vehicles.

Finally, some state agencies are not ensuring that employees who regularly store state-owned vehicles at their homes obtain permits for storage in advance from the OFA and do not misuse their vehicles. As a result, some state agencies are allowing employees to misuse state vehicles by commuting when they are not authorized to do so.

Recommendations

To ensure that the State does not incur unnecessary costs through employee misuse of state vehicles, agency directors should ensure that all supervisors in their agencies review the vehicle logs of employees

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under their supervision. These directors should also ensure that all employees who need to store state vehicles at their homes for more than 36 nights in a three-month period or 72 nights in a year apply for and receive home storage permits from the OFA in accordance with Section 4144.1 of the State Administrative Manual.

THE STATE NEEDS TO IMPROVE ITS CONTROL OF CONSULTANT AND SERVICE CONTRACTS

Summary of Findings

The Department of General Services (department) has not adequately monitored all contracts awarded by state agencies. The department provides adequate oversight for consultant and service contracts over \$10,000, but it does not enforce controls for the award of all contracts under \$10,000. State agencies do not always award or manage state contracts according to state contracting requirements and do not always award consultant and service contracts in the best interests of the State. For example, our review of contracts awarded by five state agencies shows that as many as 73 percent of all contracts awarded by the State never undergo a review for compliance with state contracting requirements, and state agencies do not always comply with these requirements.

We reviewed contracts at the departments of Aging, Forestry, Fish and Game, Mental Health, and Social Services and found that these state agencies generally benefit from the services they contract for and are typically satisfied with the contractors' performance. However, state agencies do not always award or manage state contracts according to standards provided by the Public Contract Code and the State Administrative Manual. For example, in some instances state agencies failed to advertise contracts in the California State Contracts Register as specifically directed by the Department of General Services, split contracts to avoid the advertising requirements, and failed to complete and retain all evaluation forms in contract files. Furthermore, state agencies failed to obtain required competitive bids and failed to obtain the necessary Department of General Services' approval on contracts over \$10,000. Finally, state agencies used forms to initiate contracts that were not appropriate and were not approved by the Department of General Services or the Attorney General's office, and they paid for contract services not rendered by the contractor in accordance with contract terms.

State agencies do not comply with two provisions of the Public Contract Code that are intended to provide greater accountability for and control over the award of consultant and service contracts. State agencies do not prepare and submit to the department post-evaluations of contract performance once the contractor has completed a project. Furthermore, state agencies do not request copies of evaluations retained by the department before awarding consultant contracts because they believe the process is time consuming and because they believe they know contractors' reputations before awarding contracts.

In 1983, at least 820 of over 44,000 faculty and staff of the 19 California State University campuses performed consultant services for

state agencies. In 1984, about 950 of 46,000 faculty and staff performed consultant contract work for the State. Similarly, in 1983, at least 515 of approximately 168,000 faculty and staff of the University of California performed consultant contract work for the State, while in 1984, this number increased to at least 600 of the 151,000 total employees. Each of the two university systems has procedures to monitor employee work on contracts so that contract work does not interfere with employees' other university responsibilities.

Recommendations

The Department of General Services should implement the recommendations made by the Auditor General in 1981 and establish a comprehensive program for auditing state agencies' compliance with contracting policies. Additionally, at the request of state agencies, the Department of General Services should review state agencies' need for a contracting method that allows them to procure the services of experts for testimony or participation in conferences more quickly.

By June 1987, the Department of General Services should review the effectiveness of the post-evaluation process and propose recommendations to the Legislature to improve or eliminate the process. Additionally, the Legislature should amend the Public Contract Code to require that reports on consultant contract activities be submitted annually rather than every quarter to the Department of General Services.

Finally, the departments of Aging, Fish and Game, Forestry, Mental Health, and Social Services should establish complete systems for processing contracts to ensure that all files contain pre- and post-evaluation forms, that all contracts and amendments receive appropriate Department of General Services approval, and that contractors do not receive payment for services not rendered.

AUDIT OF THE MEDI-CAL CLAIMS PROCESSING SYSTEMSummary of Findings

Since 1966, the State has contracted with a fiscal intermediary to process medical service claims rendered to Medi-Cal recipients. Since 1978, the Department of Health Services has contracted with Computer Sciences Corporation (CSC) to provide Medi-Cal fiscal intermediary services. The contract is managed and monitored by the Fiscal Intermediary Management Division (division) within the Department of Health Services (DHS). The claims are processed with the aid of the Medicaid Management Information System, a large-scale claims processing and reporting computer system.

During fiscal year 1984-85, the CSC paid approximately 48 million claims totaling approximately \$3.7 billion. Based upon our preliminary review of the prior work of others, interviews with State and fiscal intermediary staff, and a review of documents and reports relevant to Medi-Cal claims processing, we found no evidence of a high error rate in claims processing. The most comprehensive prior study included in our review estimated a maximum overpayment of less than one-tenth of one percent of total paid claims for the period reviewed.

During this preliminary review, however, we identified a number of areas for which some payments may have been made to medical service providers in excess of amounts allowed under Medi-Cal policy. To verify and determine the magnitude of these potential problem areas, we selected six issues for more detailed testing. Our review focused on how prepayments are processed in each of the areas we reviewed.

The DHS has recently contracted with hospitals to provide inpatient services to Medi-Cal recipients under a prospective per diem rate. We reviewed three aspects of claims processing for these hospitals. We found that, in some cases, separate payments, amounting to approximately \$70,000, were being made for outpatient services that should have been included in the per diem rate.

We found that approximately \$1.3 million in overpayments was made to physicians or facilities when the same radiology and pathology services were billed by both. We also found billings that exceeded service guidelines for service to recipients in institutions. We estimate that at least 7,860 claims, totaling an estimated \$212,506 were paid in excess of these guidelines.

We found no overpayments made for obstetrical care or for anesthesia services. We also determined that no overpayments were made to physicians who billed for the same services both individually and through group practices.

Recommendations

The DHS should follow through with the recovery of overpayments made in fiscal year 1984-85. The DHS should also review both the incidents of overpayment and the information systems designed to prevent overpayments.

THE DEPARTMENT OF HEALTH SERVICES' INVOLVEMENT IN THE CLEANUP OF
HAZARDOUS WASTE SITES

Summary of Findings

Between March 1980 and April 1985, the Department of Health Services (department) was involved in the cleanup of 125 hazardous waste sites. The department had primary responsibility for ensuring the cleanup of 97 hazardous waste sites, and it shared the cleanup responsibility with other governmental agencies for 25 other sites. Records documenting the extent of the department's involvement in 3 sites were not available. We reviewed the four phases involved in the cleanup of each hazardous waste site. We verified that the department required the cleanup of 96 of the 125 hazardous waste sites, reviewed and approved the cleanup plans for 78 sites, and monitored the progress of site owners in cleaning up 93 hazardous waste sites. We also verified that the department confirmed the cleanup of 86 of the 125 sites.

In addition, we found that the department did not accurately report the quantities of hazardous waste cleaned up at 55 of the 125 sites. The department correctly reported the quantities of hazardous waste cleaned up at 51 of the 125 sites. Records were not available to verify the amount of hazardous waste cleaned up at 19 sites.

We could not always verify either the department's involvement in each phase of the cleanup process or the amount of waste cleaned up because the department did not have uniform procedures for documenting the cleanup of hazardous waste sites. On May 14, 1985, the department issued new procedures that require the department's staff to document its activities in each phase of cleaning up a hazardous waste site.

THE DEPARTMENT OF HEALTH SERVICES NEEDS BETTER CONTROL OF HAZARDOUS WASTE CONTRACTSSummary of Findings

The State has paid for questionable costs, has made excessive payments, and has jeopardized federal funding because the Department of Health Services (department) has not adequately procured and managed the State's contracts for toxics-related services.

In contracting for toxics-related services, the department has failed to follow state and federal requirements by authorizing contractors to begin work without a contract, by not using competitive bidding techniques or negotiating reasonable prices, and by inappropriately using its emergency contract exemption provision. Furthermore, the department's contracts do not clearly define all allowable charges and do not protect the interests of the State because the contracts contain vague provisions and fail to contain all standard contract language. As a result, the State has incurred unnecessary and unreasonable costs and has jeopardized the receipt of federal funds.

Furthermore, the department has poorly managed the State's contracts for the cleanup of hazardous waste sites. For example, the department paid for inappropriate costs, made payments twice for the same personal services and equipment, and allowed contracts to continue after it was not economical to do so. Because the department did not regularly monitor the work of its contractors, eliminate duplicate payments, or verify that contractors performed the work they were required to do, the State has incurred at least \$1.4 million in questionable or unreasonable costs. Additionally, although the department terminated its contracts for the McColl Hazardous Waste Disposal Site in November 1985, the State incurred approximately \$1 million in unnecessary costs from June 1985 through October 1985 because the department did not terminate the contracts sooner. Finally, the department does not always pay for labor, equipment, or material at the rates included in the contract; it does not always account for and track charges for different contract items; and it sometimes delays payments to contractors.

Recommendations

To improve its procurement of these contracts, the department should, among other things, continue to use the Office of Procurement and Contracts, and it should ensure that this office is run by an experienced and fully qualified contract administrator. The department should also ensure that its own contracting staff are fully trained in contract administration and that they adhere to state and federal contracting requirements.

THE STATE'S HAZARDOUS WASTE MANAGEMENT PROGRAM HAS IMPROVED IN SOME AREAS; OTHER AREAS CONTINUE TO NEED IMPROVEMENT

Summary of Findings

In 1981 and 1983, the Auditor General reported on the Department of Health Services' (department) progress in managing the State's program to control hazardous waste. Since our last report, the department has improved its efforts in some areas. However, the department needs continued improvement in regulating the estimated 2,550 facilities in California that handle hazardous waste. In fiscal year 1985-86, the department was budgeted approximately \$122 million to regulate these facilities. In May 1986, the department proposed budget augmentations to the fiscal year 1986-87 budget for an additional 148.6 staff and approximately \$13.3 million to substantially increase the State's financial and staffing commitment to improving its hazardous waste management program.

Since 1983, the department has made some improvements in managing the State's hazardous waste management program. For example, the department has issued more permits to hazardous waste facilities. Between 1978 and October 1983, the department had issued only 63 permits. As of March 31, 1986, the department had issued 244 permits to hazardous waste facilities in California. The department estimates that over 600 facilities need permits. The department has also exceeded established goals for the number of facility inspections to be done during each of the three most recent fiscal years. Finally, the department has encumbered about \$31.4 million of the \$36.6 million available Superfund monies in fiscal years 1983-84, 1984-85, and 1985-86 to clean up toxic waste sites.

However, the department still has several problems to overcome. Specifically, while the department has exceeded its annual inspection goals, inspections are made primarily of the major facilities. It is possible that the department is not inspecting nonmajor facilities for long periods of time. Also, the department's enforcement program is weak. While the department frequently identifies violations during its inspections, it does not always follow up on these violations and enforce regulations. Nor does the department collect all fines that have been levied against violators.

Furthermore, the department has not used its manifest tracking system, which is designed to track shipments of toxics, to identify indications of illegal dumping. Finally, while the department has encumbered Superfund monies, problems both within and beyond the department's control have delayed the actual spending of these funds to clean up hazardous waste sites.

The department's chief deputy director of the Toxic Substances Control Division agrees that while progress has been made in improving the State's toxic management program, continued improvement is needed. He stated that progress is hindered by inadequate procedures and controls and by difficulties in recruiting and hiring capable staff to fully administer the program.

Recommendations

The Department of Health Services should regularly inspect all facilities that treat, store, or dispose of hazardous waste and conduct prompt followup to ensure that facilities correct violations of hazardous waste laws. The department should reduce the size of the 60-day report from the Hazardous Waste Shipping Manifest System to make the report more manageable. The department should also adapt the Hazardous Waste Information System to provide information for effective program management. The department should identify the minimum data required to effectively track its permitting, surveillance, enforcement, and site-cleanup activities. Finally, the department should monitor the status of contracts more closely and maximize the use of available Superfund monies by ensuring that monies encumbered are spent appropriately and promptly.

THE DEPARTMENT OF HEALTH SERVICES' HANDLING OF A REQUEST TO TEST THE
HARMANS' SOIL FOR TOXIC SUBSTANCES

Summary of Findings

We reviewed the Department of Health Services' (department) handling of Mr. and Mrs. Steve Harman's request that the department test their soil for toxic chemicals. The Harmans made the request following the death of their four-year-old son because they wanted to know if his death was caused by playing in soil contaminated with toxic waste. The Harmans' home is located one mile from the Stringfellow toxic waste disposal site, which was used for toxic waste disposal between 1956 and 1972. Since a mountain ridge separates the home from Stringfellow, the Harmans did not think that contaminated wastes could have seeped into their property from the site. However, the Toxic Substance Control Division (toxics division) and the Harmans theorized that the land on which the Harman home was built in 1977 may have been the site of the illegal dumping of waste bound for Stringfellow. The Harman land is located just one freeway ramp from the Stringfellow off-ramp and was accessible by road for several years before any homes were built.

The department did not adequately respond to the Harmans' request that their soil be tested. Although the department is not required by regulation to take specific actions on a request such as the Harmans', the department has the authority and responsibility to take whatever action is necessary to preserve the public health. The department's toxics division may investigate requests such as the Harmans' to determine if a property has dangerous levels of hazardous waste. In addition, one of the functions of the department's epidemiology section is to distinguish between environmental exposures that are a health hazard and those that are not.

The department erred in three ways when it took the initial soil sample: it did not determine whether testing soil samples would accomplish its purpose, it did not determine if it was appropriate for the toxics division to take the lead role in responding to the Harmans' request, and it did not determine if Stringfellow was involved before it asked the Stringfellow contractor to take soil samples. In addition, throughout the investigation, the department failed to communicate clearly and promptly with the Harmans and failed to respond quickly to the Harmans' request. Furthermore, most of the contacts between the department and the Harmans were made by phone, and the discussions were not confirmed in writing. In some instances, messages were relayed through a third party. Because the department failed to communicate promptly and directly in responding to the Harmans' request, the Harmans became increasingly frustrated, confused, and suspicious of the department.

Recommendations

The department should respond more promptly and sensitively to requests for toxics-related investigations. The department needs to make an initial investigation quickly, decide what actions it will and will not take, and communicate those decisions to the requester. Furthermore, the department should assign responsibility for each investigation to one person who will coordinate the investigation and keep the requester informed of the department's progress and findings.

THE STATE COULD HAVE MORE EFFECTIVELY MANAGED THE SALE AND REPAIR OF
SURPLUS RESIDENTIAL PROPERTY

Summary of Findings

The Department of Transportation (Caltrans) and the Department of Housing and Community Development (HCD) followed statutory procedures in the sale and repair of surplus residential property in the rescinded portion of State Highway Route 2 (Glendale Freeway) in the City of Los Angeles. Caltrans adhered to statutory procedures by offering to sell single-family residences to their occupants at the prices required by law; by offering to sell single-family residences first to former owners who were occupants, then to occupants, and then to housing-related entities; by imposing conditions and restrictions on the sale of single-family residences at less than fair market values; by selling all other residences to housing-related entities at reasonable prices; and by requiring housing entities to repair the residences and convert them to limited-equity housing cooperatives.

However, Caltrans and the HCD erred in calculating affordable prices for 3 of the 34 sales we reviewed, and the departments overcharged 3 purchasers by \$23,196. These errors occurred because the departments did not fully review affordable sales price calculations.

Contractors under the supervision of Caltrans and the HCD did not perform all required repairs to single-family residences. Contractors did not perform all work required under contract in 10 residences and did not perform to contract specifications in 16 residences out of the 19 residences we inspected. As a result, the State paid \$35,192 for repair work that was either not done or done incompletely. The State paid a total of \$470,733 to repair the 19 residences.

In addition, the HCD did not retain complete records of its administration of the repair process for single-family residences. Of the 22 files we reviewed, we found only one in which there was evidence that the HCD had formally informed the homeowner that he could object to the contractor selected by the HCD to carry out the repair work. Furthermore, the HCD did not have all inspection reports to show that it inspected construction work during interim phases to verify that contractors completed repairs as required under contract.

Finally, the HCD did not maintain adequate records of construction delays by contractors. In 10 of 12 projects we reviewed, contractors exceeded completion dates by one day to 141 days. Although it could have assessed fines of \$16,600 for five of the delays, the HCD assessed fines of only \$3,400. We did not find any records of fines for the remaining five delays. According to the HCD, it negotiated fines for the delays but did not maintain any records to document these negotiations.

Recommendations

Caltrans should review all sales of single-family residences to identify any errors in calculating affordable sales prices. Then, in conjunction with the federal Department of Housing and Urban Development, the Department of Transportation should determine whether it should renegotiate those sales prices and refund excess payments made by purchasers who were overcharged and collect additional amounts from purchasers who may have been undercharged, if feasible. Caltrans and the HCD should also, if legally possible, compel contractors to complete all repairs required by contract, determine the recourse available for homeowners not satisfied with the contractors' repairs, and inform all homeowners of actions that homeowners could take to rectify their situations. The departments should assist homeowners in their actions. Finally, the State should establish procedures to keep adequate records of the sale and repair process.

THE DEPARTMENT OF INSURANCE SHOULD BE MORE RESPONSIVE TO CONSUMER COMPLAINTS AGAINST THE INSURANCE INDUSTRY

Summary of Findings

The Department of Insurance (department) receives and processes consumer complaints filed against the insurance industry. However, the department has been slow in processing these complaints and has not provided enough telephone access for the general public. Furthermore, the department did not effectively use consumer complaints to review insurance companies.

In fiscal year 1984-85, the department was slow to process at least 7,025 (51 percent) complaints filed with the department's Consumer Affairs Division. The average time to process these complaints was 89 days. As a result of the slow processing of complaints, the public did not receive prompt protection from unfair insurance practices. When the complaints involved premiums or claim disputes and the insurance industry acted improperly, the complainants incurred economical losses.

In addition, as of December 31, 1985, the department's Investigation Bureau had not investigated 367 (32 percent) of 1,151 complaints. This backlog of complaints involved allegations of economic loss and emotional distress caused by fraud, misrepresentation, dishonesty, incompetence, and other illegal acts. Of these complaints, 135 (37 percent) were over one year old, and 44 (12 percent) were over two years old.

In addition, consumers have limited access to the department because existing telephone lines are often busy. During a one-week period in March 1986, consumers received busy signals over 7,000 times when attempting to telephone the department. In addition, the department does not have toll-free telephone lines for consumers to use to call the department for assistance.

Finally, the department is not effectively using consumer complaints to review insurance companies, and the department issued the report ranking automobile insurance companies that contained inaccurate and incomplete data.

The department has taken corrective action to investigate complaints more promptly. Since July 1985, the department appointed three new managers in the Consumer Affairs Division. In addition, the Consumer Services Bureau instituted a review of complaint investigations to ensure that its staff are processing complaints promptly. The Rate Administration Bureau obtained additional staff to process the increasing number of complaints and established procedures to monitor each worker's caseload. In addition, to improve the operations of the Market Conduct Bureau, the department consolidated the Market Conduct Bureau and the Policy Services Bureau.

Recommendations

The Consumer Affairs Division should increase the staffing in each of the bureaus, should provide its employees with procedures manuals for investigating complaints, and should monitor the pending complaint investigations at least monthly. The division should also install additional telephone lines and hire additional operators to receive telephone inquiries from consumers. The division should also consider requesting funds from the Legislature to pay for the installation of statewide toll-free telephone lines to receive complaints and inquiries from consumers.

The Investigation Bureau should eliminate its backlog of complaints by developing an accurate and up-to-date listing of pending complaint investigations. In addition, the Investigation Bureau should review its current workload, including the listing of pending complaint investigations, to determine if additional staff are needed to promptly process the workload.

The Market Conduct staff should identify insurance companies with deficient operations by selecting only those insurance companies with complaint records or practices that indicate a need for a market conduct examination. However, if the preliminary results of the review indicate that the insurance company is operating properly, the review should be terminated.

Finally, the Consumer Affairs Division can improve its future reports on the ranking of insurance companies by including in its analysis all relevant complaint information from available sources and by reviewing all information to ensure that it is reliable and accurate.

A REVIEW OF THE LOS ANGELES CITY HARBOR DEPARTMENT

Summary of Findings

The City of Los Angeles Harbor Department (harbor department) is not reporting to the Board of Harbor Commissioners (board) complete information specifying the harbor department's rates of return from leasing its assets. In some instances, the rates of return are overstated. In other instances, the rates of return are based on asset values that may be less than fair market value. Furthermore, in fiscal year 1984-85, the City of Los Angeles (city) overcharged the harbor department by at least \$182,000 for fire protection services because the fire department's bill to the harbor department was not determined in accordance with city guidelines.

The board annually adopts a rate of return that the harbor department should seek to achieve from leasing its assets, which include land, wharves, and buildings. In fiscal year 1984-85, the board's adopted rate of return was 10 percent on the fair market value of its assets. However, the harbor department is not consistently following the board's rate-of-return policies. In some instances, the harbor department does not use the fair market value of assets for determining the rates of return it reports to the board. For example, an independent appraisal in 1984 of two land properties in the harbor area and statements by the assistant director of the harbor department's Property Management Division indicate that the harbor department's standard land values for fiscal year 1984-85 of \$8.50 per square foot for waterfront land and \$7.50 per square foot for land not near the water may have been less than fair market values. As a result, the rates of return on leased lands the harbor department reported to the board could have been overstated, giving the board incomplete information upon which to base its land lease approval decisions.

The Los Angeles City Charter requires the city fire department to provide fire protection services to the harbor area. However, the city considers fire protection services provided to independent city departments to be "special services" and requires the fire department to bill the harbor department and other independent city departments for any fire protection services they receive. According to a 1986 Legislative Counsel opinion, the harbor department may pay the city for special services.

The city administrative officer has developed guidelines for the fire department to follow when determining the charges for special services. However, the fire department overcharged the harbor department by approximately \$182,000 because the fire department did not follow these guidelines in preparing the harbor department's bill.

Recommendations

To ensure that the Board of Harbor Commissioners has the information it needs to direct the Los Angeles City Harbor Department toward the most effective use of its assets, the board should require the harbor department to adopt procedures that consistently use the assets' fair market values to calculate rates of return from leasing its assets. Furthermore, the harbor department should not pay the city \$182,000 of its remaining fiscal year 1984-85 bill of \$272,765, and the harbor department should continue to annually review fire department response data to verify the accuracy of the fire department's charges to the harbor department.

THE BOARD OF MEDICAL QUALITY ASSURANCE HAS MADE PROGRESS IN IMPROVING ITS DIVERSION PROGRAM; SOME PROBLEMS REMAIN

Summary of Findings

The Board of Medical Quality Assurance's (board) diversion program is for rehabilitating physicians who suffer from alcoholism, drug abuse, or physical or mental illness. The board has improved its procedures for reviewing participants who are not complying with their treatment plans and has improved its oversight of the diversion program. However, the board still needs to improve its routine monitoring of participants. Compliance officers, who are required to monitor participants' progress in the diversion program, have inadequately monitored participants' compliance with their treatment plans. When compliance officers do not adequately monitor participants, the board's chances of detecting those participants who may be using drugs or alcohol are decreased. In these cases, the board is not protecting the public's safety as effectively as it could.

According to the program manager, all participants should be visited at least once every two months, and these visits should be random, not scheduled. However, of the 21 participants in our sample, 17 (81 percent) participants were not visited for periods ranging from three to seven months. Furthermore, of the 21 participants in our sample, 14 required monthly urine samples. However, compliance officers did not collect urine samples from 10 (71 percent) of these participants. Compliance officers did not collect urine samples from these participants for periods ranging from two to four months. Finally, compliance officers are required to contact participants' condition monitors at least once every two months by phone or in person. Of the 21 participants in our sample, 14 had condition monitors. Compliance officers did not make adequate contact with 12 (86 percent) of these condition monitors. Compliance officers did not contact these condition monitors for periods ranging from three to eight months.

Furthermore, the compliance officers are not adequately supervised. The program manager does not check the accuracy of compliance officers' recordkeeping: he does not ensure that compliance officers obtain signed letters from condition monitors explaining the condition monitor's responsibilities, he does not ensure that compliance officers submit written reports that document visits to participants, nor does he ensure that urine samples that compliance officers report are documented by laboratory reports. The program manager also does not have a system to produce and follow up on specific reports identifying those participants whom compliance officers have not visited frequently enough, who have not had required urine samples collected, and whose condition monitors have not been contacted. According to the program manager, these deficiencies in monitoring participants have occurred because of personnel problems.

However, in May 1986, the program manager began implementing a computerized tracking system that will generate information that identifies participants who are inadequately monitored by compliance officers.

Recommendations

The board should clarify written program policy and ensure that compliance officers understand all program policies. The board should also make sure that compliance officers know how to keep accurate records and should verify the accuracy of compliance officers' records. Finally, the board should continue to use its computerized tracking system to identify deficiencies in monitoring activities.

CALIFORNIA'S AUTOMATED VEHICLE REGISTRATION SYSTEM AND ITS PHONE-MAIL APPOINTMENT SYSTEM HAVE TEMPORARILY INCONVENIENCED SOME CITIZENS

Summary of Findings

In 1980, the Department of Motor Vehicles (DMV) began implementation of a multiphased automation system designed to improve customer service and reduce costs. The first phase of this system involved processing data related to fees for automobile registrations. The DMV began implementing the second phase of its automation system in October 1983. This phase enables the DMV to process vehicle registration data at the time the registration application is submitted and fees are paid. As of June 17, 1985, the DMV reported a total backlog of 68,000 vehicle registration transactions at its field offices. The DMV defines a backlogged vehicle registration as one that has been in a field office over five days.

The DMV has taken several actions to correct the problems it encountered while automating its vehicle registration system. To keep the vehicle registration backlog from escalating, the DMV has established 16 central registration centers throughout the State and at its Sacramento headquarters to process registration transactions. The DMV has also increased employee overtime in an effort to reduce the backlog, and it is improving its methods for training staff to use the automation system. Finally, the DMV has requested a \$4.8 million increase in its budget for fiscal year 1985-86 to allow its staff to work overtime on the backlog. The DMV expects to eliminate the backlog by the end of July 1985.

To alleviate the problems it encountered during the implementation of the second phase of the automated processing of vehicle registrations, the DMV implemented a statewide appointment system in August 1984. In order to regulate the flow of customers who visit a field office, the DMV encourages all customers to make appointments or use the mail to complete vehicle registration and driver's license transactions. However, the DMV encountered problems implementing the phone-mail appointment system because field office telephones could not handle the increased volume of telephone calls. Furthermore, the DMV's phone-mail appointment policy was not consistently implemented by the field offices.

The DMV has taken corrective action to improve the phone-mail appointment system. The DMV received approval from the Department of Finance to hire both permanent and temporary employees to meet the needs of the phone-mail appointment system. It also received approval to purchase telephone equipment for some field offices to allow employees to answer telephone calls in the sequence they are received. The DMV also requested a \$1.6 million increase in its fiscal year 1985-86 budget to retain the permanent employees that it hired. In

addition, the DMV's telecommunications planning unit has been monitoring telephone use at field offices and making recommendations for increasing telephone lines and employees. Finally, the DMV has a management team that evaluates both the automation and phone-mail appointment systems at field offices. Our review disclosed that most of the field offices are now serving customers promptly.

Recommendations

In automating the processing of driver's licenses, the DMV should ensure that sufficient equipment is installed at field offices and that their staffs are properly trained in the use of data processing equipment. Furthermore, in its 60-day, 6-month, and one-year responses to the Auditor General, the DMV should report on the status of its backlog of vehicle registrations. Finally, the DMV should monitor field office operations to ensure that its phone-mail appointment policy is consistently implemented in the field offices.

REVIEW OF THE CALIFORNIA MUSEUM OF SCIENCE AND INDUSTRYSummary of Findings

Since 1982, the California Museum of Science and Industry (museum) has raised \$36 million in private donations. Using these donations, the museum has added three buildings and has updated many of its exhibits. Museum officials plan to raise an additional \$20 million to further improve the museum's buildings and exhibits. However, privately financed expansions of the museum may increase state maintenance costs. The museum has not estimated how much this expansion will increase the need for state funding. If the California Museum Foundation of Los Angeles (foundation) is unable to raise money for exhibit maintenance, the State must either increase the museum's budget or allow the museum to fall into disrepair.

The museum's executive director has received reimbursements from the foundation for expenses he incurred as executive vice president of the foundation. However, serving as the foundation's executive vice president is one of the job duties of the museum's executive director. In addition, until May 1, 1985, the museum's acting chief deputy was responsible for ensuring that the foundation complied with its contract with the museum. At the same time, he served as the administrative vice president of the foundation. The Government Code prohibits state officials and employees from receiving outside perquisites for their official jobs or from engaging in any employment which is clearly in conflict with their state duties. Therefore, the museum's executive director is, and its acting chief deputy director has been, in violation of the Government Code.

Also, the museum is overstating its attendance. The museum estimates its attendance using a formula based on attendance studies done just before, during, and just after the 1984 Summer Olympics. However, museum officials fail to accurately apply the formula, and they do not appear to have regularly reviewed its accuracy. Using the museum's formula, we determined that between July 8 and August 25, 1985, the museum overestimated its attendance by over 20,000.

In addition, the museum did not receive as much as \$140,000 in parking revenues that the Los Angeles Clippers basketball organization charged the public. The agreement between the museum and the Clippers organization stipulated that this organization would not charge more for parking than it paid the museum. However, the museum allowed the organization to charge and keep as much as \$140,000 more in parking fees than it should have. In addition, the Los Angeles Clippers did not pay all of the money owed the museum for this parking agreement until September 1985.

Finally, the foundation received approximately \$15,000 for the use of state property at Exposition Park by private organizations and individuals. This money should have been paid to the State's General Fund. According to two representatives of organizations that used museum property, the policy of the museum's executive director is that private organizations filming at the museum first make a payment to the foundation.

Recommendations

Museum officials should require that all contracts include provisions for the maintenance of the exhibit. The museum should also designate funds to be used specifically for exhibit maintenance. In addition, the Legislature should require the museum to report on its fund-raising goals and on the financial effect these goals will have on the State.

The museum's executive director should receive no expense reimbursements from the foundation until the museum notifies the Department of Personnel Administration that the job description of the museum's executive director excludes the position of executive vice president of the foundation.

To accurately estimate museum attendance, the museum should regularly review its calculations to estimate attendance.

In addition, museum officials should collect from the Los Angeles Clippers basketball organization as much in parking fees as the basketball organization charged the public in the 1984-85 basketball season. The museum should also increase the parking lot fees for this event from \$2 per parking space to at least \$4.75 per parking space, the approximate fee that the Los Angeles Clippers successfully charged the public.

Finally, the museum's executive director should require the foundation to repay to the State's General Fund approximately \$15,000 that it collected from private organizations and individuals for the use of state property at or around the museum.

A REVIEW OF CONTRACTS TO COLLECT ENTRANCE FEES AT FOLSOM LAKE STATE RECREATION AREA

Summary of Findings

The Department of Parks and Recreation (department) complied with state laws in awarding contracts for a concessionaire to collect fees at the entrances to the Folsom Lake State Recreation Area (Folsom Lake SRA) during its off-seasons for fiscal years 1984-85 and 1985-86 and for May and June 1986. Although the department does not usually hire park aids to operate the entrances at the Folsom Lake SRA during its off-season, the department could have earned at least \$74,900 more than the rent paid by the concessionaire for January through April and October through December 1985 if it had operated the entrances with its own staff. For the off-season for fiscal year 1984-85 and from October 1 through December 31, 1985, the concessionaire paid the department a total of \$168,900. We determined that the department could have earned approximately \$243,800 for this period if it had used its own employees to operate the park's entrance gates.

Moreover, the department has awarded a third contract to the same concessionaire to collect entrance fees at the Folsom Lake SRA for the months of May and June 1986 because the Folsom Lake SRA does not have adequate funds to hire park aids to operate the entrance gates during this period. If the department used its own employees to collect the entrance fees, we estimate that the department could expect to earn \$37,200 more than the rent payment expected from the concessionaire. The department has allocated funds in its fiscal year 1986-87 budget to hire park aids to collect entrance fees at the Folsom Lake SRA during its off-season.

Recommendation

To maximize its revenue and provide services to the visitors at the Folsom Lake State Recreation Area, the Department of Parks and Recreation should operate the entrance gates with its own employees for the full off-season.

THE PUBLIC UTILITIES COMMISSION COULD TRIM ADDITIONAL MILLIONS FROM
TELEPHONE COMPANY RATE INCREASE PROPOSALS

Summary of Findings

The Public Utilities Commission (commission) could improve the coordination, accuracy, and thoroughness of its telephone rate case reviews. Although the commission trimmed \$924 million from the \$1.6 billion rate increase proposals of the three telephone companies that we reviewed, the proposals could have been further reduced. These rate increase proposals were submitted by Pacific Bell, the General Telephone Company (GTC), and the Continental Telephone Company of California between 1983 and 1984. We estimate that more effective reviews could have saved ratepayers an additional \$103 million in these cases: \$73 million if the commission's reviews were more effectively coordinated, more accurate, and more thorough and \$30 million if the commission had reduced the GTC's rate increase proposal because of the company's excess rate base. In addition, the commission cannot assure the necessity and reasonableness of millions of dollars of telephone company expenditures.

Rate case team members are not all using the same estimates for such items as inflation rates to determine telephone companies' revenue requirements. The team members are using different estimates because rate case managers do not always effectively coordinate team members' analyses and because team members do not always follow commission policy, which directs them to use each other's estimates in developing telephone companies' revenue requirements. Overall, as a result of inadequate coordination, the commission overestimated the revenue requirements for the three companies we reviewed by \$41.3 million.

In addition, the team members sometimes use faulty analyses and make mathematical errors when developing their estimates. These inaccuracies are not detected because the rate case managers and supervisors do not always review team members' analyses and because the team members do not have enough computer resources to use when doing their calculations. In all, these types of inaccuracies led the commission to overestimate the revenue requirements for the three telephone companies we reviewed by \$21.9 million.

Furthermore, the information on which the commission bases its decisions about rate increase proposals is not always complete because the telephone companies are not sufficiently documenting their need for rate increases and because the commission's auditors are not sufficiently reviewing telephone companies' accounting records. Although the commission has established standards that specify how major telephone companies are to justify their needs for a rate increase, rate case managers and supervisors do not ensure that the rate case team members enforce these requirements. Moreover, three of

California's telephone companies are not subject to these standards or any other standards. Furthermore, the managers and supervisors do not ensure that the team members completely review telephone companies' accounting records to determine if costs are necessary and reasonable. As a result, the commission overestimated telephone companies' revenue requirements by \$9.6 million. In addition, the commission cannot ensure that millions of dollars of telephone company expenditures are both necessary and reasonable.

Finally, in the GTC rate case that we reviewed, the commission overlooked the company's excess rate base. Even though the commission penalized Pacific Bell \$47.5 million for inefficient use of its telephone switching equipment, the commission did not investigate this condition in the GTC rate case. We applied the methodology to the GTC rate case that the commission used with Pacific Bell and found that the commission missed an opportunity to save GTC ratepayers at least \$30 million.

Recommendations

To improve the coordination of the rate case team's efforts, rate case managers and supervisors should ensure that staff use each other's estimates whenever possible.

In addition, the commission should review the computer resources currently available to its telephone rate case teams and determine if more resources are necessary.

To improve the thoroughness of team members' analyses, the rate case managers and supervisors should ensure that staff are enforcing the documentation requirements of the rate case plan and require auditors to complete all the steps included in their audit plan or to document their justification for any of the audit steps they do not complete. Further, the commission should develop and enforce minimum documentation requirements for the 3 telephone companies that are not currently covered under the rate case plan or General Order 96-A and for the 17 telephone companies that have an option to apply for rate increases through the abbreviated advice-letter procedure or through a formal rate increase proposal.

To ensure that all important issues are consistently and thoroughly considered in all rate cases that come before the commission, we recommend that the telecommunications management committee decide which issues to investigate during a rate case.

ESTIMATES OF THE NUMBER OF SINGLE-FAMILY HOUSES THAT MAY NEED
ADDITIONAL CEILING INSULATION

Summary of Findings

California's public utility companies conduct programs to determine the energy efficiency of homes and apartments. They also assist customers in financing the installation of residential weatherization measures, such as ceiling insulation, to increase the energy efficiency of residences. In addition, the Department of Economic Opportunity (DEO) provides free installation of weatherization measures to some low-income residents of the State. We reviewed data from five utility companies that serve more than 95 percent of the single-family houses in the State and from the DEO to determine how many single-family houses have had weatherization measures installed and how many may need some ceiling insulation to meet the R-19 standard.

In the area served by the Pacific Gas and Electric Company, energy-saving measures have been installed in at least 432,000 single-family houses; ceiling insulation has been installed in approximately 286,000 of those houses. We estimate that there may be 1.77 million single-family houses in the area that were constructed before 1975 that need some ceiling insulation to bring them up to the R-19 standard.

In the area served by the Southern California Gas Company and the Southern California Edison Company, energy-saving measures have been installed in at least 905,000 single-family houses. Ceiling insulation has been installed in about 823,000 of those houses. We estimate that 1.5 million single-family houses in the area that were constructed before 1975 may need some ceiling insulation to bring them up to the R-19 standard.

Finally, in the area served by the San Diego Gas and Electric Company, energy-saving measures have been installed in approximately 53,000 single-family houses. Ceiling insulation has been installed in at least 45,000 of those houses. We estimate that approximately 203,000 single-family houses in the area constructed before 1975 may need some ceiling insulation to bring them up to the R-19 standard.

We believe our estimates of single-family houses needing ceiling insulation is high because a number of houses could have had insulation installed by homeowners without the assistance of utility companies or the DEO. Because sufficient data do not exist that accurately reflect the total number of houses weatherized, the California Public Utilities Commission has requested that the privately owned utility companies conduct on-site inspections of a sample of houses to obtain accurate data on the number of houses needing weatherization measures. The Public Utilities Commission expects to complete its study by May 15, 1986.

Recommendation

To provide the Legislature with accurate estimates of the total number of weatherized houses in the State, the California Public Utilities Commission should report the results of its weatherization study to the Legislature by May 15, 1986.

A REVIEW OF THE PUBLIC UTILITIES COMMISSION'S REGULATION OF PASSENGER
VEHICLE OPERATIONS

Summary of Findings

The Public Utilities Commission (commission) is required by the California Constitution and state laws to regulate companies and individuals, commonly called "passenger carriers," that operate passenger vehicles such as private buses, vans, and limousines. The passage of the federal Bus Regulatory Reform Act of 1982 (Bus Reform Act) did not significantly affect the commission's regulatory responsibilities. However, in 1980 and 1983, the commission made policy changes based on a reinterpretation of statutes, dramatically affecting how passenger carriers are regulated. The commission is not, however, adequately regulating these carriers.

The federal Bus Regulatory Reform Act has not significantly affected the commission's regulatory responsibilities. The Bus Reform Act affects only interstate carriers, which make up 2 percent of the carriers regulated by the commission. Intrastate carriers, which operate solely in California, are not affected. Specifically, the Bus Reform Act allows the federal Interstate Commerce Commission (ICC) to certify intrastate routes for carriers that already have federal interstate authority and to control these carriers' schedules. The act also allows interstate carriers to appeal commission decisions. Litigation is currently in progress to determine whether the commission or the ICC will certify interstate carriers to establish intrastate routes that do not coincide with their interstate routes.

In 1980, the commission changed its interpretation of statutes that apply to the establishment of routes by new carriers in areas already served by other carriers. According to the statutes, the commission can grant new authority to operate passenger transportation service only if it is proved that the existing service is "inadequate" or that it is not satisfactory to the commission. Before 1980, the commission used these statutes to grant monopoly rights to carriers in exchange for their guarantee that they would serve certain areas. In 1980 and 1983, the commission reinterpreted the statutes. Specifically, the commission redefined "inadequate service" to mean a lack of competition. As a result, the total number of carriers with operating authority jumped from under 700 in 1978 to over 2,000 in 1985.

The commission is not properly evaluating applications for authority to operate charter party transportation services. The commission does not evaluate applicants' fitness or financial stability beyond requiring proof of insurance and a safety inspection. Therefore, carriers that lack the financial resources to properly and safely maintain their vehicles may be certified to provide transportation services. In addition, the commission does not compile information on carrier safety

and insurance that it can refer to in evaluating carrier fitness for renewals of authority. Although we did not determine whether a direct link exists between financial resources and vehicle safety, at one unannounced highway bus inspection conducted by the California Highway Patrol in June 1985, 50 percent of the commission-regulated carriers that were inspected had vehicles pulled from service until major safety violations were corrected.

Because the commission's regulation of passenger carriers is poorly organized and executed, the commission is not fully enforcing the requirements for carrier safety and insurance. We found errors stemming from the lack of coordination in 6 of 23 (26 percent) of the files we reviewed. These processing errors allowed some uninsured carriers to operate illegally. Furthermore, the commission does not effectively resolve consumer complaints. Eleven of the 24 complaints (46 percent) we reviewed were inappropriately resolved. Over 40 percent of the unresolved complaints are over seven months old.

Finally, the commission has not implemented procedures to verify that carriers are complying with its decisions to suspend or revoke carriers' operating authority. The commission has no reliable listing of those carriers whose authority has been suspended or revoked. Consequently, carriers may be operating illegally with unsafe or uninsured vehicles. We contacted four carriers with suspended authority; all of them offered to provide us service. The failure of the commission to enforce suspensions and revocations not only jeopardizes the public but exposes the State to lawsuits involving carriers who operate illegally. In 1975, for example, the commission paid an out-of-court settlement of \$50,000 because the commission had failed to revoke a carrier's operating authority.

Recommendations

The commission should evaluate the fitness and financial stability of applicants for charter party carrier authority to determine if applicants are financially able and competent to provide service. In addition, the commission should develop and maintain a system to compile safety and insurance histories of carriers and use this information when carriers apply for renewal. The commission should also implement a system of management controls, consolidate information on each carrier into one set of files, and define the individual responsibilities of its staff. Finally, the commission should track suspension actions to ensure that suspended carriers cease operating.

CALIFORNIA NEEDS BETTER CONTROL OVER THE OUT-OF-STATE PLACEMENT OF DELINQUENT MINORSSummary of Findings

California counties have spent more than \$15 million in Aid to Families with Dependent Children-Foster Care (AFDC-FC) funds for approximately 500 minors placed in two out-of-state facilities: approximately \$2.7 million for minors placed in Rite of Passage, Inc., a Nevada facility; and over \$12.5 million for minors placed in VisionQuest National, Ltd., (VisionQuest), whose headquarters are in Arizona. We reviewed California's procedures for placing delinquent minors in out-of-state facilities generally and in VisionQuest in particular, and we determined that the State needs to improve its control of AFDC-FC funds spent on out-of-state placements. Furthermore, not all California minors in out-of-state facilities are protected by the standards and regulations that protect minors placed in licensed facilities within the State.

State law stipulates that a minor who is placed by the court in a group home is eligible for AFDC-FC funding only if the group home is licensed. However, California minors have been placed in a VisionQuest wilderness camp and on wagon trains when these facilities were not licensed. California minors have also been placed in VisionQuest facilities at times when it was not clear whether or not the facilities were licensed. Furthermore, at least \$875,600 in AFDC-FC funds supported four youths who remained in VisionQuest past their 18th birthdays, even though AFDC-FC educational requirements were not being met.

In addition, not all minors placed in out-of-state facilities are protected by the standards and regulations that protect California minors placed in licensed facilities within the State. Since the State cannot license and inspect out-of-state facilities, it has relied on county probation departments to administer interstate agreements and to monitor out-of-state placements if the receiving state cannot monitor them. Although Arizona has not been able to monitor California minors in VisionQuest, not all contracts between VisionQuest and California counties guarantee adequate protection of the minors' health and safety.

Recommendations

The Department of Social Services should withdraw state AFDC-FC funds for minors placed in facilities that are not licensed and that do not always provide the education and vocational training required for AFDC-FC eligibility for youths over 18. In addition, the department should clarify the terms under which minors may be placed in out-of-state facilities and should establish guidelines for evaluating

and monitoring the facilities' programs and for standardizing the counties' contracts with out-of-state facilities. Finally, the department should audit the out-of-state facilities to determine compliance with AFDC-FC eligibility requirements and to ensure the reasonableness of their fees. If the rates are found to be unreasonable, the department should recommend legislation to amend the law to allow the department to set rates for minors placed in out-of-state facilities.

THE DEPARTMENT OF TRANSPORTATION HAS MISMANAGED EMPLOYEE TRAVEL AND OVERTIME

Summary of Findings

The Department of Transportation (department) has not enforced the State's or its own travel and overtime policies. As of June 13, 1986, the department's own internal reviews and our review revealed over \$284,000 in inappropriate travel and overtime meal claims made by the department's employees. These claims were inappropriate primarily because the department's travel policies are inconsistent with state regulations.

The department's policy for reimbursing its employees for using their own vehicles is inconsistent with state regulations. The department has been paying some employees up to 30 cents per mile even though they were entitled to receive only 16.5 cents. As a result, the department has overpaid some of its employees by as much as 82 percent when employees used their own vehicles to conduct state business. For example, for July through December 1985, the department reimbursed 291 employees for driving 2 million miles in their own vehicles. We determined that the department overpaid these employees at least \$268,469 as a result of its inappropriate policy for mileage reimbursement.

Furthermore, state regulations require that an employee's supervisor or another "appropriate authority" approve the employee's travel claim. Most of the department's employees are required to adhere to this regulation; however, before May 20, 1986, the department allowed at least 81 of its managers to approve their own travel claims. As a result of this practice, two managers have received over \$9,200 in inappropriate travel reimbursements since March 1983.

Also, the department's managers and supervisors have failed to conduct adequate supervisory reviews of employees' travel reimbursement claims, and the department has not adequately instructed its employees on how to properly prepare travel claims. Because of the lack of supervisory control over travel reimbursement in one of the department's units, 4 employees were disciplined for filing fraudulent travel claims, and 11 employees were required to make \$4,899 in restitution for inappropriate travel claims.

The department's policies for paying per diem are also questionable. The reason for long-term per diem is to allow the department's employees to maintain their primary residence while on a temporary assignment away from home. However, some employees may receive \$21 per diem even though they do not maintain a primary residence. Furthermore, employees on long-term assignments may receive long-term per diem for an unlimited time. As a result, some employees on

long-term assignments may receive more money from long-term per diem than from relocation allowances.

Finally, supervisors allowed employees to be paid for more overtime than they worked and for accumulated breaks and lunch times. During fiscal year 1985-86, some supervisors had an informal policy that allowed their employees to work through their breaks and lunch periods and to leave early. The employees would then claim the time that would have been taken for breaks and lunch as overtime worked.

To correct travel abuses and overtime misuse, the department has revised inappropriate or questionable policies, sought restitution from employees for excessive travel and overtime meal payments, and taken disciplinary actions against managers, supervisors, and employees who abused travel and overtime.

Recommendations

The Department of Transportation should adhere to the State's travel regulations and ensure that supervisors and employees understand these regulations and the preparation of travel claims. The department should also have the Caltrans Audits Office conduct limited audits of employees' travel claims. Finally, the department should reconsider its policies concerning long-term assignments and payment of long-term per diem.

BETTER ADMINISTRATION AT THE DEPARTMENT OF VETERANS AFFAIRS CAN IMPROVE SERVICES TO VETERANSSummary of Findings

The California Department of Veterans Affairs (department) could improve the administration of the California Veterans Farm and Home Loan Program (Cal-Vet program) by adopting standards that are similar to those used by private lending institutions. The department takes an average of 84 days to process some Cal-Vet loan applications, while private lenders typically average 32 days. Furthermore, the department sometimes takes over one year to initiate action against many veterans who are delinquent on their loans; private lenders initiate action against defaulted loans within an average of 16 days. If the department adopted standards similar to those of the private lending institutions, it could expedite loans for California veterans and eliminate the need for some veterans to obtain interim, more expensive financing.

We reviewed a statewide random sample of 304 Cal-Vet loan applications that had been approved and found that the department's average processing time, from the date the veteran completed the minimum loan application requirements to the date the loan was funded, was 84 days. Furthermore, 6 of the department's 11 district offices took longer than the statewide average to process some home loan applications.

Because the department has taken too long to process Cal-Vet loan applications in some instances, veterans have had to obtain interim financing to purchase their homes. Veterans who obtain an interim loan are required to pay an interest rate that is higher than that charged by the department, and they must also pay service charges and fees for processing the loan application. For example, a veteran seeking interim financing until his Cal-Vet loan is approved to purchase a home would be required to pay, in addition to a higher interest rate, an average service charge of \$1,560 for a loan of \$75,000 and loan processing fees of \$400.

In addition, the department's rate for repossessing homes from veterans who fail to make payments is significantly lower than repossession rates of other lending institutions. The district offices act much more slowly than do private lending institutions to cancel loans and repossess properties for which veterans fail to make payments for an extended period. In addition, the department lacks adequate standards for the resale of repossessed properties. We reviewed a random sample of 93 properties that were repossessed by the department; in some cases, veterans were delinquent in their payments up to 19 months before the district office took the action necessary to cancel the loan.

In addition, the district offices we visited do not use the same methods to sell repossessed properties and are not consistent in giving veterans priority to purchase these homes. Each district manager individually determines how a repossessed home will be sold. As a result of inconsistent district office practices, veterans are not always receiving special consideration at all district offices.

The department does not exercise adequate control over the district offices to ensure that they take action to repossess properties as quickly as they should. For example, the department does not receive routine reports on delinquent contracts or repossessions, and the department has not set time limits for the district offices to take the necessary action to cancel a delinquent loan. The losses that the department has incurred because of delays in cancelling delinquent loans have not affected the interest rate charged to veterans. However, the department loses revenue when a veteran fails to make monthly mortgage payments. In one instance, for example, a veteran accumulated over \$3,700 in delinquent payments over a 21-month period before the district office initiated action to cancel the delinquent loan.

Recommendations

To improve the management of the loan processing system and ensure that loan applications are processed promptly, the department should establish time standards and guidelines for district offices to follow, process loan applications only when a veteran has provided all required documents, implement a statewide management information system to monitor loan processing in the district offices, and routinely review a sample of loan applications that have been approved and funded to ensure that the loans are being approved according to the department's standards and guidelines. To decrease the time required to foreclose on a delinquent loan, the department should establish time limits by which district offices must act.

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