

REPORT BY THE
AUDITOR GENERAL
OF CALIFORNIA

**REVENUES AND EXPENDITURES OF THE
STATE'S HAZARDOUS WASTE REGULATORY
AND SITE CLEANUP PROGRAMS**

REPORT BY THE
OFFICE OF THE AUDITOR GENERAL

P-662

REVENUES AND EXPENDITURES
OF THE STATE'S HAZARDOUS WASTE
REGULATORY AND SITE CLEANUP PROGRAMS

JULY 1987



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Thomas W. Hayes
Auditor General

July 30, 1987

P-662

Honorable Art Agnos, Chairman
Members, Joint Legislative
Audit Committee
State Capitol, Room 3151
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its report concerning the revenues and expenditures for the State's hazardous waste regulatory and site cleanup programs.

We conducted this audit to comply with Chapter 1506, Statutes of 1986.

Respectfully submitted,

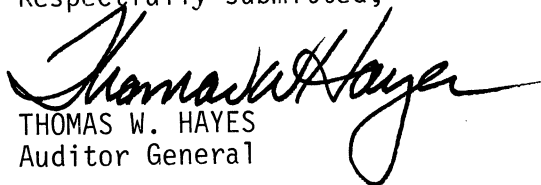

THOMAS W. HAYES
Auditor General

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SUMMARY

RESULTS IN BRIEF

From July 1, 1984, through March 31, 1987, hazardous waste facilities, generators, and disposers paid fees totaling \$39.7 million for deposit into the Hazardous Waste Control Account (HWCA). During this period, the Department of Health Services (department) spent and encumbered \$44.3 million from the HWCA to regulate the management of hazardous waste.

In addition, from January 1, 1984, through December 31, 1986, hazardous waste generators paid taxes totaling \$37.6 million for deposit into the Hazardous Substance Account (HSA). From July 1, 1984, through December 31, 1986, the department spent \$28.6 million from the HSA for cleaning up hazardous waste sites and hazardous materials.

BACKGROUND

The purpose of California's hazardous waste regulatory program is to protect the public's health and the environment from the harmful effects of hazardous waste. The department is responsible for administering the program by regulating the generation, treatment, storage, and disposal of hazardous waste. In addition, the department manages the State's program to clean up hazardous waste sites and to clean up releases or spills of hazardous material that may pose a threat to the public's health or the environment.

ANALYSIS

Revenues and Expenditures of the State's Hazardous Waste Regulatory and Site Cleanup Programs

The regulatory program is funded primarily by the HWCA. In accordance with Section 25174 of the Health and Safety Code, the department must establish fees that will provide enough revenues to administer the regulatory program. In addition, the fees may also be used to cover the costs of studies concerning the effects of hazardous waste on the public's health and the environment and the costs of other agencies that administer activities related to the regulatory program, including the Office of the Attorney General, the State Water Resources Control Board, and the State Board of Equalization.

From July 1, 1984, through March 31, 1987, operators of hazardous waste facilities, generators, and disposers paid fees totaling \$39.7 million for deposit into the HWCA. Other revenues such as those from interest, fines, and penalties provided an additional \$1.9 million. During this period, the department spent and encumbered \$44.3 million from the HWCA to regulate the management of hazardous waste, and agencies other than the department spent approximately \$2.6 million from the HWCA to administer their programs. During fiscal year 1985-86, the department spent and encumbered approximately \$8.4 million to pay the cost of its headquarters and regional offices that are responsible for issuing permits, conducting inspections, and enforcing hazardous waste laws and regulations. This amount also covered the costs of health and environment studies. In addition, the department spent and encumbered \$3.7 million for its Alternative Technology Section and \$3.8 million for its other sections that include those responsible for financial support, public relations, and administrative activities.

In addition, Section 25345 of the Health and Safety Code, which was enacted in 1981, imposes an annual tax on all persons who dispose of more than 500 pounds of hazardous waste in the State during any preceding calendar year. This legislation also established the HSA in which to deposit the taxes. The HSA provides funds for cleaning up hazardous waste sites and releases of hazardous materials. From January 1, 1984, through December 31, 1986, the State collected \$37.6 million in taxes from generators of hazardous waste for deposit into the HSA. From July 1, 1984, through December 31, 1986, the department spent \$28.6 million from the HSA for cleaning up hazardous waste sites and hazardous materials, for conducting agreements with other state agencies, for paying for department salaries and operating expenses, and for making bond payments.

AGENCY COMMENTS

The Department of Health Services stated that the information contained in the report generally reflects the revenues and expenditures of the State's hazardous waste regulatory and site cleanup programs. In addition, the State Board of Equalization concurs with our review.

INTRODUCTION

The objective of California's hazardous waste regulatory program is to protect the public's health and the environment from the harmful effects of hazardous waste. The Department of Health Services (department) is responsible for carrying out this objective and, to this end, regulates the generation, treatment, storage, transportation, and disposal of hazardous waste. Also, the department manages the State's program to clean up hazardous waste sites and releases or spills of hazardous material that may pose a threat to the public's health or the environment.

Legislation

In 1972, the Legislature passed hazardous waste control laws to establish a program to ensure the safe generation, storage, treatment, transportation, and disposal of hazardous waste. The legislation appointed the department to administer the program.

In 1976, the federal government enacted the Resource Conservation and Recovery Act of 1976 (RCRA), which directed the United States Environmental Protection Agency (EPA) to develop and implement a program to protect human health and the environment from improper hazardous waste management practices. The program is designed to control the management of hazardous waste from its generation to its disposal. With some exceptions, this legislation also allows a state

to operate its own hazardous waste management program instead of being part of the federal program. However, one exception would be if the administrator of the EPA found that a state program was not equivalent to the federal program or that a state program did not ensure an adequate enforcement of the RCRA provisions.

In 1980, the federal government enacted the Comprehensive Environmental Response, Compensation, and Liability Act to provide, among other provisions, funds for state governments and the federal government to clean up hazardous waste sites and releases of hazardous material. This act requires states to pay some of the cost of cleaning up hazardous waste sites when the cleanup is funded by federal monies.

In 1981, in response to the federal legislation, California established the "superfund" program to provide funds for the State's share of cleaning up hazardous waste sites. Further, in 1984, a hazardous substance cleanup bond act was passed authorizing the sale of \$100 million in bonds to provide funds for the cleanup of hazardous waste.

In November 1984, the federal government signed into law hazardous and solid waste amendments to the RCRA. Through these amendments, Congress directed the EPA to establish new requirements that would bring into the hazardous waste regulatory system small quantity generators that produce between 100 and 1,000 kilograms (approximately 220 and 2,200 pounds) of hazardous waste in a calendar

month. The EPA issued final regulations for these small generators on March 24, 1986. Most of the requirements became effective September 22, 1986.

Program Administration and Funding

In 1981, the department created the Toxic Substances Control Division (division), which would continue the implementation and enforcement of the California hazardous waste management program. The division, which has its headquarters in Sacramento, has regional offices in Emeryville, Los Angeles, and Sacramento and a branch office in Fresno. The headquarters provides centralized coordination in developing policies and regulations, providing technical review and support, managing the superfund account and bond funds, and implementing statewide programs. The division issues permits and conducts inspections and enforcement activities out of the regional offices.

The division regulates the handling of hazardous waste by issuing permits, granting variances, and confirming exemptions to facilities that handle hazardous waste. The California Administrative Code requires all hazardous waste facilities to have permits. However, facilities in operation before November 19, 1980, can operate under "interim status" although these facilities should be treated as if they have a permit to the extent, for example, that the facilities comply with certain RCRA requirements. In addition, a facility operating

under interim status should apply to the division for a permit if the department requires the facility to do so. The division can also confirm that the facility is not required to have a permit because it is exempt from hazardous waste regulations. Finally, if the waste handled by the facility is not a significant hazard to the public's health or if the hazardous waste is regulated by another governmental agency, the division may grant a variance.

When operators of facilities apply for operating permits, the application must include the operator's plan for closing the facility, which the division reviews and approves at the same time as it reviews and approves the permit application. If a facility that is operating with a permit from the division is going to close, the operator of the facility is required to notify the division. The division may then review the closure plan to determine whether any changes to the plan are needed. When a facility that is operating under interim status is expected to close, its operator is required to submit a closure plan to the division for modification or approval.

Furthermore, the division regulates the management of hazardous waste by inspecting hazardous waste facilities and investigating reports of improper or illegal activities. When the division discovers violations, it notifies the operator of the facility and orders the operator to take corrective action. The division may apply administrative sanctions by suspending or revoking a facility's permit. The division may also take legal action against violators and

may request civil and criminal penalties. These regulatory and enforcement options are intended to improve the operations of hazardous waste facilities and ensure their compliance with safety standards.

For assistance in administering the regulatory program, the State has entered into agreements with some of the counties, cities, and local health districts. These agreements, called Memoranda of Understanding (MOU), detail certain tasks the counties, cities, and local health districts agree to do. The State, through its MOU program, is attempting to give the cities and counties primary responsibility for regulating generators of hazardous waste.

Most of the funding for the regulatory program comes from taxes and fees collected from facilities that generate, store, treat, transport, and dispose of hazardous waste. In addition, the federal government provides funds to support the regulatory program. The State Board of Equalization collects these funds for the regulatory program and deposits them into the Hazardous Waste Control Account (HWCA).

The division is also responsible for administering the superfund program that provides \$15 million annually to pay for the State's share of costs to clean up hazardous waste sites, to clean up sites for which funds from the federal program or the responsible parties are not available, and to make annual bond payments. Funds for the superfund come primarily from taxes imposed on generators of hazardous waste. These funds are deposited into the Hazardous Substance Account (HSA).

The fiscal year 1986-87 Governor's Budget proposed a budget of \$40.4 million for the division. The HWCA and the HSA constitute \$32.3 million (80 percent) of the total budget. Table 1 shows the source of funds for the division for 1986-87.

TABLE 1
SOURCE OF FUNDS FOR THE
TOXIC SUBSTANCE CONTROL DIVISION FOR
FISCAL YEAR 1986-87
(Amounts in Millions)

<u>Source of Funds</u>	<u>Amount</u>	<u>Percent</u>
Hazardous Waste Control Account	\$18.3	45.3
Hazardous Substance Account	14.0	34.7
Federal Trust Fund	3.9	9.6
Other	<u>4.2</u>	<u>10.4</u>
Total	<u>\$40.4</u>	<u>100.0</u>

Previous Auditor General Reports
on California's Hazardous
Waste Management Program

Since 1981, the Auditor General's Office has issued 11 reports on the State's hazardous waste management program. Three of these reports focused on the State's regulatory program and 4 dealt with the cleanup of hazardous waste sites. One of the reports, which was issued in May 1986 and entitled "The State's Hazardous Waste Management Program Has Improved in Some Areas; Other Areas Continue To Need Improvement" (P-582.2), indicated the number of permits issued and inspections conducted from July 1983 through March 1986 and the

enforcement actions taken between July 1983 and January 1986. In addition, the report discussed the division's expenditure of funds to clean up hazardous waste sites.

SCOPE AND METHODOLOGY

The purpose of this audit was to provide information, by industry and by type of facility, on the revenues and expenditures of the State's program for regulating hazardous waste facilities and generators and for cleaning up hazardous waste sites. This information was to cover a three-year period from July 1, 1984, through March 31, 1987. Also, our objective was to determine the average time and cost for processing a permit and to verify and document information on the number of permits issued, inspections completed, and enforcement actions taken. In addition, our purpose was to determine how generators of 500 pounds or more annually of hazardous waste are identified in counties with memoranda of understanding and in counties without memoranda of understanding. Finally, our goal was to discuss the division's budget procedures for determining the amount, sources, and uses of hazardous waste funds.

In conducting this review, we analyzed the records of the division. In addition, we visited all four of the division's regional and branch offices dealing with hazardous waste. We also interviewed personnel of the department and of the EPA.

To determine the amount of revenues collected to support the activities of the division, we reviewed procedures at the State Board of Equalization (board). We also reviewed and analyzed 192 records to verify the amount of fees and taxes paid. We found three errors, all of which concerned adjustments or refunds. These errors do not represent a problem in the board's system of recording fees and taxes paid. We also verified the board's assignment of the Standard Industrial Classification codes to hazardous waste generators.* Appendix A reflects the amounts, by type of industry, of fees and taxes paid for deposit into the HWCA and the HSA.

To determine the amount of expenditures of the division, we interviewed staff in the accounting division of the department, reviewed expenditure reports prepared by accounting staff, and verified the accuracy and completeness of the expenditures by tracing the information to year-end expenditure reports. We did not audit the division's revenues and expenditures and, therefore, do not express an opinion on them.

In addition, to determine the accuracy of the division's data and to determine the number of permits issued, inspections conducted,

*The Standard Industrial Classification was developed to classify businesses by the type of activity in which they engage. For example, any code number beginning with a "2" identifies a manufacturing business. Thus, the two-digit code "28" represents businesses that manufacture chemicals and allied products while the four-digit code "2841" represents businesses that manufacture soap and other detergents.

and enforcement actions initiated, we reviewed the files of all permits that the division reported that it issued between April 1, 1986, and January 31, 1987. We also reviewed the files of a sample of variances and exemptions that the division reported that it granted between January 5, 1982, and January 31, 1987, and all of the closure plans that the division reported that it approved between March 9, 1982, and January 31, 1987. We also reviewed records of 109 of the 604 inspections that the division reported that it conducted between April 1, 1986, and February 28, 1987. We also reviewed files of 173 enforcement actions initiated between April 1, 1986, and March 31, 1987. Appendix B presents the results of our review of permits, inspections, and enforcement actions.

Furthermore, to determine how the division identifies generators of 500 pounds or more annually of hazardous waste in counties with memoranda of understanding and in counties without memoranda of understanding, we interviewed staff of several county environmental health programs. Also, to determine how the counties identify generators of hazardous waste, we conducted a telephone survey of all 16 counties (including one local health district) that have memoranda of understanding with the State and a sample of 10 counties that do not have memoranda of understanding with the State. Appendix C presents the results of our review of the counties' methods of identifying generators of 500 pounds or more annually of hazardous waste.

To determine the division's budget procedures, we identified the State Administrative Manual's budget requirements, reviewed the division's budget instructions, and analyzed the division's budget documents and workload standards. Appendix D describes the division's budget procedures.

Finally, we were unable to determine the average cost for the division to process permits for facilities with hazardous waste operations. In addition, we did not determine the average time to issue permits because the averages could be misleading. The chief of the Hazardous Waste Management Section agreed that, depending on the size of a facility and the complexity or unique characteristics of its operations, the permitting process can take from several months to more than three years to complete. Although we did not determine the average time to process permits, we did calculate, for those facilities for which data were available, the amount of time between the date the division received the application and the date the division issued the permit. Appendix B contains a table showing this information for 9 of the 20 permits issued between April 1, 1986, and January 31, 1987.

ANALYSIS

REVENUES AND EXPENDITURES OF THE STATE'S HAZARDOUS WASTE REGULATORY AND SITE CLEANUP PROGRAMS

The hazardous waste regulatory and site cleanup programs of the Toxic Substances Control Division (division) of the Department of Health Services (department) are funded primarily by the Hazardous Waste Control Account (HWCA) and the Hazardous Substance Account (HSA). From July 1, 1984, through March 31, 1987, hazardous waste facilities, generators, and disposers paid fees totaling \$39.7 million for deposit into the HWCA. During this period, the division spent and encumbered \$44.3 million from the HWCA to regulate the management of hazardous waste. In addition, from January 1, 1984, through December 31, 1986, hazardous waste generators paid \$37.6 million for deposit into the HSA for cleaning up hazardous waste sites and releases of hazardous material. From July 1, 1984, through December 31, 1986, the division spent \$28.6 million from the HSA for cleaning up hazardous waste sites and hazardous materials.

Hazardous Waste Control Account

In accordance with Section 25174 of the Health and Safety Code, the department must establish fees that will provide enough revenues to administer the State's hazardous waste regulatory program. In addition, the fees may be used to cover the costs of other agencies

that administer activities related to the hazardous waste program and to cover the costs of studies concerning the effects of hazardous waste on the public's health and the environment. For example, the Attorney General's Office receives HWCA funds to support the Toxic Substance Enforcement program. In addition, the State Water Resources Control Board uses HWCA funds for monitoring water and for inspecting underground storage tanks. Finally, the State Board of Equalization may use HWCA funds to refund fees to generators and disposers. The fees must also provide a reserve of 5 percent for hazardous waste operations.

Since 1973, when the hazardous waste regulatory program was established, operators of hazardous waste disposal sites and every person who disposed of hazardous waste on sites were assessed a fee for the disposal of hazardous waste. These disposal fees were to be deposited into the HWCA and were the only fees assessed. Since July 1, 1986, however, the disposal fee generates only 46 percent of the HWCA because Chapter 1506, Statutes of 1986, authorized two additional major fees that each generate 25 percent.

The first of the two additional fees is imposed on the operator of each hazardous waste storage, treatment, or disposal facility, including resource recovery facilities and waste transfer stations. This facility fee is assessed on five specific categories of facilities: a large or small storage facility, a large or small treatment facility, or a disposal facility. A large storage facility

stores 1,000 or more tons of hazardous waste during any one month of the State's fiscal year, and a small storage facility stores less than 1,000 tons of hazardous waste during any one month. A large treatment facility treats or recycles 1,000 or more tons of hazardous waste during any one month of the State's fiscal year, and a small treatment facility treats or recycles less than 1,000 tons per month. The second fee is imposed on every generator of hazardous waste that generates more than 5 tons of hazardous waste during the State's fiscal year. The amount each generator is required to pay depends upon the amount of waste generated during the year.

The remaining 4 percent of the revenue for the HWCA is projected to come from other sources such as interest earned from the money in the HWCA or fines and penalties, which the division imposes on facility operators who violate the regulations governing hazardous waste.* As Table 2 shows, from July 1, 1984, through March 31, 1987, hazardous waste facilities, generators, and disposers have paid fees totaling \$39.7 million for deposit into the HWCA; other revenue totaling approximately \$1.9 million comes from interest, fines, or penalties.

*As of January 1, 1987, one-half of the fines and penalties collected for violation of the hazardous waste regulations must be deposited into the Hazardous Substance Account.

TABLE 2

**FEEs AND OTHER REVENUE DEPOSITED INTO
THE HAZARDOUS WASTE CONTROL ACCOUNT
JULY 1, 1984 THROUGH MARCH 31, 1987
(Amounts in Thousands)**

<u>Revenue</u>	<u>July 1, 1984 Through June 30, 1985</u>	<u>July 1, 1985 Through June 30, 1986</u>	<u>July 1, 1986 Through March 31, 1987</u>	<u>Total</u>
Disposal Fees	\$13,052	\$8,541	\$11,735	\$33,328
Facility Fees	*	*	2,368	2,368
Generator Fees	*	*	3,996	3,996
Total Fees	<u>13,052</u>	<u>8,541</u>	<u>18,099</u>	<u>39,692</u>
Other (Interest, Fines, or Penalties)	<u>354</u>	<u>885</u>	<u>633**</u>	<u>1,872</u>
Total Revenue	<u>\$13,406</u>	<u>\$9,426</u>	<u>\$18,732</u>	<u>\$41,564</u>

*The only fees collected for the Hazardous Waste Control Account before September 1986 were disposal fees.

**Fines and penalties collected as of May 1987.

Under provisions of the Health and Safety Code, funds deposited into the HWCA are continuously appropriated to the department for the administration of the regulatory program. From July 1, 1984, through March 31, 1987, the division spent and encumbered \$44.3 million from the HWCA to administer the hazardous waste regulatory program and to pay the cost of studies concerning the effects of hazardous waste on the public's health and the environment.

In fiscal year 1985-86, the division spent and encumbered \$8.4 million from the HWCA to pay the cost of health and environment studies. This amount also covered the cost of the division's regional offices, the Program Management Section, and the Office of Enforcement, which are within the division's headquarters. All these sections are responsible for the division's permitting, surveillance, and enforcement activities. In addition, the division spent \$3.7 million for its Alternative Technology Section, which includes approximately \$889,000 that was spent and encumbered to establish a program promoting the research, development, and demonstration of techniques designed primarily to reduce the generation of hazardous waste, to recycle hazardous waste, or to convert hazardous waste into a less dangerous form. Finally, the division spent and encumbered \$3.8 million for its other sections that include those responsible for financial support, public relations, and administrative activities. We are unable to report HWCA expenditures by industry because the division does not keep records showing all expenditures associated with specific industries. Table 3 details the expenditures of those sections of the division responsible for its permitting, surveillance, and enforcement activities.

TABLE 3

**EXPENDITURES AND ENCUMBRANCES OF FUNDS FROM THE
HAZARDOUS WASTE CONTROL ACCOUNT BY THE
TOXIC SUBSTANCES CONTROL DIVISION
JULY 1, 1984 THROUGH MARCH 31, 1987
(Amounts in Thousands)**

	July 1, 1984 Through <u>June 30, 1985*</u>	July 1, 1985 Through <u>June 30, 1986</u>	July 1, 1986 Through <u>March 31, 1987</u>	<u>Total</u>
<u>Toxic Substance Control Division</u>				
Program Planning and Evaluation Section**	\$ 1,636	\$ 1,110	\$ 1,436	\$ 4,182
Regional Offices	4,116	4,867	6,138	15,121
Office of Enforcement		220	236	456
Health & Environment Studies***		<u>2,248</u>	<u>1,705</u>	<u>3,953</u>
Subtotal	<u>5,752</u>	<u>8,445</u>	<u>9,515</u>	<u>23,712</u>
Alternative Technology Unit	2,048	3,666	2,409	8,123
Other Division Expenditures	<u>4,654</u>	<u>3,767</u>	<u>4,007</u>	<u>12,428</u>
Total Division Expenditures	<u>\$12,454</u>	<u>\$15,878</u>	<u>\$15,931</u>	<u>\$44,263</u>

*Because we could not identify the accounting codes used in fiscal year 1984-85 for other sections of the division, we reported the remaining expenditures as "other division expenditures."

**In fiscal years 1984-85 and 1985-86, this section was called the Program Management Section. The amounts shown for fiscal years 1984-85 and 1985-86 include many but not all of the activities that are currently part of the Program Planning and Evaluation Section.

***Health and environment studies include laboratory services, toxicology, and epidemiological (health effect) studies provided by units of the Department of Health Services that are not part of the Toxic Substances Control Division.

In addition to providing funds for the division's administration of the hazardous waste regulatory program, HWCA funds are also available to other agencies. For example, the Department of Justice receives HWCA funds to support the Toxic Substance Enforcement program of the Attorney General's Office. In addition, the State Water Resources Control Board uses HWCA funds for monitoring water and for inspecting underground storage tanks. Finally, the State Board of Equalization uses HWCA funds to refund fees to generators and disposers.

From July 1, 1984, through March 31, 1987, agencies other than the division spent approximately \$2.6 million of HWCA funds. Table 4 summarizes these three years of expenditures by agencies other than the division.

TABLE 4
EXPENDITURES OF FUNDS FROM THE HAZARDOUS WASTE CONTROL ACCOUNT
BY AGENCIES OTHER THAN THE TOXIC SUBSTANCES CONTROL DIVISION
JULY 1, 1984 THROUGH MARCH 31, 1987
(Amounts in Thousands)

	<u>Fiscal Year 1984-85</u>	<u>Fiscal Year 1985-86</u>	<u>Fiscal Year 1986-87</u>	<u>Total</u>
<u>Expenditures of Other Agencies</u>				
State Water Resources Control Board	\$651	\$1,001	\$409	\$2,061
Department of Justice		351	222	573
Office of Emergency Services			1	1
Total Expenditures	<u>\$651</u>	<u>\$1,352</u>	<u>\$632</u>	<u>\$2,635</u>

Source: Records of the State Controller's Office for each fiscal year as of June 30, 1985, June 30, 1986, and March 31, 1987, respectively.

Hazardous Substance Account

In 1981, Section 25345 of the Health and Safety Code was enacted, imposing an annual tax on all persons disposing of more than 500 pounds of hazardous waste in the State during the preceding calendar year. This legislation also established the Hazardous Substance Account (HSA) in which to deposit the taxes. From January 1, 1984, through December 31, 1986, the State collected

\$37.6 million in taxes from generators of hazardous waste for deposit into the HSA. Revenues deposited in the HSA include taxes collected from facilities that generate hazardous waste, funds received from the federal government for cleaning up hazardous waste disposal sites, funds recovered from persons responsible for the costs incurred by the division in cleaning up waste sites, and fines and civil penalties.

For calendar years 1984 and 1985, generators of hazardous waste paid \$14.2 and \$14.0 million, respectively. For 1986, the generators paid \$9.4 million in taxes as of June 25, 1987. The taxes for 1986 were due July 1, 1987. From July 1, 1984, through December 31, 1986, the division spent \$2.8 million from the HSA for cleaning up hazardous waste sites, \$1.6 million for cleaning up hazardous materials, \$9.8 million for paying salaries and operating expenses, \$1.6 million for conducting agreements with other state agencies, and \$11.8 million for making bond payments. In addition, the division spent \$1.0 million of the funds for fiscal year 1984-85 between July 1, 1985, and December 31, 1985.

In our report issued in May 1986, entitled "The State's Hazardous Waste Management Program Has Improved in Some Areas; Other Areas Continue To Need Improvement" (P-582.2), we reported that in fiscal year 1984-85, the department evaluated 230 hazardous waste sites and identified 46 hazardous waste sites that had been cleaned up. The department cleaned up one of the 46 sites with funds from the HSA and directed that the responsible parties clean up the remaining 45 sites.

In fiscal year 1985-86, according to the department's annual report, the division cleaned up 25 sites and responded to 109 emergency incidents. In our May 1986 report, we summarized the division's expenditure of HSA funds for the period between July 1, 1983, and December 31, 1985. Table 5 shows the division's expenditures of HSA funds for contracts to clean up hazardous sites and hazardous materials, agreements with state agencies, and salaries and operating expenses from July 1, 1984, through December 31, 1986.

TABLE 5
EXPENDITURES OF FUNDS FROM THE
HAZARDOUS SUBSTANCE ACCOUNT
JULY 1, 1984 THROUGH DECEMBER 31, 1986
(Amounts in Thousands)

	July 1, 1984 Through June 30, 1985*	July 1, 1985 Through June 30, 1986	July 1, 1986 Through December 31, 1986	Total
Contracts to clean up hazardous sites	\$1,159	\$ 1,311	\$ 291	\$ 2,761
Contracts to clean up hazardous materials	339	631	582	1,552
Agreements with state agencies	662	944	**	1,606
Salaries and operating expenses	2,587	4,461	2,776	9,824
Bond payment		6,836	5,000	11,836
Fiscal year 1984-85 funds spent between July 1, 1985 and December 31, 1985	<u>1,026</u>			<u>1,026</u>
Total	<u>\$5,773</u>	<u>\$14,183</u>	<u>\$8,649</u>	<u>\$28,605***</u>

*These expenditures are taken from our May 1986 report.

**These expenditures for agreements with state agencies are included with salaries and operating expenses.

***This amount does not include expenditures for other agencies, including the \$453,000 appropriated to the Attorney General's Office for fiscal year 1985-86.

As we reported in May 1986, for reasons both within and beyond the division's control, the department has been slow to spend HSA funds. For example, in fiscal year 1984-85, the department spent only \$5.8 million (35 percent) of \$16.7 million that the Legislature appropriated for the department's use in that year.

CONCLUSION

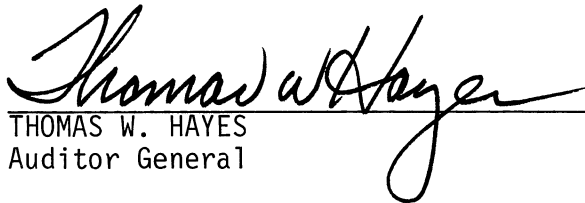
The Toxic Substances Control Division of the Department of Health Services is required to establish fees charged to hazardous waste facilities, disposers, and generators. The fees support the State's hazardous waste management program, which is designed to protect the public's health and the environment from the harmful effects of hazardous waste and to clean up hazardous waste sites and releases of hazardous materials that may pose a threat to the public's health or the environment.

From July 1, 1984, through March 31, 1987, hazardous waste facilities, disposers, and generators paid fees totaling \$39.7 million for deposit into the Hazardous Waste Control Account. During this period, the division spent and encumbered \$44.3 million from the HWCA to regulate the management of hazardous waste. In addition, from January 1, 1984, through December 31, 1986, hazardous waste generators paid taxes totaling \$37.6 million for deposit into

the Hazardous Substance Account for cleaning up hazardous waste sites and releases of hazardous material. From July 1, 1984, through December 31, 1986, the division spent \$28.6 million from the HSA for cleaning up hazardous waste sites and hazardous materials.

We conducted this review under the authority vested in the Auditor General by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,


THOMAS W. HAYES
Auditor General

Date: July 27, 1987

Staff: Robert E. Christophel, Audit Manager
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**FEES AND TAXES PAID BY INDUSTRIES
FOR DEPOSIT INTO THE HAZARDOUS WASTE CONTROL
ACCOUNT AND THE HAZARDOUS SUBSTANCE ACCOUNT**

The hazardous waste regulatory program is supported by fees paid by hazardous waste facilities, generators, and disposers of hazardous waste. From 1973, when the hazardous waste regulatory program was established, until September 30, 1986, the only fee imposed was the disposal fee. Since September 30, 1986, the State Board of Equalization has collected two additional fees: the generator fee and the facility fee.

Table A-1 shows, by the type of industry that paid the fee, the amounts of disposal, generator, and facility fees reported and paid for deposit into the Hazardous Waste Control Account for fiscal years 1985-86 and 1986-87. The table lists the industries that paid 2 percent or more of the total collected for each year for each type of fee. All other industries are listed as paying less than 2 percent or cannot be classified by a Standard Industrial Code number or the number is unknown.

Funds for the Hazardous Substance Account (HSA) come primarily from taxes imposed on generators of hazardous waste. Since 1981, when the HSA was established, all persons disposing of more than 500 pounds of hazardous waste in the State during the preceding calendar year have been subject to annual taxes.

Table A-2 details the amount of taxes each type of industry paid for calendar years 1984, 1985, and 1986 for deposit into the HSA. All other industries are listed as paying less than 2 percent or cannot be classified by a Standard Industrial Code number or the number is unknown.

TABLE A-1

DISPOSAL, GENERATOR, AND FACILITY FEES PAID BY INDUSTRIES INTO THE HAZARDOUS WASTE CONTROL ACCOUNT FOR FISCAL YEARS 1985-86 AND 1986-87

Type of Industry	Standard Industrial Classification Code Number	Disposal Fees*				Generator Fee*		Facility Fee*	
		Fiscal Year 1986-87		Fiscal Year 1985-86		Fiscal Year 1986-87		Fiscal Year 1986-87	
		Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Manufacturing--Petroleum and coal products	29	\$ 1,763,279	15.7	\$1,045,843	11.9	\$304,266	7.6	\$ 214,445	5.8
Manufacturing--Chemicals and allied products	28	1,297,974	11.6	961,472	10.9	344,609	8.6	365,011	9.8
Transportation and Public Utilities--Electric, gas, and sanitary services	49	1,199,479	10.7	848,334	9.6	211,553	5.3	943,558	25.3
Manufacturing--Transportation equipment	37	945,980	8.4	929,131	10.5	315,550	7.8	276,020	7.4
Retail Trade--Automotive dealers and service stations	55	710,314	6.3	524,947	6.0	131,609	3.3	**	---
Manufacturing--Primary metal industries	33	693,405	6.2	670,788	7.6	109,868	2.7	177,744	4.8
Manufacturing--Electric and electronic equipment	36	579,265	5.2	559,998	6.4	349,928	8.7	330,890	8.9
Manufacturing--Fabricated metal products	34	473,489	4.2	428,820	4.9	352,243	8.8	**	---
Manufacturing--Machinery except electrical	35	342,243	3.0	241,455	2.7	125,613	3.1	**	---
Wholesale Trade--Durable goods	50	275,295	2.5	180,545	2.0	84,008	2.1	**	---
Services--Business services	73	234,060	2.1	287,440	3.3	87,827	2.2	179,199	4.8
Mining--Nonmetallic minerals except fuel	14	**	---	230,373	2.6	**	---	**	---
Manufacturing--Stone, clay, and glass products	32	**	---	185,392	2.1	90,953	2.3	**	---

Type of Industry	Standard Industrial Classification Code Number	Disposal Fees*				Generator Fee*		Facility Fee*	
		Fiscal Year 1986-87		Fiscal Year 1985-86		Fiscal Year 1986-87		Fiscal Year 1986-87	
		Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Wholesale Trade--Nondurable goods	51	**	---	241,351	2.7	**	---	104,159	2.8
Mining--Oil and gas extraction	13	**	---	**	---	93,094	2.3	**	---
Transportation and Public Utilities--Trucking and warehousing	42	**	---	**	---	**	---	79,957	2.1
Amount paid by industries that paid 2 percent or more of the total fee		\$ 8,514,783	75.9	\$7,335,889	83.2	\$2,601,121	64.8	\$2,670,983	71.7
Amount paid by industries that paid less than 2 percent of the total fee	***	\$ 1,915,819	17.1	\$1,006,278	11.4	\$ 806,785	20.0	\$ 589,729	15.8
Amount paid by industries of nonclassifiable establishments	99	235,895	2.1	252,346	2.9	158,527	3.9	116,413	3.1
Amount paid by industries for which the Standard Industrial Code number is unknown		559,328	5.0	220,231	2.5	457,824	11.4	348,107	9.3
Total Fees Paid		\$11,225,825	100.1	\$8,814,744	100.0	\$4,024,257	100.1	\$3,725,232	99.9

*The disposal fees include amounts processed by the State Board of Equalization through June 10, 1987, while the generator fees include amounts processed through June 25, 1987, and the facility fees include amounts processed through June 30, 1987.

**Paid less than 2 percent of the total fees paid.

***All other types of industries not listed.

TABLE A-2

**TAXES PAID BY INDUSTRIES INTO THE
HAZARDOUS SUBSTANCE ACCOUNT
FOR CALENDAR YEARS 1984, 1985, AND 1986***

Type of Industry	Standard Industrial Classification Code Number	1986		1985		1984	
		Amount	Percent	Amount	Percent	Amount	Percent
Manufacturing--Petroleum and coal products	29	\$1,932,152	20.5	\$2,192,764	15.6	\$2,078,924	14.6
Manufacturing--Chemicals and allied products	28	1,149,907	12.2	1,224,445	8.7	1,460,203	10.3
Retail Trade--Automotive dealers and service stations	55	928,007	9.8	1,305,258	9.3	920,763	6.5
Manufacturing--Transportation equipment	37	857,198	9.1	1,371,019	9.8	1,733,205	12.2
Manufacturing--Electric and electronic equipment	36	522,311	5.5	1,052,221	7.5	735,021	5.2
Manufacturing--Fabricated metal products	34	478,248	5.1	713,681	5.1	577,191	4.1
Manufacturing--Primary metal industries	33	409,013	4.3	877,905	6.2	795,815	5.6
Services--Business services	73	238,177	2.5	440,831	3.1	390,852	2.8
Mining--Oil and gas extraction	13	191,621	2.0	**	---	**	---
Transportation and public utilities--Electric, gas, and sanitary services	49	189,010	2.0	1,468,670	10.5	1,800,057	12.7
Wholesale trade--Nondurable goods	51	**	---	600,530	4.3	375,001	2.6
Services--Miscellaneous repair services	76	**	---	**	---	397,460	2.8
Wholesale trade--Durable goods	50	**	---	**	---	376,880	2.7

Type of Industry	Standard Industrial Classification Code Number	1986		1985		1984	
		Amount	Percent	Amount	Percent	Amount	Percent
Manufacturing--Machinery except electrical	35	\$ **	---	291,679	2.1	**	---
Amount paid by industries that paid 2 percent or more of the total taxes paid		\$6,895,644	73.0	\$11,539,003	82.2	\$11,641,372	82.1
Amount paid by industries that paid less than 2 percent of the total paid	***	1,720,361	18.2	2,055,599	14.6	2,000,474	14.1
Amount paid by industries that are nonclassifiable establishments	99	313,515	3.3	258,698	1.8	204,417	1.4
Amount paid by industries for which the Standard Industrial Code number is unknown		513,806	5.4	195,070	1.4	360,961	2.5
Total Taxes Paid		\$9,443,326****	99.9	\$14,048,370	100.0	\$14,207,224	100.1

*The taxes shown include amounts processed by the State Board of Equalization through July 1, 1987.

**Paid less than 2 percent of the total fees paid.

***All other types of industries not listed.

****The total amount for 1986 does not reflect the grand total for the year because some of the fees were not due until July 15, 1987.

**PERMITS ISSUED, INSPECTIONS COMPLETED,
AND ENFORCEMENT ACTIONS TAKEN BY THE
TOXIC SUBSTANCES CONTROL DIVISION**

The following tables and charts present additional data on the activities of the Toxic Substances Control Division (division). These data are based on our review of the division's activities between April 1, 1986, and March 31, 1987. In a previous report, entitled "The State's Hazardous Waste Management Program Has Improved In Some Areas; Other Areas Continue To Need Improvement," (Report P-582.2), May 1986, we reported on the division's progress in issuing permits from July 1, 1983, through March 31, 1986, completing inspections from July 1, 1983, through March 31, 1986, and taking enforcement actions from July 1, 1983, through January 31, 1986.

Number of Permits Issued and Reviewed

The California Health and Safety Code requires the division to issue operating permits to facilities that store, treat, or dispose of hazardous waste. The goal of the permit program is to protect the public's health and the environment by improving and controlling the operations of hazardous waste facilities. The program also enables the division to enforce applicable laws and regulations by suspending or revoking permits. Hazardous waste facilities that are regulated by the federal Resource Conservation and Recovery Act (RCRA) are subject to the federal government's regulation. Because the State's regulations historically have been more stringent than the federal government's, some facilities do not fall under the RCRA regulations but do fall under state regulations. Therefore, the hazardous waste facilities that are subject to federal regulation are a subset of the State's hazardous waste management program. In our May 1986 report, we indicated that the division issued a total of 226 hazardous waste permits from July 1, 1983, through March 31, 1986. From April 1, 1986, through January 31, 1987, the division reported that it issued 25 permits to treatment and storage facilities and incinerators, but we could verify only 20 permits. The division issued 3 of the 5 permits that we could not verify before April 1, 1986, and had only unsigned copies of the other 2 permits. In addition, during this period, the division reported that it had reviewed 79 permits. Table B-1 shows the time taken by the division to process 9 of the 20 permits issued from April 1, 1986, through January 31, 1987. Because the division's records are incomplete, we were unable to calculate the processing time for the remaining 11 permits.

TABLE B-1

**TOXIC SUBSTANCES CONTROL DIVISION
PROCESSING TIME TO ISSUE NINE PERMITS
FOR HAZARDOUS WASTE FACILITIES*
APRIL 1, 1986 THROUGH JANUARY 31, 1987**

<u>Site Number</u>	<u>Type of Facility</u>		<u>Date Application Received**</u>	<u>Date Permit Signed</u>	<u>Total Number of Days Elapsed</u>
	<u>Federal</u>	<u>State</u>			
1	X		5/30/84	06/28/86	759
2	X		4/15/85	07/24/86	465
3		X	6/27/85	05/08/86	315
4		X	3/01/85	05/07/86	432
5	X		5/14/83	04/16/86	1,068
6	X		2/07/83	05/14/86	1,192
7		X	2/01/85	04/10/86	433
8	X		6/01/85	10/22/86	508
9	X		3/23/83	06/30/86	1,195

*All permits are for storage or treatment facilities, except the permit for site number 3, which is an incinerator.

**We obtained these dates from the division's records.

Number of Variances and Exemptions
Issued and Reviewed and Number of
Closure Plans Approved and Reviewed

In addition to processing and issuing permits, the staff of the division's permit unit also grant variances and confirm exemptions to facilities that do not require operating permits. The staff also review plans for closing hazardous waste facilities. The California Administrative Code allows the division to grant a variance to a hazardous waste facility if the hazardous waste at that facility is not a significant health hazard or if the hazardous waste is regulated by another government agency. The division also can confirm that a facility is exempt from hazardous waste regulations and, consequently, is not required to obtain a permit. In addition, the California Administrative Code requires the division to review and approve plans for closing facilities that are operating under permits and under interim agreements with the division. From January 5, 1982, through January 31, 1987, the division reported that it granted 497 variances and exemptions. In our file review of 115 of the variances and exemptions reported by the division, we could verify only 103 (90 percent). The division also reported that it had reviewed an additional 196 variances and exemptions between April 1, 1986, and

January 31, 1987. In addition, from March 9, 1982, through January 31, 1987, the division reported that it approved 24 closure plans, but we could verify only 20 closure plans during that period. The division also reported that it reviewed an additional 27 closure plans between April 1, 1986, and January 31, 1987.*

Number of Inspections Completed

The Health and Safety Code authorizes the division to inspect hazardous waste facilities to determine if the facilities are complying with state and federal regulations. In Report P-582.2, we indicated that the division completed over 2,700 inspections of hazardous waste facilities from July 1, 1983, through March 31, 1986. In addition, we reported that, during calendar year 1985, the department reported that it conducted approximately 1,000 inspections of hazardous waste facilities, which represented fewer than 580 separate facilities. From April 1, 1986, through February 28, 1987, the division reported that it had conducted 604 inspections of hazardous waste facilities. (These inspections do not include inspections of generators, transporters, and other handlers.) In our file review of 109 inspections reported by the division, we were able to verify 107 (98 percent). Because the division's staff can complete more than one type of inspection at the same facility at the same time and can inspect the same facility numerous times, we calculated that of the 604 inspections that the division reported that it had completed, staff inspected 361 different facilities. The division's staff also conduct continuous surveillance at five of the State's landfills. We did not include these surveillance activities in the number of inspections completed because these activities occur continuously and, therefore, to include them would distort the total number of inspections conducted. Chart B-1 shows the number of inspections that the division reported that it completed from April 1, 1986, through February 28, 1987. Chart B-2 shows the number of facilities that the division reported that it inspected from April 1, 1986, through February 28, 1987.

*All these figures reported by the division may be understated because one region had incomplete data.

CHART B-1

**TOXIC SUBSTANCES CONTROL DIVISION
NUMBER OF INSPECTIONS REPORTED AS COMPLETED
APRIL 1, 1986 THROUGH FEBRUARY 28, 1987**

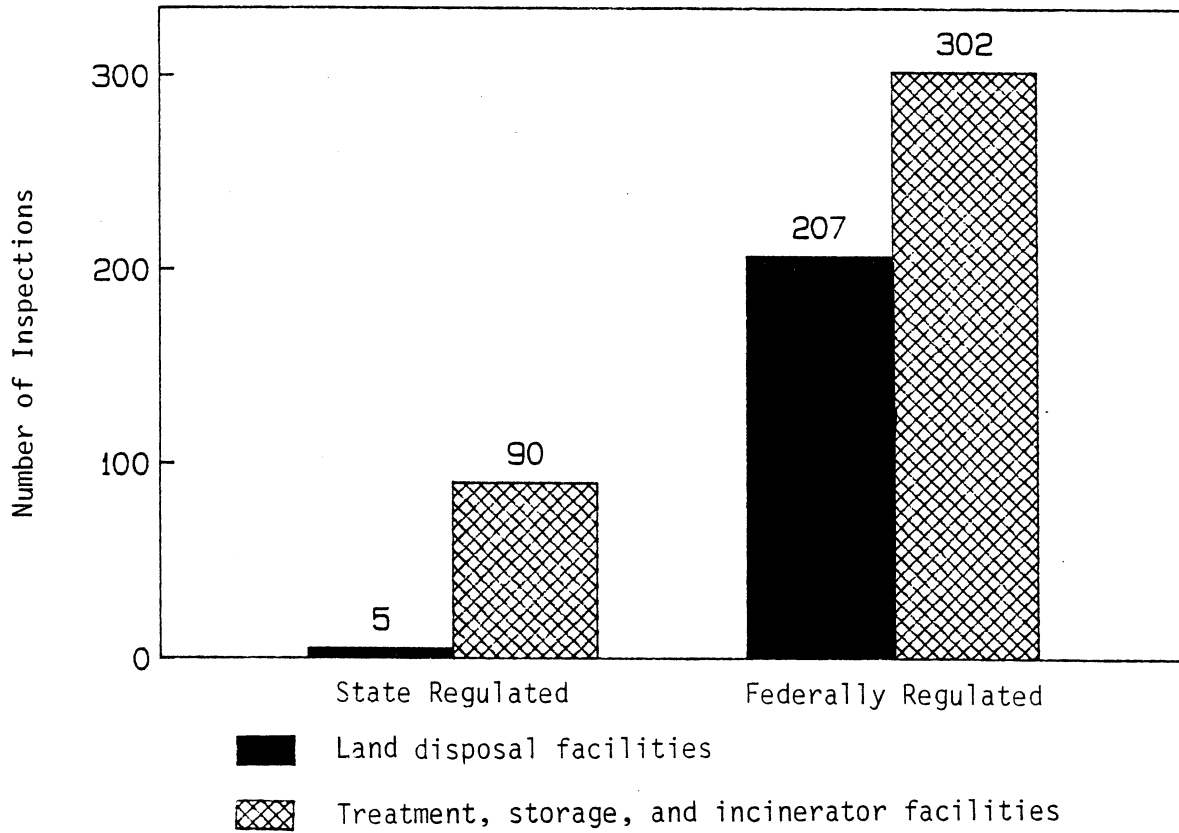
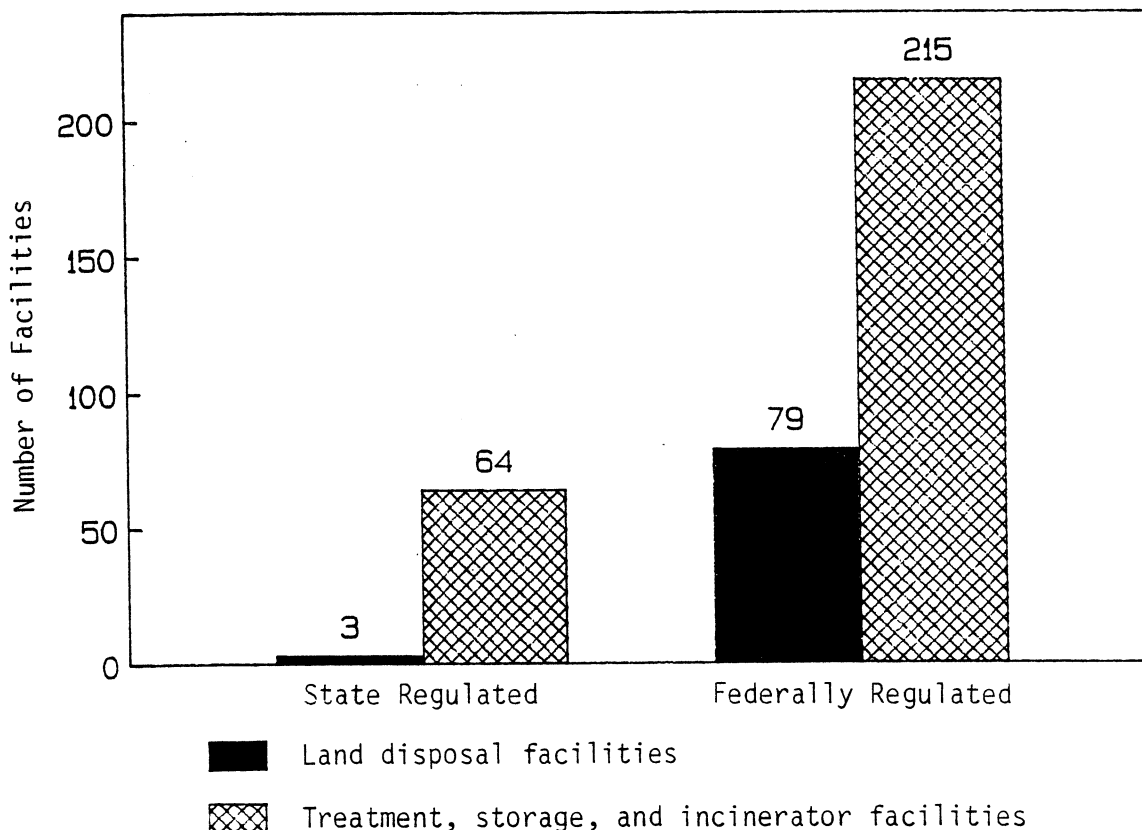


CHART B-2

**TOXIC SUBSTANCES CONTROL DIVISION
NUMBER OF FACILITIES REPORTED AS INSPECTED
APRIL 1, 1986 THROUGH FEBRUARY 28, 1987**



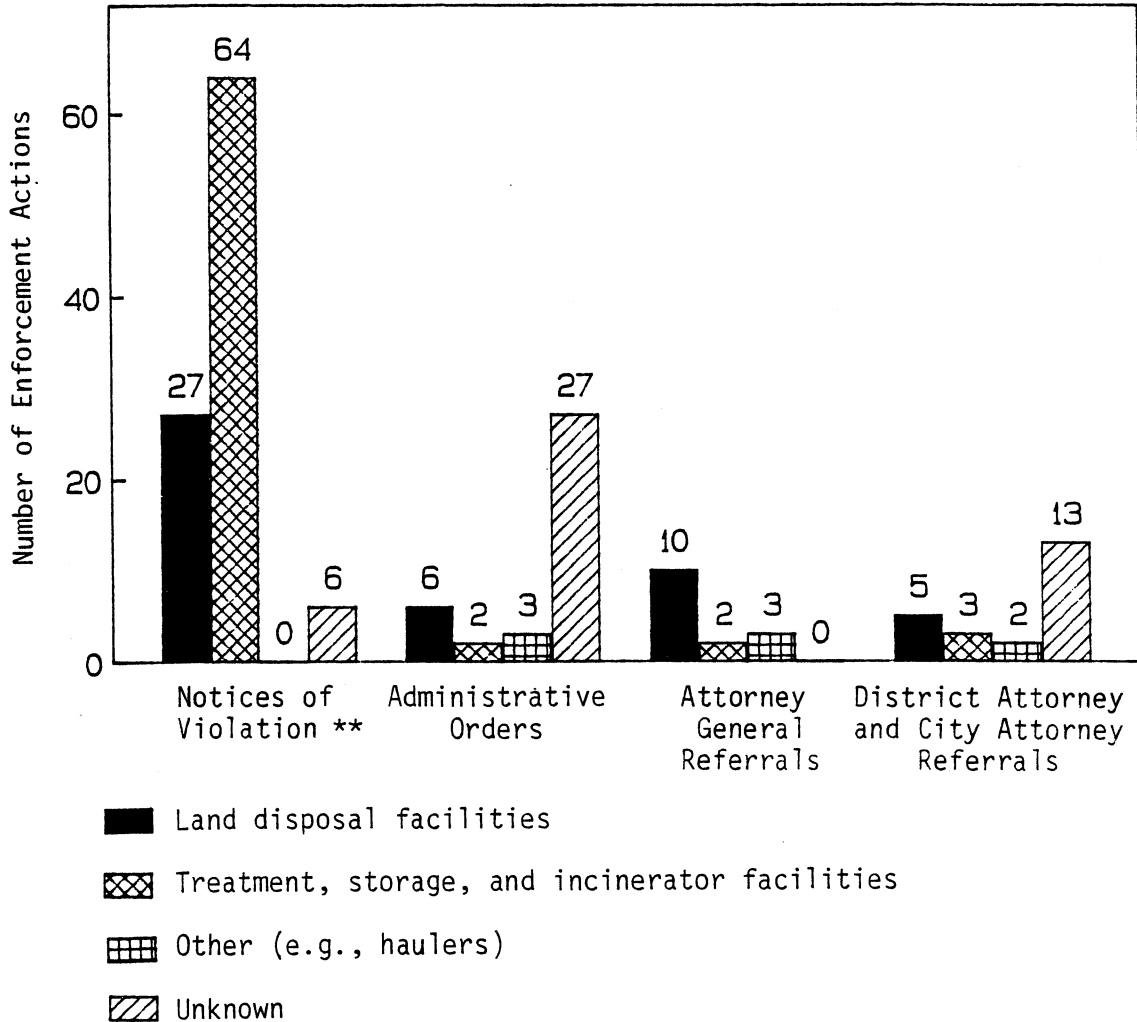
Number of Enforcement Actions

The Health and Safety Code authorizes the division to take action against any person who violates hazardous waste control laws. To resolve the violations, the division can use administrative remedies, such as issuing notices of violation or administrative orders. These administrative remedies can be used for various violations, including the improper storage of hazardous waste that poses a threat to the public's health and the environment. The division can pursue legal action through district attorneys, city attorneys, or the state Attorney General's Office whenever the division determines a violation has occurred. This legal action can include civil or criminal penalties against violators.

In Report P-582.2, we reported that from July 1, 1983, through January 31, 1986, the division referred 174 cases for legal action. We compiled and verified information provided to us by the division to determine that from April 1, 1986, through March 31, 1987, the division initiated at least 173 enforcement actions against violators, including administrative and legal actions. Chart B-3 shows the number of enforcement actions taken according to category of action and type of facility. We used the division's records to determine the type of facility operated by each of the 173 violators. In some instances, where records were incomplete or unavailable, division staff provided us with this information.

CHART B-3

**TOXIC SUBSTANCES CONTROL DIVISION
NUMBER AND TYPES OF ENFORCEMENT ACTIONS*
APRIL 1, 1986 THROUGH MARCH 31, 1987**



*These enforcement actions do not include those issued by the Financial Responsibility Unit of the division:

**In addition to enforcement actions taken by the division against facilities, enforcement actions taken against generators and haulers are included in all categories except "Notices of Violation." Notices of violation issued to generators and haulers are not readily identifiable from the division's records.

APPENDIX C

**METHODS USED BY COUNTIES
TO IDENTIFY GENERATORS OF 500 POUNDS OR MORE
OF HAZARDOUS WASTE ANNUALLY**

In California, the Toxic Substances Control Division (division) has memoranda of understanding (MOUs) with 16 counties (including one local health district). Through its MOU program, the State is attempting to give the counties primary responsibility for regulating generators of hazardous waste. To determine how counties identify generators of 500 pounds or more of hazardous waste annually, we telephoned all 16 counties that have MOUs with the division and 10 of the 42 counties that do not have MOUs. Table C-1 shows the results of our telephone survey in the 16 counties with MOUs.

TABLE C-1

METHODS USED BY THE SIXTEEN COUNTIES WITH MEMORANDA OF UNDERSTANDING TO IDENTIFY GENERATORS OF 500 POUNDS OR MORE OF HAZARDOUS WASTE ANNUALLY

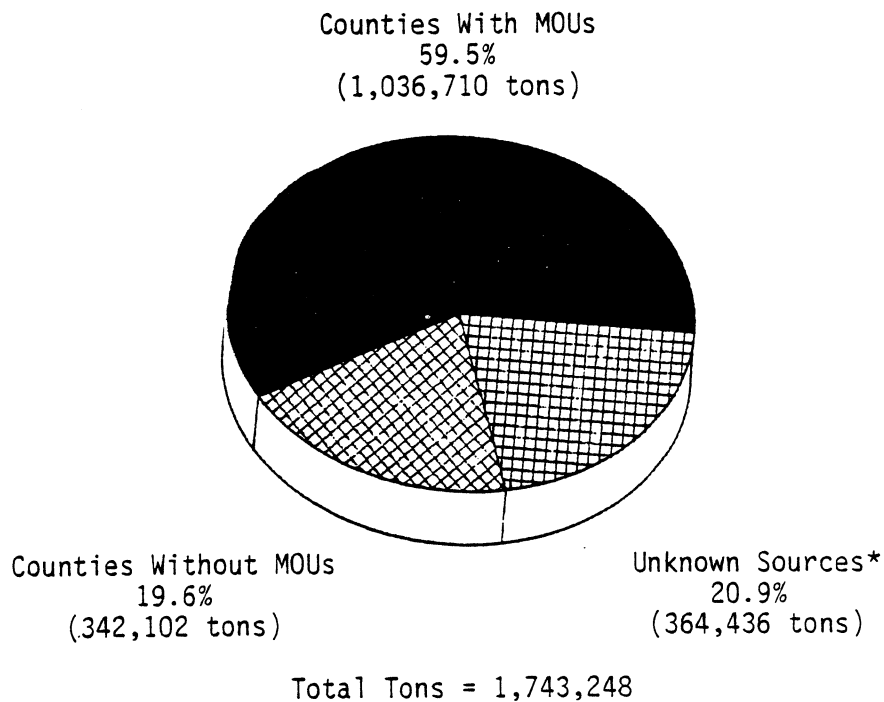
County	Methods of Identifying Generators	Does County Notify the DHS When Generator Is Identified?	Reason the DHS Is Not Notified	Does County Regularly Inspect Generators?	Does County Report Inspections to the DHS?
Alameda	-Uses the Standard Industrial Codes to match business types -Sends questionnaires to businesses -Field visits	Yes	Not applicable	Yes, attempts to inspect annually	Yes
Contra Costa	-Uses the Standard Industrial Codes to match business types -List of generators from the DHS -Field inspections -State and local agencies' records	Yes	Not applicable	Yes, annually	Yes
Imperial	-List of generators from the DHS	Yes	Not applicable	No, only in response to complaints	Yes, if enforcement is necessary
Los Angeles	-Field inspections -Local agencies' records	No	Never requested by the DHS	Yes, plans inspections every two years	Yes, informally
Monterey	-Uses the Standard Industrial Codes to match business types -State and local agencies' records	Yes	Not applicable	Yes, plans annual inspections	Yes
Nevada	-Field visits	Yes	Not applicable	Yes, plans annual inspections	Yes
Orange	-Uses Standard Industrial Codes to match business types -Local agencies' records	Yes, in meetings with the DHS	Not applicable	Yes, annually	Yes
Riverside	-Sends questionnaires to businesses -Field inspections -Local agencies' records	No	Never requested by the DHS	Yes, plans annual inspections	No, not requested
San Benito	-Uses facilities' EPA numbers	Yes	Not applicable	Plans to inspect annually	Yes, when program is implemented

County	Methods of Identifying Generators	Does County Notify the DHS When Generator Is Identified?	Reason the DHS Is Not Notified	Does County Regularly Inspect Generators?	Does County Report Inspections to the DHS?
San Bernardino	-Field inspections -Uses facilities' EPA numbers -Local agencies' records	No	Never requested by the DHS	Yes, plans annual inspections	No
San Diego	-Sends questionnaires to businesses -Field inspections -State and local agencies' records	No	Never requested by the DHS	Yes, annually	No
San Joaquin	-State and local agencies' records	Yes, when program is implemented	Not applicable	Plans to inspect annually	Yes, when program is implemented
San Mateo	-Uses the Standard Industrial Codes to match business types -Field visits -Local agencies' records	Yes	Not applicable	Yes, at least annually	Yes
Santa Barbara	-Field inspections	No	Never requested by the DHS	Plans to inspect annually	No, not requested
Stanislaus	-Sends questionnaires to businesses	Yes, in meetings with the DHS	Not applicable	Plans to inspect annually	Yes
Ventura	-Uses the Standard Industrial Codes to match business types -Local agencies' records	No	Never requested by the DHS	Annually	Yes

Although only 16 (27.6 percent) of 58 counties have MOUs with the division, more than one-half of the hazardous waste generated in the State is generated in these 16 counties. Chart C-1 shows the total number of tons of hazardous waste generated from April 1, 1986, through March 31, 1987, in counties with MOUs and counties without MOUs.

CHART C-1

**TOTAL NUMBER OF TONS OF HAZARDOUS WASTE
GENERATED IN ALL COUNTIES
APRIL 1, 1986 THROUGH MARCH 31, 1987**



*The division could not identify in what county this hazardous waste was generated.

Source: The Hazardous Waste Information System of the Toxic Substances Control Division.

Of the ten counties that we contacted without MOUs with the division, seven did not have a method for identifying generators. Also, none of these ten counties conduct regular inspections of generators. Four of the ten counties intend to sign an MOU with the division and three counties do not plan to enter into agreements with the division.

According to the division chief, as a result of federal and state legislation, and because of the need to expand the base for the hazardous waste fee structure, the division is currently working with all counties to identify additional generators of hazardous waste.

THE BUDGET PROCEDURES OF THE
TOXIC SUBSTANCES CONTROL DIVISION

The Toxic Substances Control Division (division) is responsible for preparing the annual budget for its hazardous waste regulatory program. After the Department of Health Services (department) approves the budget, it is incorporated into the department's budget and presented to the Department of Finance for processing in accordance with the budget procedures contained in the State Administrative Manual.

The State Administrative Manual establishes budget procedures for all state agencies. State agencies are required to develop work plans that identify the needs, objectives, and measures of accomplishment of their respective programs. If the program objectives of the agency are not measurable, the agency should indicate the program's size, workload, authority, output, and a general description of the program's activities. The measure of accomplishment should reflect the program's results, its effectiveness, and its value to society. In addition, a work plan should indicate the amount of resources the program requires to operate.

We determined that the division appropriately prepares its budget for enforcing the hazardous waste management program. For example, the budget identifies the needs for the program--permitting, surveillance, enforcement, alternative technology--and further identifies program support and administrative costs.

In preparing its 1987-88 budget, the division implemented a zero-based budget with estimated workload standards.* According to the chief of the Financial and Support Operations Section, to develop the workload standards, the supervisors and managers of the various sections within the division independently estimated how long it would take to complete the required tasks in the program. The division's management then met and refined the individual estimates. These estimates became the workload standards used to prepare the budget. In preparing its 1988-89 budget, the division updated its 1987-88 zero-based budget.

Because the division's objective is to make the most effective use of its current staff and to identify any additional need for staff, any request for an increase in staff must be offset in some way, such as through a decrease of staff in another program activity. However,

*A zero-based budget justifies all the resources needed to accomplish the designated responsibilities of the division.

the chiefs of the various sections within the division will be allowed to request changes to their portion of the previous year's budget, if, for example, they identify more efficient procedures or obtain updated information.

DEPARTMENT OF HEALTH SERVICES

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July 23, 1987

Mr. Thomas Hayes, Auditor General
Office of the Auditor General
660 J Street, Suite 300
Sacramento, CA 95814

Dear Mr. Hayes:

Mr. Allenby has asked me to respond to your draft report, your number P-662, dated July 15, 1987, entitled "Revenues and Expenditures of the State's Hazardous Waste Regulatory Program."

The Department of Health Services' Toxic Substances Control Division agrees that the information contained in the report generally reflects the revenues and expenditures of the two major funds that provide the primary state funding resources for the hazardous waste program. Differences that we noted were relatively minor and do not materially affect the auditor's results.

Comments have been developed that may be useful to you in formulating the final report. These items are as follows:

- o There were some inconsistencies in that the Hazardous Substances Account, as noted in "Results in Brief", reflects revenues beginning January 1984. However, expenditures were accounted for starting July 1984. This may cause some distortion when comparing amounts but should not have a major effect.
- o The expenditures included for the Hazardous Substances Account in 1985/86 did not include a direct appropriation of \$453,000 made in 1985/86 to the Attorney General. It is our understanding that this appropriation was fully expended.*
- o Expenditures for the first six months of the 1986/87 fiscal year, as reflected in the records at the end of December, may be understated in personnel services as the Toxic Substances Control Division had a substantial amount of salaries that were not distributed until much later in the fiscal year. Ultimately, these costs were charged to the Toxic funds but no effort had been made to identify these to applicable months. Therefore, only totals for the entire fiscal year of 1986/87 would be available at this time.

*Auditor General Comment: Text changed.

Mr. Thomas Hayes

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July 23, 1987

- o The analysis of HSA expenditures indicated that \$1.2 million was spent in cleaning up hazardous waste sites. It should be noted that the \$10.4 million reflected as salaries and operating expenses also included some site cleanup contracts; however, these were not separated from other operations expenses.
- o Your use of the term "hazardous waste regulatory program" is not consistent with our use of the term. In both your title and in the summary, you include site mitigation within the scope of regulatory program. We do not agree with this usage. We consider the regulatory program to be limited to the surveillance, enforcement and permitting activities which are funded by both the HWCA and federal RCRA funds.*

The Division has taken steps to improve the quality of data maintained on program activities that should be of value to future reviews. These improvements include, but are not limited to, the following:

- o The Division has implemented the CALSTARS statewide automated accounting system effective July 1, 1987. This will allow more timely information on program expenditures and more precise funding of these expenditures.
- o A program tracking system has been developed within the Division that should provide better data on the progress of permitting, enforcement and site mitigation activities. While it will not provide costing data for many of these activities, the information should be useful in validating the projections developed by staff in estimating the elapsed time for major program activities.
- o The files for the major program elements have been completely revised and a statewide filing system has been implemented. This will provide major improvements in the cataloging of records that document the activities of the Division.

*Auditor General Comment: Text changed.

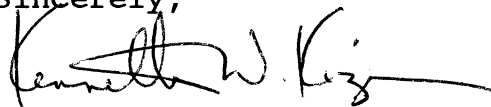
Mr. Thomas Hayes

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July 23, 1987

In conclusion, I would like to express my appreciation for the work performed by your staff. Their conduct during the course of this review was very professional. Should there be any further clarification needed, please do not hesitate to contact me or Division personnel.

Sincerely,

A handwritten signature in black ink, appearing to read "Kenneth W. Kizer". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Kenneth W. Kizer, M.D., M.P.H.
Director



STATE OF CALIFORNIA

STATE BOARD OF EQUALIZATION

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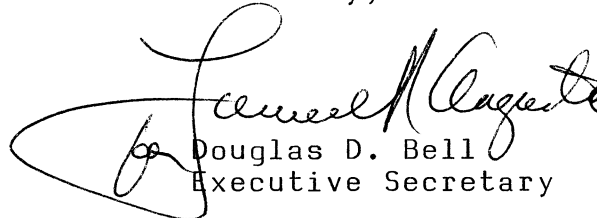
July 23, 1987

Mr. Thomas W. Hayes
Auditor General
660 J Street, Suite 300
Sacramento, CA 95814

Dear Mr. Hayes:

You recently provided the Board of Equalization with a draft report by the Office of the Auditor General entitled, "P-662 Revenues and Expenditures of the State's Hazardous Waste Regulatory Program", requesting that we review the report prior to its release. We have reviewed the draft with your staff, and have no problem with the report.

Sincerely,


Douglas D. Bell
Executive Secretary

DDB:bt

cc: Honorable Conway H. Collis
Honorable Ernest J. Dronenburg, Jr.
Honorable William M. Bennett
Honorable Paul Carpenter
Honorable Gray Davis

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps