OFFICE OF THE AUDITOR GENERAL

1984-85 Annual Report

A Report to the California Legislature

Telephone:
(916) 445-0255

Thomas W. Hayes
Auditor General

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

July 29, 1985

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

Dear Mr. Chairman and Members:

I submit to the Legislature my Annual Report for 1984-85. The report presents an overview of the work completed by the Office of the Auditor General from July 1, 1984, to June 30, 1985, and illustrates the scope of audits undertaken during those 12 months.

Respectfully submitted,

Thomas W. Hayes

THOMAS W. HAYES
Auditor General

TABLE OF CONTENTS

REPORT BY THE

OFFICE OF THE AUDITOR GENERAL

1984-85 ANNUAL REPORT

JULY 1985

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 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, 1984, to June 30, 1985.

A major project of the Auditor General was the financial and compliance audit of the State's combined financial statements for fiscal year 1983-84. This audit, covering revenues of more than $52 billion, was the largest financial audit of a governmental entity ever conducted. It involved a review of 36 state agencies. On the basis of the audit, the Auditor General issued a qualified opinion on the State's General Purpose Financial Statements and issued letters relating to weaknesses in internal controls found in 26 agencies or their affiliates. As a result of this audit, California continues to comply with federal statutes which require this audit as a condition of eligibility for over $7 billion in federal funds annually.

The Auditor General received and investigated 24 allegations of misconduct, fraud, or waste in state government since July 1, 1984. 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 the misuse of state funds, false official statements, and time and attendance abuses. The Auditor General

substantiated occurrences of improper governmental activity in over 60 percent of the allegations investigated. In March 1985, the Auditor General issued a public report of investigations conducted from January 1, 1984, through December 31, 1984.

The Auditor General issued 37 audit reports dealing with the efficiency and effectiveness of state programs during the past fiscal year. The audits concerned programs operated by 35 different agencies and dealt with topics as varied as pesticide safety, state retirement systems, residential facilities for children, the State's mental health system, and the South Geysers geothermal plant.

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 $7 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 1984-85 should save the State at least $21 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 1984-85

Job No.	Report Title	Date Issued	Recommendations
441	The State's Mental Health System Could Be Operated More Cost-Effectively and Could Better Meet the Needs of Clients	03-14-85	The Department of Mental Health should improve the care of mental health clients by placing the clients in settings more appropriate to their needs, by making additional resources available by billing clients and insurance companies more promptly, and by granting county mental health departments access to the Medi-Cal Eligibility Data System.
448	Some of the State's Licensed Residential Facilities for Children Are Not Safe	05-09-85	The Department of Social Services should improve its regulation of residential facilities for children. It should improve the coordination of monitoring by placement agencies and the department so that children in some residential facilities will not have to live in facilities that are unsanitary or unsafe.
456	Review of the State Board of Optometry's Enforcement Program	06-20-85	The State Board of Optometry should ensure that it has sufficient funds to continue enforcement activities on all serious cases that may affect the health and safety of consumers.

Job No.	Report Title	Date Issued	Recommendations
483	The State Committed $50 Million To Build the South Geysers Geothermal Power Plant Without Assuring That Sufficient Steam Was Available	03-25-85	The State Energy Resources Commission should adopt amendments to its regulations that assure that sufficient steam is available before authorizing construction of new plants and unnecessarily risking water users' funds.
455	The State Needs To Improve Its Preparation of Citations and Its Assessments of Penalties Against Nursing Homes	11-08-84	In order to better protect nursing home patients, the Department of Health Services should improve its methods of preparing citations and assessing penalties to nursing homes for violations of health care standards.
414	The State Lacks Data Necessary To Determine the Safety of Pesticides	08-07-84	The Department of Food and Agriculture should improve its program for registering new pesticides and continuously evaluate registered pesticides to prevent the use of unsafe pesticides.

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 over 8,000 contacts, resulting in nearly 1,000 allegations. The Auditor General has substantiated over 25 percent of these allegations, resulting in disciplinary or criminal action.

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. Table 2 shows Auditor General reports issued during fiscal year 1984-85 that contributed to specific legislation. Several bills passed by the Legislature during fiscal year 1984-85 were based on Auditor General reports issued before July 1, 1984.

TABLE 2

LEGISLATION GENERATED BY AUDITOR GENERAL REPORTS
FISCAL YEAR 1984-85

Report Number	Report Title	Bill Number	Subject
375	State Retirement Systems Are Paying Excessive Disability Benefits	AB 1118	Allows the State Teachers' Retirement System to obtain earnings information from the Employment Development Department.
414	The State Lacks Data Necessary to Determine the Safety of Pesticides	AB 3018	Provides the Department of Agriculture with the authority to require quarterly reporting of dollar sales and pounds of each registered pesticide.
414	The State Lacks Data Necessary to Determine the Safety of Pesticides	SB 950	Improves the reporting and testing requirements for both old and new pesticides. Prohibits registering any new ingredient if any of the mandatory health effects studies are missing.
478	California Can Reduce State and County Expenditures for Medical Services to Children	SB 150	Requires the Department of Health Services to implement a pilot study to determine the feasibility of using income and assets to determine eligibility for California Children Services.

TESTIMONY AT LEGISLATIVE HEARINGS

During the fiscal year, the Auditor General provided testimony before committees of the Legislature or the Commission on California State Government Organization and Economy on 27 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 1984-85

Report Number	Subject of Testimony and Committee	Date of Testimony
P-376	Testimony on AB 3566 and contamination of water supplies--Senate Finance Committee	08-15-84
P-455	Testimony on release of the report, "The State Needs to Improve Its Preparation of Citations and Its Assessment of Penalties Against Nursing Homes"--Assembly Committee on Health	11-08-84
F-514	Testimony on analysis, "Implementation of Hazardous Substance Cleanup Bond"--Assembly Committee on Consumer Protection and Toxic Materials	02-21-85
P-478	Testimony on Legislative Analyst Budget Language on California Children Services--Assembly Ways and Means Subcommittee #1	05-02-85
--	Testimony on AB 1185 regarding housing for senior citizens and the California Housing Finance Agency--Assembly Committee on Housing and Community Development	05-13-85
F-542	Testimony on pro-rata charges and the Department of Food and Agriculture budget--Assembly Ways and Means Subcommittee #3 on Resources and Parks and Assembly Agriculture Committee	05-28-85
P-466	Testimony on the release of the report, "The Agricultural Labor Relations Board's Administration of the Agricultural Labor Relations Act"--Joint Legislative Audit Committee	05-29-85
P-456	Testimony on the release of the report, "Review of the State Board of Optometry's Enforcement Program"--Joint Legislative Audit Committee	06-20-85

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. The Auditor General now has 31 portable microcomputers and printers. Using microcomputers, auditors produce sophisticated analytical material quickly and accurately while they are at the audit site; they perform detailed analyses that they did not attempt in the past because of the resources and personnel required.

Using microcomputers, auditors also 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 and determine quickly the additional data that are needed to produce a comprehensive audit. This early review and assessment by managers in Sacramento enables the Auditor General to develop high quality audit reports at reduced costs.

The Auditor General has also established a computer lab with desk-top microcomputers and printers in the Sacramento office. The lab is available to audit staff when they are in the office, leaving the portable microcomputers free for use at audit sites. In addition, all management personnel have desk-top microcomputers that link them not only with audit staff in the field but also with the Legislative Data Center in the Capitol.

As our 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. In fact, our experience shows that microcomputer technology improves the efficiency of an auditor by at least 10 percent. According to our calculations, the cost of each microcomputer is offset in one year by the more efficient use of audit

time and resources. 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.

Throughout its activities, the Office of the Auditor General continues to stress its independence as well as its availability to legislators in their efforts to ensure accountability, effectiveness, and efficiency in state government. On the following pages, we present summaries of audits and investigations conducted by the Auditor General during fiscal year 1984-85. An Index on page 113 lists the summaries by subject and agency. Reports issued by the Auditor General are available to the public for $2.00 per copy. Contact the Office of the Auditor General, 660 J Street, Suite 300, Sacramento, California 95814. Telephone (916) 445-0255.

FINANCIAL AUDITS

The major effort of the Financial Audit Division was an audit of the State's General Purpose Financial Statements for fiscal year 1983-84. This audit covered revenues of over $52 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 33 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 Circular A-102, Attachment P, which specifies audit procedures as a condition of receiving federal funds.

The Financial Audit Division issued 11 audit reports during the fiscal year. We reported on the statement of security accountability of the State Treasurer, the funds spent by the Los Angeles Olympic Organizing Committee on behalf of the California Museum of Science and Industry, and the Department of Highway Patrol's expenditures and revenue sources related to the 1984 Olympic Games. We also reported on the Department of Parks and Recreation's implementation of the Off-Highway Motor Vehicle Recreation Act of 1982, the travel claims of the Director of the Department of General Services, and the status of the state loan to the Alameda County Superintendent of Schools. In addition, we completed an audit of the California Student Aid Commission's State Guaranteed Student Loan Program. Finally, we reported that the State's General Fund has not recovered over $2 million in costs incurred to administer federal programs.

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, 1984

We examined the General Purpose Financial Statements of the State of California as of and for the year ended June 30, 1984. Except for the General Fixed Asset Account Group, as explained in the next paragraph, we conducted 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. We did not examine the financial statements of the Pension Trust Funds, which reflect total assets constituting 70 percent of the Fiduciary Funds. We also did not examine the financial statements of certain Enterprise Funds, which reflect total assets and revenues constituting 56 percent and 62 percent, respectively, of the Enterprise Funds. In addition, we did not examine the University of California Funds. 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 amounts included for the Pension Trust Funds, certain Enterprise Funds, and the University of California Funds, is based solely upon the reports of other independent auditors.

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.

Our opinion, based upon our examination and the reports of other independent auditors, and except for the effect of the omission of the General Fixed Assets Account Group, stated that the General Purpose Financial Statements present fairly the financial position of the State of California as of June 30, 1984.

THE STATE OF CALIFORNIA MUST IMPROVE THE CONTROL OF ITS FINANCIAL OPERATIONS

Summary of Findings

The State of California must place greater emphasis on improving its accounting, auditing, financial, and administrative control systems. Although the State of California corrected some of the weaknesses in these internal controls that we reported last year, the State may lose up to $24 million in foregone interest, bad debts, and lost assets because of continued weaknesses in the internal controls intended to safeguard the State's assets. During our audit of the State's financial statements for fiscal year 1983-84, we found that 25 of the 36 agencies we tested had at least one weakness in the internal controls that apply to financial operations, electronic data processing, internal audits, or compliance with federal regulations. These 36 agencies accounted for over 85 percent of the $50 billion in General Fund account balances in the State. Although the opportunity to recover past losses is limited, executive agencies can prevent losses in the future by improving their internal controls, and the Office of the Auditor General has made specific recommendations to help the various executive agencies make such improvements.

We noted weaknesses in the financial operations of 25 of the 36 agencies that we reviewed. Fourteen agencies did not adequately control revenue activities, and ten agencies had weaknesses in collecting money due to the State. Four agencies did not promptly bill for goods or services or did not follow up on delinquent accounts. As a result, some of the State's potential revenues are now uncollectible, and the State lost interest. Eight agencies did not adequately identify or promptly deposit collections.

State Administrative Manual Section 7990 requires agencies with General Fund appropriations to submit financial reports by July 20. However, even though the Department of Finance extended the deadline to July 31, 25 agencies were at least four weeks late in submitting their financial reports, and 4 of these agencies were over two months late.

Twenty agencies had weaknesses in controlling expenditures. As a result of the poor payroll procedures in six of these agencies, some employees were not paid appropriately. In addition, employees were allowed to leave state service before returning state property and repaying outstanding advances.

Moreover, 17 agencies did not comply with the reporting requirements established by the Department of Finance. Of particular concern is the agencies' inadequate accountability for fixed assets. The State of California exercises poor control over billions of dollars in such fixed assets as machinery, office equipment, and computers. State

agencies cannot identify at present all assets that they have or should have under their control. For this reason, the State 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 was required to spend state time and money to convert the State's financial records so that they would be comparable to those of other large private and public organizations and, therefore, acceptable to the investment community.

Seven state agencies did not properly control their electronic data processing (EDP) activities. 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. Failure to control EDP activities can result in unauthorized changes to computer programs and files and in the processing of improper distribution of state funds.

Two of the 11 internal audit units we reviewed did not comply with all professional standards established by the Institute of Internal Auditors, Inc. California Government Code Sections 1236 and 10529 require state agencies having internal audit units to adhere to these standards. When internal audit units fail to comply with professional standards, external auditors are precluded from relying on the work that the units perform. As a result, the State's audit costs are increased.

We found five areas in which agencies did not comply with state regulations that help the State maintain adequate control over the budgeting, collecting, and expenditure of state revenues. We noted weaknesses in budgetary controls over the State Expenditure Revolving Fund, incomplete monitoring of securities held by trust companies, and poor control over allocation and purchasing procedures.

We noted several instances in which state agencies were not complying with federal requirements for administering federal grants. In return for the receipt of federal grants, the State must adhere to certain federal regulations in disbursing the grant funds. The State did not fully comply with federal regulations in 36 of the 49 grants that we reviewed. None of the conditions we noted was significant enough to place the State in jeopardy of losing continued federal funding. However, the federal government could require the State to reimburse the federal government for all funds that the State spent while not fully complying with the grant requirements.

STATE OF CALIFORNIA
STATEMENT OF SECURITY ACCOUNTABILITY
OF THE STATE TREASURER
JUNE 30, 1984

Summary of Findings

We examined the Statement of Security Accountability of the State Treasurer as of June 30, 1984. We made our examination in accordance with generally accepted auditing standards and 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, 1984, in accordance with the basis of accounting described in Note 1.

STATUS REPORT: THE STATE LOAN TO THE ALAMEDA COUNTY SUPERINTENDENT OF SCHOOLS

Summary of Findings

In January 1984, the Alameda County Treasurer registered the warrants that were issued from the Alameda County Superintendent of Schools' (ACSS) account as a result of the ACSS' continuing deficit balance at the County Treasury. Without outside financing, the ACSS' deficit was expected to reach at least $5.0 million by June 30, 1984. In March 1984, the Legislature enacted emergency legislation (Chapter 46, Statutes of 1984) to provide a $5.5 million loan to the ACSS. The legislation also required the ACSS to provide certain reports to and be accountable to the State's Superintendent of Public Instruction. The ACSS received the full amount of the loan: $4.9 million in March 1984 and the remaining $.6 million in May 1984. In March, the Superintendent of Public Instruction appointed a trustee to monitor and review the ACSS' operations as required by Chapter 46, Statutes of 1984. In April, the trustee notified school districts within Alameda County of the ACSS' intent, as required by the legislation, to discontinue operating the special transportation program for district students.

The ACSS has made progress toward its goal of financial stability. Although the ACSS ended fiscal year 1983-84 with an estimated $1.6 million deficit fund balance (excluding the $5.5 million liability for the state loan), the ACSS' budget for 1984-85 proposes repaying $4.45 million, including accrued interest to date, of the state loan. This budget also projects that the ACSS will end the year with a fund balance of $537,000, which has been reserved for contingencies. The ACSS estimates that it will owe the State approximately $1.25 million of loan principal on June 30, 1985. Interest will continue to accrue on the outstanding portion of the loan until the loan is completely repaid in four years.

In preparing its budget for fiscal year 1984-85, the ACSS made assumptions that we believe could significantly affect the accuracy of the budget. Three of these assumptions dealing with the manner in which the loan from the State is repaid are of uncertain reliability and are based upon interpretations of Chapter 46, Statutes of 1984, made by representatives of the Superintendent of Public Instruction acting in their capacity as administrators. If these assumptions are valid, the ACSS will have approximately $755,000 more than it originally anticipated for 1984-85 operations, and it will be relieved of approximately $429,000 in interest expense that it would have had to pay in the future.

In its attempt to achieve financial stability and to present a balanced budget for 1984-85 with a reserve for contingencies, the ACSS has made

major changes in its operations. ACSS management significantly reduced staff, used grant money to fund positions that had previously been funded by the operating budget, increased income by charging additional fees for services that were previously provided at lower or no cost to school districts, and increased income by leasing out additional space in the ACSS building. Additionally, ACSS management has attempted to build flexibility into the budget by providing for the opportunity to defer certain rental expenses until subsequent years.

Despite reductions in staff and operating expenses, ACSS management anticipates being able to continue to provide many of the services to students enrolled in the county's Juvenile Court School and Special Centers as well as support services to school districts within Alameda County. The ACSS expects to make only minimal changes in instructional services. However, the ACSS expects certain reductions, delays, and eliminations in support services provided to school districts as a result of the planned reductions. Additionally, the ACSS will continue to provide data processing services to the school districts but at increased cost. However, inadequate communication from the ACSS to the school districts regarding its intentions to provide payroll services past fiscal year 1984-85 may have resulted in some districts' incurring unnecessary additional costs.

Because of the financial crisis at the ACSS in January 1984, the Alameda County Treasurer refused to permit the ACSS to continue a cash deficit at the County Treasury. The ACSS' cash flow projection for 1984-85 shows a deficit cash balance as of the last day in April 1985, the date on which the Alameda County Treasurer may no longer advance funds to the ACSS. Should the ACSS have a deficit cash balance in April 1985, the Alameda County Treasurer may register warrants if the ACSS is unable to obtain outside financing. The ACSS has the option of temporarily delaying disbursements, to the extent that such action is possible.

Recommendations

To ensure that the fiscal problems previously experienced by the Alameda County Superintendent of Schools continue to be adequately addressed and that the problems do not recur, the Superintendent of Public Instruction should continue monitoring the ACSS' operations and should continue to ensure that the ACSS exercises fiscal restraint. Additionally, the Superintendent of Public Instruction should request an opinion from the Attorney General regarding the legality of the three interpretations relating to the loan from the State.

A REVIEW OF THE AUTOMATION PLANS OF THE EMPLOYMENT TRAINING PANEL

Summary of Findings

The Employment Training Panel (panel) was created by Chapter 1074, Statutes of 1982, and is funded by employer taxes that would otherwise be paid into the Unemployment Insurance Fund. The panel's mission is to promote economic development in California by providing training to workers. To accomplish this goal, the panel enters into training agreements with employers and employment training agencies. We have reviewed the panel's efforts to automate its text processing and its management information systems. We found that by reevaluating its needs, the panel was able to meet its data processing requirements by spending $68,000 to purchase eight microcomputers instead of an estimated $363,000 to purchase a minicomputer system.

Because of the growing number of both training projects and individual trainees, the panel recognized the limitations of its manual management information system and attempted to procure a stand-alone minicomputer system through the Department of General Services' expedited procurement process. The panel's request was rejected, and the panel was required to go through the lengthy standard process for the acquisition of computer systems.

As an interim measure to alleviate its increasing backlog in text processing and management information, the panel decided to spend approximately $68,000 to acquire eight microcomputers with related software and telecommunication capabilities. The panel bought the microcomputers with the intent of integrating them into the larger minicomputer system.

However, after setting up the eight microcomputers and training the staff to use them, the panel decided not to procure the stand-alone minicomputer because its microcomputer system was able to meet its needs. Therefore, the panel was able to meet its data processing requirements and save approximately $295,000 by spending $68,000 to purchase a system of microcomputers instead of an estimated $363,000 to purchase a minicomputer system.

A REVIEW OF THE AUTOMATION PLANS OF THE CALIFORNIA UNEMPLOYMENT INSURANCE APPEALS BOARD

Summary of Findings

The California Unemployment Insurance Appeals Board (UIAB) is composed of two separate boards: the Lower Authority Appeals Board (lower board), which maintains 11 offices statewide and handles approximately 125,000 cases annually; and the Higher Authority Appeals Board (higher board), which operates from a single Sacramento location and processes about 13,000 appeals per year. We reviewed the UIAB's efforts to automate its activities and found that the plan appears, for the most part, acceptable. However, certain requirements of the system have not been met by the vendor.

Plans for automation of the lower board began in July 1982 and include the automation of the word processing, registration, scheduling, and reception activities. The effort to procure system hardware for the lower board was delayed approximately five months. The award was made finally to International Computers Ltd. (ICL), a British firm, after the low bidder, Datapoint Corporation, was disqualified. Datapoint was disqualified for failing to guarantee the required maximum response time in the event of a system malfunction. After adjustments by the evaluation and selection team, the ICL's bid exceeded the low bid by more than $200,000.

The procurement package awarded to the ICL included many mandatory requirements for the system software. EDD's data processing division evaluated the system software specifications and noted that the system software provided by the ICL does not meet the requirements of the contract. Although the chief of the EDD's data processing division states that the ICL is working to resolve some of these deficiencies, he recommends that the UIAB spend at least an additional $126,000 in order "to have a satisfactorily functioning system." On June 4, 1985, the ICL outlined steps it was prepared to take to remedy some of the software deficiencies if the State is willing to pay some of the additional costs and to sign a statement that would, in effect, release the ICL from further obligations, except for continuing support and service, under the existing contract.

The higher board automation plan is similar to that of the lower board and includes word processing, registration, reception, and case management. The higher board purchased the same type of equipment that the lower board did and added its purchase to the lower board's procurement contract.

THE STATE'S GENERAL FUND HAS NOT RECOVERED OVER $2 MILLION IN COSTS INCURRED TO ADMINISTER FEDERAL PROGRAMS

Summary of Findings

Some state agencies are not collecting and transferring to the General Fund federal reimbursements for state costs incurred in administering federal programs. Because agencies have not collected or transferred federal reimbursements, the State's General Fund lost over $2.2 million during fiscal years 1981-82, 1982-83, and 1983-84.

State agencies are required by law to seek reimbursement from the federal government for the costs of administering federal programs. Some costs, such as the State's cost of providing central support services to agencies that administer federal programs, are shared proportionately by these agencies. The Department of Finance (department) determines the total cost of providing central services and allocates a share of the costs to each agency through the Statewide Cost Allocation Plan (SWCAP). The SWCAP reimbursement is the amount that state agencies are required to remit to the General Fund.

For fiscal years 1981-82 through 1983-84, the department allocated central service costs incurred in administering federal programs to 71 state agencies. We reviewed 22 of these state agencies and found that agencies have not properly calculated, collected, and transferred to the General Fund SWCAP reimbursements. In addition, the department has not complied with the California Government Code that requires the department to transfer SWCAP reimbursements to the General Fund when state agencies fail to make such transfers. The department has also not followed up on agencies that fail to comply with regulations pertaining to the collection of SWCAP reimbursements. Finally, the department's monitoring of the collection of SWCAP reimbursements may be hampered by lack of information because the department no longer requires state agencies to report SWCAP reimbursements on their year-end financial statements.

Because the agencies failed to calculate, collect, and transfer SWCAP reimbursements properly, and because the department failed to monitor collection of SWCAP reimbursements, three agencies have collected incorrect SWCAP reimbursements, and three agencies have not collected SWCAP reimbursements at all. One agency negotiated its own rates for SWCAP reimbursements. In addition, nine agencies that collected SWCAP reimbursements did not transfer the reimbursements to the General Fund promptly as required. In total, state agencies failed to collect or transfer SWCAP reimbursements of approximately $2.2 million. The General Fund lost approximately $500,000 in potential interest earnings because agencies failed to collect these SWCAP reimbursements or because they did not collect the reimbursements promptly. The General

Fund may have lost an additional $625,000 in potential interest earnings because agencies did not properly transfer reimbursements to the General Fund.

Recommendations

The Department of Finance should issue clear and specific instructions for calculating, collecting, and transferring to the General Fund SWCAP reimbursements. The department should also transfer to the General Fund all SWCAP reimbursements that agencies have failed to transfer as required. In addition, the department should establish follow-up procedures to ensure that state agencies comply with regulations pertaining to the collection of SWCAP reimbursements. Finally, the department should reestablish the requirement that agencies submit Report 13, "Report of Expenditures of Federal Funds," at the end of the fiscal year.

FOLLOW-UP ANALYSIS OF DIRECTOR OF GENERAL SERVICES' TRAVEL

Summary of Findings

The 1984 Budget Act directed the Auditor General to conduct a follow-up review of state travel undertaken by the Director of General Services and to determine the extent to which the problems raised in the Auditor General's May 1984 report ("Analysis of Director of General Services' Travel," Report F-437) have been corrected.

William J. Anthony, Director of General Services, made 27 trips between March 1, 1984, and October 31, 1984. (We define a "trip" as travel that originates and terminates at the headquarters location in Sacramento; a trip may include travel to other locations between the departure from and return to Sacramento.) Twenty-five of these trips were to Los Angeles; on 9 of the 25, Mr. Anthony spent the weekend in the Los Angeles area. On 3 of the 9 weekends in Los Angeles, Mr. Anthony had possession of a state car. All identified travel costs appear reasonable. For 6 of the 27 trips, we could not determine if violations of state regulations occurred because necessary information was not available.

In our earlier review, which covered the period from June 1, 1980, through February 29, 1984, we reported that Mr. Anthony traveled 169 times between Sacramento and Los Angeles for both the Department of General Services and the Department of Justice, his previous employer. We determined that violations of state regulations occurred on 7 of these trips. For 14 other trips, we could not determine if any violations occurred because sufficient information was not available.

CALIFORNIA DEPARTMENT OF HIGHWAY PATROL'S EXPENDITURES AND REVENUE SOURCES RELATED TO THE 1984 OLYMPIC GAMES

Summary of Findings

The 1984 Summer Olympic Games (Olympics) were staged in Los Angeles from July 28, 1984, through August 12, 1984. During this period, the Department of Highway Patrol (CHP) provided law enforcement, traffic management, and dignitary protection services. During July and August 1984, the CHP also provided law enforcement and escort services to the Los Angeles Olympic Operating Committee (LAOOC), which promoted the 1984 Olympics, and to the American Telephone and Telegraph Company (AT&T), which sponsored the Olympic Torch Relay Run Event. The LAOOC and the AT&T reimbursed the CHP for the costs associated with the services provided to them.

As of November 30, 1984, the CHP had incurred $10,388,473 in costs allocated to Olympic activities. Approximately 79 percent ($8,206,448) of these costs were for direct salaries and benefits of CHP personnel and for indirect administrative overhead costs. The remaining 21 percent ($2,182,025) of the CHP's total Olympic costs includes amounts for lodging and meals for CHP personnel working on Olympic activities and the costs of communication, fleet and aircraft operations, travel, and general expenses related to Olympic activities. Of the $10,388,473 in costs allocated to the Olympics, $5,968,397 was funded from the CHP's support appropriations in the 1983 and 1984 Budget Acts. The remaining $4,420,076 represents CHP costs funded by increased funding in the 1984 Budget Act and by the LAOOC and the AT&T. Although a final accounting of the CHP's Olympic costs is not expected until January 1985, the Chief of the CHP's Administrative Services Division told us that the $10,388,473 represents most of the expected final costs.

Based upon our audit tests, the amounts stated above appear reasonable. However, it was not within the scope of this review to conduct an examination in accordance with generally accepted auditing standards that would enable us to express an opinion on any of the financial information referred to in this report.

THE LOS ANGELES OLYMPIC ORGANIZING COMMITTEE'S EXPENDITURE OF FUNDS FOR IMPROVEMENTS TO THE CALIFORNIA MUSEUM OF SCIENCE AND INDUSTRY

Summary of Findings

The 1984 Olympic Games were promoted by the Los Angeles Olympic Organizing Committee (LAOOC). From June 26, 1984, through August 14, 1984, the California Museum of Science and Industry (museum) leased certain areas in Exposition Park to the LAOOC. Exposition Park is located in Los Angeles and is jointly controlled or owned by the museum, the County of Los Angeles, the City of Los Angeles, and the Los Angeles Memorial Coliseum Commission. Under the terms of the contract, the LAOOC agreed to pay $800,000 in costs for certain general park improvements to Exposition Park.

We audited the LAOOC's expenditure of funds on behalf of the museum and found that the LAOOC satisfied its contractual obligation with the museum. The contract between the museum and the LAOOC specified that the LAOOC would pay $800,000 for general park improvements in Exposition Park. It appears that the LAOOC subsequently agreed with the County of Los Angeles to increase this expenditure level to $1,800,000. As of May 31, 1985, when our field work ended, the LAOOC spent at least $3,061,112 in costs that could be allocated to general park improvements in Exposition Park, excluding the Sports Arena and the Coliseum. Of this amount, we estimate that $2,433,651 was spent on general park improvements of property controlled by the museum. The LAOOC spent the remaining $627,461 on general park improvements that do not directly benefit the museum.

THE DEPARTMENT OF PARKS AND RECREATION'S IMPLEMENTATION OF THE OFF-HIGHWAY MOTOR VEHICLE RECREATION ACT OF 1982

Summary of Findings

In 1982, the Legislature passed the Off-Highway Motor Vehicle Recreation (OHMVR) Act of 1982 to provide adequate facilities for off-highway motor vehicles and to maintain a desirable ecological balance. The Legislature intended for the Department of Parks and Recreation (department) to place high priority on promptly implementing the OHMVR program. To accomplish this, the OHMVR Act created the Division of Off-Highway Motor Vehicle Recreation (division) and consolidated within that division all existing off-highway motor vehicle recreation activities carried out by other programs within the department. The OHMVR Act also created the Off-Highway Motor Vehicle Recreation Commission (commission) to establish policy for the division.

The department established the division in 1983 according to legislative intent, and the appointments to the commission have been made. However, the division has not acquired any new off-highway motor vehicle recreation facilities, and its expansion of existing facilities has been minimal. The most recent acquisition of land occurred during fiscal year 1981-82. In addition, even though the Legislature appropriated $9,625,000 in fiscal year 1983-84 for the expansion of existing facilities, the division has spent only $709,460 for this purpose. Furthermore, the commission has not yet established policies for guiding the division in implementing the OHMVR program.

According to the division's acting director, the division was unable to execute all of the provisions of the OHMVR Act because neither the act nor subsequent department action provided the division with sufficient resources to meet its responsibilities. To obtain the additional staff, equipment, and support services necessary to comply fully with the OHMVR Act, the division requested for fiscal year 1985-86 a significantly higher support budget appropriation than it received in fiscal year 1984-85. According to the division's acting director, the OHMVR fund currently has enough money to cover the division's proposed budget increase. The Legislature specified that at least 50 percent of the money that the OHMVR fund receives is to be made available for support of the division's activities.

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

Summary of Findings

The California Student Aid Commission (commission) requested this audit of the State Guaranteed Loan Reserve Fund to meet the commission's 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: (1) the Guaranteed Loan program, (2) the State Guaranteed Loan Program, and (3) 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 carries on 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. The commission is responsible for guaranteeing federally reinsured loans issued to students and parents for postsecondary education expenses. The State Guaranteed Loan Reserve Fund is supported by federal funds, investment earnings, and insurance premiums paid by student borrowers.

The commission has contracted with the E.D.S. Corporation, to provide administrative support services from January 3, 1983, to February 28, 1986. These services include processing and approving all student loan applications, collecting insurance premiums, maintaining and managing the loan portfolio, processing claims from lenders, pursuing collections, and preparing reports required by the U.S. Department of Education.

The audit shows that the student loan programs accumulated a fund balance of $72 million as of June 30, 1984. This represents an increase of approximately $20 million since the end of the previous fiscal year. Loan defaults during the year amounted to approximately $95 million. However, the State's share of the loan defaults amounted to only $2.35 million because the U.S. Department of Education reimburses the commission for most of the defaulted loans.

In our opinion, the commission's financial statements present fairly the financial position of the State Guaranteed Loan Reserve Fund as of June 30, 1984, 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, over 8,000 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, 979 complaints have been filed; 24 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. Between July 1, 1984, and June 30, 1985, the Auditor General received 19 complaints (79 percent) over the Auditor General's Hotline and 5 complaints (21 percent) by mail.

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 24 complaints that were filed with the Investigative Audit Unit during 1984-85. Our investigations substantiated the occurrence of an improper governmental activity in 10 of the 13 cases that were closed.

TABLE 1

DISPOSITION OF COMPLAINTS
JULY 1, 1984 TO JUNE 30, 1985

	Number	Percent
Cases closed after preliminary investigation	5	21%
Cases closed after formal investigation	8	34%
Investigations in progress	11	45%
Total	24	100%

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 62 percent of the allegations that it investigated. Table 2 on the following page shows the types of allegations received since July 1, 1984, and the number that have been substantiated.

TABLE 2

TYPES OF COMPLAINTS RECEIVED AND INVESTIGATED JULY 1, 1984 TO JUNE 30, 1985

Type	Complaints Received	Complaints Substantiated	Complaints Unsubstantiated	Investigations in Progress
MISMANAGEMENT				
Poor Administrative Decisions	1	1	0	0
Wasteful Purchases	0	0	0	0
Improper Contracting Procedures	0	0	0	0
Subtotal	1	1	0	0
IMPROPER PERSONNEL PRACTICES				
Time and Attendance Abuses	6	2	0	4
Failure To Follow Personnel Rules	1	0	1	0
Subtotal	7	2	1	4
ABUSE OF STATE RESOURCES				
False Travel Claims	1	0	1	0
Waste of State Funds	2	0	0	2
Misuse of Employees or Property	4	2	0	2
Miscellaneous	6	4	0	2
Subtotal	13	6	1	6
MISUSE OF STATE VEHICLES				
Used for Improper Purposes	3	1	1	1
Total	24	10	3	11

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 a misuse or waste of state funds or in a violation of administrative rules or regulations, as indicated in Case A.

Case A

An agency official permitted three management employees to park their private vehicles free of charge in state-leased parking spaces. In doing so, the official violated Government Code Section 14677. Under the code, state employees may be permitted to park motor vehicles in state-leased spaces only if they pay appropriate parking fees.

As a result of the Auditor General's investigation, agency employees who used state-leased parking spaces free of charge have reimbursed the State at the rate of $40 per month.

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. Case B describes an example of improper personnel practices.

Case B

Three state employees formed a business partnership to provide lists of vacancies in state jobs to private counselors and agencies whose clients are industrially injured state workers. The employees conducted this business from a leased office and conducted unofficial business on state time.

For example, one of the employees drove a state vehicle to solicit business from a private rehabilitation counselor in southern California when the employee was scheduled to attend a training seminar. At another time, this employee offered to sell to a private rehabilitation counselor a current state job rating list. The counselor agreed and paid the $45 fee because the employee told her that the State no longer maintained such data. The second of the three partners spent a great deal of time in the partnership office, and he operated the private business from that site. The third state employee sought referrals of workers from a state insurance fund. However, fund officials rejected the proposal because they perceived a conflict of interest between the employees' state duties and their private business.

As a result of the Auditor General's investigation, one employee's salary was reduced by 10 percent for one year, the second employee was dismissed from state service, and the third employee's conduct is still under investigation.

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 case illustrates allegations of the abuse of state resources that the Auditor General investigated.

Case C

An agency employee used state telephones to make calls for his van pool business. Moreover, he took more than 30 minutes to complete many of his calls. Most of his conversations concerned recruiting van pool drivers, repairing the vans, searching for alternate van drivers, collecting fees from passengers, and acquiring more vans. The employee also influenced the office receptionist to drive a van in return for free transportation from her home to the office. At the office the

employee discussed various van pool operations with the receptionist during working hours. In addition, she typed and copied van pool correspondence on state equipment.

As a result of the Auditor General's investigation, the employee was suspended without pay for ten workdays. He was cited for submitting dishonest expense vouchers and for misusing state time and property in connection with his van pool business. The office receptionist received a written reprimand.

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 D

An agency official directed an employee to drive the official's wife to Sacramento from the official's home so that she could accompany her husband on a trip. The official's home was over 100 miles from Sacramento. The official said that he was unable to arrange private transportation for his wife.

As a result of the Auditor General's investigation, the official reimbursed the State $207.07 for five hours of the employee's time and for the use of a state vehicle. In addition, the employee was counseled and reprimanded.

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, 1984, through June 30, 1985, the Performance Audit Division issued 37 reports concerning programs conducted by 35 different agencies. These reports included recommendations that should save the State more than $19 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: collection of revenue for the services provided by California Children Services, management of state parks by the Department of Parks and Recreation, preparation of citations against nursing homes by the Department of Health Services, state agencies' telecommunications costs, and the State Board of Optometry's enforcement program.

Seven of our audits concerned programs administered by the Department of Health Services, four audits pertained to programs conducted by the Department of Education, and three pertained to programs managed by the Department of Mental Health. On the following pages, we present summaries of the reports issued by the Performance Audit Division.

THE STATE COULD EXPEDITE THE APPROVAL OF REGULATIONS

Summary of Findings

State agencies submit to the Office of Administrative Law (office) proposed regulations or amendments to or repeals of regulations adopted after July 1, 1980, emergency regulations, and amendments to or repeals of regulations adopted before July 1, 1980. The office reviews regulations developed by state agencies to ensure that the regulations are necessary, comprehensive and clear, authorized by statute, and consistent with existing laws. The Administrative Procedure Act (act) specifies the periods within which the office must review and either approve or disapprove the regulations.

We analyzed a sample of 96 of the 796 regulations that four state agencies submitted to the office for review from January 1, 1981, through October 20, 1984. The office approved 92 regulations and disapproved 2; agencies withdrew and did not resubmit 2 regulations. Although the office completed its initial review and either approved or disapproved regulations within periods specified by law, several months elapsed from the time agencies initially submitted some regulations to the office until the regulations were finally approved.

Seventy of the 96 regulations were regulations and amendments to or repeals of regulations adopted after July 1, 1980. The office initially reviewed and approved, disapproved, or allowed agencies to withdraw all of these regulations within the 30 days required by the act. However, approval of 13 (19 percent) of these regulations took from 35 days to 11.6 months. Approval was delayed because agencies initially withdrew regulations to correct problems the office identified during its review or because the office initially disapproved the regulations. The office subsequently approved the regulations after agencies corrected and resubmitted them.

The office most often allowed an agency to withdraw a regulation or disapproved a regulation because the agency did not demonstrate that the regulation was necessary, did not write the regulation clearly, did not demonstrate its legal authority to adopt a certain regulation, or did not submit sufficient documentation to demonstrate compliance with procedural requirements of the act. Because 13 regulations were sent back and forth between the office and agencies for revision, there was a delay in implementing these regulations, and the office and state agencies incurred additional costs.

Although the office initiated reviews of regulations addressed in 532 Statements of Review Completion, the office has not completed its review of regulations addressed in 382 Statements of Review Completion. State agencies submit these statements following their internal reviews of regulations adopted before July 1, 1980. In their Statements of

Review Completion, agencies specify which regulations they want to retain, amend, or repeal. In addition to not completing its review of regulations, the office has not made a final decision on 68 unresolved orders to show cause why agencies' regulations should not be repealed. The office issues orders to show cause when it determines that existing regulations do not meet the standards of the act.

An amendment to the act effective January 1, 1985, requires the office to publish all Statements of Review Completion in the California Administrative Notice Register; publication in the register invites public comment. The amendment also requires the office to make a decision on certain unresolved orders to show cause by April 30, 1985. However, because the amendment does not apply to 5 of the 68 unresolved orders to show cause, there is no deadline for resolving these 5 orders.

Recommendations

The Office of Administrative Law should issue written instructions to agencies specifying what should be included in a regulation and its supporting documents to satisfy each of the legal standards in the Administrative Procedure Act. The office should also adopt regulations to govern the procedures it uses in reviewing regulations submitted to it. In addition, the office should resolve the disposition of those Statements of Review Completion for which the office has initiated but not completed reviews. Further, the office should consider initiating reviews of Statements of Review Completion only for regulations that receive significant public comment subsequent to their publication in the California Administrative Notice Register. Finally, the office should resolve all unresolved orders to show cause by April 30, 1985.

THE AGRICULTURAL LABOR RELATIONS BOARD'S ADMINISTRATION OF THE AGRICULTURAL LABOR RELATIONS ACT

Summary of Findings

This report provides information on the Agricultural Labor Relations Board's (ALRB) administration of the Agricultural Labor Relations Act (act). The ALRB, whose authority is shared by a general counsel and a five-member board, is empowered to adjudicate charges of unfair labor practices filed against employers and labor organizations, to hold secret ballot elections and certify election results, and to make rules necessary to carry out the provisions of the act.

During fiscal years 1975-76 through 1983-84, agricultural employees, labor organizations, or employers filed with the ALRB 8,545 charges alleging unfair labor practices. Through the end of fiscal year 1983-84, the ALRB's regional staffs completed investigations and made initial dispositions of 7,500 charges; 974 charges were still in various stages of investigation, and the ALRB could not determine the disposition of 71 other charges. During the period of our review, charges against employers averaged 833 per year, and charges against labor organizations averaged 117 per year.

Of the 7,500 charges that the ALRB investigated, the ALRB dismissed 2,891 (38.6 percent), the charging parties withdrew 1,428 (19.0 percent), and 264 charges were settled (3.5 percent). The ALRB determined that 2,917 charges (38.9 percent) were probable violations of the act, and the ALRB incorporated these charges into complaints. In general, the percentage of charges incorporated into complaints against both employers and labor organizations has declined each year.

In total, the ALRB issued 1,134 complaints incorporating 2,917 charges through fiscal year 1983-84. The ALRB dismissed 32 complaints, 94 complaints were withdrawn, the ALRB scheduled hearings for 792 complaints before administrative law judges, and 207 complaints were settled. Hearings were still pending for the remaining 9 complaints.

Of the 792 complaints scheduled for hearings, 243 complaints were settled after the hearings had begun; hearings were in progress for 34 complaints; 9 hearings were pending; and administrative law judges issued 506 decisions. However, the charged parties appealed 442 administrative law judge decisions to the ALRB's five-member adjudication board. The board upheld 335 of the administrative law judge decisions, dismissed 70 of the decisions, and had not reviewed the remaining 37 decisions as of June 30, 1984. The charged parties further appealed to the courts 224 of the 335 board decisions that affirmed a violation.

The courts of appeal ruled on 153 of the appealed board decisions, and the remaining 71 were pending an appellate decision. The court upheld 119 board decisions, modified 19 decisions, and reversed 15 board decisions. However, the charged parties further appealed 25 courts of appeal decisions to the California State Supreme Court, which upheld 6 of the board decisions, modified 3 decisions, and reversed one decision; 15 decisions were pending at the end of fiscal year 1983-84.

In addition to resolving agricultural labor disputes, the ALRB is responsible for ensuring that parties comply with board decisions. However, the ALRB is not adequately documenting compliance with board decisions. The ALRB has not enforced its own policy to document compliance reviews to ensure that violators of the act comply with all the specifications of board decisions as required by the act. However, the general counsel has begun to solve this problem.

The ALRB is also responsible for conducting secret ballot elections in which agricultural employees can choose collective bargaining representatives. The ALRB received 1,433 representation election petitions during the review period: 1,377 of the petitions requested certification of a union to represent employees, and 56 petitions requested decertification. The ALRB conducted 1,010 elections that included 1,014 petitions, and it dismissed 158 election petitions that did not comply with election requirements. The petitioners withdrew 260 election petitions, and the ALRB suspended one petition for an election.

During the period we reviewed, three members of the five-member board initiated a legal action against the general counsel. On April 3, 1984, the ALRB's general counsel received a written request from an agricultural employer's legal representative to review specific investigative files, pursuant to the California Public Records Act. The general counsel allowed the representative access to the files under the Public Records Act. Three members of the five-member board later contended that the files contained privileged information and, in November 1984, filed petitions with the Sacramento Superior Court to prevent the general counsel from allowing the representative access to the files. On December 3, 1984, the superior court ruled that statutes give the general counsel the authority to determine whether investigative documents are privileged or confidential and denied the board's petitions. The general counsel then filed a motion for clarification of the ruling. On February 6, 1985, the superior court again denied the board's petitions. In addition, the superior court ruled that the general counsel must decide whether his allowing the employer's representative access to the files will influence the ALRB's appellate court litigation with this employer.

THE OFFICE OF THE STATE ARCHITECT SPENT MORE THAN AUTHORIZED FOR SOME STATE CONSTRUCTION PROJECTS

Summary of Findings

The Office of the State Architect (State Architect) spent more than the Department of Finance authorized on at least one phase of construction in 71 of the 192 major construction projects funded in fiscal years 1981-82 through 1983-84. Furthermore, in 9 of the 71 projects, the State Architect spent more than the Legislature appropriated either for a phase of a project or for the total project. For these 9 projects, the State Architect spent over $200,000 more than the Legislature appropriated. For example, the State Architect spent $97,300 to prepare a budget estimate, preliminary plans, and working drawings for remodeling a state office building. The Department of Finance, however, had authorized the State Architect to spend $7,200 for the budget phase, and the Legislature had appropriated $50,800 for the State Architect to prepare preliminary plans and working drawings. Thus, the State Architect exceeded the amount authorized and appropriated by $39,300.

Some of the factors that can cause the State Architect to need more funds than authorized to complete a project or phase of a project are factors that increase the cost of a project; other factors reduce the amount of time that the State Architect has available to work on a project. For example, unforeseen construction delays and contractor claims for more money can increase the cost of a project. On the other hand, the State Architect may be authorized less money than it estimates it needs to perform its services. Consequently, the State Architect has less time available to complete a project than it estimated it needed.

In the 71 projects in which the State Architect spent more than amounts authorized, the State Architect continued to work on the projects even though it did not have sufficient funds to complete the projects or phases of the projects. According to the Deputy State Architect and the Chief of Architecture and Engineering, the State Architect continued work because management and project managers were not aware that they were spending more than authorized or because continued work allowed the projects to proceed on schedule. Stopping work to obtain additional funds would have delayed the projects and would have resulted in higher costs to the State. However, in February 1984, the State Architect adopted a new policy to stop work on projects before it spends more than amounts authorized.

Recommendations

The Office of the State Architect should closely monitor and control project costs. When completion of a project or a phase of a project

requires more money than authorized, the State Architect should obtain approval from the Department of Finance before spending additional funds.

RELOCATION OF THE SAN FRANCISCO DISTRICT OFFICE OF THE DEPARTMENT OF CONSERVATION'S DIVISION OF MINES AND GEOLOGY

Summary of Findings

In April 1984, the Department of Conservation (department) decided to relocate to Pleasant Hill the Division of Mines and Geology's district office, including part of the library. The Division of Mines and Geology (division) had been on notice for several years that the San Francisco district office would need to be relocated from the Ferry Building because of plans to renovate the building. The district office conducts three major mapping programs and maintains the main library of the division. In its process for selecting a new site for its district office, the department considered such factors as cost, potential effects on the department's programs (including possible loss of experienced staff), and the loss of the library to the mining, petroleum, and geologic community located in the San Francisco Bay area.

In an effort to keep the district office in San Francisco, Mining Lamp, Inc., a nonprofit foundation, informed the department that it had found adequate space in San Francisco to house the staff and library. However, the department analyzed the Mining Lamp's proposal and rejected it. The department found the building proposed by Mining Lamp unsuitable and too costly to renovate.

In August 1984, the department relocated its San Francisco district office to Pleasant Hill. The department leased space in two buildings to house employees and the bulk of the library previously located in San Francisco. The department moved the remainder of the library to Sacramento. In supporting the decision to move to Pleasant Hill, the director of the department noted the difference between rental rates in San Francisco ($2.25 per square foot) and Pleasant Hill ($1.25 per square foot) and indicated that the new site allows staff access to the Bay area where the division conducts much of its work. The director further noted that locating the district office in Pleasant Hill continues the department's presence in the San Francisco community. In addition, the Pleasant Hill office space is adjacent to the Office of Emergency Services' Bay area office. The department has an ongoing working relationship with the Office of Emergency Services to provide geologic advice and assistance in the case of emergencies such as earthquakes or severe landslides.

A REVIEW OF COUNTY CONSTRUCTION FUNDS FOR COURTHOUSES AND CRIMINAL JUSTICE FACILITIES

Summary of Findings

Since establishing Courthouse Temporary Construction Funds and County Criminal Justice Facility Temporary Construction Funds, California counties report that they collected $101.1 million for the funds through May 31, 1984, spent nearly $35.0 million, and had balances in the funds totaling $66.1 million. Our survey of 54 counties and our review of expenditures in four counties found that the counties spent the funds in accordance with state law.

Thirty-six counties have established Courthouse Temporary Construction Funds to acquire, rehabilitate, or construct courtrooms or other buildings necessary to operate the courts. Depending on the authorizing legislation, counties may collect revenues for the funds from one or more of three sources: assessments on fines for criminal offenses, surcharges on fines for parking violations, and surcharges on court filing fees. The 36 counties reported that they collected $36.1 million in revenues for the funds and spent $8.9 million, leaving a total balance of $27.2 million. Only four counties spent money from these funds. Our reviews in two of these four counties found that the expenditures were in accordance with state law.

Los Angeles County collected and spent the most money; it collected $33.4 million and spent over $8.8 million. These figures represent 93 percent of the total revenues of the 36 counties and approximately 99 percent of the total expenditures. Most of Los Angeles County's expenditures were for planning and constructing five new courthouses, one of which was completed in 1983. Los Angeles County intended to use its remaining money to finance construction of the other courthouses.

Fifty-four counties have established County Criminal Justice Facility Temporary Construction Funds to construct, expand, improve, operate, and maintain criminal justice facilities and to improve criminal justice automated information systems. Counties collect revenues for the funds from assessments on fines for criminal offenses and surcharges on fines for parking violations. The 54 counties reported that they collected $65.0 million and spent $26.1 million, leaving a total balance of $38.9 million remaining in their funds. Thirty-five counties spent money from these funds.

Our survey and reviews found that counties were using their funds for purposes allowed by state law. For example, 29 counties reported that they used these funds to construct, expand, and improve criminal justice facilities. Six counties reported that they used these funds to improve their criminal justice automated information systems. Los Angeles County reported using its fund to pay some of the costs of operating its criminal justice facilities.

SOME CONTINUING EDUCATION COURSES DO NOT MEET STATE REQUIREMENTS

Summary of Findings

We reviewed the continuing education programs of six state agencies that are responsible for licensing certain professionals. Continuing education courses accepted by these programs must enhance the professionals' knowledge or skills or relate directly to the delivery of professional services. Although four of the agencies had accepted some inappropriate courses that licensees reported for continuing education credit, most of the courses we reviewed met the requirements of the State and of the respective agencies. However, while all of the courses accepted by the Department of Real Estate related directly to licensees' providing real estate services to the public, we found that the Board of Accountancy, the Board of Dental Examiners, the Board of Medical Quality Assurance, the Board of Pharmacy, and the Board of Registered Nursing need more comprehensive written procedures for reviewing and approving continuing education courses.

Although most continuing education courses accepted for credit by the Board of Accountancy, the Board of Dental Examiners, the Board of Pharmacy, and the Board of Registered Nursing relate directly to the professional development of licensees, each of these agencies has given some licensees credit for inappropriate courses. For example, the Board of Accountancy has treated staff meetings as continuing education courses even though the board's own policies do not allow staff activities to be claimed for credit. The Board of Dental Examiners accepted for credit a continuing education course entitled "Over-the-Counter Veterinary Medicine," which discussed the problems associated with giving nonprescription drugs to pets. This course does not comply with the Board of Dental Examiners' policy that continuing education courses relate directly to the practice of dentistry. Further, the Board of Pharmacy accepted for continuing education credit a course entitled "Adventures in Attitudes," which teaches techniques for developing strong, positive attitudes. The California Business and Professions Code specifies that continuing education courses for pharmacists must pertain to aspects of health care, properties of drugs, or characteristics of diseases.

The Board of Accountancy, the Board of Dental Examiners, and the Board of Pharmacy have accepted inappropriate courses for credit because the agencies' staff members do not always adequately review the titles or content of courses before renewing professionals' licenses. The Board of Registered Nursing has accepted inappropriate courses for continuing education credit because this board does not review either the courses offered by providers or the courses reported by nurses for license renewal.

In addition, the Board of Accountancy, the Board of Pharmacy, and the Board of Registered Nursing do not require licensees to complete a specific number of their required continuing education hours in courses that will directly improve the licensees' technical skills. Thus, these agencies cannot ensure that their licensees always comply with the legislative intent of continuing education.

We could not review any courses taken for credit by physicians because the Board of Medical Quality Assurance does not obtain information on courses that physicians report for continuing education credit. Further, the board does not review continuing education courses before providers offer the courses.

Finally, we noted that licensed professionals spend large sums of money to attend courses that will satisfy continuing education requirements and can deduct from their tax obligations some or all of the expenses associated with the courses. Thus, when agencies accept inappropriate courses for continuing education credit, the State, in effect, subsidizes licensed professionals who do not comply with state requirements and who take courses that do not improve their professional skills or service to the public.

Recommendations

The Board of Dental Examiners, the Board of Medical Quality Assurance, the Board of Pharmacy, and the Board of Registered Nursing should develop comprehensive written procedures for reviewing courses reported by licensees for continuing education credit. The four boards should also specify the subject areas that are appropriate and those that are inappropriate for continuing education. The boards should not accept for continuing education credit courses that do not fall within the appropriate subject areas. The Board of Accountancy should revise its continuing education guidelines to exclude company-related meetings and self-improvement courses that do not relate directly to the development of professional skills. Also, the Board of Accountancy should send to its licensees guidelines for selecting acceptable continuing education courses. To ensure that licensed professionals receive credit only for courses in appropriate subject areas, the Board of Dental Examiners, the Board of Medical Quality Assurance, and the Board of Pharmacy should require licensees to report to their respective boards the titles and the names of providers for all courses that licensees complete for continuing education credit.

The Board of Dental Examiners should annually identify registering providers that do not submit to the board a list of courses that the providers have offered during the previous year. The board should then obtain from these providers the lists and review the titles of courses for compliance with the State's and the board's continuing education

requirements. Also, the Board of Dental Examiners should ensure that it has sufficient information about a course or a provider before the board approves or denies the course. Once the board reviews the course, the board should retain all relevant information.

The Board of Accountancy, the Board of Pharmacy, and the Board of Registered Nursing should follow the example of the Board of Dental Examiners and the Board of Medical Quality assurance in delineating two categories of continuing education courses and in establishing a minimum standard for the number of course hours that licensees must complete in the first category. The first category of courses should include only those courses that relate to licensees' maintaining and enhancing technical skills. The second category of courses should include those courses that relate to the efficient and economic delivery of the licensees' services to the public. Requiring licensees to complete courses in the first category would help ensure that licensees broaden their professional knowledge and skills.

Further, the Board of Medical Quality Assurance should adopt regulations that allow the board access to relevant continuing education records of the private medical associations that accredit courses for physicians. Also, the board should audit these records to ensure that the associations are authorizing courses that meet the legislative intent for continuing education. Finally, the Board of Registered Nursing should comply with the California Administrative Code and conduct audits of course providers and of providers' records.

REVIEW OF THE STATE BOARD OF OPTOMETRY'S ENFORCEMENT PROGRAM

Summary of Findings

The primary responsibility of the State Board of Optometry (board) is to protect consumers of optometric goods and services. The board fulfills this responsibility by testing and licensing optometrists and by enforcing state laws and regulations related to optometrists. As part of its enforcement program, the board receives and screens complaints against optometrists, refers complaints to the Department of Consumer Affairs' Division of Investigation to be investigated, and when an investigation is completed, may refer the complaint to the Attorney General for administrative disciplinary action.

However, for the past two fiscal years, the board has suspended investigative and disciplinary activities on complaints against optometrists because it overspent the budget for its enforcement program. In fiscal year 1983-84, the board suspended at least 7 cases with ongoing investigations at the Division of Investigation in May 1984 and 13 of 18 cases pending at the Attorney General's office in February 1984. In fiscal year 1984-85, the board suspended at least 9 cases with ongoing investigations at the Division of Investigation in December 1984, only mid-way through the fiscal year. The board suspended 12 of 16 cases pending at the Attorney General's office in March 1985. The cases that were suspended included complaints that involved serious health and safety issues for consumers, such as allegations of eye damage caused by an optometrist, of an optometrist practicing under the influence of alcohol and drugs, and of unsanitary and unhealthful optometric practices.

Rather than suspending its enforcement program, the board could have taken administrative action to allow it to use its reserve funds to continue investigative and disciplinary activities during these periods. At the end of both fiscal years 1983-84 and 1984-85, the board had over $300,000 in the State Optometry Fund reserved for economic uncertainties. However, the board chose not to use its reserve funds because it believed it did not have sufficient staff to prepare a budget change request.

One reason the board overspent its enforcement budget in fiscal years 1983-84 and 1984-85 is that it has been pursuing a major case against a large optometric corporation. To date, the board has spent approximately 53 percent of its enforcement budget for the last two years on this case. The board has charged the corporation with multiple violations, including misleading advertising, unlawful professional relationships between optometrists and manufacturers or suppliers of optical products, and unlawful competition. The board has also charged that the corporation is engaging in the unlawful practice of optometry because the corporation is not licensed by the board,

although the individual optometrists working for the corporation are. Despite the many violations alleged by the board, since November 1979, the board has received from consumers only nine complaints that concern issues within the board's jurisdiction against the optometrists working for this corporation.

Additionally, the Legislature asked us to determine the number of optometrists in California working for "corporate chains" and the number of complaints that the board has received against these optometrists. We found that the board does not have any data that would identify the total number of optometrists in the State who work for corporate chains. Further, the board has no information to determine whether the optometrist against whom a complaint is filed works for such a corporation.

Recommendations

The State Board of Optometry should evaluate its enforcement workload and its budget for enforcement activities, and it should take appropriate action to ensure that its budget meets its enforcement needs. The board should ensure that it has sufficient funds to continue enforcement activities on all serious cases.

The board should implement a system to track the status of cases in its enforcement program.

Finally, the board should reconsider the merit of pursuing the case against the large optometric corporation when it does so at the expenses of other serious cases.

THE STATE HAS HAD PROBLEMS IN PLANNING AND DESIGNING THE SAN DIEGO PRISON

Summary of Findings

The Department of Corrections' (department) plans for building a prison at San Diego have fallen behind schedule by almost one year because the department changed the design of the prison and has not provided a sewer system for the prison. In May 1983, the department planned to add 500 cells to its original 1,700 cell plan and to make design changes to reduce the cost of the prison. In September 1983, the Legislature authorized the department to add the 500 cells and established a limit on the project's costs. While these changes did delay the prison's schedule and add $560,775 in architectural fees, they also reduced the estimated costs of the prison by over $50 million. In August 1984, the department had the architect redesign the placement of the prison's facilities for its education, training, and industrial programs. As a result, the prison was delayed another five months, and the State will pay the architect an additional $207,950.

In addition, the department did not authorize a study to determine the options for an off-site sewage system for the prison until March 1984. It did not select a system until December 1984. Further, the department did not have a management schedule to identify critical planning activities required to establish sewage systems for new prisons.

During the planning and design of the San Diego prison and several other new prisons, the department has not always correctly allocated costs to the appropriations for the San Diego prison. One contractor submitted to the department invoices for work done at other projects. However, the department attributed $449,654 in costs on those invoices to the San Diego project although only $65,000 should have been charged. In addition, some contractors began work on new prisons before contracts for the work took effect.

Recommendations

To ensure that the Prison Industry Authority staff review the placement of programs within new prisons, a representative of the Prison Industry Authority should serve on the New Prison Policy Committee.

To avoid incorrect directions to the architect, the Department of Corrections should develop specific guidelines for the placement of program functions within the prison facilities. In addition, for each new prison it plans to construct, the department should use a management schedule for site evaluation and acquisition to identify the sequence of activities that must be performed to establish a sewage

disposal system for the prison. Whenever there is a change in prison design that may affect the planned method of sewage disposal, the department should reevaluate the feasibility of its original method.

To carry out the activities identified in the management schedule, the department should fill the vacant project director positions as soon as possible.

The Department of Corrections should ensure that only actual expenditures are charged to prison construction projects. The department should also establish a formal policy of not entering into prison construction contracts whereby the contractor gets paid a fixed fee regardless of whether the work is performed, rather than a fee for work actually provided. Finally, the department should establish procedures that ensure that contractors do not perform work under the contract or contract amendments until the contract and amendments have been approved by the Department of General Services.

THE STATE'S DIVERSION PROGRAMS DO NOT ADEQUATELY PROTECT THE PUBLIC FROM HEALTH PROFESSIONALS WHO SUFFER FROM ALCOHOLISM OR DRUG ABUSE

Summary of Findings

In June 1984, the Board of Medical Quality Assurance (medical board) had approximately 160 participants in its diversion program for physicians suffering from alcoholism, drug abuse, or physical or mental illness. We examined case files for a sample of 35 participants and found that they had not received adequate supervision from compliance officers. From July 1, 1982, through July 20, 1984, compliance officers visited 24 of the 35 participants only 150 (57 percent) of the 262 times required by diversion program policies. In addition, compliance officers did not collect urine samples from participants as frequently as required. These problems occurred because the compliance officers were not aware of diversion program policies and also exceeded their authority by modifying the terms of participants' treatment plans. The deputy program manager, who is responsible for supervising the compliance officers, did not realize that these problems existed because he did not have a system for tracking the activities of the compliance officers.

In addition, the program manager did not ensure that participants have "practice monitors" as required. Practice monitors are physicians who work in the same building as the participants and observe the participants before or while they practice medicine. Although 16 of the 35 participants in our sample were required to have practice monitors, 5 did not. Furthermore, for participants who did have practice monitors, the monitors were not fulfilling all their responsibilities. Practice monitors told us that they did not know what their responsibilities were.

Moreover, even when compliance officers did substantiate the need for disciplinary action of some participants, the program manager did not exercise his authority to suspend from practicing medicine participants who failed to comply with their treatment plans. Three of the 35 participants in our sample should have been, but were not, suspended from treating patients because these participants had practiced medicine while using alcohol or drugs. The program manager also did not recommend that participants be terminated from the program when they repeatedly failed to comply with their treatment plans. According to the chief medical consultant and the president of the medical board's Division of Medical Quality, two participants whose files we reviewed should have been referred to a diversion evaluation committee for termination from the diversion program. The program manager allowed one of the participants to remain in the program despite repeated instances of noncompliance, including an attempt to perform surgery while under the influence of alcohol.

The principal cause of these deficiencies is that the medical board has not properly supervised the diversion program and has not routinely reviewed the program's operations. The medical board has not clarified the chief medical consultant's authority to manage the program or to review files of participants. During our review, the medical board relieved the current program manager of the diversion program of his responsibility for administering the entire program. A new program manager, whose responsibilities include supervising participants' compliance with their treatment plans, was being recruited.

Although legislation requiring a diversion program at the Board of Examiners in Veterinary Medicine (veterinary board) became effective January 1, 1983, the veterinary board did not fully implement its diversion program until June 1984. As of October 31, 1984, the diversion program had eight participants. During the delay in implementing its diversion program, the veterinary board suspended all discipline of two veterinarians having problems of drug abuse. In addition, the program manager was not properly screening veterinarians who request admission to the program, and he was not adequately monitoring participants. These deficiencies exist because the veterinary board's contract with the program manager does not contain specific performance standards pertaining to screening applicants and monitoring participants. Furthermore, the executive officer of the veterinary board was not closely supervising the operation of the program.

State law requiring the Board of Dental Examiners (dental board) to implement a diversion program for dentists suffering from alcoholism or drug abuse became effective January 1, 1983. However, as of the date of our report, the dental board had not yet implemented a diversion program. In the absence of a diversion program, the dental board did not always discipline some dentists suffering from alcoholism and drug abuse. For example, the dental board received complaints about two dentists suffering from alcoholism or drug abuse; in addition, both dentists had been arrested for abusing alcohol or drugs. Although the dental board was aware of the problems of both dentists, it took little action to discipline or rehabilitate them. According to the president of the dental board, the dental board had difficulty starting a diversion program because of staff shortages and because the dental board did not consider implementing the diversion program a high priority.

In addition to the three diversion programs discussed above, state law effective January 1, 1985, requires diversion programs at the Board of Registered Nursing and the Board of Pharmacy. We evaluated the similarities among the State's diversion programs. If the programs were consolidated into one program, four of the programs could share the function of monitoring participants. The diversion program at the

Board of Pharmacy is structured differently than the others and could not be consolidated.

Recommendations

The diversion program of the Board of Medical Quality Assurance should provide compliance officers with training in the program's policies and procedures and improve the system for tracking the compliance officers' activities in monitoring participants. The diversion program should also develop new guidelines for practice monitors, provide compliance officers with training in the diversion program's policies on practice monitors and in the new guidelines for practice monitors. The diversion program should also develop a system to ensure that the program identifies participants' practice monitors, that compliance officers are contacting practice monitors, and that practice monitors are fulfilling their responsibilities. The medical board should specify for the program manager of the diversion program the kinds of noncompliance that warrant suspension or termination, develop a system to ensure that the program manager consults with members of diversion evaluation committees when participants violate significant terms and conditions of their treatment plans, and develop a reporting system for the diversion program that will provide the medical board with enough information to supervise the program properly.

The Board of Examiners in Veterinary Medicine should develop a system to monitor the program manager's performance to ensure that the program manager is implementing provisions of state law and of his contract, develop specific performance standards in the program manager's contract for monitoring participants, and augment the diversion program's budget to enable it to contract for the services of a compliance officer to monitor the program's participants.

Within six months from the date of this report, the Board of Dental Examiners should submit to the Office of Administrative Law regulations for implementing a diversion program. These regulations should establish criteria for selecting diversion evaluation committees and for accepting or denying applicants and terminating participants. Once the regulations are adopted, the dental board should hire staff to implement the provisions of state law and regulations. The board should then accept dentists into the diversion program. Finally, the Department of Consumer Affairs should further evaluate the potential for consolidating the State's diversion programs.

AN ANALYSIS OF THE DEFICIENCY IN THE 1984-85 STATE SCHOOL FUND

Summary of Findings

By the end of fiscal year 1984-85, the deficiency in the 1984-85 State School Fund should be approximately $157.7 million. If the Legislature and the Governor wish to avoid a deficiency in the school districts' funding for general education, the Legislature and the Governor need to increase state aid by $157.7 million.

At the first principal apportionment in February 1985, the State Department of Education estimated that school districts' claims for state aid would exceed the $6.5 billion appropriated for the State School Fund in the 1984-85 Budget Act by $235.2 million. Since allocations of state aid to school districts cannot exceed the amount appropriated in the Budget Act, the State Department of Education reduced the school districts' claims for state aid by an average of 2.6 percent. However, we estimate that, by the end of the 1984-85 fiscal year, the deficiency in the State School Fund will be approximately $157.7 million. The decrease will occur because local revenues should increase by $53.8 million and because average daily attendance should decline, thereby reducing school districts' claims for state aid by $11.7 million. Furthermore, we reduced the State Department of Education's estimate of the deficiency by $12.0 million because the school districts' claims for the inflation adjustment exceeded the appropriation for this purpose contained in the 1984-85 Budget Act.

Although the State School Fund deficiency should be lower than the State Department of Education estimated, the deficiency could be higher than our estimate for two reasons. First, two pending lawsuits against the State brought about by the Fullerton Union High School District and the Rowland Unified School District may add approximately $15.2 million to the deficiency. Second, at the first principal apportionment, school districts' claims for minimum salaries for teachers were $18.8 million lower than the amount appropriated in the 1984-85 Budget Act. However, if these claims increase by the end of the fiscal year, the deficiency will increase.

The State Department of Education's $235.2 million estimated deficiency in the 1984-85 State School Fund, at the first principal apportionment, was caused by a number of factors. Because local revenues were lower than expected, less local revenue was available to offset school districts' claims for state aid. Furthermore, school districts' claims for average daily attendance, unemployment insurance, and prior-year adjustments were higher than anticipated. Consequently, school districts' claims for state aid were higher than expected. Finally, surpluses from prior-years' appropriations have, in the past, been available to pay for expenditures that school districts incurred in

previous years but for which they had not yet billed the State. However, after the 1984-85 Budget Act was approved, Chapter 1073, Statutes of 1984 (Assembly Bill 3333), was enacted, reappropriating approximately $30.0 million in prior-years' appropriations to the State School Fund. The primary use of this money was to fund a $23.3 million deficiency in the 1983-84 State School Fund. Because no surpluses were available to adjust for school districts' claims for prior-year expenditures, the State Department of Education had no choice but to pay for these claims from the current year's appropriation to the State School Fund.

A REVIEW OF THE STATE DEPARTMENT OF EDUCATION'S ACTIONS TO IMPLEMENT AUDITOR GENERAL RECOMMENDATIONS MADE BETWEEN 1980 AND 1984

Summary of Findings

The State Department of Education (department) has fully implemented 79 percent of the recommendations that the Auditor General made from 1980 to 1984. The changes that the department has made as a result of the Auditor General's recommendations should improve the department's administrative control over its various programs and activities.

In 15 performance audit reports, the Auditor General made 57 recommendations to the department. The department fully implemented 45 and partially implemented 2 of these recommendations. An additional 7 recommendations are no longer applicable because legislation invalidated them or because the department is no longer the agency responsible for the issues in question.

The department did not implement three of the Auditor General's recommendations. A department official stated that a recommendation calling for more detail in the audit reports of child care programs operated by school districts was not implemented because the Department of Finance did not agree with the recommendation. However, the Auditor General is currently involved in developing the audit standards for financial and compliance audits of child care providers. Therefore, we recommended no further audit work on this issue. Furthermore, we recommended no further audit work on the other two recommendations because the department took steps to improve its estimate of the condition of the state school fund and because the Legislature established a new program to review and report on financial and compliance audits of school districts.

THE STATE DEPARTMENT OF EDUCATION'S TERMINATION OF ITS CONTRACT WITH THE INTERNATIONAL INSTITUTE FOR URBAN AND HUMAN DEVELOPMENT

Summary of Findings

For over five years, the State Department of Education (department) contracted with the International Institute for Urban and Human Development (institute) to provide child development services and subsidized meals to children of low-income families in San Diego. Through its Child Development Division (division), the department contracted with the institute as early as fiscal year 1978-79 to provide state-funded child development services. For fiscal year 1983-84, the cost of the contract was $194,652 to provide services to an average daily enrollment of approximately 45 children for 252 days of operation. The department's Office of Child Nutrition Services has also had contracts with the institute to provide state and federally funded meals to children of low-income families. The institute has administered the child development program in licensed day care facilities rented from the San Diego Unified School District.

On February 2, 1984, the division learned that the San Diego Unified School District had secured a judgment against the institute for unpaid rent and utility payments and that it had demanded that the institute vacate the property used for the child development center. Because the institute had to remove its center from the school district's property, the division believed that the institute could no longer comply with the provisions of the contract requiring that services be provided only in a licensed child care facility. Therefore, on February 17, the division notified the institute that it was terminating the contract, effective February 24, 1984. The Office of Child Nutrition Services also terminated its contract with the institute, effective February 22, 1984. The department contracted with the San Diego YMCA to provide child development services for children who had been enrolled in the institute's child development program.

Although we did not analyze the institute's financial records during our review, we found evidence that the institute was experiencing serious financial problems before the department terminated the institute's contract. Audit reports for each of the three fiscal years preceding fiscal year 1983-84 indicate that the institute was financially insolvent each year because its liabilities exceeded its assets. On February 2, 1984, the institute's executive officer filed for personal bankruptcy under Chapter 7 of federal bankruptcy laws. The institute, however, has not filed for corporate bankruptcy.

Based upon our review of reports of the department's Audit Bureau and of recommendations to terminate the contracts, we conclude that the department owes the institute an additional $4,585, payable from state funds, for child development services and meals that the institute

provided until February 24, 1984. However, the institute owes the department $40,236 for federally funded food programs.

According to the department's staff counsel, the institute is still responsible for the debt to the department, and the staff counsel intends to file a claim with the bankruptcy court so that the department will be recorded as a creditor should the court-appointed trustee for the institute's executive officer liquidate the institute's debts along with the executive officer's personal debts. The staff counsel also believes that this action will keep the department informed of the institute's ability to repay its debt.

According to the director of the Child Development Division, monitoring the financial stability of contractors was not standard practice before the department terminated its contracts with the institute. The director said, however, that he has implemented or will implement procedures to identify contractors having fiscal problems.

THE STATE COMMITTED $50 MILLION TO BUILD THE SOUTH GEYSERS GEOTHERMAL POWER PLANT WITHOUT ASSURING THAT SUFFICIENT STEAM WAS AVAILABLE

Summary of Findings

The State committed $50 million to build the South Geysers geothermal power plant without assuring that sufficient steam was available to run the plant at its full capacity. Furthermore, the plant will not operate as scheduled in June 1986. In 1977, the Department of Water Resources (department) entered into an agreement with Geothermal Kinetics, Inc. (GKI), to purchase steam to operate the proposed South Geysers power plant in Sonoma County. In 1979, the department decided to build the power plant because tests of steam wells on the property performed for the steam supplier, GKI, indicated that sufficient steam was available to operate the plant and because certain other wells already in the area were supplying sufficient steam. However, the department did not obtain an independent analysis to determine if there was enough steam on the property to operate the plant for 30 years at its rated capacity of 55 megawatts. Other builders of geothermal power plants have made similar agreements to purchase steam, but builders we contacted said that they would not make commitments to build power plants until they had received assurances from independent consultants that sufficient steam existed to operate the plants.

The State Energy Resources Conservation and Development Commission (commission) approved the South Geysers plant for construction in November 1981. However, because the department filed the application for certification under commission rules providing for an 18-month certification process, the commission was not required to determine that sufficient steam existed on the property before approving the application. In 1981, the department became aware that there might be problems with the supply of steam for the South Geysers plant. In June 1981, consultants for Pacific Gas and Electric Company (PG&E) informed department officials that the steam supplier for a PG&E plant located near the South Geysers plant was having difficulty obtaining enough steam for that plant. They suggested that the department might have similar problems with the South Geysers plant. In addition, the department's steam supplier drilled more wells on the South Geysers property in 1984 but did not find sufficient steam to warrant continued drilling operations. Finally, in July 1984, the department contracted for an independent analysis of the supply of steam on the property. That analysis indicates that there is only enough steam on the property to generate 29 of the 55 megawatts that the plant is designed to produce. As a result of the problems in producing steam for the plant, the department has delayed awarding the contract to complete the plant.

The department is currently considering several options for the South Geysers plant. It may attempt to purchase steam from another supplier,

or it may combine the steam available on the property with steam from another supplier to operate the plant. Because completion of the plant has been delayed, the department estimates that the plant will cost $2.9 million more than originally planned. The users of water from the State Water Project will pay more for the plant as a result of increased costs. The commission has recognized that current regulations allow builders to apply for certification for geothermal power plants without demonstrating that adequate steam supplies exist. The commission is considering proposed changes to state regulations to require all applicants to assure the existence of adequate steam supplies.

Recommendations

The Department of Water Resources should explore all available options for obtaining sufficient steam to operate the South Geysers plant at its designed capacity and should obtain firm commitments for the necessary supplies of steam. Upon receipt of firm commitments for a supply of steam, the department should advertise and award the contract for completion of the plant at the earliest possible date to avoid additional delays and cost increases. The State Energy Resources Conservation and Development Commission should adopt the proposed amendments to its regulations to require that applicants using the 18-month process provide assurances that sufficient steam is available for the proposed plants.

ACCOUNTING FOR TELECOMMUNICATION COSTS, VERIFYING TELEPHONE SERVICE CHARGES, AND PREVENTING PERSONAL TELEPHONE CALLS

Summary of Findings

We reviewed information on telecommunication expenditures in four state agencies: the California Highway Patrol, the Department of Forestry, the Department of Justice, and the Department of Transportation. Because of the design of the State's accounting system, state financial reports such as the Governor's Budget show as Communications expenditures only part of a state agency's telecommunication costs. Such costs may also be reported under expenditure classifications such as Salaries and Wages, Data Processing, and Equipment. As a result, the amount that a state agency spends for acquiring, modifying, operating, maintaining, and managing its telecommunications systems may be millions of dollars greater than the amount it reports as Communications expenditures on state financial reports. For example, the California Highway Patrol reported $10 million in expenditures under the Communications line item for fiscal year 1983-84. However, we estimate that its total expenditures related to telecommunications were $22.4 million for that same year. The Office of Information Technology, within the Department of Finance, is currently reviewing the feasibility of expanding the Communications line item in the State's accounting system to include other expenditures for telecommunication activities.

In addition, some state agencies are neither checking the accuracy of their telephone bills nor following state procedures designed to deter employees from misusing the State's telephone system. Two of the four agencies we reviewed are not consistently verifying that they actually received all of the services and features for which telephone companies billed them. Consequently, these state agencies may have paid inappropriate charges. Moreover, supervisors at three of the four agencies we reviewed are not sufficiently reviewing listings of long distance telephone calls to detect personal calls that employees make. Further, the agencies are not consistently using other information provided by the Department of General Services' Office of Telecommunications to help detect personal telephone calls and incorrect dialing practices. As a result, the agencies may not be discouraging employees from making personal telephone calls, and the State pays for time that employees spend making these calls during working hours.

Finally, state employees are not always following dialing instructions for making long distance calls on state telephones, leading to inefficient routing of long distance calls and an increase in costs to state agencies. In fiscal year 1983-84, misdialed calls cost state agencies an estimated $260,000. Although it may not be possible for state agencies to save this entire amount, we found that a high

percentage of the additional costs resulting from misdialed calls were accounted for by one or two subunits within each agency.

The weaknesses we found in state agencies' review of telephone charges and identification of personal calls resulted partly because agency staff were unfamiliar with procedures for reviewing telephone invoices and controlling telephone misuse. The Office of Telecommunications has not held a training program covering these problem areas since 1982.

Recommendations

The Office of Telecommunications should provide agency staff with training classes that address procedures for verifying the accuracy of invoices received from telephone companies; this training should focus particularly on the monthly service charge. The classes should also cover procedures for detecting and preventing employees' misuse of state telephones and ways to use information provided by the Office of Telecommunications to help control telephone costs and telephone misuse.

In addition, each of the state agencies we reviewed should comply with current state requirements to improve control over inappropriate telephone costs and employees' misuse of telephones. The Department of Justice and all of the Department of Transportation's district offices should periodically verify that they are receiving all services and features included under monthly service charges. One method that these departments could use is to periodically request from telephone companies detailed service records to support monthly service charges. Staff should then review the detailed service records to determine whether the services being paid for are actually being received.

The California Highway Patrol, the Department of Justice, and the Department of Transportation should require that supervisors review ATSS invoices to detect possible misuse of telephones. The California Highway Patrol should arrange with the Office of Telecommunications to receive an extra copy of the ATSS invoice, if it is needed. The Department of Justice and the Department of Transportation's district offices should review ATSS invoices and take corrective action on calls identified as being incorrectly dialed from telephones having recurring problems. If in following up on these calls, the departments determine that employees did, in fact, dial correctly, the departments should notify the Office of Telecommunications. Also, the Department of Justice should determine whether calls identified on the Office of Telecommunications' memos are business or personal calls and then collect the cost of personal calls from employees who made them.

THE STATE LACKS DATA NECESSARY TO DETERMINE THE SAFETY OF PESTICIDES

Summary of Findings

The Department of Food and Agriculture (department) lacks data confirming the safety of many active ingredients in pesticides. When registering a pesticide for use in the State, the department may require applicants to furnish data from any of six types of health studies. These studies determine if exposure to the active ingredient in the pesticide causes chronic toxicity, cancer, birth defects, reproduction problems, mutations, or nerve damage. State law does not specify which of these studies are required for pesticide registration. Prior to 1980, the department required applicants to submit data on only health studies that the department considered necessary. Since January 4, 1980, however, department regulations have required summaries of the same health studies that the Environmental Protection Agency (EPA) requires for federal registration.

We reviewed files for a sample of 147 of approximately 1,200 active ingredients used in pesticides registered in California. Files on 25 of 32 new active ingredients in pesticides registered after January 4, 1980, lacked summaries of one or more of the six health studies; files on 4 of the active ingredients did not contain summaries of any of the six health studies. Of our sample of files on 115 active ingredients in pesticides registered before 1980, 102 lacked summaries of one or more of the health studies, and 26 did not contain summaries of any of the six health studies.

The department stated that since January 4, 1980, it had received all data that the EPA requires; however, we could not verify precisely which data were required. Moreover, the department has not always verified that applicants have submitted summaries of all data required by the EPA. Furthermore, the EPA's requirements are not always precise, and the EPA may modify or waive its requirements as a result of negotiations with pesticide manufacturers. In addition, some of the summaries of health studies in the department's files are inadequate in several respects: some of the summaries are too brief, some summarize health studies that were performed prior to 1975 and may, therefore, be outdated, and some summarize health studies that were not conducted properly. We also found that the department does not always document its review of specific summaries of health studies and has not fully established its program to continuously evaluate the safety of pesticides registered in the State. Because of these weaknesses, there is no assurance that the pesticide regulatory program prevents the registration of unsafe pesticides.

We also found weaknesses in the department's systems for reporting the use and sale of pesticides. County agricultural commissioners monitor pesticide applications and forward information on pesticide use to the

department, which summarizes the information in "summary use reports." Although the department uses these summary use reports as a management tool, it has no criteria specifying the use of the reports in achieving the department's goals. Without such criteria, we could not evaluate the department's use of the reports, nor could we determine the significance of the inaccuracies that the reports contain.

In addition, although the sale and the use of pesticides are reported in pounds of active ingredients, the reported amount of pesticides sold does not equal the reported amount of pesticides used for the same period. This discrepancy occurs because sales may be reported more than once, because not all uses of pesticides must be reported, and because pesticides are sometimes not used in the same year they are sold.

This Auditor General report also updated information on the pesticide mill tax program. The department collects a tax of 8 mills ($0.008) on each dollar of sales of pesticides registered for use in California. This "pesticide mill tax" partially finances the pesticide regulatory program at the state and county level. In 1980, the Auditor General reported that the department did not collect sufficient data from those who have registered pesticides in the State (registrants) to permit its auditors to effectively monitor collection of the pesticide mill tax. According to the Legislative Counsel, the department lacked authority to require additional information. Since our 1980 report, the department has not obtained authority to require any additional information from registrants. However, the department has improved its performance in auditing registrants. In addition, a department document reported that in the 24 months prior to May 1984, its audit unit identified over 300 illegal pesticides that were being marketed in the State.

To provide other information the Legislature requested on the pesticide mill tax program, we determined that, although the State Board of Equalization (board) could administer the pesticide mill tax program, estimates indicate that the board's costs would be higher than the department's. Finally, during the three fiscal years that ended June 30, 1983, the State paid California counties more than $12.6 million in pesticide mill tax revenue to fund enforcement of pesticide regulations. During the same period, the counties spent over $27.6 million enforcing state and county pesticide regulations.

Recommendations

The Department of Food and Agriculture should clearly define data requirements for registering pesticides in California, determine which active ingredients in currently registered pesticides lack the required data, obtain the data, and thoroughly evaluate all data obtained. In addition, the department should develop procedures to document the

specific data and scientific literature that the department evaluates in reaching its decisions on pesticide registration. To further improve the department's efficiency in auditing the pesticide registrants, the Legislature should provide the department with the authority to require more detailed information from registrants.

THE STATE CAN INCREASE TAX ASSESSMENTS BY IDENTIFYING PERSONS WHO EARN COMMISSIONS BUT FAIL TO FILE TAX RETURNS

Summary of Findings

The Franchise Tax Board (board) can assess additional state income taxes by expanding its identification of persons who earn commissions but do not file tax returns. During 1983, organizations that distribute taxable income provided the board with forms reporting payments of interest, dividends, and commissions for tax year 1982. Approximately 83,000 of these forms indicated commissions of at least $10,000, the minimum gross income for which state law generally requires filing a tax return. The board relied on the Internal Revenue Service (IRS), which also receives reports of commission income, to transcribe onto magnetic tape the data on commissions. The board used the data in a computer search to identify persons who receive commissions but who do not file state tax returns. However, because the IRS transcribed information from only 52 percent of the forms indicating payments of commissions in 1982, the board did not identify all persons who did not file state tax returns on commissions they had received.

Based on our examination of a sample of 1,000 of the 83,000 forms indicating commissions of at least $10,000 in 1982, we estimate that the board could have assessed income taxes on 1,500 persons who failed to file tax returns on commissions. We further estimate that these persons may owe the State $2.9 million in taxes and penalties. By identifying all persons who failed to file tax returns reporting commissions of at least $10,000, the board could have provided a net fiscal benefit to the State of at least $2.6 million and up to $2.8 million, depending on staff costs and staff assignments.

Recommendations

The Franchise Tax Board should transcribe data from all forms indicating commissions of at least $10,000. Using this information in conjunction with data supplied by the Internal Revenue Service, the board should identify all persons who should file state tax returns on commissions and should assess taxes on persons who have not filed the required returns.

APPROPRIATENESS OF THE OFFICE OF TELECOMMUNICATIONS' BILLING RATES FOR TELEPHONE AND RADIO SERVICES

Summary of Findings

In September 1983, the Auditor General reported that the Department of General Services' Office of Telecommunications (office) did not properly bill state agencies for radio and telephone services that the office provides. The office's billing rates for its telephone and radio services did not accurately reflect the cost of those services. During fiscal years 1977-78 through 1981-82, the office consistently undercharged state agencies for radio services because the office's total billings each year were always less than its cost of providing radio services. At the same time, the office consistently overcharged for telephone services because its total billings always exceeded its cost to provide the services. As a result of these inaccurate billing rates, state agencies that used the office's radio services did not pay the full cost of the services they received, and state agencies that used the office's telephone services paid more than the office's cost of providing those services.

The office's records show that, since fiscal year 1981-82, the last year examined in our previous audit, the amount that the office has billed appears to reflect more accurately the cost of the radio and telephone services provided. The Chief of the Office of Telecommunications stated that the office has taken various actions to estimate more accurately the cost of providing telephone and radio services to state agencies. For example, the office now uses more current cost data in adjusting its telephone billings. Also, the office has implemented new policies for setting rates for radio and microwave services. The office's new policies related to billing for radio and microwave services should further help the office in establishing more accurate billing rates.

REPORT ON AUDIT OF HEALTH FACILITY DATA COLLECTION AND DISCLOSURE SYSTEMS

The Auditor General contracted with a private consultant to assess the progress of transferring data collection and disclosure responsibilities from the California Health Facilities Commission to the Office of Statewide Health Planning and Development. Chapter 1326, Statutes of 1984 (SB 181), authorizes this transfer of responsibility effective January 1, 1986.

Summary of Findings

The Office of Statewide Health Planning and Development (OSHPD) now appears to have an achievable plan to assume health facility reporting and disclosure responsibilities from the California Health Facilities Commission (CHFC). As presently proposed, the OSHPD's reporting system would be comparable to the CHFC's current system. New health facility reports used by the OSHPD to collect data will provide as much, if not more, useful information to users. In particular, all important data elements currently collected will continue to be available. Furthermore, reporting health facilities will continue to use the CHFC's uniform accounting and reporting standards. Finally, data would be submitted to the OSHPD within current deadlines as long as the OSHPD exercises its discretionary authority to require long-term care facilities to submit a statement of financial position by the current deadline. The Legislature may wish to make this requirement explicit in statute.

Under the OSHPD's most recent organizational plan, a new Data Unit would be created to house the data collection and disclosure responsibilities the OSHPD is scheduled to assume from the CHFC on January 1, 1986. Data collection and processing activities would continue to be performed by the CHFC staff currently responsible for these activities after their transfer to the OSHPD. The new Data Unit would inherit the CHFC's data processing system, including all hardware, software, and data bases. The OSHPD's proposed staffing, systems capability, and organizational structure would provide technical expertise, systems capability, and dedicated FTE comparable to the CHFC's current organizational structure and resources.

In addition to collecting and processing health facility data, the CHFC is responsible for disclosing the data it collects to the public. The CHFC staff also provide technical assistance to data users, conduct research studies, and engage in other user education and consumer-oriented activities. SB 181 transfers responsibility for health facility data disclosure from the CHFC to the OSHPD. Under the OSHPD's most recent organizational and staffing plan, disclosure activities will be performed by selected CHFC staff transferred to corresponding functions within the new Data Unit. The OSHPD would also

create a Public Liaison function with the new Data Unit. The OSHPD intends to give Public Liaison staff overall responsibility for requests for technical assistance and special data.

Under SB 181, the OSHPD will carry out a more limited data disclosure program. The OSHPD will no longer publish comparisons of individual facilities on selected data elements collected in annual disclosure and discharge data reports. The OSHPD will also no longer publish data from annual disclosure and discharge data reports in geographic aggregations smaller than Health Facility Planning Areas. The OSHPD will, however, continue to make these data available upon request but there may be an increase in the time it takes the OSHPD to process requests for these and other unpublished data. In addition to limiting the publication of data, the OSHPD will eliminate the current CHFC research function. The OSHPD will also significantly reduce user education and consumer outreach activities, and it may limit production of special data. Data that are produced may be available on a less timely basis and at a higher cost.

The OSHPD's original implementation work plan called for total consolidation of all OSHPD and CHFC health facility data collection and reporting activities by January 1, 1986. Under the present two-phase work plan, only those tasks necessary for the successful movement of CHFC staff and equipment to the OSHPD will be completed by January 1, 1986. Deadlines for systems modifications which do not need to be completed by January 1 are scheduled for completion at later dates throughout 1986 and 1987. More extensive modifications to hospital accounting and reporting systems have also been postponed until sometime in 1986.

The OSHPD's work plan lists the general tasks that must be performed in order for the OSHPD to successfully implement SB 181. At the OSHPD's request, the CHFC has prepared a separate detailed work plan for certain major tasks identified in the OSHPD's general work plan. If effectively implemented, the combined OSHPD-CHFC work plan would result in the successfully physical movement of CHFC staff and equipment to the OSHPD by January 1, 1986. The work plan also sets appropriate deadlines for systems modification tasks which must be completed in different stages throughout 1986 and 1987.

Recommendations

The OSHPD's SB 181 implementation project has, however, experienced a pattern of numerous overruns and slippages. The OSHPD must avoid future overruns and slippages in order to be ready to assume responsibility for data collection and disclosure activities by January 1, 1986, or process data collected on revised reporting forms. A greater commitment to project management and coordination is required for the successful implementation of SB 181 data collection and reporting requirements.

CHFC staff should play a greater role in implementing SB 181. Key staff should be involved in the day-to-day planning and decision-making. In addition, the OSHPD should prepare a detailed plan identifying all tasks necessary to move CHFC computer hardware, software, and data bases.

SB 181 requires the OSHPD to make special data available to the public at cost. For the OSHPD to determine the true cost of producing this special data, the OSHPD should implement a tracking system to identify the actual time involved in processing each request. The OSHPD's proposal to give Public Liaison staff overall responsibility for requests for technical assistance and special data could result in duplications of effort and delays in processing of requests. In order to avoid these negative effects, the OSHPD should coordinate the activities of Document Sales staff and Public Liaison staff and formalize procedures for recording and processing requests for special data output. The OSHPD can minimize the time required to fill requests for unpublished data by producing multiple copies or computer printouts in anticipation of future requests. In particular, the OSHPD should use 1984 CHFC user logs to estimate requests for the facility-specific and aggregate data that will no longer be published by the OSHPD. The Legislature should pass legislation to require long-term care facilities to submit a statement of financial position within the deadlines required under current law. The OSHPD should update its April report to the Legislature on the OSHPD's proposed disclosure activities if any significant changes are made. Finally, the OSHPD should report to the Legislature every month on the progress of its efforts to implement SB 181.

A REVIEW OF TREATMENT AUTHORIZATION REQUESTS BEFORE AND AFTER THE MEDI-CAL REFORMS OF 1982

Summary of Findings

Medi-Cal, California's version of the federal Medicaid program, provides medical services to over two million beneficiaries who can receive medical services from over 100,000 providers. To reduce Medi-Cal costs, which in the late 1970's increased at an average annual rate of almost 14 percent, the Legislature enacted reforms of the Medi-Cal program. The reform legislation, which was enacted in 1982 and fully implemented on January 1, 1983, transferred to the counties responsibility for providing some medical services and implemented restrictions on other services. One of the restrictions strengthened the "prior authorization" process that requires providers to fully justify the need for certain services before the services are provided.

State law requires providers of several medical services funded by Medi-Cal to submit a Treatment Authorization Request (TAR) to the Department of Health Services (department) before providing the services. The department's Field Services Branch, through its 12 Medi-Cal field offices, reviews the TARs and approves, modifies, or denies them or returns them to providers for additional information. The State's fiscal intermediary uses the TARs in processing claims from providers. The Medi-Cal reform legislation added three medical services to the number of services for which providers must submit TARs.

The total number of TARs that the department received after implementing the Medi-Cal reforms of 1982 decreased from a monthly average of 102,985 during 1982 to a monthly average of 89,919 during 1983. However, the number of TARs increased during the first six months of 1984 to a monthly average of 99,112. We also examined the statistics of four Medi-Cal field offices for 16 medical services for which TARs are required. The number of TARs for most of these services also decreased slightly following implementation of the Medi-Cal reforms.

The department cites three factors that contributed to the reduction in the total number of TARs received: the transfer to counties of responsibility for providing services to nearly all medically indigent adults; providers' awareness of the changes imposed by the reform legislation; and the overall deterrent effect of the new requirements for justification of Medi-Cal services. The department has not determined why the number of TARs rose during the first half of 1984.

While the total number of TARs received by the department decreased, the percentage of TARs that the department approved also decreased from an average monthly rate of 68 percent during 1982 to 67 percent in 1983

and 64 percent during the first six months of 1984. Additionally, the rate at which the department returned TARs to providers increased while the rate at which the department modified or denied TARs changed only slightly. The department attributes the changes in the rates of approval, modification, denial, and return of TARs to the new limitations and restrictions imposed by the reform legislation.

THE STATE NEEDS TO IMPROVE ITS PREPARATION OF CITATIONS AND ITS ASSESSMENTS OF PENALTIES AGAINST NURSING HOMES

Summary of Findings

The Department of Health Services, through its Licensing and Certification Division (division), enforces state and federal health care standards in nursing homes. The division's budget for fiscal year 1983-84 was $14 million. As of October 1984, the division monitored the operations of approximately 1,270 licensed nursing homes that had a capacity to care for over 109,800 patients. Through its ten district offices, the division inspects nursing homes and issues citations to nursing homes that violate health standards. Nursing homes can appeal citations to "citation review conferences" held at the district offices. In a citation review conference, district administrators may affirm the citation, modify the citation or civil penalty, or dismiss the citation.

We reviewed 308 of the 497 citations that four district offices issued to nursing homes from January 1, 1983, through June 30, 1984. As of April 1984, these four district offices were responsible for licensing 451 nursing homes. Nursing homes appealed to citation review conferences 142 of the citations that we reviewed. The results of these citation review conferences show that the division needs to improve its preparation of citations and its assessment of penalties for violations that nursing homes repeat within a 12-month period.

In citation review conferences, district administrators reduced or dismissed citations and penalties in 49 of the 142 citations. District administrators reduced or dismissed 16 citations and penalties because nursing homes presented additional information to refute the citations. Another 11 citations and penalties were modified on grounds that nursing homes demonstrated "good faith" in correcting the violations. In these two situations, district administrators were exercising their professional judgment as provided for in statute and regulations. We did not evaluate the appropriateness of their decisions.

District administrators reduced or dismissed 15 other citations and penalties because evaluators on the division's inspection teams did not gather enough evidence to support the citations. Seven other citations and penalties were reduced or dismissed because evaluators made technical errors in issuing the citations. The total reduction in penalties for citations reduced or dismissed because of insufficient evidence and technical errors was $39,300.

The California Health and Safety Code requires the division to treble penalties for nursing homes that repeat violations within a 12-month period. Of the 308 citations in our sample, 23 citations were for violations that nursing homes repeated within a 12-month period. The

division incorrectly handled the penalty assessment for 9 (39 percent) of these citations. By not trebling penalties on three citations, the division underassessed nursing homes a total of $1,400. By incorrectly trebling penalties on three other citations, the division overassessed nursing homes a total of $1,500. The division also incorrectly dismissed a total of $2,000 in penalties for repeat violations. Finally, in two additional cases, the division overassessed nursing homes $1,000 by inappropriately trebling penalties on citations that were not for violations repeated within a 12-month period.

The division incorrectly assessed penalties for repeat violations because supervisors in the district offices do not always review nursing home files to detect prior violations when assessing a penalty for a violation. In addition, district office staff have not always been certain about how to treble penalties because state law and the division's policy and procedures manual do not contain specific guidelines on assessing penalties for repeat violations.

The department has taken action to correct these problems. District administrators hold informal discussions with their staff after each citation review conference to explain why the citation had to be modified and to train staff in preparing citations correctly. In addition, the department plans to create a "program review team" that will review the performance of the district offices. The program review team will issue a report and recommend corrective action for any problems that it identifies. In addition, the division has taken some corrective action to ensure that district staff appropriately assess penalties for violations that nursing homes repeat within a 12-month period. The division plans to hold regular training for district staff on the trebling of penalties. The proposed program review team will also review nursing home files in the district offices to determine whether staff are appropriately trebling penalties.

Recommendations

To improve the preparation of citations, the Department of Health Services should require the Licensing and Certification Division to implement the proposed program review team and the proposed training in proper preparation of citations. To ensure that the division correctly assesses penalties for violations that nursing homes repeat within a 12-month period, the department should require the division to implement its plan to improve procedures for assessing penalties for violations, monitor supervisors to ensure that they review the history of a nursing home's violations when assessing penalties, and conduct regular training for staff in assessing correct penalties for repeat violations.

A REVIEW OF NURSING HOMES' COSTS

Summary of Findings

From fiscal year 1981-82 to fiscal year 1982-83, the 20 nursing homes in our sample received an average Medi-Cal cost-of-living allowance (COLA) of $.94 per patient day. Based on the number of Medi-Cal patients that these nursing homes served, the Medi-Cal COLA resulted in increased revenues of approximately $438,000. According to the formula we developed to determine if nursing home operators distributed a proportionate share of their Medi-Cal COLAs to pay for increased labor costs, $280,000 (64 percent) of the $438,000 increase in Medi-Cal revenues should have been allocated to labor costs. In fiscal year 1982-83, the actual increase in total wages for the 20 nursing homes in our sample was $398,000. Nursing homes' nonadministrative employees, who accounted for approximately 75 percent of the actual hours worked in these nursing homes in 1983, received only 56 percent ($221,000) of the money that the 20 nursing home operators spent for increased wages. Nonadministrative employees, for the purposes of this analysis, include nonsupervisory, unlicensed employees: nurse assistants, and dietary, maintenance, laundry, and janitorial workers.

In addition, we found that nursing home operators spent Medi-Cal funds for products and services that are not related to providing patient care or whose costs exceed "reasonable" amounts as defined by Medi-Cal guidelines. In our sample, we identified expenses for personal items such as automobiles, travel, and entertainment, that were not related to providing patient care. These expenses totaled $138,836. One nursing home operator, for example, listed as nursing home costs $7,861 in credit card charges that could not be documented as business-related expenses. We also found expenditures that nursing homes reported as being "Medi-Cal reimbursable" that were, in fact, higher than the amounts that Medi-Cal criteria define as "reasonable" for providing service to patients. These incorrectly reported expenditures totaled $495,275. One nursing home operator, for example, reported $131,090 in administrative costs that the Department of Health Services' auditors subsequently disallowed.

Recommendations

If the Legislature intends that nursing homes distribute Medi-Cal cost-of-living allowances proportionately, the Legislature should clarify and strengthen the laws concerning the distribution of Medi-Cal funds to nursing home employees. Moreover, if the Legislature intends to ensure that nursing home operators report their Medi-Cal costs accurately, the Legislature should authorize sanctions against nursing home operators who repeatedly overstate their Medi-Cal costs.

CALIFORNIA CAN REDUCE STATE AND COUNTY EXPENDITURES FOR MEDICAL SERVICES TO CHILDREN

Summary of Findings

In Los Angeles, Sacramento, San Diego, and San Francisco counties, we examined a random sample of files for children for whom the California Children Services program (CCS) provided medical services from January 1, 1983, through October 31, 1984. The CCS pays for medical care for children who have certain severe medical conditions and whose families meet criteria for financial eligibility. Some children are also insured by private medical insurance companies. The state CCS Manual of Procedures requires that providers of medical services bill children's insurance companies before submitting bills to the CCS. The CCS, however, does not always require providers to bill insurance companies; consequently, the CCS pays bills that insurance companies might pay. In the four counties, the CCS paid medical bills for 3,148 children whose insurance companies could have paid all or a portion of the medical bills. We estimate that the CCS paid medical costs of at least $1 million that should have been billed to insurance companies.

Under current law, the CCS determines a child's financial eligibility based on the adjusted gross income of the child's family, as reported on the family's most recent California income tax return. Children are eligible for CCS care if the family's adjusted gross income does not exceed $40,000. State law does not permit the CCS to consider the assets of the family in determining financial eligibility.

Based on our examination of state income tax returns for families of children in our sample for calendar year 1983, we estimated that 1,427 families receiving CCS care in the four counties had savings accounts, stocks, and rental property worth over $40,000. We did not include residences and business assets. These families represent 4 percent of the families whose children were eligible for CCS care in the four counties. The families could have used these assets to pay for the children's medical care. Between January 1, 1983, and October 31, 1984, the CCS in the four counties we visited could have reduced expenditures by as much as $2.7 million if the CCS had statutory authority to consider family assets worth over $40,000 in determining financial eligibility. Although the Department of Health Services opposes using family assets in determining financial eligibility, our survey of county CCS administrators found that the majority favor a system that considers family assets in addition to family income.

The CCS is not referring to the Medi-Cal program all children potentially eligible for Medi-Cal benefits. Because the federal government contributes approximately 50 percent of the cost of Medi-Cal benefits but only 10 percent of the cost of CCS care, referring

eligible children to the Medi-Cal program reduces state and county expenses. Although the Medi-Cal program includes the assets of a child's family in determining the child's eligibility for Medi-Cal benefits, the CCS guidelines for referring children to the Medi-Cal program consider only a family's adjusted gross income. Consequently, the CCS does not identify all children potentially eligible for the Medi-Cal program. We reviewed the state income tax returns of families of children in our sample and estimated that 3,305 children, 10 percent of children eligible for CCS care in the four counties, were potentially eligible for Medi-Cal benefits because their families had few assets. We also found that county CCS staff did not always follow the current CCS guidelines for referring children to the Medi-Cal program. If the CCS staff in the four counties we visited had referred to the Medi-Cal program all children potentially eligible for Medi-Cal benefits during the period covered by our review, we estimate that the CCS could have reduced state and county expenditures in the four counties by $370,000.

The CCS is not using the tax intercept program to obtain state income tax refunds due families whose repayments to the CCS are delinquent. The CCS requires families who have incomes that exceed specified levels for the size of the family to repay the CCS all or a portion of their children's medical costs. State law permits the CCS to use the tax intercept program to collect delinquent repayments. We examined state income tax returns for 1983 for families in our sample whose repayments to the CCS were delinquent. During 1983, delinquent repayments in the four counties totaled approximately $471,000. Tax refunds due families whose repayments were delinquent totaled an estimated $26,000 for 1983. If the four counties had used the tax intercept program to obtain these tax refunds, the CCS could have increased its collection of repayments in 1983 by at least $26,000.

We found no demonstrated need for a statewide pool of funds to assist the CCS in paying for medical costs in catastrophic cases--cases in which costs exceed $100,000 per year. Only two counties postponed or denied services to children because of medical costs in catastrophic cases in the four years preceding the date of our survey. Further, the Medi-Cal program, not the CCS, has paid the majority of medical costs in catastrophic cases, and the county and state CCS can request additional funds from counties and the State when needed. In addition, the CCS does not need a statewide commission. The Department of Health Services can determine medical conditions that are eligible for CCS care. Creating an additional commission would duplicate work of an existing advisory council and would be an unnecessary expense.

Recommendations

The California Children Services program should ensure that providers of medical services bill insurance companies before authorizing the CCS

to pay for the services. Also, the CCS should develop new guidelines for identifying children potentially eligible for Medi-Cal benefits and for referring children to the Medi-Cal program. These guidelines should consider family assets in addition to income. In addition, the CCS should use the tax intercept program to collect delinquent repayments from families. Finally, the Legislature should amend the California Health and Safety Code to permit the CCS to consider family assets and income in determining financial eligibility for CCS care.

THE STATE'S MENTAL HEALTH SYSTEM COULD BE OPERATED MORE COST-EFFECTIVELY AND COULD BETTER MEET THE NEEDS OF CLIENTS

Summary of Findings

Mental health clients are sometimes kept in acute, expensive facilities longer than necessary because appropriate, less intensive care is unavailable. These clients, the majority of whom are inpatients at acute care facilities operated by the counties, are receiving a higher level of care than their condition requires, at a higher public cost than necessary. The counties experience difficulties in trying to discharge these mental health clients to lower levels of care because of the shortage of mental health resources below the acute care level, clients' reputations for being troublesome, and problems in securing funding for treatment.

Our analysis of three acute care facilities shows that during one year, availability of a lower, more appropriate level of care would have saved the State and the three counties in which these facilities are located a total of $812,000. Moreover, the mental health clients would have benefited from a level of care more appropriate to their needs. The counties involved could have used the savings to provide acute care for clients who otherwise would not receive the treatment they need. The counties' need to care for these additional clients is demonstrated by the fact that the Department of Health Services had cited two of the acute care facilities we visited for accepting more clients than they were able to care for.

Despite the shortage of resources for mental health programs, the counties and the Department of Mental Health are not ensuring that mental health programs receive all possible revenue in service fees from clients and in reimbursements from insurance firms and the federal government. The three counties we reviewed are not billing patients and insurance firms promptly or completely, and they are not following up to determine why delinquent bills are not paid. In some instances, counties do not attempt to bill insurance firms even though the firms have paid for similar services in the past. Further, counties do not routinely refer delinquent debts to county collection agencies, and county collection agencies collect only a small percentage of the debts that county mental health departments refer to them for collection. The Department of Mental Health, which is responsible for developing collection procedures and for monitoring counties' collection of mental health debts, has not adequately enforced its standards for revenue collection.

Furthermore, until late 1984, the Department of Mental Health had not assisted counties to obtain access to the Department of Health Services' Medi-Cal Eligibility Data System (MEDS). Access to the MEDS would enable counties to determine quickly and accurately if a

recipient of county mental health services is eligible for federally funded benefits under the Medi-Cal program. We tested a sample of 310 mental health clients who the counties had determined, based on information available to them, were ineligible for Medi-Cal benefits. Using the MEDS, we found that 32 (10 percent) of these clients were in fact eligible for Medi-Cal benefits. For one county, we estimated that the State would have saved an average of $759 per year for each client who received services during the time that they were, according to our analysis, eligible for Medi-Cal benefits. County administrators said that the MEDS would be cost-effective if it enabled them to identify 2 percent of the clients who are eligible for but not currently receiving Medi-Cal benefits.

The Department of Mental Health also has not actively pursued resolving the problems that the counties have in claiming reimbursement from insurance firms. All three counties we reviewed have had problems in collecting reimbursements from insurance firms. For example, some firms have refused to reimburse counties for outpatient services provided to insured clients and for services provided to insured clients suffering from chronic mental illnesses. Another firm does not pay counties if they submit claims more than 15 days after providing services.

Because the counties and the Department of Mental Health have not aggressively pursued reimbursements from clients and third parties, the State may be losing millions of dollars in annual revenues. The three counties we reviewed collected from clients, insurance firms, the federal portion of the Medi-Cal program, and the federal Medicare program only $43.2 million (29 percent) of the $148.7 million it cost them to provide mental health services in fiscal year 1982-83. These three counties collected $4 million (3 percent) of their total cost from clients and insurance firms, and $39.2 million (26 percent) from the federal government through the Medi-Cal and Medicare programs. Although counties would not be able to collect reimbursements for all of their costs, our analysis indicates that the counties could collect substantially more than they presently are collecting.

Finally, the State's system for monitoring mental health treatment facilities and enforcing compliance with state regulations is limited. Although the Department of Health Services makes required visits to mental health treatment facilities and makes follow-up visits on complaints, the department does not always take enforcement action against facilities that violate state regulations. Further, substantial reductions in staff during the past few years have restricted the Department of Mental Health's on-site review of mental health treatment programs in each county. The Department of Mental Health had previously visited each program once every three years, but now makes visits only once every five years.

Additionally, neither the Department of Health Services nor the Department of Mental Health always has the proper mechanism to force facilities to comply with state regulations. When the Department of Health Services finds problems in a hospital's mental health program, its only options are to revoke the hospital's license or to exclude the facility from participating in the Medi-Cal and Medicare programs. Likewise, when the Department of Mental Health finds problems in a county's mental health program, it has no enforcement authority other than withholding that county's appropriation of funds under the Short-Doyle Act. Administrators of both departments believe that these actions are often too harsh and that they would only result in hardships for mental health clients.

Recommendations

The Department of Mental Health should develop and implement alternative ways of expanding mental health services below the acute level and should require counties to comply with state requirements for billing and collecting fees and reimbursements. The Department of Mental Health should also work with the Department of Health Services to grant the county mental health departments access to the MEDS, and the Department of Mental Health should negotiate with insurance firms to reduce administrative requirements for claiming reimbursements and to improve coverage of mental health services. The Department of Health Services should take formal enforcement action when mental health facilities violate state regulations and should coordinate efforts with the Department of Mental Health to compel the county mental health departments to resolve the problem of overcrowding at county-operated acute care facilities.

STATUS OF THE TRANSITION TO THE NEW MEDI-CAL FISCAL INTERMEDIARY CONTRACT

Summary of Findings

On August 29, 1983, the Department of Health Services (department) announced its intent to award the new Medi-Cal fiscal intermediary contract to the Computer Sciences Corporation (CSC). On September 6, 1983, the McAuto Systems Group, Incorporated (MSGI), filed a protest against the awarding of the fiscal intermediary contract to the CSC. The Electronic Data Systems Corporation (EDS) also filed a protest on October 5, 1983. The Department of General Services, the state agency responsible for resolving these protests, denied both protests. On November 11, 1983, attorneys for the MSGI requested a court order from the San Francisco Superior Court to compel the State to award the fiscal intermediary contract to the MSGI. On April 13, 1984, the San Francisco Superior Court denied the MSGI's petition. No other legal actions have been taken.

The department's Fiscal Intermediary Management Division (FIMD) established a detailed review process to ensure that the CSC's deliverables meet the requirements of the new fiscal intermediary contract. After extensive review, the FIMD either approves a deliverable as meeting the requirements of the new contract or disapproves it for failing to meet these requirements. If the FIMD does not approve the deliverable, the CSC is required to correct the deficiencies in the deliverable. The FIMD also conducted a detailed acceptance test of the CSC's Medi-Cal claims-processing system to ensure that the CSC could operate the system and that the CSC complied with the new fiscal intermediary contract. According to the FIMD's manager of acceptance testing, since the CSC was the incumbent contractor, the acceptance testing was even more effective because the FIMD could concentrate its test resources on the areas in the claims-processing system that had previously caused problems. As a result, long-term problems in the CSC's system have been corrected.

The CSC did not meet all of the requirements of the new Medi-Cal fiscal intermediary contract. In January 1984, we reported that the CSC was not submitting to the State deliverables that met the requirements of the new contract. Additionally, the CSC was not meeting deadlines for submitting deliverables. As of January 30, 1985, the FIMD had not yet approved six of the CSC's deliverables. Also, as of January 30, 1985, the acceptance testing of the CSC claims-processing system was not complete. The transition to the new Medi-Cal fiscal intermediary contract could not be completed until the State approved the CSC's final six deliverables, approved finished transition tasks, and completed acceptance testing. According to the CSC's Director of California Operations, the final deliverables would be submitted before March 30, 1985, and testing would conclude by April 15, 1985.

The CSC was also not meeting all time requirements for processing Medi-Cal claims. While the CSC met the requirement that all types of claims be processed in an average of 18 days, the CSC did not meet some specific requirements. The State pays a percentage of the CSC's monthly operations for each of several required tasks. Because the CSC did not meet all time requirements for processing claims, the State had not paid the CSC for this portion of the contract. The CSC also did not begin to meet the new contract's quality control reporting requirements until December 1984. The CSC did not, therefore, receive a quality control payment for the month of September 1984 until December 1984. Since December 1984, the CSC's quality control performance has been satisfactory.

Recommendation

We recommended that the Department of Health Services respond to this report in 60 days, 6 months, and one year after this report was released. These responses should describe the status of the outstanding deliverables. The department should also notify us of the completion of the transition to the new fiscal intermediary contract. Finally, the department should report on the status of the CSC's efforts to meet time limits on the processing of claims.

REVIEW OF TWO HEALTH CARE FACILITIES IN SAN DIEGO COUNTY

Summary of Findings

Conditions at both the San Diego County Hillcrest Mental Health Facility (CMH) and the Edgemoor Geriatric Hospital (Edgemoor) may endanger the health and safety of patients who receive treatment at these facilities. The Department of Health Services (DHS) has identified numerous violations of state regulations in each of these facilities. While San Diego County has implemented plans of correction for some of these deficiencies, some potentially dangerous conditions still exist.

Circumstances surrounding the deaths of three mental health clients in San Diego indicate that the actions of the staff of the CMH may have contributed to these deaths. In one instance, during September 1984, a client who had previously been admitted to the CMH for threatening to commit suicide was taken into custody by the police for threatening to jump off of the San Diego Coronado Bay Bridge. CMH staff refused to admit this client because they decided she was not suicidal. The client committed suicide within hours after she left the CMH. In another instance, during January 1985, a client was admitted to the CMH on a Friday night and diagnosed as a paranoid schizophrenic. Because the psychiatric staff is decreased during weekends, this client did not receive any further treatment until Monday morning, after he had already committed a homicide. Finally, during March 1985, CMH staff failed to follow the facility's policy that requires them to check a client's vital signs when the client is admitted. As a result, the staff did not obtain vital physical information about a client who had been diagnosed as being under the influence of an undetermined amount of an unknown substance. The staff placed the client in seclusion where he died a few hours later.

At Edgemoor, rooms designated for mental health clients are inappropriate for these clients; certain conditions in these rooms jeopardize clients' health and safety. One patient used exposed sprinkler pipes to commit suicide by hanging, and several other patients have attempted to do the same. Recently, the San Diego County Board of Supervisors approved funding for the removal of these pipes. The removal is scheduled for completion by August 1, 1985. In addition, during September 1983, the program manager for Edgemoor requested the installation of an electronic system that would allow clients in seclusion rooms to call nurses. As of May 17, 1985, the San Diego County Department of General Services had not started installing this system.

San Diego County requires individuals employed as Mental Health Inpatient Program Managers to become Licensed Clinical Social Workers within one year of employment. However, our review revealed that two

of the three county employees currently working in this position have not met this requirement. To prevent this situation from occurring in the future, the deputy director stated that the county will link the probation period of new employees to the date by which a license is required.

During the past year, the Licensing and Certification Division of the DHS has identified several violations of state regulations, covering many aspects of the operation of a health care facility, at both Edgemoor and the CMH. As a result of these violations, the DHS has issued numerous statements of deficiencies to each facility. Although the DHS is prohibited from issuing citations to hospitals like the CMH, it did issue 18 citations to Edgemoor, requiring San Diego County to pay $13,000 in fines to the State. According to the San Diego District Administrator for the Licensing and Certification Division, San Diego County has offered plans of corrections for all of these deficiencies and has started implementing these plans.

Recommendations

The DHS lacks the full range of enforcement mechanisms it needs to ensure the health and safety of individuals who receive psychiatric treatment at hospitals; therefore, the Legislature should enact legislation that would grant to the Department of Health Services the authority to issue citations and to assess penalties against hospitals.

To ensure the health and safety of individuals who receive mental health treatment at any licensed health facility in California, the Department of Health Services should acquire the consulting services of psychiatrists and psychiatric nurses for reviews of facilities that provide psychiatric care. These consultants may be provided by the Department of Mental Health or independent sources, depending upon how often such expertise is needed.

To ensure the health and safety of individuals who receive treatment at Edgemoor Geriatric Hospital and the San Diego County Hillcrest Mental Health Facility, the following should be done:

- The Department of Health Services and the Department of Mental Health should ensure that the CMH maintains an adequate level of psychiatric staff seven days a week.

- The Department of Health Services should ensure that all maintenance work that affects the health and safety of clients is completed promptly at Edgemoor.

- The Department of Mental Health should ensure that San Diego County enforces licensure requirements for all county mental health positions that require licensed personnel.

FIRE DEPARTMENTS' COMPLIANCE WITH CAL/OSHA REGULATIONS
FOR PROTECTIVE CLOTHING AND EQUIPMENT

Summary of Findings

California fire departments generally provide their paid fire fighters with protective clothing and equipment required by the California Occupational Safety and Health Act (Cal/OSHA). However, fire departments do not always have sufficient quantities of the protective clothing and equipment to equip volunteer fire fighters, who are not covered by Cal/OSHA regulations.

We asked 101 California fire departments to provide information about their provision and use of protective clothing and equipment required by Cal/OSHA regulations. Forty-six fire departments responded to our questionnaire. We conducted follow-up telephone conversations with 24 of the 46 fire departments and visited 10. The 46 respondents comprise fire departments that use only paid fire fighters, fire departments that use only volunteer fire fighters, and fire departments that use both paid and volunteer fire fighters.

Thirty-nine of the 46 fire departments that responded to our questionnaire use paid fire fighters and are thus subject to Cal/OSHA regulations. Thirty-five of the 39 reported that they have all of the protective clothing and equipment required for their paid fire fighters. Twelve of the 39 fire departments also use volunteer fire fighters; 10 of the 12 said they provide for their volunteer fire fighters the protective clothing and equipment required for paid fire fighters. Seven fire departments that responded to our questionnaire use only volunteer fire fighters; 3 of these 7 fire departments have all of the protective clothing and equipment that is required for paid fire fighters.

Officials of fire departments that do not meet the Cal/OSHA requirements told us that they do not have some of the protective clothing and equipment required by Cal/OSHA regulations because they lack sufficient funds. They also reported that some items are not available from manufacturers, and some items are unreliable.

Despite the lack of sufficient protective clothing and equipment for some of the fire fighters, we did not identify any injuries to or deaths of fire fighters caused by insufficient protective clothing and equipment. Fire department officials pointed out that they attempt to minimize the risk of injury or death to fire fighters who are insufficiently protected. However, fire chiefs still expressed concern for their personal liability in the event of injury or death because their fire fighters have insufficient protective clothing or equipment.

Nine fire departments have sued the State to recover costs of purchasing protective clothing and equipment required by Cal/OSHA regulations. These fire departments argued that the purchases constituted state-mandated expenses and were thus subject to statutes that require the State to reimburse local agencies for costs mandated by the State. The Department of Industrial Relations, which administers Cal/OSHA regulations, contended that the regulations implement a federal program and either clarify or implement statutes not subject to the requirement that the State reimburse local entities for costs.

On May 23, 1984, the Los Angeles County Superior Court agreed with the fire departments and awarded them $159,663 plus interest. The State of California has appealed the decision. The County of Los Angeles indicated that it would also sue the State to recover costs of required protective clothing and equipment. The Department of Industrial Relations expects other fire departments to file similar suits.

A REVIEW OF THE FINANCIAL STATUS OF THE MADERA COUNTY SUPERINTENDENT OF SCHOOLS

Summary of Findings

The Madera County Superintendent of Schools (MCSS) has budgeted expenditures for fiscal year 1984-85 that are $531,903 greater than its budgeted income. The MCSS will finance the deficit in its budget by using reserves in its fund balance accumulated during previous fiscal years.

The MCSS reported a fund balance of $708,092 on June 30, 1984. Of this amount, $341,834 was restricted for special purposes. The MCSS projects that, during fiscal year 1984-85, its special purpose expenditures will exceed its special purpose income by $293,471, thus reducing the special purpose reserves in the fund balance to $48,363. The June 30, 1984, fund balance also includes $366,258 designated for general purposes. For fiscal year 1984-85, the MCSS projects that its general purpose expenditures will exceed its general purpose income by $238,432, thus reducing the general purpose reserves in the fund balance to $127,826. Consequently, the MCSS expects to reduce its June 30, 1984, fund balance of $708,092 to $176,189 on June 30, 1985. Should the MCSS' budget projections for fiscal year 1984-85 come true, the MCSS will have to take steps to ensure its general purpose expenditures do not exceed its general purpose income to the extent that it depletes its fund balance and thus becomes vulnerable to economic uncertainties.

We reviewed the audited financial statements of the MCSS for fiscal years 1980-81, 1981-82, and 1982-83. The certified public accounting firms that audited these statements concluded that the statements present fairly the financial position of the MCSS except that the statements do not include general fixed assets. At the time of our review, the MCSS had engaged a certified public accounting firm to conduct a financial audit of its fiscal year 1983-84 financial statements.

We also reviewed financial records pertaining to the MCSS' computer services. The MCSS uses its computer system for tasks such as preparing financial statements and payrolls for itself and for the 12 school districts within the county. To ensure that it can meet the demand for computer services in the future, the MCSS periodically compares the current and expected computer workload with the computer's capacity and then makes the necessary additions to its computer equipment. The MCSS currently has excess computer capacity, which it sells to other Madera County offices such as the Elections Department of the Madera County Clerk. The MCSS charges a fee to the county offices for which it provides computer services. During fiscal year 1983-84, the MCSS received $40,117 from other Madera County offices,

and it projects that it will receive $101,143 during fiscal year 1984-85.

The MCSS' financial records pertaining to its computer operations for fiscal year 1983-84 show that the MCSS properly accounted for its computer services and that the MCSS used proper sources of funds to finance the operations of its computer services. During fiscal year 1983-84, the MCSS spent $416,699 for computer operations: $308,389 for operating expenditures and $108,310 for purchase of computer equipment. In its budget for fiscal year 1984-85, the MCSS projects that it will spend $465,423 for computer operations: $352,545 for operating expenditures and $112,878 for purchase of computer equipment.

Finally, in purchasing computer equipment during fiscal years 1981-82, 1982-83, and 1983-84, the MCSS followed the provisions of the Education Code. During these three fiscal years, the MCSS spent $463,779 to purchase computer equipment.

THE DEPARTMENT OF MENTAL HEALTH HAS DEFICIENT ACCOUNTING AND GRANT MANAGEMENT PRACTICES

Summary of Findings

The Department of Mental Health (department) has not followed correct collection and accounting practices and has not properly managed a federal block grant. When department auditors identify state and federal funds that counties have not spent in accordance with regulations, the auditors assess the amount that counties should remit to the State. However, the department has not recorded as accounts receivable $39 million in "audit assessments," as prescribed by the State Administrative Manual, and has not attempted to collect $3 million that is actually due and payable. As a result, the State and the federal government have lost approximately $160,000 in potential interest income.

In addition, the department has not performed monthly reconciliations of its revolving fund as required by the State Administrative Manual. As of April 30, 1984, the department was unable to account for approximately $48,000. During our audit, the chief of the department's Accounting Section assigned an employee to reconcile the fund. By June 30, 1984, the department had accounted for all transactions.

Finally, the department has not complied with specific funding, accounting, and auditing requirements of the federal Alcohol and Drug Abuse and Mental Health Services (ADMS) Block Grant. Although the department should minimize the time between withdrawing and disbursing federal funds, it has held funds up to 242 days before disbursing the funds to counties. In addition, during fiscal year 1983-84, the department overstated the costs of the ADMS Block Grant by approximately $63,000. The department has also not audited recipients of federal block grant funds annually as required by federal law. As a result of these failures, the department is jeopardizing continuation of its largest federal grant program.

Recommendations

The Department of Mental Health should establish in its accounting records accounts receivable for audit assessments of counties and deduct the assessments from money that the department owes the counties. The department should also reconcile its revolving fund monthly. To improve its management of the ADMS Block Grant, the department should assign one person to administer the grant. Additionally, the department should implement procedures to reduce the time between withdrawing and disbursing federal funds, correctly account for costs of administering the block grant, and audit recipients of block grant funds annually.

THE STATE LACKS GENERAL PLANS AND LAND OWNERSHIP RECORDS FOR THE STATE PARK SYSTEM AND DOES NOT COLLECT ALL LEASE PAYMENTS ON TIME

Summary of Findings

The state park system currently includes 289 park units. Much of the funding for acquisition and development of parks has come from park bond acts passed since 1927. The Department of Parks and Recreation (department), however, has no general plans for one million acres that it controls. Parks without general plans constitute 84 percent of the total acreage in the state park system and two-thirds of the State's 289 parks. One park lacking a general plan, Anza-Borrego Desert State Park, covers over 500,000 acres. Because the Public Resources Code requires a general plan for a park before new permanent development can occur, new permanent facilities cannot be developed in parks without general plans, and the public does not always have access to these parks. In fiscal year 1983-84, over 65,000 vehicles carrying people seeking campsites were turned away from state parks that lack general plans. In addition, park rangers lack guidance in managing resources within parks without general plans.

Although factors outside the department's control can delay the preparation of general plans, the department can improve its preparation of general plans by establishing a more consistent base for scheduling the preparation of general plans. Currently, the department bases its schedule for preparing general plans on its multi-year capital outlay program, which changes frequently. In addition, the multi-year capital outlay program rarely includes parks that need policies for resource management only. The department can also improve its budgeting for preparation of general plans. The division that has primary responsibility for preparing general plans has underestimated by over 40 percent the time necessary to prepare general plans. Further, when department priorities have changed, the department has not budgeted accurately for such changes.

Although the State receives revenue from leases of property that it is not using for parks, the department is not collecting all lease payments when they become due. At the end of fiscal year 1983-84, for example, uncollected lease payments totaled $92,550. In addition, the department lost approximately $13,800 in interest revenue in fiscal year 1983-84 because it did not collect lease payments promptly. Moreover, the department does not assess a late charge for overdue lease payments. We estimate that the department could have earned over $28,000 in fiscal year 1983-84 by assessing a late charge for overdue payments. In addition, the system for collecting late lease payments is fragmented. The Department of General Services collects late lease payments, but the Department of Parks and Recreation does not identify late payments until from 30 to 60 days after the payments are due. Delay in collecting late lease payments reduces the interest income that the State earns on lease payments.

Moreover, the listing of the department's land in the Proprietary Land Index (index) is not accurate. (The index lists all land owned or acquired by the State, except land acquired by the Department of Transportation for highway purposes.) The department controls more than two-thirds of the land listed in the index, which is maintained by the Department of General Services' Office of Real Estate Services. However, the index does not include some of the State's parks and has incorrect names for others. In addition, the department's two other lists of land ownership also contain errors. Although the California Government Code requires the department to review and correct the index every five years, the department has not reviewed the listing of its land for seven years. Consequently, the index is incomplete, and the department is unable to respond promptly and accurately to inquiries about land ownership.

Finally, the department lacks maps for 62 parks and does not have current maps for another 76 parks. In addition, the department has not fully used its interagency agreement with the Department of Water Resources to prepare maps on a computer. A Department of Water Resources study shows that preparing maps on a computer saves approximately 60 percent of the time needed to prepare a map manually. By using a computer to prepare and update the 138 maps, the Department of Parks and Recreation would save almost $226,000 of the cost of preparing and updating the maps manually.

Recommendations

By January 1986, the Department of Parks and Recreation should provide the Legislature with a priority list that includes all remaining parks that lack general plans. The department should update the list as priorities change and should also estimate the fiscal years in which it can begin preparing high priority general plans for these parks. The department should prepare general plans based on the priority list. Except for parks that require immediate development for public access, the department should not include a park in its multi-year capital outlay program until it has prepared a general plan for the park. When the State proposes acquisition of land for a state park that does not have a general plan, the department should estimate the time and the cost necessary to prepare the park's general plan and then rank the park on the priority list. The department should monitor the actual time spent preparing general plans so that the time it budgets more closely reflects the actual time required.

The department should notify lessees that rental payments are due on the date specified in the contract, that it will no longer send invoices, and that lessees must include their lease account numbers when they submit payments to the department. In addition, the department should evaluate the cost and benefits of assuming responsibility for collecting overdue payments and should implement an

accounting system that identifies late payments before they are 30 to 60 days overdue. The department should include a specified late charge for overdue payments in all new or renewed lease contracts. The department should also review and correct its listings in the Proprietary Land Index every five years and should review additions to and deletions from the index periodically during the five-year cycle. Finally, the department should regularly provide to the Office of Real Estate Services a list of current and former park names.

ANALYSIS OF FORMER CHAIRMAN OF THE BOARD OF PRISON TERMS' TRAVEL

Summary of Findings

The Legislature requested that we audit travel claims of Mr. Rudolph A. Castro, a former Chairman of the Board of Prison Terms (board). We were asked specifically to review the chairman's use of public funds to pay for travel to his home in Yorba Linda from his headquarters in Sacramento and his justification for travel and per diem expenses. Our review was limited to Mr. Castro's travel while he was Chairman of the Board of Prison Terms, from April 1, 1983, through April 25, 1984, when he resigned from the board's chairmanship. During the 56 weeks that Mr. Castro served as Chairman of the Board of Prison Terms, he made 42 trips away from his headquarters in Sacramento. The scheduling of 33 of these trips allowed Mr. Castro to remain over the weekend or overnight in Yorba Linda.

During October 1983, November 1983, January 1984, April 1984, and May 1984, the Board of Prison Terms deducted amounts from Mr. Castro's travel claims, and in May 1984, the Youth and Correctional Agency (agency) completed an audit of Mr. Castro's travel claims. The board and the agency disallowed either a portion or all of the expenses for 15 trips that they determined were taken for personal business. The disallowed costs totaled $2,615.25. Subsequently, Mr. Castro reimbursed the State or had deducted from his travel claims expenses totaling $2,615.25.

We found an additional $111.25 in inappropriate expenses that the agency auditor overlooked for the 15 trips. In addition, we found expenses relating to 8 other trips that violated provisions of Section 599.615 of Title 2 of the California Administrative Code and expenses relating to 4 trips that violated Section 700 of the State Administrative Manual. The additional amounts that should be disallowed as inappropriate expenses total $445.20.

We also found that the agency incorrectly reduced Mr. Castro's travel claims by $652.50 for expenses relating to 8 trips. The inappropriate expenses identified by the board and the agency should have been, therefore, $1,962.75. Adding to this figure the additional $445.20 in appropriate expenses that we identified, we conclude that Mr. Castro incurred or claimed $2,407.95 in travel expenses that violated provisions of the California Administrative Code or the State Administrative Manual. Mr. Castro overreimbursed the State $207.30.

STATE RETIREMENT SYSTEMS ARE PAYING EXCESSIVE DISABILITY BENEFITS

Summary of Findings

The Public Employees' Retirement System (PERS), the State Teachers' Retirement System (STRS), and the University of California Retirement System (UCRS) could greatly reduce the costs of their disability programs. All three retirement systems pay ordinary disability benefits to their disabled members. In addition, the PERS pays industrial disability benefits to certain members, and the UCRS pays safety disability benefits to certain members. State law and a University of California Board of Regents standing order do not permit the PERS and the UCRS to limit the industrial and safety disability benefits of members who earn income. However, the PERS, the STRS, and the UCRS can limit the ordinary disability benefits of members who earn income.

The three retirement systems are overpaying disability benefits to members who earn income. Eight of the STRS' approximately 2,000 disabled members and 2 of the UCRS' 660 disabled members earn income that disqualifies them from receiving ordinary disability benefits. By terminating the ordinary disability benefits of these 10 members, the two systems would save approximately $491,000 by the time these members reach retirement age. In addition, between April 1982 and September 1983, the PERS and the STRS overpaid $53,000 in disability benefits to a total of 38 members. The overpayments occurred because the members did not report all of their earnings to the retirement systems. Because the retirement systems do not have authority under the law to obtain earnings information from the Employment Development Department, the retirement systems cannot independently verify the accuracy of the earnings reports that members submit to the systems. Further, the PERS overpaid an additional 24 members by $35,800 because of clerical errors.

In addition, the STRS may be overpaying disability benefits to members who qualify for disability benefits from the federal Social Security Administration. Currently, the STRS reduces the disability benefits of only 30 of its 2,000 disabled members by an amount equal to the Social Security benefits that the members report to the STRS. In our sample of 84 disabled STRS members, 3 members who are receiving STRS benefits may qualify for Social Security disability benefits. If the 3 members do qualify for these federal benefits, the STRS would save approximately $80,000 by the time the members reach age 60 and no longer qualify for disability benefits from the STRS. Further, we found that although a STRS member notified the STRS that she was receiving Social Security disability benefits, the STRS was not reducing her STRS disability benefits by an appropriate amount. By reducing the disability benefits of this member, the STRS would save $46,000 by the time the member reaches age 60.

The PERS may also be overpaying disability benefits to its members because it does not have an effective program for reviewing disabled members' cases to ensure that members still qualify for disability benefits. Unlike insurance firms and other retirement systems, the PERS conducts few periodic reviews of its members' cases. Further, the PERS often fails to review the cases of disabled members that the PERS has initially determined to need periodic reviews. As a result, the PERS has terminated the disability benefits of only 2 of its 5,800 disabled members since 1980. In contrast, during 1983, the STRS reviewed about 1,300 of its 2,000 disabled members' cases and terminated the benefits of 18 members, saving $1.53 million. During the same year, the UCRS reviewed 340 of its 660 cases and terminated benefits of 20 members. The UCRS thus saved $1.22 million.

Using earnings information from the Employment Development Department for April 1982 through September 1983, we found that at least 190 PERS members had earnings and industrial disability benefits that together exceeded the current salaries for the positions that the members held when they became disabled. Similarly, three disabled UCRS members had earnings and safety disability benefits that together exceeded the current salaries for the positions that the members held when they became disabled. If the Legislature allowed the PERS to limit the industrial disability benefits of disabled members, the PERS would save $5.6 million for the 190 members whose cases we reviewed. Similarly, if the Regents of the University of California amended a standing order to allow the UCRS to limit the safety disability benefits of members who earn income, the UCRS would save approximately $104,000 by the time its three disabled members with high earnings become eligible for retirement benefits at age 50.

Recommendations

The Legislature should permit the three retirement systems to obtain earnings information from the Employment Development Department so that the retirement systems can verify the accuracy of their members' earnings reports. The Public Employees' Retirement System should ensure that disabled members submit earnings reports and should reduce ordinary disability benefits of members whose earned income exceeds the PERS' prescribed limits. The PERS should also frequently review disabled members' cases, schedule medical exams for members likely to be no longer disabled, and terminate disability benefits of members no longer disabled. In addition, the three retirement systems should, if authorized by the Legislature, obtain earnings information from the Employment Development Department and use this information to reduce or terminate ordinary disability benefits of members whose earned income exceeds the prescribed limits of the three systems. The State Teachers' Retirement System should also reduce disability benefits of

STRS members who qualify for Social Security disability benefits and should take steps to ensure that such members apply for the federal benefits.

The Legislature should amend Section 21300 of the California Government Code to authorize the PERS to reduce the industrial disability benefits of members whose earned income and disability benefits together exceed the highest current salaries for the positions that the members held when they became disabled. Further, the Regents of the University of California should amend Article 15.08 of the Standing Orders to authorize the UCRS to make similar reductions in the safety disability benefits of its members. The amendments to the California Government Code and the Standing Order should apply only to members of the PERS and the UCRS who incur disabilities after these amendments become effective.

PUBLIC PENSION FUNDS ARE NOT COMPLYING WITH STATUTORY REQUIREMENTS FOR INVESTING IN CALIFORNIA RESIDENTIAL REALTY

Summary of Findings

Sections 13000 and 13001 of the California Financial Code require public pension funds to invest in obligations secured by residential realty in the State at least 25 percent of their money that becomes available for investment during the fiscal year (called "new money"). Although the law permits public pension funds to make alternate investments, administrators for public pension funds that do not meet the investment requirement must submit certain reports to the Governor and the Joint Legislative Audit Committee within 10 days after the close of their funds' fiscal year.

We sent to the State's 102 independent public pension funds a questionnaire regarding the funds' investments in California residential realty. According to the 83 responses we received, 18 public pension funds, including the State Teachers' Retirement System and the Public Employees' Retirement System, have invested at least 25 percent of their new money in California residential realty since Sections 13000 and 13001 became effective on January 1, 1983. Administrators for 8 of the 83 public pension funds claimed that their funds are exempt from the investment requirement. Administrators for the remaining 57 public pension funds stated that their funds have invested little or no money in residential realty in the State.

Although public pension funds have invested a total of $1.5 billion in obligations secured by residential realty in the State, we determined that public pension funds would have invested an additional $176.8 million in residential realty since January 1, 1983, if all public pension funds required to comply with the law had met the investment requirement.

Additionally, responses to our questionnaire indicate that administrators for 18 public pension funds prepared the required reports when their funds did not make the required investments. For 6 other public pension funds that did not make the required investments, administrators did not file the required reports. Thus, the Legislature did not have complete information on whether public pension funds were investing the required percentage of new money in California residential realty. Moreover, administrators for only 18 public pension funds stated that they have changed their funds' investment practices as a result of the law.

During our review, we also determined that the State Controller can modify the forms for reports on the financial transactions of public pension funds to require information on the funds' investments in California residential realty. However, because of the time required

by the State Controller to process financial transaction reports, the Legislature would not receive the information for at least 6 months and as long as 16 months after the close of the State's fiscal year.

THE STATE'S EXPENDITURES FOR LAND ACQUISITIONS AND GRANTS IN THE SANTA MONICA MOUNTAINS

Summary of Findings

From January 1, 1980, through June 30, 1984, the Santa Monica Mountains Conservancy (conservancy) acquired 1,117.75 acres of land in the Santa Monica Mountains Zone (zone). The conservancy spent nearly $3.1 million to purchase 475.27 of the 1,117.75 acres and acquired the remaining 642.48 acres without spending conservancy appropriations. Over 1,100 acres of this land are now available for public use. In addition, the conservancy spent $2 million of its capital outlay funds to assist the Department of Parks and Recreation in acquiring 931 acres for the state park system. The conservancy plans to sell or transfer to other government agencies most of the land it has acquired. For example, the conservancy plans to transfer up to 745 acres of its land to the National Park Service. The conservancy plans to transfer other land either to the Department of Parks and Recreation or to the City of Los Angeles.

In addition to acquiring land, state law allows the conservancy to provide grants or loans to state and local agencies for parks, recreation areas, or the conservation of open space. The conservancy may also award grants to nonprofit organizations. From January 1980 through June 1984, the conservancy awarded ten grants totaling $7.5 million to state and local agencies. The conservancy has not loaned any of its funds.

State law also allows the conservancy to accept the dedication of land for open space or for trail easements. Further, state law gives the conservancy the first right to acquire any surplus public land in the zone that is not otherwise scheduled for acquisition as a park.

The conservancy has not complied with state law in preparing its annual reports. It has not identified the disposition of funds appropriated to it by fiscal year, and it has not always clearly identified the actual costs of all projects and the extent to which projects have achieved their goals. As a result, the Governor and the Legislature have not had current and complete information by which to evaluate the results of the conservancy's programs. Such information is important because the conservancy's statutory authority is due to expire on July 1, 1986.

Recommendations

The Legislature should change the deadline for the conservancy's annual report from January 1 to October of each fiscal year. In addition, in its annual report, the conservancy should identify its expenditures for the preceding fiscal year both by appropriation and by project, grant,

or loan. It should also state its fund condition as of the end of the preceding fiscal year. Finally, to describe more clearly the extent to which projects have achieved their goals and the results of its programs under the preceding year's appropriations, the conservancy should report the actual, not the anticipated, status of its projects at the end of the fiscal year.

SOME OF THE STATE'S LICENSED RESIDENTIAL FACILITIES FOR CHILDREN ARE NOT SAFE

Summary of Findings

Some of California's licensed residential facilities for children are unsafe. We reviewed files for 130 facilities in four of the ten district offices of the Department of Social Services (department) and found that the department has not taken effective administrative action against some facilities in spite of their repeated violation of licensing laws and regulations. Although the department can revoke or temporarily suspend a facility's license and can deny annual renewal of the license, the department is unable to take administrative action against facilities that repeatedly fail to comply with regulations if the department fails to conduct all the required annual inspections. In the four district offices, the department failed to conduct at least one annual inspection in 1983 or 1984 at 37 (28 percent) of 130 facilities in our sample. At 6 of these facilities, the department did not conduct the required annual inspections in both 1983 and 1984. In addition, the department does not always follow up to ensure that facilities correct deficiencies. In 1984, for example, an evaluator never returned to ensure that 3 facilities in Butte County corrected deficiencies that the evaluator had identified. Finally, some of the department's inspections and investigations are not thorough and well documented, and some evaluators failed to complete inspections.

As a result of these weaknesses, children have lived in facilities with broken and jagged glass in the windows and holes in the floors and walls. Department evaluators have also found facilities with unsanitary kitchen facilities and insect-infested food. Failure to take effective administrative action against such facilities or to follow up to ensure that such conditions are corrected allows the conditions to persist.

These weaknesses have existed partly because the evaluators need to be better supervised. Department officials also noted a shortage in staff. In two of the districts we visited, the average caseload for evaluators exceeded the department's standards. Department officials indicated that the department hired additional evaluators during the last six months of 1984; some evaluators will be assigned to monitor residential facilities for children.

Although the department is required to inspect the facilities only once a year, the majority of officers of agencies that place children in the facilities visit children they place in facilities within the county or in a contiguous county at least quarterly. During such visits, the placement officers identify circumstances that could jeopardize the safety of the children and that the facilities are required to report to the department. We compared records of such incidents reported in

files of placement agencies with records in district offices and found that 79 percent of such incidents reported to placement officers during 1983 and 1984 were not recorded in the department's files. Without such information from the placement agencies or the facilities and without more frequent monitoring by the department, the department is unable to take appropriate action against facilities.

Likewise, the department does not share information with placement agencies. Thirty-three percent of the placement agencies that reported problems to the department and that responded to our survey said that the department does not inform them about the resolution of problems that the placement agency reports to the department. Also, 43 percent of the placement agencies responding believed the department did not inform them regarding a facility's history of problems, and 62 percent said there was no communication regarding programs for children offered by particular facilities. Without information regarding problems at facilities or programs that facilities offer, placement agencies cannot be sure children are placed in facilities appropriate for their needs.

Although the department requires residential facilities for children to submit fingerprints for all employees who work with children, the department's files lack evidence showing that the facilities are submitting all required fingerprints to the department. Moreover, the department has no routine procedures, except for its annual inspections, to identify facilities that do not comply with the regulations. For 1983 and 1984, the department had no evidence that it obtained the fingerprints for at least one current employee in each of 32 of the 130 facilities whose files we reviewed. Moreover, three of the four district offices we reviewed have no procedures to determine why the Department of Justice does not promptly provide information regarding the backgrounds of facility personnel.

Furthermore, even when facilities do submit all fingerprints as required and the Department of Social Services and the Department of Justice process them promptly, the system still does not prevent persons who have prior criminal convictions from working in children's facilities. State law permits persons to begin working in residential facilities for children before their backgrounds are investigated. We found that completing the investigation can take approximately eight weeks. During this period, persons who have criminal backgrounds have worked with children without clearance from the department. Moreover, persons who resign from one facility when their criminal background is discovered can obtain employment at another facility and work with children there while the State conducts a new investigation.

Recommendations

The Department of Social Services should improve its supervision at the district offices and improve its processing and follow up of criminal

record clearances. Moreover, the department should develop facility profiles so it can focus its resources on facilities that have frequent problems and develop and maintain in its information system a history of employees of residential facilities for children.

The Legislature should require placement agencies to report violations of regulations to the department and require the department to maintain a history of facilities and to share this information with placement agencies. Finally, the Legislature should require all small family homes and group homes to submit fingerprints of new employees when they begin working at the facilities.

A REVIEW OF FOUR COUNTIES' ADMINISTRATION OF THEIR SPECIAL DISTRICT AUGMENTATION FUNDS

Summary of Findings

In response to the passage of Proposition 13 in 1978, the Legislature, in fiscal year 1978-79, provided local governments and special districts financial assistance from the State. Furthermore, the Legislature enacted Chapter 282, Statutes of 1979, which provides long-term financing for local governments and special districts. A provision of this statute requires that each county establish a Special District Augmentation Fund (augmentation fund) to augment revenues of special districts. Further, the legislation requires each special district that received state assistance in fiscal year 1978-79 to contribute a portion if its annual property tax revenue to the augmentation fund.

We reviewed the administration of augmentation funds by four counties: Contra Costa, Fresno, Los Angeles, and Sacramento. The counties are generally complying with statutory requirements for administering their augmentation funds. In the four counties, all special districts that received state assistance in fiscal year 1978-79 contribute to their respective county's augmentation fund. The counties also properly computed property tax that each special district should contribute to the augmentation funds. In addition, Fresno, Los Angeles, and Sacramento counties properly disbursed their total augmentation fund to special districts. However, Contra Costa County retained a portion of its augmentation fund for emergencies and future needs; this portion exceeded that allowed by law. According to an opinion of the Legislative Counsel, the Revenue and Taxation Code permits a county to retain not more than one percent of its augmentation fund for emergencies; with the exception of fiscal year 1982-83, Contra Costa County retained from 3 to 4 percent each year for emergencies. We recommend that the Board of Supervisors of Contra Costa County allocate not more than one percent of the augmentation fund for emergency purposes.

The counties use different methods for allocating their augmentation funds. Los Angeles County and Sacramento County allocated their augmentation funds based on funding levels established in fiscal year 1979-80. Contra Costa County and Fresno County allocated their augmentation funds based on the priority of service and the financial needs of each special district. In allocating their augmentation funds, all four counties gave priority to fire districts.

In each county, certain special districts have periodically received allocations from the augmentation funds even though they do not contribute to the funds. For example, some library and cemetery districts in Fresno, Los Angeles, and Sacramento counties do not

contribute to these counties' augmentation funds, but the counties have periodically allocated money from the augmentation funds to these districts. In addition, in fiscal year 1983-84, Contra Costa County created a police district that did not contribute to the county's augmentation fund but that did receive an allocation of $3.3 million from the fund. The Revenue and Taxation Code does not preclude counties from making allocations to special districts that do not contribute to the augmentation funds or that were created after fiscal year 1978-79.

A group of citizens filed a lawsuit against Contra Costa County challenging the creation of the police district. The plaintiffs contended that the county created the special district to divert money in the augmentation fund for use as general county revenue. As of September 20, 1984, the case was pending.

AN ANALYSIS OF THE STATE TEACHERS' RETIREMENT SYSTEM'S HIRING AND COMPENSATION OF ITS EXECUTIVE OFFICER

Summary of Findings

The State Teachers' Retirement System (STRS) did not fully adhere to state contracting and employment procedures in hiring and compensating Mr. C. Michael McLaren as its Chief Executive Officer (CEO). Because the Teachers' Retirement Board (board) did not expect Mr. McLaren to assume his full responsibilities as CEO before November 1984, the board decided to contract with Mr. McLaren in July 1984 so that he could participate in important STRS business as a consultant. However, the STRS did not fully follow state contracting requirements. The STRS did not prepare detailed criteria and a mandatory progress schedule for the performance of the contract. Additionally, the STRS did not ensure that Mr. McLaren was providing services in accordance with the contract. Furthermore, it did not evaluate Mr. McLaren's performance or withhold 10 percent of the contract fee pending completion of the evaluation in accordance with statutory requirements. Finally, the STRS did not define "actual reasonable expenses," which the STRS was required to reimburse. In addition, the STRS reimbursed Mr. McLaren for nearly $2,900 more than it should have. Of this amount, $2,540 was paid for airline tickets that Mr. McLaren did not use and for expenses of his wife and of board members. The STRS subsequently recovered the $2,540, but it has not recovered $360 paid for unallowable expenses.

The board authorized a contract under which a home relocation company would purchase Mr. McLaren's home in Minnesota. The State would reimburse the company for expenses incurred in purchasing the home and in moving Mr. McLaren and his household goods to California. Although there are no circumstances in state law authorizing a state agency to purchase an employee's residence, the board acted upon its belief that this was an investment-related decision not subject to the jurisdiction of the State's control agencies. Before the relocation contract was executed, however, the STRS received an Attorney General's opinion, requested by the State Controller, stating that the board did not have the authority to execute the contract. Because the STRS did not sign the contract, it did not risk incurring up to $52,500 in improper relocation expenses authorized by the board. However, the STRS has been billed for $1,120 in expenses incurred by the relocation company acting on verbal authority from the STRS' Chief Legal Counsel.

While Mr. McLaren was employed as CEO, he spent 58 percent of the time outside of California. He was out of state for 40 of the 69 working days during the period of his employment. Mr. McLaren stated that the STRS gave him verbal approval to work on STRS business in Minnesota so that he could make arrangements to relocate his family. Mr. McLaren claimed that he worked on STRS business, and STRS staff and the board chairperson assumed that he was conducting STRS business while he was

out of state. State law, however, requires state employees to have prior approval by the Governor and the Director of Finance to work out of state. This approval was obtained for only 8 of the 40 days that Mr. McLaren was out of state. Additionally, for only 8 of the 40 days that Mr. McLaren spent out of state could we document that he worked on STRS business. Thus, the STRS paid Mr. McLaren a salary for 32 days for which his out-of-state work violated state law and for which there is no documentation that he rendered services to the STRS.

Recommendations

The State Teachers' Retirement System should comply with all state laws and administrative procedures in its future contracting and employment unless it can demonstrate that such compliance would significantly hamper its investment authority. The STRS should also limit the travel expenses of consultants, should document services rendered before payment, and should carefully monitor and review future consulting contracts. Additionally, the STRS should obtain an opinion from the Attorney General delineating the conditions under which the STRS would be authorized to circumvent state laws or regulations in making investment decisions. The STRS should also continue to withhold payment of $6,800 in travel expenses incurred by Mr. McLaren that are not authorized by state law. The STRS should collect approximately $770 from Mr. McLaren for an unused travel advance, overpayments of travel expenses, and personal use of telephones. The STRS should review in detail any additional or pending claims by Mr. McLaren before payment. Finally, the STRS should determine whether any inappropriate salary payments were made to Mr. McLaren while he was working out of state.

DEFAULTED LOANS UNDER THE CALIFORNIA GUARANTEED STUDENT LOAN PROGRAM

Summary of Findings

The Student Aid Commission's (commission) California Guaranteed Student Loan Program, which began in April 1979, makes low-interest loans available to students to pay for the costs of attending postsecondary schools. The commission guarantees the loans, thereby assuring lenders full payment of loans that become uncollectible because of death, disability, bankruptcy, or default. The federal government purchases from the commission all or part of each loan that becomes uncollectible. The federal government generally considers a loan to be in default if a student fails to make a required payment on the loan within 120 days of the date that the payment is due. Two commonly used but unrelated ways of discussing the rate of defaults are the "cumulative default rate" and the "trigger reinsurance rate." The rise in the dollar amount of defaulted student loans, as expressed by the cumulative default rate, increases the burden to federal taxpayers because the federal government must ultimately purchase a majority of the defaulted loans.

The cumulative default rate, which is used as a general indicator of the dollar amount of loans that have defaulted over the life of the California Guaranteed Student Loan Program, has risen each year since the program's inception. Because the California Guaranteed Student Loan Program is a relatively new program, federal fiscal year 1981-82 was the first year in which a significant number of students began to repay loans. Accordingly, the cumulative default rate rose to 6 percent at the end of federal fiscal year 1981-82, compared to a cumulative default rate of 1.8 percent in the previous federal fiscal year. By the end of federal fiscal year 1982-83, the cumulative default rate had increased to nearly 9.5 percent. As of June 30, 1984, the cumulative default rate was 13.1 percent. Of the $946 million in matured loans on that date, loans totaling $124 million were in default.

Specific cumulative default rates can be determined for each educational segment of the California Guaranteed Student Loan Program. For example, as of June 30, 1984, cumulative default rates ranged from 5.0 percent for hospital education programs and 6.1 percent for the University of California to 26.7 percent for private vocational schools. Although students with California Guaranteed Student Loan Program loans who attend vocational schools account for only 17.3 percent of the program's matured loans, these students account for 35.3 percent of the total dollar amount of defaulted loans. In contrast, students with these loans who attend hospital education programs and those who attend the University of California together account for 12.7 percent of the matured loans but only 6.0 percent of the total dollar amount of defaulted loans under the program.

The trigger reinsurance rate, which is defined by federal regulations, determines the percentage of a defaulted loan that the federal government will purchase and the percentage of the loan that the commission must pay during a federal fiscal year. The higher the trigger reinsurance rate, the more the commission must pay for defaulted loans.

In March 1984, the trigger reinsurance rate exceeded limits specified by the federal government, and the commission became responsible for paying at least 10 percent of the dollar amount of defaulted loans until the end of the federal fiscal year. As a result, for all defaulted loans purchased as of May 31, 1984, the commission had paid approximately $1.7 million, while the federal government had paid approximately $47 million.

The commission used money from the State Guaranteed Loan Reserve Fund (reserve fund) to pay for defaulted loans. The reserve fund receives no support from the State's General Fund; it is composed of federal funds, investment earnings, and insurance premiums paid by students. The balance of that portion of the reserve fund that the commission specifically designated for paying defaulted loans was approximately $43 million as of June 30, 1984. This amount does not include an additional $9.1 million in federal advances that could also be used to pay defaulted loans.

The commission projected that the trigger reinsurance rate for the 1984-85 federal fiscal year would again exceed specified limits in the fourth quarter, and the commission anticipated paying $2.8 million for defaulted loans. Nevertheless, the commission projected that the reserve fund would still increase by $7.3 million during federal fiscal year 1984-85 because of investment earnings and insurance premiums that students would pay.

INDEX