

The seal of the California State Auditor is a circular emblem. It features a central shield with a balance scale on the right and a map of California on the left. Below the shield is a book. The shield is surrounded by a ring of stars. The outer border of the seal contains the text "CALIFORNIA STATE AUDITOR" at the top and "BUREAU OF STATE AUDITS" at the bottom.

The California State Auditor

Helping Decision Makers Create a Better State Government
July 2002 Through September 2003

Elaine M. Howle, State Auditor



California is more than a political institution, a home to culturally diverse communities, or a region of majestic landscapes. It is also a state of mind and a way of life—a place of evolving dreams and opportunities.

December 2003

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All Californians expect their state government to use their tax dollars effectively and efficiently to address their expressed priorities. They also expect to have a state government that is accountable to them and the State's creditors. Through our financial, compliance, and performance audits and our investigations, we continue to be uniquely poised to help the State's leaders identify areas where changes are needed in order to fulfill the state government's responsibilities to California's citizens. With a track record of success and innovation, we are:

Independent

So that the State Auditor and the Bureau of State Audits are free of external



and organizational impairments and can conduct audits in conformity with state and federal auditing standards, state law requires that we be independent of the executive branch and legislative control. Independence ensures that

the federal government and bond rating firms accept our audits of federal funds and the State's financial statements and that California's taxpayers and decision makers can rely upon our work for fair and impartial results.

Qualified

The State Auditor's staff collectively hold 112 undergraduate degrees and 49 advanced degrees in areas such as accounting, public policy, urban planning, and business administration. Their 55 professional certifications include Certified Public Accountant, Certified Government Financial Manager, Certified Information Systems Auditor, and Certified Fraud Examiner. On average, our management team has 16 years of professional auditing experience.

Efficient and Effective

State, local, and other publicly created entities have either implemented or plan to implement the vast majority of our recommendations. We estimate that by implementing our recommendations, the State could save \$14.90 for every dollar spent on audits conducted over the past two fiscal years.

Respected

Over the years, we have earned the respect of our customers and our peers in all branches of government. The State's creditors rely on our annual audit of the State's financial statements for rating the State's bonds,

and the federal government relies on our annual compliance audit for continued funding of federal programs. The Legislature, which counts on us for in-depth analyses, has passed numerous laws that include required audits, requested more of our performance audits, and enacted several new laws in response to our findings. At the same time, our investigations have brought the misdeeds of state employees to their employers' and the public's attention, thus allowing for the punishment of such misdeeds and serving as a deterrent for others. A number of our audits have earned awards from our peers in other state governments.

New Challenges



In this time of unparalleled opportunities, we are also faced with significant new challenges. We have the technical and managerial resources and capability to face these new challenges. Over the past few years, we have been confronted by many rapid changes to our working environment. In response, we have become a more focused and disciplined organization, developing the

resources necessary to address the changes that have occurred. We expect many of these challenges, including the following, to continue:

- ❑ A difficult economic environment has resulted in an increased demand for our independent, unbiased, and timely assessments of issues and our innovative recommendations for improvement.
- ❑ The conversion to a new financial reporting format has caused radical changes in the way governments must present their financial statements. These changes have required not only careful coordination within the State, but consultation with other governmental entities.
- ❑ Increasingly complex problems have confronted California's government. As a result, we have performed audits on a variety of complicated issues,

including California's workers' compensation system and the governance structure of the State's information technology program. At the request of the Legislature, we are now auditing the cost of providing health care to inmates, the process for collecting and distributing funds from the tribal-state gaming compacts, and the systems used for combating fraud in the Medi-Cal program.



Our clientele has changed rapidly. In order to best serve new members of the Legislature and the administration, we have undertaken an active outreach effort to inform those individuals of who we are and how we can assist them in fulfilling their responsibilities.

To meet these challenges, we are pursuing bold but sustainable strategies that we believe will improve California's government.

Continued Contributions

Our employees' shared vision, determination, and dedication have made and will continue to make our effectiveness possible. In the 15 months between July 2002 and September 2003, our contributions to decision makers and the public have been significant.

Issued Audit Reports That Could Save the State Millions of Dollars

Between July 2002 and September 2003, we issued reports that could result in considerable monetary benefits such as savings and increased revenue to the State and have led to important improvements in its policies. These reports listed beginning on page 10, included the following:

- 36 performance audits.
- A compliance audit of \$59.8 billion of the \$63.3 billion federal assistance received in fiscal year 2001–02.

- An audit of the State's financial statements. These statements reported almost \$150 billion in expenditures in fiscal year 2001–02.
- 33 investigations that substantiated state employee misdeeds.

We estimate that the agencies we audited could realize nearly \$190 million in monetary benefits between July 2002 and September 2003 by implementing the recommendations included in our audits since 2002. Furthermore, many of these agencies could continue to realize monetary benefits from these audits for years to come. For instance, as a result of the audits we issued between May 2001 and June 2002, we estimate the State may have realized monetary benefits totaling \$64 million in fiscal year 2002–03.

In addition, many of the audits issued during these 15 months significantly influenced the State's policies. Not only did many departments modify their policies as a result of our work on issues such as the State's workers' compensation system, procurement policies, and charter schools, but the Legislature has enacted and is likely to enact a number of laws in the 2003–04 legislative session that implement changes to statewide policy. Other examples of these types of audits include information technology governance and the Megan's Law database.



We also issue a report each year to assist members of the Legislature in their budget deliberations. Our February 2003 report summarized the actions agencies took to implement the recommendations and address the findings in 56 audits and investigations.

Provided Important Information to the Legislature and Public

As the result of an increase in the number of legislative hearings held on issues raised in our audit reports, we have provided frequent briefings and presentations to the Legislature on various aspects of our work. For example, we testified at hearings on our audits of the California State University's Common Management System, the State's procurement practices, and the Megan's Law database.

We have also responded to public requests for our records. To the extent that the law allows, we have made our audit documentation available for public review. Between July 2002 and September 2003, we responded to 93 requests for access to our documentation from individuals and organizations under the Public Records Act.

Investigated More Whistleblower Complaints

Our investigative function has grown by almost 70 percent, primarily as a result of a new law that requires all state employers to inform their employees annually about the California Whistleblower Protection Act. In fiscal years



2000–01 and 2001–02—before the new law—we received an average of 26 whistleblower complaints per month about improper activities on the part of state employees. Between July 2002 and September 2003, we received an average of 44 such complaints per month. During that time, we reported on 33 investigations that substantiated misdeeds by state employees. Together, these misdeeds cost the State and other victims \$2.4 million. In response to the significant increase in the number of whistleblower complaints, we have restructured our resources to assist in screening, evaluating, and investigating complaints.

Looking to the Future

As we look to the future, our commitment to excellence remains high. We are excited to make our expertise available to all California decision makers and to continue contributing to the improvement of our state government. Over the next year, we look forward to meeting with many new members of the Legislature and the administration to explain how we can help them fulfill their responsibilities to the taxpayers of California.



Audit Requests

Any member of the Legislature may submit an audit request to the Joint Legislative Audit Committee. This bipartisan committee's 14 members—seven from each house—approve and prioritize our audits. Legislators may also mandate an audit by writing it into a law. Members of the Legislature or their staff who want information regarding how to request an audit or who have questions may contact me, Elaine M. Howle, at ElaineH@bsa.ca.gov, or the following individuals:

☒ Steven M. Hendrickson, Chief Deputy State Auditor
SteveH@bsa.ca.gov

☒ Debbie Meador, Special Assistant State Auditor
DMeador@bsa.ca.gov

Members or their staff may also submit written requests or inquiries to the address shown on the back of this report.

Additional Information About the Bureau of State Audits

To view a list of work in progress, obtain a copy of a specific report, or learn more about the Bureau of State Audits, visit our Web site at <http://www.bsa.ca.gov/bsa>





My staff and I welcome the opportunity to answer any questions you might have about our organization and services.

Sincerely,

Elaine M. Howle

ELAINE M. HOWLE
California State Auditor

Reports Issued Between July 2002 and September 2003

July 3, 2002	Disabled Veteran Business Enterprise Program: Few Departments That Award Contracts Have Met the Potentially Unreasonable Participation Goal, and Weak Implementation of the Program Further Hampers Success	2001-127
July 11, 2002	Deaf and Disabled Telecommunications Program: Insufficient Monitoring of Surcharge Revenues Combined With Imprudent Use of Public Funds Leave Less Money Available for Program Services	2001-123
July 23, 2002	Red Light Camera Programs: Although They Have Contributed to a Reduction in Accidents, Operational Weaknesses Exist at the Local Level	2001-125
July 25, 2002	University of California: Its Partnership Agreement Could Be Improved to Increase Its Accountability for State Funding	2001-130
July 30, 2002	California Department of Corrections: A Shortage of Correctional Officers, Along With Costly Labor Agreement Provisions, Raises Both Fiscal and Safety Concerns and Limits Management's Control	2002-101
August 1, 2002	California Department of Transportation: Seismic Retrofit Costs of State-Owned Toll Bridges Have Significantly Exceeded the Department's Original Estimates and May Go Even Higher	2001-122
August 6, 2002	California Department of Transportation: It Manages the State Highway Operation and Protection Program Adequately, but It Can Make Improvements	2002-103
August 8, 2002	State of California: Statement of Securities Accountability of the State Treasurer's Office	2002-008
September 10, 2002	Department of Industrial Relations: Its Process for Verifying the Status of Licenses Issued to Farm Labor Contractors Is Operational but Needs Some Improvement	2001-017
September 12, 2002	Department of Rehabilitation: Its Delay in Correcting Known Weaknesses Has Limited the Success of the Business Enterprise Program for the Blind	2002-031
October 24, 2002	Office of Criminal Justice Planning: Experiences Problems in Program Administration, and Alternative Administrative Structures for the Domestic Violence Program Might Improve Program Delivery	2002-107
October 24, 2002	State of California: Treasurer's Cash Count as of June 30, 2002	2002-006
November 7, 2002	California's Charter Schools: Oversight at All Levels Could Be Stronger to Ensure Charter Schools' Accountability	2002-104
November 13, 2002	Investigations of Improper Activities by State Employees: March 2002 Through July 2002	I2002-2
November 26, 2002	A Review of the Approach and Methodology the Department of Finance Used to Identify and Abolish Positions	2001-110.1
December 4, 2002	Riverside County: Although the Ortega Trail Recreation and Park District Seems to Have Complied With the Law in Forming Two Assessment Districts, the County Needs to Determine if Assessments Collected After July 1, 1997, Were Legal	2002-106
December 5, 2002	Department of General Services: Certain Units Can Do More to Ensure That Client Fees Are Reasonable and Fair	2002-108
December 11, 2002	Child Support Enforcement Program: The Procurement of a Single, Statewide Automated Child Support System is Taking Longer Than Initially Estimated, With Several Challenges Remaining	99028.1
December 12, 2002	Department of Health Services: It Needs to Better Control the Pricing of Durable Medical Equipment and Medical Supplies and More Carefully Consider Its Plans to Reduce Expenditures on These Items	2002-109
December 17, 2002	Department of Transportation: It's Seismic Retrofit Expenditures Comply With the Bond Act, and It Has Continued to Reimburse the Interim Funding for Fiscal Years 1994-95 and 1995-96	2002-010

January 2, 2003	Statewide Fingerprint Imaging System: The State Must Weigh Factors Other Than Need and Cost-Effectiveness When Determining Future Funding for the System	2001-015
January 16, 2003	California State Auditor Biennial Report, Fiscal Years Ending June 30, 2001 and 2002: Improving Government Operations Amid Challenging Times	2002-555
February 13, 2003	State of California: Financial Report Year Ended June 30, 2002	2002-001
February 26, 2003	Implementation of State Auditor's Recommendations (Subcommittee Report)	2003-406
February 27, 2003	Information Technology: Control Structures Are Only Part of Successful Governance	2002-111
March 11, 2003	California State University: Its Common Management System Has Higher Than Reported Costs, Less Than Optimal Functionality, and Questionable Procurement and Conflict-of-Interest Practices	2002-110
March 26, 2003	Statewide Procurement Practices: Proposed Reforms Should Help Safeguard State Resources, but the Potential for Misuse Remains	2002-112
April 2, 2003	California Energy Markets: The State's Position Has Improved, Due to Efforts by the Department of Water Resources and Other Factors, but Cost Issues and Legal Challenges Continue	2002-009
April 17, 2003	Investigations of Improper Activities by State Employees: August 2002 Through January 2003	I2003-1
April 24, 2003	State Bar of California: Although It Reasonably Sets and Manages Mandatory Fees, It Faces Potential Deficits in the Future and Needs to More Strictly Enforce Disciplinary Policies and Procedures	2002-030
April 30, 2003	Department of Health Services: Its Efforts to Further Reduce Prescription Drug Costs Have Been Hindered by Its Inability to Hire More Pharmacists and Its Lack of Aggressiveness in Pursuing Available Cost-Saving Measures	2002-118
May 13, 2003	Franchise Tax Board: Its Performance Measures Are Insufficient to Justify Requests for New Audit or Collection Program Staff	2002-124
May 19, 2003	State of California: Internal Control and State and Federal Compliance Audit Report for the Fiscal Year Ended June 30, 2002	2002-002
May 21, 2003	Federal Funds: California's Share of Grant Funding Is Close to Its Share of the Population, but State Spending Cuts May Result in Reduced Federal Funds	2002-123.1
June 19, 2003	State Controller's Office: Does Not Always Ensure the Safekeeping, Prompt Distribution, and Collection of Unclaimed Property	2002-122
June 26, 2003	California Veterans Board: Without a Clear Understanding of the Extent of Its Authority, the Board Has Not Created Sufficient Policies Nor Provided Effective Oversight to the Department of Veterans Affairs	2002-120
July 3, 2003	California Department of Transportation: Low Cash Balances Threaten the Department's Ability to Promptly Deliver Planned Transportation Projects	2002-126
July 22, 2003	California Environmental Protection Agency: Insufficient Data Exists on the Number of Abandoned, Idled, or Underused Contaminated Properties, and Liability Concerns and Funding Constraints Can Impede Their Cleanup and Redevelopment	2002-121
July 30, 2003	Governor's Office of Emergency Services: Its Oversight of the State's Emergency Plans and Procedures Needs Improvement While Its Future Ability to Respond to Emergencies May Be Hampered by Aging Equipment and Funding Concerns	2002-113
July 31, 2003	Terrorism Readiness: The Office of Homeland Security, Governor's Office of Emergency Services, and California National Guard Need to Improve Their Readiness to Address Terrorism	2002-117

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August 6, 2003	Federal Funds: The State of California Takes Advantage of Available Federal Grants, but Budget Constraints and Other Issues Keep It From Maximizing This Resource	2002-123.2
August 19, 2003	Department of Social Services: Continuing Weaknesses in the Department's Community Care Licensing Programs May Put the Health and Safety of Vulnerable Clients at Risk	2002-114
August 20, 2003	California Law Enforcement and Correctional Agencies: With Increased Efforts, They Could Improve the Accuracy and Completeness of Public Information on Sex Offenders	2003-105
August 27, 2003	California's Workers' Compensation Program: The Medical Payment System Does Not Adequately Control the Costs to Employers to Treat Injured Workers or Allow for Adequate Monitoring of System Costs and Patient Care.	2003-108.1
August 28, 2003	State of California: Treasurer's Cash Count as of December 31, 2002	2003-005
September 3, 2003	State of California: Statement of Securities Accountability of the State Treasurer's Office December 31, 2002	2003-008
September 11, 2003	Los Angeles County Department of Health Services: Despite Securing Additional Funding and Implementing Some Cost-Cutting Measures, It Still Faces Significant Challenges to Addressing Its Growing Budget Deficit	2002-019
September 17, 2003	Investigations of Improper Activities by State Employees: February 2003 Through June 2003	I2003-2
September 24, 2003	Child Support Enforcement Program: The State Has Contracted With IBM to Develop and Implement the Major Component of the Statewide Automated Child Support System	99028.2

