

APPENDIX B

Summary of Monetary Benefits Identified In Audit Reports Released From July 1, 2001, Through December 31, 2005

We estimate that auditees could have realized more than \$741 million of monetary benefits during the period July 1, 2001, through December 31, 2005, if they implemented our recommendations. Table B.1 provides a brief description of the monetary benefits we found such as cost recoveries, cost savings, and increased revenues. Finally, many of the monetary benefits we have identified are not only one-time benefits; they are monetary benefits that could be realized each year for many years to come.

TABLE B.1

Monetary Benefits July 1, 2001, Through December 31, 2005

Audit Number/ Date Released	Audit Title/Basis of Benefit	Monetary Benefit
July 1, 2005 through December 31, 2005		
2004-113 (July 2005)	Department of General Services: Opportunities Exist Within the Office of Fleet Administration to Reduce Costs <i>Increased Revenue</i> —The Department of General Services estimates that it will recover about \$45,000 from the individuals who used its parking lots without paying.	\$45,000
2004-134 (July 2005)	State Athletic Commission: The Current Boxers' Pension Plan Benefits Only a Few and Is Poorly Administered <i>Increased Revenue</i> —If the commission raises the ticket assessment to meet targeted pension contributions as required by law, we estimate it will collect an average of \$33,300 more per year.	\$33,300
2004-125 (August 2005)	Department of Health Services: Participation in the School-Based Medi-Cal Administrative Activities Program Has Increased, but School Districts Are Still Losing Millions Each Year in Federal Reimbursements <i>Increased Revenue</i> —We estimate that California school districts would have received at least \$53 million more in fiscal year 2002–03 if all school districts had participated in the program and an additional \$4 million more if certain participating schools had fully used the program. A lack of program awareness was among the reasons school districts cited for not participating. By stepping up outreach, we believe more schools will participate in the program and revenues will continue to increase. However, because participation continued to increase between fiscal years 2002–03 and 2004–05, the incremental increase in revenue will be less than it was in fiscal year 2002–03. Taking into account this growth in participation and using a trend line to estimate the resulting growth in revenues, we estimate that revenues will increase by about \$10 million per year beginning in fiscal year 2005–06.	\$10,300,000

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Audit Number/ Date Released	Audit Title/Basis of Benefit	Monetary Benefit
I2005-2 (Allegations I2004-0649, I2004-0681, I2004-0789) (September 2005)	California Department of Corrections: Investigations of Improper Activities by State Employees <u>Cost Recovery</u> —The Department of Corrections (Corrections) failed to properly account for the time that employees used when released from their regular job duties to perform union-related activities. In addition to recovering past payments, Corrections can save \$192,500 annually by discontinuing this practice.	\$587,700
	Annualized carry forward from prior fiscal years:	<u>\$150,315,500</u>
	2001-102 Department of Insurance Conservation and Liquidation Office 300,000	
	2001-107 Port of Oakland 7,500,000	
	2001-108 California Department of Corrections 733,000	
	2001-120 School Bus Safety II 44,300,000	
	2001-128 Enterprise Licensing Agreement 8,120,000	
	2002-101 California Department of Corrections 14,500,000	
	2002-107 Office of Criminal Justice Planning 23,000	
	2002-009 California Energy Markets 29,000,000	
	2002-118 Department of Health Services 20,057,000	
	2003-125 California Department of Corrections 20,700,000	
	2003-124 Department of Health Services 4,600,000	
	I2004-2 Department of Health Services 9,300	
	I2004-2 Military Department 64,200	
	2004-105 California Department of Corrections 290,000	
	I2004-2 California Department of Corrections 119,000	
Totals for July 1, 2005, through December 31, 2005		\$161,281,500
July 1, 2004, through June 30, 2005		
2003-125 (July 2004)	California Department of Corrections: More Expensive Hospital Services and Greater Use of Hospital Facilities Have Driven the Rapid Rise in Contract Payments for Inpatient and Outpatient Care	*
	<u>Cost Savings</u> —The potential for the Department of Corrections (Corrections) to achieve some level of annual savings appears significant if it could negotiate cost-based reimbursement terms, such as paying Medicare rates, in its contracts with hospitals. We estimated potential savings of at least \$20.7 million in Corrections’ fiscal year 2002–03 inmate hospital costs. Specifically, had Corrections been able to negotiate contracts without its typical stop-loss provisions that are based on a percent discount from the hospitals’ charges rather than costs, it might have achieved potential savings of up to \$9.3 million in inpatient hospital payments in fiscal year 2002–03 for the six hospitals we reviewed that had this provision. Additionally, had Corrections been able to pay hospitals the same rates as Medicare—which bases its rates on an estimate of hospital resources used and their associated costs—it might have achieved potential savings of \$4.6 million in emergency room and \$6.8 million in nonemergency room outpatient services at all hospitals in fiscal year 2002–03. Recognizing that Corrections will need some time to negotiate cost-based reimbursement contract terms, we estimate that it could begin to realize savings of \$20.7 million annually in fiscal year 2005–06.	
2003-124 (August 2004)	Department of Health Services: Some of Its Policies and Practices Result in Higher State Costs for the Medical Therapy Program	\$4,600,000
	<u>Cost Savings</u> — Represents the savings the department would have achieved in fiscal year 2002–03 had it paid only the amount specifically authorized by law for the Medical Therapy Program. Of the total, \$3.6 million relates to the full funding of county positions responsible for coordinating with services provided by special education programs; \$774,000 relates to the department’s method for sharing Medi-Cal payments with counties and \$254,000 relates to the department’s failure to identify all Medi-Cal payments made to certain counties.	

Audit Number/ Date Released	Audit Title/Basis of Benefit	Monetary Benefit
I2004-2 (Allegation I2002-0853) (September 2004)	Department of Health Services: Investigations of Improper Activities by State Employees <u>Cost Savings</u> —We found that managers and employees at the Department of Health Services' Medical Review Branch office in Southern California regularly used state vehicles for their personal use. We estimate the Department of Health Services could save an average of \$9,260 each year because its employees no longer use state vehicles for personal use.	\$9,260
I2004-2 (Allegation I2002-1069) (September 2004)	California Military Department: Investigations of Improper Activities by State Employees <u>Cost Savings</u> —We found that the California Military Department improperly granted employees an increase in pay they were not entitled to receive. Because the California Military Department has returned all the overpaid employees to their regular pay levels, it should be able to save approximately \$64,200 each year.	\$64,200
2004-105 (October 2004)	California Department of Corrections: Although Addressing Deficiencies in Its Employee Disciplinary Practices, the Department Can Improve Its Efforts <u>Cost Savings</u> —The Department of Corrections could save as much as \$290,000 annually by using staff other than peace officers to fill its employment relations officer positions.	\$290,000
I2005-1 (Allegation I2003-0834) (March 2005)	California Department of Corrections: Investigations of Improper Activities by State Employees <u>Cost Recovery</u> —In violation of state regulations and employee contract provisions, the Department of Corrections (Corrections) paid 25 nurses at four institutions nearly \$238,200 more than they were entitled to receive between July 1, 2001, and June 30, 2003. In addition to recovering past overpayments, Corrections can save \$119,000 annually by discontinuing this practice. Although Corrections now contends that the payments to 10 of the 25 nurses were appropriate, despite repeated requests, it has not provided us the evidence supporting its contention. Thus, we have not revised our original estimate.	\$357,200
2005-030 (April 2005)	State Bar of California: It Should Continue Strengthening Its Monitoring of Disciplinary Case Processing and Assess the Financial Benefits of Its New Collection Enforcement Authority <u>Cost Recovery</u> —As a result of our recommendation that it prioritize its cost recovery efforts to focus on attorneys who owe substantial amounts, the State Bar sent demand letters to 68 of the top 100 disciplined attorneys and so far has recovered one payment.	\$2,700
2004-033 (May 2005)	Pharmaceuticals: State Departments That Purchase Prescription Drugs Can Further Refine Their Cost Savings Strategies <u>Cost Recovery</u> —As we recommended, the Department of Health Services identified and corrected all of the drug claims it paid using an incorrect pricing method. It expects to recoup the nearly \$2.5 million in net overpayments that resulted from its error.	\$2,468,700
Annualized carry forward from prior fiscal years:		<u>\$110,033,000</u>
2001-102	Department of Insurance Conservation and Liquidation Office	300,000
2001-107	Port of Oakland	7,500,000
2001-108	California Department of Corrections	733,000
2001-120	School Bus Safety II	44,300,000
2001-128	Enterprise Licensing Agreement	8,120,000
2002-107	Office of Criminal Justice Planning	23,000
2002-009	California Energy Markets	29,000,000
2002-118	Department of Health Services	20,057,000
Totals for July 1, 2004, through June 30, 2005		\$117,825,060
July 1, 2003, through June 30, 2004		

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Audit Number/ Date Released	Audit Title/Basis of Benefit	Monetary Benefit
2002-121 (July 2003)	<p>California Environmental Protection Agency: <i>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</i></p> <p><u>Increased Revenue</u>—CalEPA received \$1 million in revenues after it applied for a one-time federal grant.</p>	\$1,000,000
2003-106 (October 2003)	<p>State Mandates: <i>The High Level of Questionable Costs Claimed Highlights the Need for Structural Reforms of the Process</i></p> <p><u>Cost Savings</u>—If the local entities we audited file corrected claims for the errors we identified, the State will save \$4.8 million (\$4.1 million related to the Peace Officers Procedural Bill of Rights mandate and \$675,000 related to the Animal Adoption mandate). We also recommended that the State Controller's Office audit the Peace Officers Procedural Bill of Rights claims that have been filed. We believe that such audits could yield savings of up to \$159.6 million.</p>	\$4,800,000
2003-102 (December 2003)	<p>Water Quality Control Boards: <i>Could Improve Their Administration of Water Quality Improvement Projects Funded by Enforcement Actions</i></p> <p><u>Increased Revenue</u>—We identified 92 violations that require fine issuance and collection of the fines and three fines that were issued but not collected. The board could increase its revenue if it collected these fines.</p>	\$301,000
2003-117 (April 2004)	<p>California Department of Corrections: <i>It Needs to Ensure That All Medical Service Contracts It Enters Are in the State's Best Interest and All Medical Claims It Pays Are Valid</i></p> <p><u>Cost Savings/Avoidance</u>—Recovery of overpayments to providers for medical service charges in the amount of \$77,200; and the establishment of procedures to avoid lost discounts and prompt payment penalties totaling \$18,600.</p>	\$95,800
2003-138 (June 2004)	<p>Department of Insurance: <i>It Needs to Make Improvements in Handling Annual Assessments and Managing Market Conduct Examinations</i></p> <p><u>Increased Revenue</u>—We estimate a one-time increase of revenue totaling \$7 million from the Department of Insurance's ability to make regulation changes that will result in capturing more specific data from insurers about the number of vehicles they insure. Future increases in revenue are undeterminable.</p>	\$7,000,000
Annualized carry forward from prior fiscal years:		<u>\$110,033,000</u>
2001-102	Department of Insurance Conservation and Liquidation Office	300,000
2001-107	Port of Oakland	7,500,000
2001-108	California Department of Corrections	733,000
2001-120	School Bus Safety II	44,300,000
2001-128	Enterprise Licensing Agreement	8,120,000
2002-107	Office of Criminal Justice Planning	23,000
2002-009	California Energy Markets	29,000,000
2002-118	Department of Health Services	20,057,000
Totals for July 1, 2003, through June 30, 2004		\$123,229,800
July 1, 2002, through June 30, 2003		
2001-123 (July 2002)	<p>Deaf and Disabled Telecommunications Program: <i>Insufficient Monitoring of Surcharge Revenues Combined With Imprudent Use of Public Funds Leave Less Money Available for Program Services</i></p> <p><u>Cost Savings</u>—Represents \$200,000 in known unremitted collections from intrastate telecommunication charges and \$68,000 in penalties and interest due for 2000 and 2001.</p>	\$268,000

Audit Number/ Date Released	Audit Title/Basis of Benefit	Monetary Benefit
2002-101 (July 2002)	California Department of Corrections: <i>A Shortage of Correctional Officers, Along With Costly Labor Agreement Provisions, Raises Both Fiscal and Safety Concerns and Limits Management's Control</i>	*
	<u>Cost Savings</u> —We estimate the department could save \$58 million if it reduces overtime costs by filling unmet correctional officer needs. This estimate includes the \$42 million we identified in our November 2001 report (2001-108). The department stated in its six-month response to this audit that, following our recommendation to increase the number of correctional officer applicants, it has submitted a proposal to restructure its academy to allow two additional classes each year. This action could potentially allow the department to graduate several hundred more correctional officers each year, thereby potentially contributing to a reduction in its overtime costs. However, any savings from this action would be realized in future periods. We estimate that Corrections could realize savings of \$14.5 million beginning in fiscal year 2005–06, with savings increasing each year until reaching \$58 million in fiscal year 2008–09.	
2002-107 (October 2002)	Office of Criminal Justice Planning: <i>Experiences Problems in Program Administration, and Alternative Administrative Structures for the Domestic Violence Program Might Improve Program Delivery</i>	\$ 23,000
	<u>Cost Savings</u> —Represents estimated annual savings from the elimination of duplicative work conducted by the State Controller's Office. This savings would recur indefinitely.	
2002-109 (December 2002)	Department of Health Services: <i>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</i>	\$911,000
	<u>Cost Savings</u> —Represents savings the department would have achieved in fiscal year 2002–03 had it updated its maximum price for blood glucose test strips and volume remained the same as it was in the previous fiscal year. Also, beginning in fiscal year 2003–04, the department could save an additional \$2.7 million annually if it purchases stationary volume ventilators instead of renting them. However, because this action has not taken place, we are not adding the \$2.7 million to the monetary benefits estimate.	
2002-009 (April 2003)	California Energy Markets: <i>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</i>	\$29,000,000
	<u>Cost Savings</u> —In response to an audit recommendation, the department renegotiated certain energy contracts. The department's consultant estimates that the present value of the potential cost savings due to contract renegotiation efforts as of December 31, 2002, by the department and power suppliers, when considering replacement power costs, to be \$580 million. For the purpose of this analysis, we have computed the average annual cost savings by dividing the \$580 million over the 20-year period the savings will be realized. The estimated savings totaling \$580 million over 20 years varies by year from approximately -\$130 million to +\$180 million.	
2002-118 (April 2003)	Department of Health Services: <i>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</i>	*
	<u>Cost Savings</u> — For two drugs we found that the net costs of the brand names were higher than those of the generics because the Department of Health Services (Health Services) failed either to renegotiate the contract or to secure critical contract terms from the manufacturer—errors we estimated cost Medi-Cal roughly \$57,000 in 2002. Additionally, Health Services estimated that it could save \$20 million annually by placing the responsibility on the pharmacists to recover \$1 copayments they collect from each Medi-Cal beneficiary filling a prescription. We estimate the State could begin to receive these savings each year beginning in fiscal year 2003–04.	

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Audit Number/ Date Released	Audit Title/Basis of Benefit	Monetary Benefit
	Annualized carry forward from prior fiscal years:	\$61,103,000
2001-102	Department of Insurance Conservation and Liquidation Office	300,000
2001-107	Port of Oakland	7,500,000
2001-108	California Department of Corrections	883,000
2001-120	School Bus Safety II	44,300,000
2001-128	Enterprise Licensing Agreement	8,120,000
Totals for July 1, 2002, through June 30, 2003		\$91,305,000
July 1, 2001, through June 30, 2002		
2001-102 (July 2001)	Department of Insurance Conservation and Liquidation Office: Stronger Oversight Is Needed to Properly Safeguard Insurance Companies' Assets <u>Cost Savings and Cost Recovery</u> —Recovery of overpayment to a contractor for \$43,000 and recovery of reinsurance not yet billed at \$1,385,000. In addition, cost savings of \$300,000 under CLO's new contract with its investment managers, which will recur for many years. The CLO reported that it recovered the overpayment as of December 21, 2001.	\$1,728,000
2001-107 (October 2001)	Port of Oakland: Despite Its Overall Financial Success, Recent Events May Hamper Expansion Plans That Would Likely Benefit the Port and the Public <u>Increased Revenue</u> —If the real estate division were to renegotiate its below-market leases to approximately 25 percent of their aggregate estimated fair market value, it could increase annual revenues. In 2002, three of the Port's below-market leases expired. If the Port renegotiated these leases to 25 percent of market value, the Port would realize over \$7.5 million annually.	\$7,500,000
2001-108 (November 2001)	California Department of Corrections: Its Fiscal Practices and Internal Controls Are Inadequate to Ensure Fiscal Responsibility <u>Cost Savings and Cost Recovery</u> —Recover \$24,000 of overpayment on overhead, save \$150,000 of future overhead costs through fiscal year 2002–03, save \$733,000 by eliminating unneeded contractor, which will recur for many years, and save \$42 million spent on overtime by filing vacant positions, which will recur for many years. We estimate that savings for fiscal year 2002–03 could be \$883,000 (\$150,000 plus \$733,000) and savings of \$733,000 annually for periods thereafter. However, since it may take CDC a few years to fill its vacant positions, it is reasonable to expect CDC to incrementally realize overtime cost savings over a five-year period starting in fiscal year 2005–06.	\$907,000
2001-120 (March 2002)	School Bus Safety II: State Law Intended to Make School Bus Transportation Safer Is Costing More Than Expected <u>Cost Savings</u> —We recommended that the Legislature clarify what activities are reimbursable. In 2002, the Legislature passed Assembly Bill 2781, which specifies that costs associated with implementation of transportation plans are not reimbursable claims. Costs for a six-year period ending June 30, 2002, were \$235.8 million and the ongoing costs after June 30, 2002, are \$44.3 million each year thereafter.	\$235,800,000
2001-128 (April 2002)	Enterprise Licensing Agreement: The State Failed to Exercise Due Diligence When Contracting With Oracle, Potentially Costing Taxpayers Millions of Dollars <u>Cost Savings</u> —The State and Oracle agreed to rescind the contract in July 2002. As a result, we estimate the State will save \$8,120,000 per year for five years starting in fiscal year 2002–03.	*
2001-116 (April 2002)	San Diego Unified Port District: It Should Change Certain Practices to Better Protect the Public's Interests in Port-Managed Resources <u>Increased Revenue</u> —We estimate an increase in revenue of \$700,000 per year by obtaining market value rents. This monetary benefit will recur for many years, however, it is not anticipated to begin until 2007.	*

Audit Number/ Date Released	Audit Title/Basis of Benefit	Monetary Benefit
2001-124 (June 2002)	<p>Los Angeles Unified School District: <i>Outdated, Scarce Textbooks at Some Schools Appear to Have a Lesser Effect on Academic Performance Than Other Factors, but the District Should Improve Its Management of Textbook Purchasing and Inventory</i></p> <p><u>Cost Savings</u>—We found that some publishers are not equitably providing free instructional materials (commonly referred to as gratis items) to different schools within LAUSD, as state law requires. Subsequently, LAUSD reports that it negotiated with publishers and thus far one publisher has actually provided approximately \$300,000 in gratis items.</p>	\$1,762,000
Totals for July 1, 2001, through June 30, 2002		\$247,697,000
Totals for July 1, 2001, through December 31, 2005		\$741,338,360

* Although we identified monetary benefits the auditee could reasonably expect to realize if it implements our recommendations, these benefits would be realized in a future period rather than the period in which the report was issued. Therefore, the appropriate amounts either are or will be included in future years' annualized carry forward.

