

February 17, 2015

2015-406 S

Dear Members of the Senate Budget and Fiscal Review Committee:

The California State Auditor presents this special report for the legislative budget subcommittees, which summarizes audits and investigations we issued from January 2013 through December 2014. The purpose of this report is to assist the Senate Budget and Fiscal Review Committee in identifying issues it may want to explore in subcommittee hearings. It is intended to provide transparency in what actions, if any, audited and investigated entities have taken in response to our specific findings and recommendations. This report includes the major findings and recommendations along with the status of corrective actions the audited and investigated entities reportedly have taken to implement our recommendations. To better assist you, we have highlighted those recommendations that remain not fully implemented.

Our policy requests that entities provide a written response to the audit findings and recommendations before the audit report is issued publicly. As a follow-up, state law requires the entity to provide updates on their implementations of audit recommendations, and we request these updates at 60 days, six months, and one year after the report's public release. For investigations, state law requires that an entity report within 60 days of receiving an investigative report and monthly thereafter until it has completed all of the actions it intends to take in response to the recommendations. Further, we follow up with every entity that we determine has not fully implemented one or more recommendations within one year of the issuance of an audit or investigative report and request an update on the entity's plans to implement the outstanding recommendations.

This report is organized by recommendations that fall within the jurisdiction of each of the individual Senate Budget and Fiscal Review Subcommittees. For example, the section for Senate Subcommittee 1 on Education identifies report recommendations our office made on issues ranging from the sexual harassment and sexual violence on college campuses to use of cafeteria funds. The section for Senate Subcommittee 3 on Health and Human Services identifies report recommendations on issues ranging from the protection of abused and neglected children to implementation of the Mental Health Services Act.

Please note that some reports may involve more than one issue or cross the jurisdictions of more than one subcommittee. In Table 1 we provide the report title, recommendations, and action taken by the entity. A more detailed description of the auditor's assessment of the entity's actions can be accessed on our Web site at www.auditor.ca.gov under the "Publications" tab.

Our work brings the greatest return when the entity acts upon our findings and recommendations. Table 2 beginning on page 85 summarizes the monetary value associated with certain findings from reports we issued during the period January 1, 2007, through December 31, 2014. We have indicated the nature of the monetary value in the following

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categories: cost recovery, cost savings, cost avoidance, increased revenue, and wasted funds. We estimate that if entities implemented our recommendations contained in these reports, they could realize nearly \$2 billion in monetary value either by reducing costs, increasing revenues, or avoiding wasteful spending.

For example, in our March 2014 report on an investigation at the Employment Development Department (EDD), we reported that EDD failed to take advantage of a federal program that would have allowed it to collect an estimated \$516 million owed to the State in unemployment benefit overpayments made to claimants. Several states chose to participate in the federal Treasury's Offset Program to collect unemployment benefit overpayments from 2011 through 2013 with great success. However, EDD, acting on behalf of California, declined to participate in this aspect of the Treasury's Offset Program, and instead persisted with its existing collection efforts.

In another example, in August 2014 we reported in our high risk update that from January 2008 through December 2012, state departments, agencies, California State University campuses, and other entities credited their employees with unearned leave worth nearly \$6.4 million as of December 2013. State law allows state agencies to recover overpayments to their employees only if the agencies initiate corrective action within three years of the date of the overpayment. We estimate that by implementing our recommendations to properly credit leave, the California Department of Human Resources could realize approximately \$1.2 million in continued annual savings through cost avoidance.

We believe the State's budget process is a good opportunity for the Legislature to explore these issues in a public forum and, to the extent necessary, reinforce the need for corrective action. If you would like more information or assistance regarding this report, please contact Paul Navarro, Chief of Legislative and Governmental Affairs, at (916) 445-0255.

Respectfully submitted,



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State Auditor