



# Data Reliability:

State Agencies' Computer-Generated Data Varied in Its Reliability

October 2008 Report 2008-401



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STATE AUDITOR

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October 23, 2008

2008-401

The Governor of California  
President pro Tempore of the Senate  
Speaker of the Assembly  
State Capitol  
Sacramento, California 95814

Dear Governor and Legislative Leaders:

This letter report presents a summary of the results of the Bureau of State Audits' assessments of the reliability of data for the purposes of its audits in a wide variety of databases and automated spreadsheets. Data reliability refers to the accuracy and completeness of the data, given our intended purposes for their use. The State uses these data in many ways, which include reporting on its programs, tracking licensees and recipients of funds, disbursing funds, and making program decisions. Although we have disclosed these data reliability assessments in 24 audit reports we issued during 2006 and 2007, this report is intended to call attention both to areas of concern, where important data are not always reliable, as well as to instances when information has been reliable. We have conducted our assessments in accordance with the provisions of the federal Government Accountability Office's Assessing the Reliability of Computer-Processed Data, which require us to assess and report on the reliability of the data from automated systems we use to reach our audit conclusions. We anticipate that this report will be the first in a series of reports on the subject.

Many systems had reliable data for our purposes, but some important systems did not. During the 24 audits, we assessed the reliability of specific data for 68 different purposes in 46 separate database and spreadsheet systems. For 30 audit purposes, we concluded the data were reliable, so that using the data would not weaken our analysis or lead us to an incorrect or unintentional message. We found, for example, that the Board of Equalization had reliable data allowing us to determine the level of additional revenues generated in fiscal year 2004-05 by new cigarette and tobacco licensing legislation.

However, for 19 purposes, we reported the data were not sufficiently reliable, meaning that using the data would most likely lead to an incorrect or unintentional message and the data have significant or potentially significant limitations, given the audit topic and intended use of the data. For instance, a Department of Education database had some obviously unreliable information about staffing levels at local school districts, in which certain individuals were credited with more than 1.5 full-time equivalent positions. As a result, we had to adjust the data to provide more reasonable information.

For the remaining 19 purposes, we were unable to determine the reliability of the data; therefore, we concluded that use of the data could lead to an incorrect or unintentional message and the data have significant or potentially significant limitations, given the research question and intended use of the data. In some cases, our conclusion that data

were of undetermined reliability arose from issues that were either beyond the control of the audited agencies or were not a cause for concern. The undetermined reliability conclusion for cost-effectiveness data on proposed projects at the State Air Resources Board was not a cause for concern, for instance, because it arose from an acceptable business practice—the information was entered directly into the database. Nevertheless, without hard-copy documentation, we were not able to assess the accuracy of the cost-effectiveness data. At other times, however, we were not able to determine data reliability because the data had errors or omissions and we could not quantify the extent of the problems. Two compensation databases at the University of California and California State University, for example, suffered from inconsistent input or lack of supporting documentation from the various campuses providing data. As a result, we were not able to use the databases to provide complete and accurate university-wide compensation of highly paid individuals by type and funding source.

In our review of reimbursements to skilled nursing facilities for Medi-Cal services they provided, we discovered that the State's fiscal intermediary responsible for calculating and preparing remittance advices for those reimbursements authorized duplicate payments. In subsequent work, we reported that the system flaw resulting in the duplicate payments also existed for payments to other types of providers. After we discovered these duplicate payments and pointed out the magnitude of the system flaw, the Department of Health Care Services<sup>1</sup>, which administers the Medi-Cal program, performed further analysis and identified \$5.1 million in overpayments to 532 skilled nursing facilities, much of which it asserted it had recovered as of January 31, 2008. However, we could not validate this information because it did not retain the supporting documentation for its claims.

The Table on pages 10 through 13 summarizes selected information from the pages referenced in the Appendix. The data reliability assessment relates to the purpose we tested the system's data for during the audit as described in the Appendix. The agency's use of the system's data usually, but not always, is similar to our use of the system's data.

<sup>1</sup> On July 1, 2007, the California Department of Health Services was reorganized and became two departments—the Department of Health Care Services and the Department of Public Health. The Department of Health Care Services is now responsible for the Medi-Cal program.

## Introduction

Information technology systems are increasingly important for efficient and effective business practices. The State has an ongoing need for its information technology to keep pace with technology changes and to develop and use systems and databases where they have not existed in the past. In May 2007 we issued our first report (2006-601) on areas of high risk to the State, *High Risk: The California State Auditor's Initial Assessment of High-Risk Issues the State and Select State Agencies Face*. Identifying automated information systems as one such area of concern, the report focused primarily on the State's ineffective leadership over information technology and its impact on the development and acquisition of costly new systems.

Equally important, however, is state agencies' day-to-day use of existing information technology systems to report on programs, track and monitor licensees, disburse funds, and reach program decisions, among other purposes that can have significant impacts on the State's operations. The reliability of the data from these existing systems is the subject of our current report, which summarizes the results of our testing that we disclosed in audit reports issued during 2006 and 2007.

The federal Government Accountability Office (GAO), whose standards we follow, requires us to assess and report on the reliability of computer-processed data we use during our audits. Data reliability refers to the accuracy and completeness of the data, given the intended purposes for their use. The GAO defines the three possible assessments we can make—sufficiently reliable data, not sufficiently reliable data, and data of undetermined reliability. In assessing data reliability, we take several factors into consideration, including the degree of risk involved in the use of the data and the strength of corroborating evidence. A single database may have different assessments because its information that we propose to use for one purpose is accurate and complete, whereas other data fields needed for a separate purpose are not.

We may employ various procedures for determining the reliability of computer-processed data we report and use to reach audit conclusions.

### Definitions of Data Reliability Assessments

**Sufficiently Reliable Data**—Based on audit work, an auditor can conclude that using the data would not weaken the analysis or lead to an incorrect or unintentional message.

**Not Sufficiently Reliable Data**—Based on audit work, an auditor can conclude that using the data would most likely lead to an incorrect or unintentional message and the data have significant or potentially significant limitations, given the research question and intended use of the data.

**Data of Undetermined Reliability**—Based on audit work, an auditor can conclude that use of the data could lead to an incorrect or unintentional message and the data have significant or potentially significant limitations, given the research question and intended use of the data.

For example, if we wanted to use data to determine whether a department promptly processed applications, we might test the department's application database in the following ways:

- Review the system for illogical data. If we found instances of completed review dates preceding the date the applications were received, we would question the adequacy of system controls.
- Scan the database for completeness of key data fields. If we found numerous application files that omitted the dates the department received the applications, we might conclude that the data were so incomplete that drawing conclusions would lead to an incorrect or unintentional message.
- Compare database records to source documents. In this example, we could determine whether the database information, such as the date received, was consistent with information, such as the date-received stamp, on a sample of actual applications.

To give the appropriate perspective about information derived from computer-based systems, GAO standards require us to disclose the results of our data-reliability testing and the limitations of the data we use.

## Audit Results

### Many Automated Systems Had Reliable Data for Our Purposes

Of the 68 purposes for which we assessed data reliability, we determined that the data for 30 were reliable. Therefore, in these instances, we were able to use the data to draw conclusions and to quote the data without qualifications about the accuracy of the information. For example, the Integrated Revenue Information System, which the Board of Equalization (Equalization) uses to track its revenues, was sufficiently reliable for our purpose of determining the level of additional revenues generated by the Cigarette and Tobacco Products Licensing Act of 2003. Similarly, Equalization's expenditure data were reliable, so that we could determine the costs to administer the act and summarize them by category and function. We also concluded that the Licensing and Certification Division of the Department of Health Care Services (Health Care Services)<sup>2</sup> had sufficiently reliable data to allow us to identify the severity levels of deficiencies found at skilled nursing facilities during fiscal years 2004–05 and 2005–06 and to assess the predictability of the timing of Health Care Services' recertification surveys of skilled nursing facilities in the State. At the Department of Corrections and Rehabilitation, we were able to select a random sample of medical contracts for review because it maintained sufficiently reliable data on its medical registry. As of October 2006 the registry had records of 33,102 contracts and amendments.

### Some Automated Systems Were Not Sufficiently Reliable for Us to Use the Information Recorded

For 19 data reliability assessments, we concluded the data were not sufficiently reliable, so that we could not use the data to reach audit conclusions. In our audit reports we disclosed our qualifications about data accuracy. One primary reason we concluded data were not sufficiently reliable was our discovery that data were so inaccurate or incomplete that the problems exceeded the tolerable error limit we established for the audit data. For instance, we found numerous blank, erroneous, or duplicate records in key data fields of the Corporations Customer Service System and the Customer Relationship Management System at the Department of Corporations (Corporations). As a result, we were not able to use the databases to calculate the length of time it took to process complaints, determine the number of complaints

<sup>2</sup> On July 1, 2007, the California Department of Health Services was reorganized and became two departments—the Department of Health Care Services and the Department of Public Health. The Department of Health Care Services is now responsible for the Medi-Cal program.

it received annually, or identify the staff it assigned to handle a complaint. Corporations uses the database to track information on customer complaints. In addition, obviously unreliable data about local school districts' staffing levels in the Department of Education's (Education) California Basic Educational Data Systems (CBEDS) led us to conclude that we could not use the uncorrected data to determine total staffing per district for fiscal year 2004–05. Education informed us that a flaw in its software caused duplication in the count of some full-time equivalent positions, but did not indicate the extent of any uncorrected errors. To provide more reasonable information, we adjusted the data so that no individual was credited with more than 1.5 positions.

In some circumstances—when the audited agency is responsible for the data problems, and uses the data for purposes similar to those we intended so that the use of the data would be likely to result in an undesirable outcome—we recommended that the audited agency take corrective action. We recommended that Corporations, for example, review its existing complaint records to eliminate duplicates and correct any inaccurate fields and take appropriate steps to maintain accurate and complete data in the future.

### **We Were Unable to Determine the Reliability of Data for Some of Our Purposes**

For the remaining 19 of the 68 purposes we reported, we concluded the data were of undetermined reliability—that is, we were not able to determine the extent of inaccuracies or omissions. As a result, we either were not able to use the data or reported qualifications about the data's reliability. As was the case with data of insufficient reliability, we recommended corrective action when the department is responsible for the data problems and uses the data for purposes similar to those we intended, potentially resulting in an undesirable outcome. In some instances, our conclusion that data were of undetermined reliability arose from problems with audited agencies' practices, but at other times, the causes were either beyond their control or not a cause for concern.

Compensation data in both the Corporate Personnel System (CPS) at the University of California and the Employee Salary Projection (ESP) system at the California State University were of undetermined reliability. We were not able to use the databases to provide complete and accurate university-wide compensation of highly paid individuals by type and funding source. The University of California's employees received \$9.3 billion in total compensation during fiscal year 2004–05, \$8.9 billion of which was regular compensation with the remaining \$334 million used for additional types of compensation. CPS contained

inconsistencies and overly vague categorizations, including specific types of pay items that were misclassified into general pay categories. Further, the various campuses were inconsistent in their use of pay categories and classifications of funding sources and sometimes used invalid pay codes. We recommended that the university president's office issue clear directives prescribing consistent practices and consider establishing additional automated controls and edits in CPS. The California State University employees received \$2.6 billion in compensation in fiscal year 2006–07. For its ESP system, some campuses did not provide documentation supporting certain fields for some transactions. In general, we recommended that the university create a centralized information structure to catalog compensation by individual, payment type, and funding source, allowing more effective oversight of its systemwide compensation policies.

We were not able to determine the reliability of certain data at Corporations and the State Air Resources Board (state board), but did not find conditions requiring a recommendation for corrective action. To calculate the average number of days to approve applications for broker-dealers and state investment advisers, we needed information not available at Corporations. Broker-dealer and state investment adviser applications are sent to a national organization, rather than directly to Corporations, so we could not determine the date they were received. When evaluating proposed multidistrict projects for grants under the Carl Moyer Memorial Air Quality Standards Attainment Program, the state board inputs project scoring data and cost-effectiveness values directly in electronic form. We made no recommendations in this case because this direct input in electronic form, without supporting documentation, can be an accepted practice.

### **The State's Fiscal Intermediary Authorized Duplicate Payments to Certain Medi-Cal Providers**

Our data reliability assessments also led to our discovery of duplicate payments to skilled nursing facilities providing services under the Medi-Cal program, which receives state and federal grant funding. In February 2007 we issued a report on the Department of Health Care Services' implementation of legislation requiring it to use a new facility-specific reimbursement rate system for skilled nursing facilities (facilities). During our assessment of the reliability of data maintained by Electronic Data Systems (EDS), the State's fiscal intermediary for the Medi-Cal program, we discovered that EDS had failed to detect that it had calculated and authorized duplicate payments to certain facilities. We identified more than 2,100 duplicate payments, totaling \$3.3 million—for the same services rendered to the same

individuals by the same facility—to facilities for claims reflecting dates of service between August 1, 2005, and July 31, 2006. According to EDS, its examiners had followed a flawed procedure that instructed them to override a specific type of suspended claim, resulting in duplicate payment authorizations. At the time, we were also aware of other potential duplicate payments to facilities and recommended that Health Care Services review and update its procedures, further investigate the possibility that EDS authorized additional duplicate payments, and ensure that EDS documents and tracks its reasons for overriding suspended claims.

In our two subsequent reports, issued in May 2007 and June 2008, on the State's internal controls and compliance with federal grants, we disclosed the status of Health Care Services' response to our recommendations. Health Care Services indicated it had identified \$5.1 million in overpayments to 532 facilities, much of which it asserted it had recovered as of January 31, 2008. However, we could not validate this information because it did not retain the supporting documentation it used to arrive at these amounts. Health Care Services also stated that it has begun to identify duplicate payments to multiple long-term care providers for the same individual on the same day and estimated that roughly \$780,000 was paid to providers for this type of duplicate payment.

We also reviewed Health Care Services' guidelines for other types of payments and found that those for medical, outpatient, and vision payments included the same flawed procedure that resulted in the duplicate payments for skilled nursing facilities. However, because EDS does not document or track either electronically or manually the reasons it overrides a suspension of a claim, we could not identify definitively which claims were paid using this flawed procedure. Nevertheless, Health Care Services expected to identify manually actual duplicate payments for medical and outpatient claims by April 30, 2008.

In response to our original finding, Health Care Services stated it would increase its quality control over the claims override function. However, we determined that it had not increased the quality controls and, in fact, was requesting a study to determine if any additional quality controls over the claims override function were warranted. The study was scheduled to begin in March 2008.

### **The Appendix Provides Specific Information About Each of the Data Assessments We Reported**

The Appendix to this report contains tables that summarize the results of the data reliability assessments for state-administered programs we discussed in audit reports issued in 2006 and 2007. Although we performed additional data-reliability assessments for nonstate agencies, such as school districts, we have not included the results of those assessments in this report or in the Appendix. The tables in the Appendix are preceded by brief summaries of their related reports and are organized by agency and reports issued. They indicate the agency audited and either the name of the database we examined or a description of the data for those databases or spreadsheets with no formal name. They also include the following:

- Our purpose (or intended use) of the data, our assessment based on our intended use, the audited agency's purpose for the data, and recommendations for corrective action, if any. Sometimes our purpose is the same as the agency's, but it occasionally differs. When purposes differ, we may have found data to be of undetermined or not of sufficient reliability for our purposes, but made no recommendations because the concerns we have with the data do not affect the agency's use of the data. Nevertheless, we have reported the results of these assessments as a caution to others who may try to use the data in the same manner as we originally intended.
- Agency's response to our recommendations. The response is as of the date noted in our annual report to legislative subcommittees on corrective actions agencies have taken to address our recommendations unless we subsequently received scheduled updates 60 days, 6 months, and 1 year after the subcommittee reports were issued. We issued our most recent report to the subcommittees in January 2008, but one of the agency responses was as early as January 2007. As a result, after reporting to us some agencies may have taken additional corrective action that we do not report here.

Finally, when possible, the tables disclose information that provides context about the significance of the data we have assessed. For example, we have noted that Education's CBEDS database maintained information on 1,016 local school districts, with an enrollment of 6.3 million students in fiscal year 2004-05.

**TABLE**  
**Summary of Reliability Assessments for Audits Issued in 2006 and 2007**

AGENCY	SYSTEM	RELIABLE FOR AUDIT PURPOSES?	AGENCY PURPOSE OF DATA	PAGE
<b>BUSINESS, TRANSPORTATION AND HOUSING</b>				
Corporations, Department of	Cal-EASI	No	To track application information related to corporate securities and franchises.	17
	Corporations Customer Service System; Customer Relationship Management System	No	To track all customer complaints.	18
	Enforcement Case Management System (ECMS)	No	To track the number and type of enforcement actions against licensees.	18
	Financial Services Division Applications data	Yes	To track licenses and examinations for California finance lender and mortgage banker licenses, among other license types.	19
	Financial Services Division Applications data	No, Undetermined	To track licenses and examinations for California escrow licensees.	19
	Securities Regulation Division Licensing and Examination System	Undetermined	To record and track information for broker-dealers and state investment advisors, among other licensees.	19
Housing and Community Development, Department of	Housing and Emergency Shelter Trust Fund Act of 2002 (Proposition 46) awards cumulative spreadsheet	Yes	To track awards from Proposition 46 funds for all programs.	21
	Lender Access System	Yes	To track information on awards and expenditures under the California Homebuyers' Downpayment Assistance Program.	21
	California State Accounting and Reporting System	Yes	To track the amount of bonds issued, outstanding loans, and Proposition 46 expenditures.	21
Transportation, Department of	Office Engineer Project database	Yes	To track contracts advertised and awarded.	23
<b>EDUCATION</b>				
Education, Department of	Interface Traffic	Yes	To monitor network traffic information.	25
	California State Accounting and Reporting System	Yes	To perform accounting functions and to use as the basis for reporting to the Legislature.	27
	Academic Performance Index (API) scores	Undetermined	To summarize the results of various statewide tests and to function as an indicator of a school's academic performance level. The database is not used to re-calculate API scores.	29
	California Basic Educational Data Systems	No	Contains information regarding staffing levels for each school district.	29
	California Basic Educational Data Systems	Undetermined	Contains information regarding student enrollment for each school district.	29
	Standardized Accounting Code Structure data	Undetermined	Contains expenditure data that the Department of Education receives from school districts.	29
University of California	Corporate Personnel System compensation data	Undetermined	To provide management and staff in the president's office with demographic, personnel, and pay activity data on employees paid at the university's campuses and laboratories.	31
	UC Berkeley Police Department crime data tracking system	Yes	To track and report crime statistics for the campus.	33
	University of California—Los Angeles Police Department Crime Data Tracking System	Undetermined	To track and report crime statistics for the campus.	33

AGENCY	SYSTEM	RELIABLE FOR AUDIT PURPOSES?	AGENCY PURPOSE OF DATA	PAGE
California State University	California State University—Long Beach Police Department’s Record Management System	Yes	To track and report crime statistics for the campus.	33
	Employee Salary Projection (ESP) system	Undetermined	The university uses the ESP system only for specific salary and benefits projections purposes (not to monitor the university’s systemwide compensation policies). (The university has not developed a central system sufficient for monitoring compliance with its compensation policies.)	35
	Employment Discrimination Lawsuit data	Yes	To track information about the number and monetary amounts of employment discrimination lawsuits alleged by university employees against the university.	37
	Employment Discrimination Lawsuit data	No	To track information about the types of discrimination alleged by university employees against the university.	37

**ENVIRONMENTAL PROTECTION**

State Air Resources Board	Contract amount data	Yes	To document contract amounts for proposed multidistrict projects as a basis for awarding Moyer grants.	39
	Cost-effectiveness data	Undetermined	To document the cost-effectiveness value assigned to proposed multidistrict projects as a basis for awarding Moyer grants.	39
	Project scoring data	Undetermined	To document scoring results for proposed multidistrict projects as a basis for awarding Moyer grants.	39
Water Resources Control Board	Application Tracking System	No	Provides management with information about staff workload and progress, records protests, stores historical data about pending applications.	41
	Bar Code Tracking System	Undetermined	To track the location of water rights files in the board’s Division of Water Rights	41
	Environmental Review Tracking System	No	Tracks information specific to an application’s environmental review process.	42
	Petition Tracking System	No	Provides management with information about staff workload and progress and stores historical data about pending petitions.	42
	Water Rights Information Management System	Yes	To track the number of permits and licenses for water rights .	43
	Water Rights Information Management System	No	To calculate the annual fees for water rights holders.	43
Water Resources, Department of	Accounting records	Yes	To account for financial transactions for the Flood Protection Corridor Program.	45

*continued on next page...*

AGENCY	SYSTEM	RELIABLE FOR AUDIT PURPOSES?	AGENCY PURPOSE OF DATA	PAGE
<b>HEALTH AND HUMAN SERVICES</b>				
Health Services, Department of	Electronic Data Systems (EDS) payment data	Undetermined	Health Services develops the skilled nursing facility rates and forwards them to EDS, the State's fiscal intermediary, which loads the rates into its system and applies them to the Medi-Cal claims each facility submits. The EDS creates a remittance advice detailing each facility's payments and forwards it to the State Controller's Office, which issues payments to the facility for the amount stated on the remittance advice.	47
	Health Services fee data	Yes	Health Services develops the skilled nursing facility rates and forwards them to EDS, the State's fiscal intermediary, which loads the rates into its system and applies them to the Medi-Cal claims each facility submits.	47
	Automated Survey Processing Environment tracking system, complaints and recertification surveys	No, Undetermined	To track complaint investigations for all facilities within California.	49
	Automated Survey Processing Environment tracking system, complaints and recertification surveys	Yes	To track federal recertification surveys for all facilities within California.	49
	Provider Enrollment Tracking System (PETS)	Undetermined No	To track applications for enrollment as Medi-Cal providers.	51
Social Services	Field Automated System	No	To provide electronic versions of forms that analysts use to document their work.	53
<b>STATE AND CONSUMER SERVICES</b>				
Medical Board of California	California State Accounting and Reporting System	Yes	To account for the Medical Board's financial transactions.	55
<b>LABOR AND WORKFORCE DEVELOPMENT</b>				
Industrial Relations, Department of	Division of Apprenticeship Standards data	No	To track enrollment, dropout, graduation rates, and graduation timetables.	57
<b>LEGISLATIVE , JUDICIAL, EXECUTIVE</b>				
Equalization, Board of	Integrated Revenue Information System	Yes	To track all Equalization revenues.	59
	Expenditure data	Yes	To account for Equalization's expenditures.	59
	Inspection zone database	Yes	To track the conduct and results of inspections Equalization conducts.	59
Insurance, Department of	First Executive Corporation (FEC) Litigation Trust spreadsheet	Yes	To record FEC litigation contingency fees.	61
	FEC Litigation Trust spreadsheet	No	To record other FEC legal expenses.	61
	Conservation and Liquidation Office's (CLO) accounting system, legal expenses, and financial data extracts	Yes	Data extracts provided by CLO representing funds spent on legal expenses of the Altus litigation, FEC litigation, and financial transactions when CLO was administrating the Executive Life Insurance Company (ELIC) estate.	61
	Trust Administration System, Holdback database	Undetermined	To track the disposition of policyholder funds from the Holdback Trust for the ELIC estate.	61
	Trust Administration System, Opt-out database	Yes	To track payments made to opt-out policyholders and remaining amounts in trust.	61

AGENCY	SYSTEM	RELIABLE FOR AUDIT PURPOSES?	AGENCY PURPOSE OF DATA	PAGE
Judicial Council of California	ORACLE accounting data	Yes	To record and collect financial data for reporting and budgeting purposes.	63
Office of Homeland Security	Automated Ledger System (ALS) Accounting system	Yes	To post reimbursement requests to the federal government (based on payments) into the ALS.	65

**YOUTH AND ADULT CORRECTIONAL**

Corrections and Rehabilitation, Department of	Contracts database	Yes	To maintain data on the medical registry contracts.	67
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Respectfully submitted,



ELAINE M. HOWLE, CPA  
 State Auditor

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## Appendix

The following tables provide detail on the results of the Bureau of State Audits' assessments of data reliability discussed in audits issued during 2006 and 2007 and related follow-up reports, as well as brief summaries of the main conclusions of each of those tables.

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AGENCY	AUDIT NUMBER	PAGE NUMBER
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**DEPARTMENT OF CORPORATIONS**  
*It Needs Stronger Oversight of Its Operations and More Efficient Processing  
of License Applications and Complaints*

Date: January 30, 2007

Report: 2005-123

**BACKGROUND**

The Department of Corporations (Corporations), within the Business, Transportation and Housing Agency, is responsible for licensing and regulating the securities and financial services industries, including businesses such as securities brokers and dealers, investment and financial planners, and certain fiduciaries and lenders. As part of these responsibilities, Corporations issues and renews licenses, examines and investigates licensees, and collects periodic assessments from certain licensees. Corporations is supported solely by the fees and assessments it collects. Although it also conducts investigations into alleged violations of the laws over which it has jurisdiction, Corporations has for several years been required to transfer any fines and penalties it collects to the State's General Fund.

**KEY FINDINGS**

Our review of Corporations concerning licenses, examinations, investigations, and assessments during the last seven years revealed the following:

- Corporations has not analyzed fees it charges businesses to determine whether fees matched the cost of providing services. As a result, it has consistently overcharged for some activities and undercharged for others. In effect, excess revenues generated from some types of fees allow Corporations to offset the funding shortfalls for the services it provides for other applicants.
- Corporations' monthly and quarterly performance reports indicate that it has fallen short of its goals. Additionally, the effectiveness of strategic planning efforts is undercut by inaccurate statistical information about its actual performance. Also, Corporations does not always identify goals for its performance measures. Without sufficient data and benchmarks, it is impossible for Corporations to effectively assess the value of its efforts.
- Corporations does not always process applications within the time limits set by law, but only some of the delays are due to its processing.
- Issues regarding complaints:
  - » Corporations did not always resolve complaints related to securities regulation and financial services as quickly as it could have. When it does not investigate complaints promptly, its ability to protect consumers from fraudulent activities is compromised.
  - » Corporations' enforcement division did not always identify a reason for rejecting complaints. Further, when it did identify a reason, it did not always fully document its rationale.
  - » Corporations has recently modified its procedures for handling complaints. In addition to developing formal policies for rejecting and referring complaints, it has centralized the intake of all complaints into a new complaint team believing that this will allow it to respond immediately to complaints. Because this process was initiated near the end of our fieldwork, we were unable to test whether it will correct any of the weaknesses identified, but it appears the process contains good business practices.
- Corporations has a significant examination backlog for escrow office licensees and California Finance Lender licensees, which could leave consumers less well protected.

**KEY RECOMMENDATIONS**

We made numerous recommendations to Corporations, including:

- Seek legislative authority allowing it to set fees by regulation so that fees are reasonably related to its cost of providing the services supported by its fees.
- Consider assessing the need for new automated data systems and ensure the accuracy and completeness of the information in its automated systems by requiring staff to enter the information and requiring supervisors to review it periodically.
- Continue to assess the reasons for performance deficiencies and add or adjust performance measures as needed.

- Continue to monitor the progress of applications through the review and approval process to identify any that have stalled, and investigate the reason for the delay.
- Assess whether it needs additional staff to process applications.
- Develop procedures to track and monitor the progress of complaints to ensure that they continue to move through the process without unnecessary delay.

**Corporations, Department of**

<p><b>Description of Data</b> Cal-EASI</p>	<p><b>Agency Purpose of Data and Information on Significance of Data</b> To track application information related to corporate securities and franchises. Because of the unreliability of the data, we were not able to determine application-processing time.</p>
<p><b>Purpose of Testing</b> To calculate the average number of days taken to approve Franchise and Securities applications after receipt by Corporations.</p>	<p><b>DRA Determination</b> <i>Not sufficiently reliable</i>—For approximately 7 percent of the records for corporate and franchise securities, the application date field was blank. Thus, we were not able to calculate the time to process these applications.</p>
<p><b>Agency Response Date:</b></p>	<p>January 2008</p>
<p><b>Corrective Action Recommended</b> We recommended that Corporations consider assessing the need for new automated data systems or determining whether its current systems are capable of collecting the necessary information; ensure the accuracy and completeness of the information in its automated systems by requiring staff to enter the information and requiring supervisors to review it periodically. For data not currently available in automated format, Corporations should develop stronger procedures to ensure that staff accurately report and supervisors accurately review the information. Corporations should consider calculating and reporting performance measures quarterly, rather than monthly, until it has a more efficient data collection system.</p>	<p><b>Status of Corrective Action</b> <i>Partial corrective action taken</i>—Corporations indicated it has met with the Department of Finance (Finance) to discuss the process to obtain or update its automated data systems and has issued a Request for Proposal for a needs assessment and feasibility study. Corporations selected a contractor, and planned to submit the completed feasibility study report to Finance in July 2008. Corporations indicated it has implemented procedures that require staff to confirm the accuracy of information posted in its automated systems prior to exiting the system. Further, Corporations stated that under its new procedures managers or supervisors will review source documents on a sample basis and ensure that information on the source documents match information in the electronic file. Managers and supervisors will also review their automated systems monthly for blank fields and request that staff research and complete the data fields with the appropriate information. Further, Corporations indicated that managers will counsel and provide training to employees who consistently make errors when posting information to the automated systems.</p>

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<b>Description of Data</b>	<b>Agency Purpose of Data</b>
Corporations Customer Service System; Customer Relationship Management System	To track information on all customer complaints. Because of the unreliability of the data, we cannot provide accurate information on the significance of the data.
<b>Purpose of Testing</b>	<b>DRA Determination</b>
To calculate the length of time Corporations takes to process complaints.	<i>Not sufficiently reliable</i> —The databases contained too many blank, erroneous, and duplicate records in key data fields.
To determine the number of complaints Corporations receives annually.	<i>Not sufficiently reliable</i> — The databases contained too many blank, erroneous, and duplicate records in key data fields.
To determine which staff are assigned to a particular complaint.	<i>Not sufficiently reliable</i> — The databases contained too many blank, erroneous, and duplicate records in key data fields.
<b>Agency Response Date:</b>	January 2008
<b>Corrective Action Recommended</b>	<b>Status of Corrective Action</b>
We recommended that Corporations review its existing complaint records and eliminate duplicates and correct any inaccurate fields. Further, Corporations should maintain accurate and complete data to ensure that the information systems can be used more effectively as management tools.	<i>Partial corrective action taken</i> —Corporations did not fully address our recommendations in its response. Specifically, it noted that the enforcement division is reviewing its case management system to determine how to improve it. Options include using more fields of data and creating reports that would capture data to assist management using trends and workload issues. However, its response did not directly address our recommendation to review its existing complaint records and eliminate duplicate records and correct any inaccurate fields. Finally, Corporations stated its legal counsel will perform a monthly review of the data fields in the Enforcement Case Management System to ensure that all fields are completed and any deficiencies will be discussed with the assigned counsel and correct information will be posted to the system.
<b>Description of Data</b>	<b>Agency Purpose of Data</b>
Enforcement Case Management System (ECMS)	To track the number and type of enforcement actions against licensees; to use as a basis for monthly performance reports. Because of the unreliability of the data, we cannot provide accurate information on the significance of the data.
<b>Purpose of Testing</b>	<b>DRA Determination</b>
To determine the number and types of enforcement actions Corporations took.	<i>Not sufficiently reliable</i> —Of the 46 enforcement actions reviewed (34 by the Enforcement Division and 12 by the Financial Services Division) we found errors with a total of 28. Of the 34 Enforcement Division actions, 19 were entered incorrectly in ECMS—6 with an incorrect date, 7 with the wrong action type, and 6 were not in the system. Of the 12 Financial Services Division actions, 9 were not entered into the system.
<b>Agency Response Date:</b>	January 2008
<b>Corrective Action Recommended</b>	<b>Status of Corrective Action</b>
Corporations should maintain accurate and complete data to ensure that the information systems can be used more effectively as management tools.	<i>Corrective action taken</i> —Corporations stated that its legal counsel will perform a monthly review of the data fields in ECMS to ensure that all fields are completed and any deficiencies will be discussed with the assigned counsel and the correct information will be posted to the system.

<p><b>Description of Data</b></p> <p>Financial Services Division Applications data</p>	<p><b>Agency Purpose of Data</b></p> <p>To track licenses and examinations for California finance lender, mortgage banker, and escrow licenses among other license types: 18,250 active licenses in Financial Services Division Applications data.</p>
<p><b>Purpose of Testing</b></p> <p>To compute the average number of days to process the following application types:</p> <ul style="list-style-type: none"> <li>(1) California finance lenders</li> <li>(2) Mortgage bankers, main branch</li> <li>(3) California deferred deposit lenders</li> </ul> <p>To calculate the average number of days taken to process escrow applications.</p> <p>To determine the number and percentage of active California finance lender and mortgage banker licensees that received examinations in accordance with time frames established in statute or internal policies.</p> <p>To calculate the number and percentage of escrow licenses that received examinations in accordance with time frames established in statute or internal policies.</p> <p>To determine the total number of hours billed for California finance lender examinations, mortgage banker examinations, and escrow routine examinations.</p>	<p><b>DRA Determination</b></p> <p><i>Sufficiently reliable</i></p> <p><i>Not sufficiently reliable</i>—We were not able to verify that escrow licenses marked as surrendered were no longer active.</p> <p><i>Sufficiently reliable</i></p> <p><i>Undetermined reliability</i>—We were not able to verify the population of active escrow licenses because Corporations did not retain documents for surrendered licenses.</p> <p><i>Sufficiently reliable</i></p>
<p><b>Agency Response Date:</b></p>	<p>January 2008</p>
<p><b>Corrective Action Recommended</b></p> <p>We recommended that Corporations maintain all necessary data in its information management systems so that it can effectively calculate the number of days it takes to process applications.</p> <p>We recommended that Corporations maintain accurate and complete data to ensure that the information systems can be used more effectively as management tools.</p>	<p><b>Status of Corrective Action</b></p> <p><i>Corrective action taken</i>—Corporations indicated it has developed and will maintain the data necessary to calculate the number of days it takes to process applications.</p> <p><i>Corrective action taken</i>—Corporations indicated it has implemented procedures that require staff to confirm the accuracy of information posted in its automated systems prior to exiting the system. Further, Corporations stated that under its new procedures, managers or supervisors will review source documents on a sample basis and ensure that information on the source documents matches information in the electronic file.</p>
<p><b>Description of Data</b></p> <p>Securities Regulation Division Licensing and Examination System</p>	<p><b>Agency Purpose of Data</b></p> <p>To record and track information for broker-dealers and state investment advisors, among other licensees. We could not determine the time to process these applications because we do not have access to these records. They are maintained by a national organization, not Corporations.</p>
<p><b>Purpose of Testing</b></p> <p>To calculate the average number of days to approve applications for broker-dealers and state investment advisors.</p>	<p><b>DRA Determination</b></p> <p><i>Undetermined reliability</i>—Broker-dealer and state investment advisor applications are not sent directly to Corporations. Instead, they are sent to a national organization. Therefore, we were not able to determine the date received.</p>
<p><b>Agency Response Date:</b></p>	<p>January 2008</p>
<p><b>Corrective Action Recommended</b></p> <p>We made no recommendation since broker-dealer and state investment advisor license information is maintained in a database outside of Corporations' control.</p>	

**DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT**  
*Awards of Housing Bond Funds Have Been Timely and Complied With the Law, but Monitoring of the Use of Funds Has Been Inconsistent*

Date: September 12, 2007

Report: 2007-037

**BACKGROUND**

In an effort to aid low- to moderate-income and homeless populations in securing housing and shelter, the Legislature proposed and voters approved, in November 2002 (Proposition 46) and 2006, nearly \$5 billion in housing bonds—Housing and Emergency Shelter Trust Fund Act bonds. These bond funds provide for the development of affordable rental housing, emergency housing shelters, and down payment assistance to low- to moderate-income homebuyers. The Department of Housing and Community Development (department) has final responsibility for the housing bond funds and directly administers the majority of the housing bond programs. The California Housing Finance Agency (Finance Agency) also manages some of the programs funded by the housing bonds.

**KEY FINDINGS**

Our review of the housing bond activities revealed that the department and Finance Agency generally:

- Awarded funds in a timely manner.
- Complied with legal requirements when awarding housing bond funds. However, for one of the programs we reviewed, the department could not demonstrate that all applicants met established criteria.
- Appropriately monitored awardees during the expenditure phase.

However, we noted that the department:

- Sometimes overrode controls concerning advance payments for one of its programs.
- Did not exert adequate monitoring over the completion phase of two of its programs.

**KEY RECOMMENDATIONS**

We made several recommendations to the department, including the following:

- Ensure applicants are properly evaluated by implementing appropriate record-keeping procedures.
- Consistently monitor use of housing bond funds by:
  - » Eliminating its process of overriding restrictions on advances for one of its programs.
  - » Finalizing and implementing monitoring procedures for two of its programs.
  - » Reviewing its other housing bond programs not included in this review to ensure that monitoring procedures are in place and operating.

**Housing and Community Development, Department of**

<b>Description of Data</b> Housing and Emergency Shelter Trust Fund Act of 2002 (Proposition 46) awards cumulative spreadsheet.	<b>Agency Purpose of Data</b> To track awards from Proposition 46 funds for all programs. Proposition 46, which provides \$2.1 billion for housing programs, currently funds 23 housing programs: \$658 million of the \$2.1 billion in Proposition 46 bond funds expended as of December 2006.
<b>Purpose of Testing</b> To determine the amount of bond funds the department awarded.	<b>DRA Determination</b> <i>Sufficiently reliable</i>

<b>Description of Data</b> CalHFA award and expenditure information.	<b>Agency Purpose of Data</b> To track information on awards and expenditures under the California Homebuyers' Downpayment Assistance Program (CHDAP): \$137 million in CHDAP loans purchased under Proposition 46 as of June 30, 2007.
<b>Purpose of Testing</b> To analyze the Agency's Lender Access System, which tracks the CHDAP loans funded by Proposition 46.	<b>DRA Determination</b> <i>Sufficiently reliable</i>

<b>Description of Data</b> California State Accounting and Reporting System (CALSTARS)	<b>Agency Purpose of Data</b> To track the amount of bonds issued, outstanding loans, and Proposition 46 expenditures: \$658 million of the \$2.1 billion in Proposition 46 bond funds expended as of December 2006.
<b>Purpose of Testing</b> To analyze financial data contained in the CALSTARS system relating to Proposition 46 monies.	<b>DRA Determination</b> <i>Sufficiently reliable</i>

**CALIFORNIA DEPARTMENT OF TRANSPORTATION**  
*Although Encouraging Contractors to Use Recycled Materials in Its Highway Projects,  
Caltrans Collects Scant Data on Its Recycling and Solid Waste Diversion Efforts*

Date: July 18, 2006

Report: 2005-135

**BACKGROUND**

Many of the California Department of Transportation's (Caltrans) projects require aggregate materials—natural minerals such as sand, gravel, and crushed stones—commonly used as foundation material for constructing streets and highways. The California Department of Conservation expects that in 50 years the demand for aggregate will exceed the supply at sites with permits for mining aggregate in most regions of California, including highly urbanized regions. Legislation passed in 1989 to encourage the maximum use of recycled materials, including aggregate, required Caltrans to review and modify all bid specifications for purchasing paving materials and base, subbase, and pervious backfill materials. This requirement was later incorporated into the Integrated Waste Management Act of 1989 (act), which intended to reduce the amount of waste materials disposed of in landfills.

To demonstrate compliance with a 1999 amendment to the act, Caltrans captures some data on how much waste construction material its contractors generate on its construction projects and divert away from landfills. This amendment requires all state agencies and large state facilities, which include Caltrans' 12 districts, to divert at least 25 percent and 50 percent of their solid waste from landfills or transformation facilities by January 1, 2002, and January 1, 2004, respectively. This amendment further requires each state agency and large state facility to report annually to the California Integrated Waste Management Board (board) on its progress in diverting solid waste during each calendar year. To comply with the 1999 amendment, each Caltrans' district submits an annual waste management report to the board, specifying amounts of solid waste generated for highway construction projects and amounts diverted from landfills.

**KEY FINDINGS**

Our review of Caltrans' use of recycled aggregate in its highway construction projects found that:

- Although Caltrans does not generally see any impediments to using recycled aggregate in its construction projects and allows its contractors to use up to 100 percent recycled materials, it allows contractors to decide when and to what extent recycled aggregate is more cost-effective than virgin aggregate.
- With no statutory requirement to report how much recycled aggregate is used, Caltrans does not collect this data and thus does not know how much recycled materials its contractors use in highway construction projects.
- To demonstrate compliance with 1999 legislation, Caltrans captures and reports some data on how much waste construction material its contractors generate and divert away from landfills.
- Caltrans did not report the solid waste generated on all its construction projects and often could not support the data it did report.

**KEY RECOMMENDATIONS**

To ensure that its annual waste management reports on its diversion efforts to the board are complete and supported, Caltrans should ensure that:

- Its contractors for all projects promptly submit diversion forms each year to the projects' resident engineers.
- Its resident engineers consistently review and sign all diversion forms and promptly submit a copy of all reviewed diversion forms to the appropriate recycling coordinator.

**Transportation, Department of**

<b>Description of Data</b> Projects Advertised data extract from the Office Engineer Project Database.	<b>Agency Purpose of Data</b> To track contracts advertised and awarded: more than 525 construction contracts executed during 2005.
<b>Purpose of Testing</b> To determine the number of projects Caltrans awarded in 2005 that were advertised since November 2004.	<b>DRA Determination</b> <i>Sufficiently reliable</i>

## CALIFORNIA K-12 HIGH-SPEED NETWORK

### *The Network Architecture Is Sound, but Opportunities Exist to Increase Its Use*

Date: January 31, 2006

Report: 2005-116

**BACKGROUND**

The California K–12 High-Speed Network (High-Speed Network) connects the vast majority of kindergarten through 12<sup>th</sup> grade (K–12) schools, school districts, and county offices of education statewide to each other, to California’s universities and community colleges, and to the Internet. During fiscal years 2000–01 through 2003–04, the Legislature appropriated more than \$93 million to UC for the High-Speed Network. In fiscal year 2004–05, it switched the funding over to the California Department of Education (Education), appropriating \$21 million in that year for the project. According to UC, it was directed by the former administration to use the Corporation for Education Network Initiatives (CENIC) to implement the project. After Education selected the Imperial County Office of Education (ICOE) to act as lead agency for the High-Speed Network, ICOE also contracted with CENIC.

**KEY FINDINGS**

Our review of the High-Speed Network found the following:

- The State most likely spent less on the building and operation of the High-Speed Network by expanding the existing infrastructure used by the University of California (UC) and other higher education institutions than it would have spent for a separate network with comparable services.
- A study conducted by our technical consultant in 2005 found that the High-Speed Network has adequate bandwidth for potential growth but is not overbuilt. Furthermore, our technical consultant found no compelling technical or financial reason to abandon the existing High-Speed Network.
- Because of the lack of specific performance measurements in state law and because the ICOE, which currently administers the project, is in the early stages of developing a suitable plan for measuring the success of the High-Speed Network, it is difficult to determine whether the network accomplishes the Legislature’s goals.
- As of June 30, 2005, CENIC, the nonprofit that built and currently operates the network, held \$13.6 million in High-Speed Network funds and it expects to receive an additional \$3.6 million related to telecommunication discounts in fiscal year 2005–06. These funds are being used to keep the network operating in fiscal year 2005–06 or are held for future equipment replacement.
- Opportunities exist for ICOE to strengthen its agreements with CENIC to better protect the State’s interests. Specifically, ICOE’s agreements lack detailed service-level agreements, do not ensure that it retains ownership of tangible nonshared assets, and do not ensure that interest earned on advance payments made to CENIC or funds held by CENIC on its behalf accrue to the benefit of the High-Speed Network.
- Our legal consultant reviewed the expenditure of funds by CENIC for the High Speed Network and found that CENIC did not develop or acquire any assets that would have been eligible for protection under patent, copyright, or trade secret law. However, some of the phrasing or symbols used by CENIC to describe and represent the High-Speed Network could be eligible for protection as a trademark.

**KEY RECOMMENDATIONS**

To ensure that the High-Speed Network meets its expectations, the Legislature should consider enacting legislation that prescribes the specific goals and outcomes it wants from the High-Speed Network project.

To improve its management of the High-Speed Network and protect the State’s interests, Education should:

- Ensure that ICOE includes the appropriate service-level agreements in its ongoing contracts with CENIC and other service providers for the High-Speed Network project.
- Direct ICOE to transfer ownership of tangible, nonshared assets to the State.
- Direct ICOE to amend its agreement with CENIC to stipulate the allowable use of the interest earned.
- Ensure that ICOE includes develops a method to measure the success of the High-Speed Network.

**Education, Department of**

<b>Description of Data</b> Interface Traffic	<b>Agency Purpose of Data</b> To monitor network traffic information: connects vast majority of K-12 schools, school districts, and county offices of education to each other, to California's universities and community colleges and to the Internet.
<b>Purpose of Testing</b> To analyze data on the usage of the High-Speed Network.	<b>DRA Determination</b> <i>Sufficiently reliable</i>

**DEPARTMENT OF EDUCATION**  
*Its Mathematics and Reading Professional Development Program  
Has Trained Fewer Teachers Than Originally Expected*

Date: November 30, 2006

Report: 2005-133

**BACKGROUND**

In 2001 the Legislature approved the Mathematics and Reading Professional Development Program (program), which provides incentive grants to school districts and other local education agencies that choose to send their teachers through standards-based instructional training. At the time of its enactment, the Legislature envisioned that most of the State's reading and mathematics teachers, approximately 176,000 teachers overall, would receive the training over a four-year period. However, due to budget cuts, the Legislature lowered its expectations regarding the number of teachers who could be trained in a given year. Generally, school districts can receive \$1,250 per teacher following completion of the first 40 hours of training and another \$1,250 after completion of the subsequent 80 hours of training. The Legislature recently extended the program through fiscal year 2011-12, expanding its scope to provide professional development training for teachers of pupils who have been designated as English language learners.

**KEY FINDINGS**

Our review of the program revealed the following:

- More than five years after the program's enactment, most school districts and the State cannot identify which teachers have received standards-based training for their current mathematics or reading assignments, nor can they identify which teachers still need training.
- The Department of Education's (Education) July 2005 report to the Legislature regarding the program is of limited value because the report lacks relevant and accurate data regarding the number of trained teachers who are currently using the training in the classroom, and the report provides no correlation between teacher training and student achievement.
- Only a small percentage of teachers has completed the full 120 hours of training for their current assignments.
- School districts cited several barriers to increased participation in the program, including teacher apathy toward attending program training, concerns about funding, and a lack of training providers in proximity.
- Education has done little to actively promote the program and has disbursed about \$113 million for those who have completed part or all of the training through fiscal year 2005-06 without ensuring the level of program oversight required by statute.
- The State Board of Education relied on the Sacramento County Office of Education to develop criteria for evaluating training providers, create program promotional materials, and facilitate the evaluation of curricula submitted by training providers. Although these contracts and others were exempt from the State's competitive bid process, their performance period predated the Department of General Services' approval.

**KEY RECOMMENDATIONS**

The Legislature should consider redefining its expectations for the program, clearly stating the number of teachers to be fully trained as well as any gains in student achievement expected. It should also consider making statutory changes to ensure that Education provides meaningful data with which to evaluate program success, such as:

- Unduplicated counts of teachers who have completed the training with the aid of program and non-program funding, with a comparison of these figures to the total number of teachers who are eligible to participate in the program
- Measures of the resulting gains in student achievement for teachers who have completed the program's training, such as higher student scores on standardized tests.

To remove a barrier to increased teacher participation in the program, Education should explore opportunities to expedite its payment process to school districts and conduct annual outreach activities to all school districts.

**Education, Department of**

<b>Description of Data</b> California State Accounting and Reporting System	<b>Agency Purpose of Data</b> To perform accounting functions and to use as the basis for reporting to the Legislature; \$113 million in program expenditures through fiscal year 2005–06.
<b>Purpose of Testing</b> To identify all payments made under the teachers' training program in reading and mathematics.	<b>DRA Determination</b> <i>Sufficiently reliable</i>

## HOME-TO-SCHOOL TRANSPORTATION PROGRAM

### *The Funding Formula Should Be Modified to Be More Equitable*

Date: March 15, 2007

Report: 2006-109

#### BACKGROUND

State laws require K–12 school districts and county offices of education (school districts) to provide transportation services to special education students with transportation needs specified in their individual education programs; many school districts also provide such services to regular education students. During fiscal year 2004–05, California’s school districts transported more than 91,000 special education students (at a total cost of more than \$438 million) and more than 830,000 regular education students (at a total cost of \$777 million). To help offset some of the transportation expenditures school districts incur, the Legislature created the Home-to-School Transportation (Home-to-School) program. State laws require the Department of Education (Education) to allocate Home-to-School program funds based on the lesser of their prior allocations or approved costs. For fiscal year 2004–05, the Legislature appropriated \$487 million for the Home-to-School program and for fiscal year 2005–06 it appropriated \$511 million.

#### KEY FINDINGS

Our review of the Home-to-School program revealed that the current formula results in funding inequities.

- The current legally prescribed funding mechanism prevents some school districts that did not receive Home-to-School program funds in the immediately preceding fiscal year from receiving these funds because of the basis of allocation.
- Allocation increases are not always consistent with student population growth. Some school districts have experienced dramatic increases in student population over the years; however, their allocations have not always increased at the same rate.

Urban school districts typically incurred higher overall transportation costs per student (\$1,387 versus \$907) and received lower Home-to-School program payments per student than rural school districts (\$559 versus \$609). And while all school districts typically incurred higher costs to transport a special education student, such costs were higher in rural school districts than in urban school districts (\$5,315 versus \$4,728).

Most school districts had to use other funding sources to pay for some transportation costs and many reported it had varying levels of fiscal impact on other programs.

Staffing levels and student test scores bear no relationship to the amount of transportation expenditures the school districts paid per student from other state and local sources during fiscal year 2004–05.

#### KEY RECOMMENDATIONS

Education should seek legislation to revise current laws:

- To allow funding for all school districts that provide transportation services to regular education students, special education students, or both.
- To ensure that funding is flexible enough to account for changes that affect school districts’ transportation programs, such as large increases in enrollment.

**Education, Department of**

<p><b>Description of Data</b> Academic Performance Index (API) scores</p>	<p><b>Agency Purpose of Data</b> To summarize the results of various statewide tests and to function as an indicator of a school's academic performance level.</p>
<p><b>Purpose of Testing</b> To determine the API score for districts based on the 2004–05 school year.</p>	<p><b>DRA Determination</b> <i>Undetermined reliability</i>—The data in the API were generally consistent with data school districts submitted. However, we cannot determine if the data are reliable because we did not recalculate the API scores.</p>
<p><b>Corrective Action Recommended</b> We did not recommend corrective action because it is not Education's responsibility to verify API score information the school districts submit. The database records reported API scores, but is not used to recalculate them.</p>	
<p><b>Description of Data</b> California Basic Educational Data Systems (CBEDS) staffing and student data</p>	<p><b>Agency Purpose of Data</b> Contains information regarding staffing levels and student enrollment for each school district: 1,016 districts, for which we were unable to determine staffing levels accurately, 6.3 million reported students in fiscal year 2004–05.</p>
<p><b>Purpose of Testing</b> To determine the total staffing levels per school district for fiscal year 2004–05.  To determine the total enrollment for each school district in fiscal year 2004–05.</p>	<p><b>DRA Determination</b> <i>Not sufficiently reliable</i>—We found inaccurate data and abnormally high full-time equivalent positions for certain individuals. Education informed us that a flaw in its software caused duplication in the count of some full-time equivalent positions, but did not indicate the extent of any uncorrected errors.  <i>Undetermined reliability</i>—The enrollment data were generally consistent with data school districts reported. However, we did not verify that the school districts' data were accurate.</p>
<p><b>Corrective Action Recommended</b> We did not recommend corrective action for reporting staffing data because Education was already aware of the problems with its software and indicated it had begun correcting them.  We did not recommend corrective action for enrollment data because it is not Education's responsibility to verify enrollment information the school districts submit.</p>	
<p><b>Description of Data</b> Standardized Accounting Code Structure data</p>	<p><b>Agency Purpose of Data</b> Contains expenditure data that Education receives from school districts: students transported as reported by school districts—747,731 (Urban), 88,396 (Rural).</p>
<p><b>Purpose of Testing</b> To determine the total number of various classifications of students transported in fiscal year 2004–05.  To determine home-to-school expenditure data for school districts for fiscal year 2004–05.</p>	<p><b>DRA Determination</b> <i>Undetermined reliability</i>—The data on students transported were generally consistent with data school districts submitted. However, we did not verify that the school districts' data were accurate.  <i>Undetermined reliability</i>—The expenditure data were generally consistent with data school districts submitted. However, we did not verify that the school districts' data were accurate.</p>
<p><b>Corrective Action Recommended</b> We did not recommend corrective action because it is not Education's responsibility to verify information on students transported and related expenditures that school districts submit.</p>	

**UNIVERSITY OF CALIFORNIA**  
***Stricter Oversight and Greater Transparency Are Needed  
to Improve Its Compensation Practices***

Date: May 2, 2006

Report: 2006-103

**BACKGROUND**

The University of California (university) is a public, state-supported land grant institution with a mission to teach, conduct research, and provide public services. The regents administer the university but have delegated overall policy development, planning, and resource allocations to the Office of the President (president's office). However, university policy requires that the regents approve all forms of compensation for officers of the university and approve the salary of other employees earning over established thresholds. In addition, university policy authorizes the president's office to approve exceptions to policy that provide employees with benefits for which they otherwise would not be eligible.

**KEY FINDINGS**

Our review of the compensation practices of the university revealed the following:

- The Corporate Personnel System (CPS) used by the university's president's office to track the pay activity of university campuses contains inconsistencies and overly vague categories that did not allow us to determine the reliability of various compensation and funding source classifications contained within it and that limit its usefulness as an oversight tool.
- Although it contains inconsistencies and vague categories, the CPS is the most detailed and complete centrally maintained source of university compensation information. According to the CPS, university employees received approximately \$9.3 billion in total compensation during fiscal year 2004–05. Regular compensation totaled over \$8.9 billion, with the remaining \$334 million going toward additional types of compensation. CPS data indicate that in fiscal year 2004–05 the 4,071 university employees earning \$168,000 or more from all funding sources received 10 percent of the regular compensation total but about 26 percent of the additional compensation total.
- The president's office appears to regularly grant exceptions to university compensation policy. Out of a sample of 100 highly paid university employees, 17 benefited from an exception to policy. For example, the president's office granted exceptions to policy that allowed a dean at the University of California at Los Angeles to receive a \$270,000 housing allowance at a time when policy limited such allowances to no more than \$53,300.
- Some university campuses circumvented or violated university policy, resulting in an overpayment to an employee and improper increases to other employees' retirement-covered compensation. For example, the University of California at San Diego approved an arrangement for a dean that circumvented university policy and resulted in an overpayment of approximately \$130,000. Also, the University of California at Riverside included housing allowances, each totaling \$53,300, in two officials' retirement-covered compensation.
- The university did not consistently disclose its officers' nonsalary compensation, such as housing allowances, to the Board of Regents (regents) as required by policy. For instance, although the university agreed to provide an incoming provost with a \$125,000 housing allowance, it did not disclose this allowance to the regents when they were deciding on the provost's salary.

**KEY RECOMMENDATIONS**

To preserve the integrity of its compensation policies, the president's office should:

- Issue clear directives prescribing consistent use of the CPS that include clear and standard compensation categories.
- Limit the number of exceptions to compensation policy it allows and track and annually report exceptions that the president, provost, and other university officials grant during a fiscal year, providing justification for each exception.

- Improve its oversight of campuses' compliance with compensation policies by, for example, using CPS data to identify unauthorized exceptions to policy.
- Determine if it is appropriate to require repayment of university funds for the instances we identified in which a university employee received compensation in violation of university policy, and if so, develop a repayment plan with each employee.

The regents should require the president's office to disclose all forms of compensation for university officers and for all employees whose compensation exceeds an established threshold.

### University of California

<p><b>Description of Data</b></p> <p>Corporate Personnel System (CPS) compensation data</p>	<p><b>Agency Purpose of Data</b></p> <p>To provide management and staff in the president's office with demographic, personnel, and pay activity data on employees paid at the university's campuses and laboratories. University employees received \$9.3 billion in total compensation during fiscal year 2004–05. Regular compensation totaled over \$8.9 billion, with the remaining \$334 million going toward additional types of compensation.</p>
<p><b>Purpose of Testing</b></p> <p>To determine university-wide compensation by type and funding source. To categorize by type and funding source the compensation of highly paid individuals receiving the most funds from state appropriations and student tuition and fees.</p>	<p><b>DRA Determination</b></p> <p><i>Undetermined reliability</i>—We attempted to reconcile the compensation data to audited financial statements. However, because of a short time frame available to us, we were unable to obtain the necessary information and complete the work. The university president's office informed us that the reconciliation would take substantial time and resources because each campus generally uses a different general ledger system and chart of accounts. Additionally, we found the CPS contains inconsistencies and overly vague categorizations, which prevented us from determining the reliability of amounts recorded in various compensation and funding categories within the CPS. These included specific types of pay items that should have been classified into specific pay categories, but were misclassified into general pay categories, inconsistent use of pay categories and classifications of funding sources among campuses, and invalid pay codes.</p>
<p><b>Agency Response Date:</b></p>	<p>May 2007</p>
<p><b>Corrective Action Recommended</b></p> <p>To improve its ability to monitor campus compliance, we recommended that the president's office issue clear directives prescribing consistent use of the CPS and require campuses to consistently classify compensation into standard categories. We also suggested that the president's office consider developing additional automated controls and edits within the CPS to ensure that expenditures are properly charged and to help avoid the possibility of errors.</p>	<p><b>Status of Corrective Action</b></p> <p><i>Pending</i>—The university stated that by August 2007 it would issue guidance clarifying the proper use of transaction codes within the CPS and, in the future, would restrict the assignment of new codes to the president's office. After putting in place guidance to provide greater clarity about the intended use of CPS categories, the university indicated it would develop appropriate edits and analysis tools to screen for anomalies. Additionally, the university stated it has developed an automated system to make compensation data for the senior leadership group available for querying and reporting and is in the process of improving the accuracy and consistency of the data in this system.</p>

**CALIFORNIA'S POSTSECONDARY EDUCATIONAL INSTITUTIONS**  
*Stricter Controls and Greater Oversight Would Increase the  
Accuracy of Crime Statistics Reporting*

Date: January 23, 2007

Report: 2006-032

**BACKGROUND**

The federal Jeanne Clery Disclosure of Campus Security Policy and Crime Statistics Act (Clery Act) requires that each postsecondary educational institution receiving federal student aid distribute an annual security report each year to all enrolled students and current employees. This report must contain information about security policies and statistics for specific crimes for the three most recent calendar years. These statistics must also be broken down by location: those occurring on campus, in residence halls, in or on certain noncampus buildings or property, and on specific public property. Additionally, institutions must notify prospective students and employees about the availability of their annual reports and issue timely warnings for crimes considered a threat to the safety of students. Lastly, state law requires the California Postsecondary Education Commission (commission) to provide a link to the Web site of each California institution containing crime statistics information.

**KEY FINDINGS**

- The six institutions we reviewed reported inaccurate or incomplete statistics in their annual reports for various reasons:
  - » Institutions did not correctly convert crimes defined in California law to crimes the Clery Act requires to be reported in the annual security report.
  - » Four institutions either did not review or did not correctly report some crimes in potentially reportable categories.
  - » Institutions did not correctly identify all reportable locations, which caused them to omit crimes or report them in incorrect categories.
- Most of the institutions we reviewed have not established required written policies or procedures for every campus security-related disclosure made in their reports.
- The commission does not ensure that all California postsecondary educational institutions post their crime statistics on the Web site to which the commission provides links.

**KEY RECOMMENDATIONS**

To improve the accuracy and completeness of their data, institutions should do the following:

- Ensure that crimes defined in California law are correctly converted to crimes the Clery Act requires institutions to report in their annual reports.
- Establish procedures to identify crimes defined in California law that cannot be directly converted to reportable crimes and ensure that additional steps are taken to determine if a crime is reportable.
- Establish procedures to accurately identify all campus, noncampus, and public property locations and report all associated crimes.
- Establish a body of comprehensive policies that support all disclosures made in their annual report.

**California Postsecondary Educational Institutions**

<p><b>Description of Data</b> UC Berkeley Police Department crime data tracking system</p>	<p><b>Agency Purpose of Data</b> To track and report crime statistics for the campus: 361 in 2002; 337 in 2003; 303 in 2004 (Clery Act reportable crimes only). Although we determined that UC Berkeley's data were sufficiently reliable for the purposes of our audit, not all arrests and citations were included for our audit period. Thus, we were unable to disclose the number of violations related to weapons laws, drug abuse, and liquor laws.</p>
<p><b>Purpose of Testing</b> To evaluate the accuracy and completeness of reported crime statistics for the University of California, Berkeley campus.</p>	<p><b>DRA Determination</b> <i>Sufficiently reliable</i></p>
<p><b>Corrective Action Recommended</b> Although we made recommendations to improve the accuracy of reported crime statistics, the reporting problems did not arise from a database integrity issue.</p>	
<p><b>Description of Data</b> University of California, Los Angeles (UCLA) Police Department</p>	<p><b>Agency Purpose of Data</b> To track and report crime statistics for the campus: 407 in 2002; 410 in 2003; 421 in 2004. Data are qualified because we concluded that UCLA's data was of undetermined reliability (Clery Act reportable crimes only).</p>
<p><b>Purpose of Testing</b> To evaluate the accuracy and completeness of reported crime statistics for the UCLA campus.</p>	<p><b>DRA Determination</b> <i>Undetermined reliability</i>—Gaps were found in the sequential numbering of crime reports, and a judgmental sample of these gaps found reportable crimes. However, not all of the missing records were reportable. Therefore, we were not able to determine the effect of the missing records.</p>
<p><b>Agency Response Date:</b></p>	<p>September 2008</p>
<p><b>Corrective Action Recommended</b> To improve the accuracy and completeness of its data, UCLA should establish procedures to verify the integrity of data in its electronic crime-tracking system.</p>	<p><b>Status of Corrective Action</b> <i>Corrective action taken</i>—UCLA states that it has taken steps to label all incident reports, whether criminal or otherwise, to ensure that it accurately identifies and sorts all crimes. In addition, UCLA has taken steps to ensure that the date associated with the crime report is the date the crime was reported, and has introduced daily reviews and random monthly audits to ensure accuracy. Reports are generated to identify incidents without a classification, which are then reviewed. Further, each month the analyst randomly selects 10 percent of incident reports for review to verify the classification is correct. In addition, a monthly report identifies that all report numbers are accounted for, all reports have an incident classification, all criminal offenses have a penal code, and all penal codes correspond to the appropriate classification. Moreover, the analyst now reviews the actual crime report to ensure that the location in the record is the location where the crime occurred, rather than the location where the crime was reported.</p>
<p><b>Description of Data</b> California State University, Long Beach Police Department's Record Management System</p>	<p><b>Agency Purpose of Data</b> To track and report crime statistics for the campus: 148 in 2002; 223 in 2003; and 118 in 2004. (Clery Act reportable crimes only.)</p>
<p><b>Purpose of Testing</b> To evaluate the accuracy and completeness of reported crime statistics for the California State University, Long Beach campus.</p>	<p><b>DRA Determination</b> <i>Sufficiently reliable</i></p>
<p><b>Corrective Action Recommended</b> Although we made recommendations to improve the accuracy of reported crime statistics, the reporting problems did not arise from a database integrity issue.</p>	

**CALIFORNIA STATE UNIVERSITY**  
*It Needs to Strengthen Its Oversight and Establish Stricter Policies for  
Compensating Current and Former Employees*

Date: November 6, 2007

Report: 2007-102.1

**BACKGROUND**

Serving nearly 417,000 students and employing 23,000 faculty members, the 23-campus California State University (university) is the nation's largest system of senior higher education. Each campus has a president who serves as chief executive officer, with each president reporting to the chancellor—the chief executive officer of the university—and the chancellor reporting to the board of trustees (board). The board oversees the university's operations.

**KEY FINDINGS**

We reported numerous concerns about the university's compensation practices including:

- It does not have a central system to adequately monitor compliance with its compensation policies or to measure their impact on university finances.
- The board approved raises for its executives and adopted a new executive compensation policy despite concerns raised by various entities.
- Funded primarily by state resources, payroll increased over the last five years by nearly \$226 million due mostly to salary increases:
  - » The average executive compensation increased by 25.1 percent—executives received three salary increases during this time, which was the main contributor; however, housing and automobile allowances also increased.
  - » Average compensation for faculty rose between 5.6 percent to 6.2 percent, while the average for management personnel increased by 10.4 percent.
  - » Faculty and management personnel also received large increases through various programs—in one case, up to 48 percent over a 15-month period.
- In addition to standard retirement benefits, other postemployment benefits are available to current executives under three transition programs. Transition agreements, negotiated by the chancellor, are not board-approved and their status of accomplishments or deliverables is not reported.
- It compensated some management personnel that were no longer performing services for the university.
- Generous moving and relocation expenses are reimbursed using a broad policy that sets few monetary limits.

**KEY RECOMMENDATIONS**

We made numerous recommendations to the board and the university including:

- Creating a centralized information structure to catalog compensation to provide effective oversight.
- Strengthening its compensation policies for reimbursing costs, disclosing other employment, and determining compensation.
- Monitoring executive transition programs.
- Developing stronger regulations to govern paid leaves of absences.

**University, California State**

<p><b>Description of Data</b> Employee Salary Projection (ESP) system</p>	<p><b>Agency Purpose of Data</b> The university uses the ESP system only for specific salary and benefits projection purposes (not to monitor the university's systemwide compensation policies). (The university has not developed a central system sufficient for monitoring compliance with its compensation policies.) 23 campuses, 23,000 faculty members, \$2.6 billion compensation to university employees in fiscal year 2006–07.</p>
<p><b>Purpose of Testing</b> To identify systemwide compensation by type and funding source. To categorize by type and funding source the compensation of highly paid individuals receiving funds from state appropriations and student tuition and fees.</p>	<p><b>DRA Determination</b> <i>Undetermined reliability</i>—Although we traced the funding information for a sample of transactions to the input source from the university's data systems, we did not obtain documentation to determine the appropriateness of the funding information in the ESP system because this was beyond the scope of our audit. Further, some campuses did not provide documentation supporting certain fields for some transactions from the ESP system.</p>
<p><b>Agency Response Date:</b></p>	<p>May 2008</p>
<p><b>Corrective Action Recommended</b> To provide effective oversight of its systemwide compensation policies, the university needs accurate, detailed, and timely compensation data. The university should create a centralized information structure to catalog university compensation by individual, payment type, and funding source. One possibility would be to upgrade and expand the ESP system to make it more complete and accurate. The chancellor's office should use the data to monitor the campuses' implementation of systemwide policies and to measure the impact of systemwide policies on university finances.</p>	<p><b>Status of Corrective Action</b> <i>Partial corrective action taken</i>—The university reports that the board believes that operational transactions do not need to be monitored centrally. However, the chancellor plans to review recommendations for vice presidential compensation from all fund sources and provide an annual report to the board. The university also reports that it has taken steps to improve payroll coding, such as training, additional guidance, and enhancements to the input form.</p>

**CALIFORNIA STATE UNIVERSITY**  
*It Is Inconsistent in Considering Diversity When Hiring Professors,  
Management Personnel, Presidents, and System Executives*

Date: December 11, 2007

Report: 2007-102.2

**BACKGROUND**

Administered by a board of trustees (board) and employing approximately 9,600 professors and a number of management personnel, the 23-campus California State University (university) serves about 417,000 students and is the nation's largest system of senior higher education. The board develops broad administrative policy for the campuses and appoints the chancellor and campus presidents. The board has delegated hiring authority for faculty and management personnel to each campus.

**KEY FINDINGS**

Our report identifies numerous concerns about the university's hiring practices and provides information about the university's employment discrimination lawsuits including:

- The hiring process lacks systemwide policies and consistent training.
- The five campuses we reviewed use different approaches to consider gender and ethnicity in their hiring processes, and they provide a varied amount of guidance to the search committees.
  - » Some campuses consider gender and ethnicity in establishing search committees for professors, while others forbid it.
  - » Of 116 professors whose hiring files we reviewed, the search committees for 44 had no minority members and 26 had no women members.
  - » One of the five campuses we reviewed has not developed any formal written policies for hiring nonacademic management personnel.
  - » Some departments evaluate the diversity of the applicant pool using inaccurate methods.
  - » Presidential and system executive positions are not generally advertised in publications with primarily women or minority audiences as is generally done for professor positions.
- During the past five fiscal years, 92 employment discrimination lawsuits were filed against the university.
  - » Sixty-eight percent of the lawsuits filed alleged race or gender discrimination.
  - » Forty of the total 64 cases that closed during this period resulted in settlements costing the university \$2.3 million—30 of those cases that closed related to alleged race or gender discrimination and cost the university \$1.6 million.
  - » The university paid \$5.3 million to outside counsel to defend 75 of the 92 lawsuits during the five-year period.

**KEY RECOMMENDATIONS**

We made numerous recommendations to the university relative to its hiring practices including that it:

- Issue systemwide guidance on hiring processes to ensure consistency and compliance with laws and regulations.
- Devise and implement uniform methods for comparing and reporting the gender and ethnicity of its workforce.
- Require broad-based advertising for all presidential and system executive positions to ensure inclusive and consistent advertising for obtaining diverse applicant pools.

**University, California State**

<p><b>Description of Data</b>                  Employment Discrimination Lawsuit Data</p>	<p><b>Agency Purpose of Data</b>                  To track information about employment discrimination lawsuits alleged by university employees against the university: 92 employment discrimination lawsuits filed during fiscal years 2002–03 through 2006–07.</p>
<p><b>Purpose of Testing</b>                  To identify the number of employment discrimination lawsuits filed during fiscal years 2002–03 through 2006–07.                  To identify the type of discrimination alleged.                  To identify settlement amounts and outside counsel fees for employment discrimination lawsuits filed during fiscal years 2002–03 through 2006–07.</p>	<p><b>DRA Determination</b>  <i>Sufficiently reliable</i>  <i>Not sufficiently reliable</i>—A key field for identifying type of discrimination alleged contained one error for 19 reviewed.  <i>Sufficiently reliable</i></p>
<p><b>Agency Response Date:</b></p>	<p>November 2007</p>

**Corrective Action Recommended**

We did not recommend corrective action on the type of discrimination data because, although the error rate exceeded the tolerable rate for our audit purposes (one error in 19 test items), it may not indicate a more pervasive problem for the university.

**THE CARL MOYER MEMORIAL AIR QUALITY STANDARDS ATTAINMENT PROGRAM**  
*Improved Practices in Applicant Selection, Contracting, and Marketing Could Lead to More  
Cost-Effective Emission Reductions and Enhanced Operations*

Date: June 14, 2007

Report: 2006-115

**BACKGROUND**

Established in 1998 to help reduce air pollution, the Carl Moyer Memorial Air Quality Standards Attainment Program (Moyer Program) is an incentive program offered by the State Air Resources Board (state board) and participating local air districts. The Moyer Program provides monetary benefits to encourage private companies, public agencies, and individuals to undertake projects to retrofit, repower, or replace existing engines to reduce pollution emissions beyond what is required by federal, state, or local agencies.

**KEY FINDINGS**

Our review of the state board and four local air districts revealed the following:

- Some policies and practices did not maximize the intended reductions from the Moyer Program projects.
  - » A 10 percent cap on funding multidistrict projects—those that take place in more than one local air district—impedes maximum emission reductions. An increase in the cap could have funded projects that would have achieved four times more cost-effective reductions than projects selected by those districts.
  - » The state board's selection process for multidistrict projects undervalues the average cost per ton of reduced pollution emissions.
  - » Three of the six scoring categories the State considers when awarding projects are not required or encouraged by state law. We determined that if the state board had placed less emphasis on these optional categories, it could have achieved 298 more tons of emission reductions and reduced the average cost per ton for those reductions by more than half.
  - » Fourteen of 16 projects funded by one local air district for its matching share did not meet the Moyer Program requirements—they exceeded the state board's cost ceiling.
- More than \$26 million in Moyer Program funds had not been spent within two years as required by law.
- Timing requirements for conducting preinspections are overly restrictive.
- The state board is not performing on-site audits of districts as frequently as it should—it is currently auditing only four districts per year.

**KEY RECOMMENDATIONS**

The state board and/or local air districts should:

- Seek legislation to increase the cap on the proportion the state board can allocate for multidistrict projects.
- Change the values of the scoring categories the state board considers in awarding projects.
- Consider implementing the various best practices we identified in this report.
- Ensure Moyer Program funds are spent within the legal time frame and recover any unspent funds.
- Streamline the preinspection process and revise its requirements.
- Perform on-site reviews of districts more frequently.

**State Air Resources Board**

<b>Description of Data</b> Contract amount data	<b>Agency Purpose of Data</b> To document contract amounts for proposed multidistrict projects as a basis for awarding Moyer grants: 68 applications for fiscal years 2004–05 and 2005–06.
<b>Purpose of Testing</b> To determine total project contract amounts.	<b>DRA Determination</b> <i>Sufficiently reliable</i>

<b>Description of Data</b> Cost-effectiveness data	<b>Agency Purpose of Data</b> To document the cost-effectiveness value assigned to proposed multidistrict projects as a basis for awarding Moyer grants: 68 applications for fiscal years 2004–05 and 2005–06.
<b>Purpose of Testing</b> To determine cost-effectiveness values assigned to proposed projects.	<b>DRA Determination</b> <i>Undetermined reliability</i> —Supporting documentation was not available for fiscal year 2004–05 values because data were input directly in electronic form.

**Corrective Action Recommended**

We made no recommendation because input of data directly into electronic form, without supporting documentation, is an acceptable practice.

<b>Description of Data</b> Project scoring data	<b>Agency Purpose of Data</b> To document scoring results for proposed multidistrict projects as a basis for awarding Moyer grants: 68 applications for fiscal years 2004–05 and 2005–06.
<b>Purpose of Testing</b> To determine scoring results for the evaluation of proposed projects.	<b>DRA Determination</b> <i>Undetermined reliability</i> —Supporting documentation was not available because data were input directly in electronic form.

**Corrective Action Recommended**

We made no recommendation because input of data directly into electronic form, without supporting documentation, is an acceptable practice.

**STATE WATER RESOURCES CONTROL BOARD**  
*Its Division of Water Rights Uses Erroneous Data to Calculate Some Annual Fees and Lacks Effective  
Management Techniques to Ensure That It Processes Water Rights Promptly*

Date: March 23, 2006

Report: 2005-113

**BACKGROUND**

Water rights are legal entitlements that authorize an individual or entity to take water from a specific source, such as a lake, stream, or pond, for beneficial use. Generally speaking, the State Water Resources Control Board's Division of Water Rights (division) administers these rights by issuing permits and licenses for new water rights, processing petitions to change existing water rights, and monitoring water rights to ensure that holders of water rights adhere to their terms and conditions. As required by law, the division implemented a fee-based system to replace the funding it previously received from the State's General Fund. The law requires that the division collect each year, via these fees, the amount necessary to support its operations and review and revise the fees each year to conform to the revenue levels set forth in the annual budget act. Generally speaking, the division assesses fees to water rights holders and applicants consisting of annual fees for permits, licenses, petitions, and certain pending applications, and one-time filing fees for new permit applications, certain petitions, and for other document filings.

**KEY FINDINGS**

Our review of the division's operations revealed the following:

- Because the division's database does not always contain the correct amount of annual diversion authorized, some of the annual fees the division charged over the past two fiscal years were wrong. Specifically, we found that for a sample of water rights, the division undercharged the holders of 10 of the water rights by a total of \$125,000, and it overcharged the holders of eight of the water rights by a total of \$1,300 for the last two fiscal years.
- The division's method of charging annual fees may disproportionately affect holders of multiple water rights that authorize them to divert small amounts of water. In addition, because the division does not factor in certain limitations on permits and licenses, it charges some fee payers based on more water than they are authorized to divert. Although we have recommended improvements to the division's method of charging fees, these changes are not required for this fee to retain its validity as a regulatory fee.
- The process of approving a water right is complex and can be legitimately time-consuming. However, the number of permits and licenses the division has issued over the past five fiscal years has decreased significantly. For a sample of permits and licenses we reviewed, it took an average of 3.3 years to issue the permits and 38.2 years to issue the licenses. The division may cause unnecessary delays because it has a poor process for tracking its pending workload and is sometimes slow to approve documents to be sent to applicants.
- The electronic bar-code system the division uses to track the location of its files has limited usefulness as a management tool because more than 5,200 of its permit and license files are not present in the system.

**KEY RECOMMENDATIONS**

To improve its calculation of annual fees and the timeliness of its approval of water rights, the department should:

- Review all the water rights files for those that pay annual fees and update the Water Rights Information Management System (WRIMS) to reflect all the necessary details specified on a permit or license. This should be completed before the division's conversion to any new database system, so that the data are accurate and complete.
- Assess each fee payer a single minimum annual fee plus an amount per acre-foot for the total amount of authorized diversion exceeding 10 acre-feet, or other specified threshold.
- Assess annual fees consistently to all fee payers with diversion limitations, including those with combined limitations, so that fee payers are not assessed based on more water than they are authorized to divert.
- Develop procedures for improving the timeliness of management review and issuance of documents.

**Water Resources Control Board**

<p><b>Description of Data</b> Application Tracking</p>	<p><b>Agency Purpose of Data</b> To provide division management information about staff workload assignments and progress, to record protests, and to store historical data about pending applications: 615 pending applications as of December 2005.</p>
<p><b>Purpose of Testing</b> To determine if the data were sufficiently reliable to track the progress and status of the division's workload and manage pending applications for new water rights permits.</p>	<p><b>DRA Determination</b> <i>Not sufficiently reliable</i>—Data were significantly incomplete and inaccurate.</p>
<p><b>Agency Response Date:</b></p>	<p>March 2007</p>
<p><b>Corrective Action Recommended</b> We recommended that the division ensure that its tracking systems for pending applications are complete and accurate by reviewing its pending workload and updating the systems to reflect current information before it upgrades to a new system. The division also should strengthen its procedures to ensure that staff maintain the accuracy of the data in the systems.</p>	<p><b>Status of Corrective Action</b> <i>Partial corrective action taken</i>—The water board stated that to ensure the applications tracking system was complete and accurate, it was in the process of reviewing the tracking databases. By February 23, 2007, the water board stated that it had reviewed and updated 533 of the 571 pending applications in its application and environmental tracking databases. It further stated that the information was being updated by designated staff and would be reviewed by the division's management for accuracy. The water board also stated that it had implemented procedures to ensure staff maintains the accuracy of the tracking systems.</p>

  

<p><b>Description of Data</b> Bar Code Tracking System</p>	<p><b>Agency Purpose of Data</b> To track the location of water rights files in the board's Division of Water Rights: about 14,700 application identifications.</p>
<p><b>Purpose of Testing</b> To track the location of water rights files in the board's Division of Water Rights.</p>	<p><b>DRA Determination</b> <i>Undetermined reliability</i>—We found illogical values in the field identifying the employee who checked out the file. However, these errors will only have an effect until the file is checked out again. Therefore, due to the system's potential for significant limitations, we determined the data to be of undetermined reliability.</p>
<p><b>Agency Response Date:</b></p>	<p>March 2007</p>
<p><b>Corrective Action Recommended</b> We recommended that the division continue to work with the water board's Office of Information Technology to improve the controls over data entry in its bar code system. We also recommended that the division conduct a complete physical inventory of its files and ensure that each file has a barcode label and is scanned into the system.</p>	<p><b>Status of Corrective Action</b> <i>Partial corrective action taken</i>—The water board stated that it was implementing a replacement of its existing bar coding system with a wireless bar coding feature to simplify and increase frequency of file inventory and reduce the number of scanning errors. The water board asserted this new wireless bar coding system would also allow file room staff to move freely around the water board to scan files on a weekly basis, providing an updated record of file locations. In addition, the water board stated that its Office of Information Technology would ensure that proper controls were in place to provide quality assurance in the data. Furthermore, the water board asserted that it conducted a complete physical inventory of its water right files and had ensured that each file had a bar code label and was scanned into the system.</p>

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<b>Description of Data</b> Environmental review tracking system	<b>Agency Purpose of Data</b> To track information specific to the application's environmental review process: 615 pending applications as of December 2005.
<b>Purpose of Testing</b> To determine if data were sufficiently reliable to track and manage pending environmental reviews.	<b>DRA Determination</b> <i>Not sufficiently reliable</i> —Data were significantly incomplete and inaccurate.
<b>Agency Response Date:</b>	March 2007
<b>Corrective Action Recommended</b> We recommended that the division ensure that its tracking systems for pending applications are complete and accurate by reviewing its pending workload and updating the systems to reflect current information before it upgrades to a new system. The division also should strengthen its procedures to ensure that staff maintain the accuracy of the data in the systems.	<b>Status of Corrective Action</b> <i>Partial corrective action taken</i> —The water board stated that to ensure the environmental tracking system was complete and accurate, it was in the process of reviewing the tracking databases. By February 23, 2007, the water board stated that it had reviewed and updated 533 of the 571 pending applications in its application and environmental tracking databases. It further stated that the information was being updated by designated staff and would be reviewed by the division's management for accuracy. The water board also stated that it had implemented procedures to ensure staff maintains the accuracy of the tracking systems.

  

<b>Description of Data</b> Petition tracking system	<b>Agency Purpose of Data</b> To provide division management information about staff workload assignments and progress and to store historical data about pending petitions: 530 active petitions as of December 2005.
<b>Purpose of Testing</b> To evaluate the division's processing of petitions to change existing water rights permits.	<b>DRA Determination</b> <i>Not sufficiently reliable</i> —Data were significantly incomplete and inaccurate.
<b>Agency Response Date:</b>	March 2007
<b>Corrective Action Recommended</b> We recommended that the division ensure that its tracking systems for pending petitions are complete and accurate by reviewing its pending workload and updating the systems to reflect current information before it upgrades to a new system. The division also should strengthen its procedures to ensure that staff maintain the accuracy of the data in the systems.	<b>Status of Corrective Action</b> <i>Partial corrective action taken</i> —The water board stated that to ensure the petitions tracking system was complete and accurate, it was in the process of reviewing the database. It also stated that it had implemented procedures to ensure staff maintains the accuracy of the tracking system.

<p><b>Description of Data</b></p> <p>Water Rights Information Management System (WRIMS)</p>	<p><b>Agency Purpose of Data</b></p> <p>To track water rights and calculate annual fees for water rights holders: 39,000 records relating to permits and licenses, certain groundwater records, statements, and registrations held by individuals and entities in the State.</p>
<p><b>Purpose of Testing</b></p> <p>To determine the total number of permits and licenses for water rights.</p> <p>To re-calculate annual fees charged to water rights holders.</p>	<p><b>DRA Determination</b></p> <p><i>Sufficiently reliable</i></p> <p><i>Not sufficiently reliable</i>—Key fields for calculating annual fees contained blanks and unreasonable values.</p>
<p><b>Agency Response Date:</b></p>	<p>March 2007</p>
<p><b>Corrective Action Recommended</b></p> <p>We recommended that the division review all the water rights files for those that pay annual fees and update WRIMS to reflect all the necessary details specified on a permit or license, such as the maximum authorized diversion and storage and the applicable seasons and rates of diversion to ensure that its WRIMS contains all the necessary information needed to calculate annual fees accurately for the next billing cycle. We recommended this be completed before the division's conversion to any new database system so that the data are accurate and complete.</p>	<p><b>Status of Corrective Action</b></p> <p><i>Partial corrective action taken</i>—The water board stated that it has developed a plan to update its WRIMS data associated with annual fee calculations. The water board indicated that its plan has seven priority groups of water right records, with a goal of correcting all necessary data before the water board implemented its final conversion to its new database system in September 2007. The water board asserted that, as of February 2007, it had reviewed and corrected 2,737 of the 12,571 water rights files and it intended to review another 1,899 by September 7, 2007. However, the water board stated that it believes the marginal returns of completing the work associated with the remaining 7,935 water rights files do not warrant redirecting staff to complete those reviews.</p>

**DEPARTMENT OF WATER RESOURCES*****Its Administration of Grants Under the Flood Protection Corridor Program Needs Improvement***

Date: November 1, 2007

Report: 2007-108

**BACKGROUND**

In March 2000 California voters approved a bond act that, among other things, established a flood protection program—the Flood Protection Corridor Program—and authorized the Department of Water Resources (Water Resources) to manage and grant \$57 million of bond funds for flood protection projects to local governments and nonprofit organizations, and provided \$5 million to the city of Santee. By the summer of 2001, Water Resources had awarded funds to five projects with 49 percent of the funding available and, two years later, awarded the remaining funds through 14 grants. Two recent bond measures approved by voters in November 2006 give Water Resources \$330 million more in funding for flood protection projects.

**KEY FINDINGS**

Our review of the flood protection program revealed several issues including that Water Resources:

- Awarded \$28 million in grants to fund five projects using a weak selection process and poorly defined criteria. Water Resources could not demonstrate the benefits of funding certain projects over others.
- Had yet to implement a tangible flood protection project on Staten Island in the six years since the island was acquired. At a total grant of nearly \$17.6 million, Staten Island is the flood protection program's most expensive acquisition and may not result in a tangible flood protection project.
- Made funding decisions for \$29.1 million in competitive grants based on incomplete information.
  - » In some cases, required hydrologic studies were never obtained or were obtained after projects were awarded.
  - » Evidence of willing sellers was lacking for most grants involving land acquisitions. In fact, one project awarded four years ago had yet to commence because the land has not been acquired.
- Had not adequately monitored the majority of its flood protection projects even though it established a framework for doing so. Project progress reports were incomplete, frequency of site visits fell short of goals, and monitoring of costs was inadequate.
- Did not resolve concerns raised by its own appraisal staff and by the Department of General Services, and may have paid more than fair market value for Staten Island.

**KEY RECOMMENDATIONS**

We made numerous recommendations to Water Resources with regard to improving how it awards and monitors grants for the flood protection program. We believe that these improvements are needed to better position Water Resources to administer the \$330 million in bond funds recently approved.

## Water Resources, Department of

<b>Description of Data</b> Accounting records	<b>Agency Purpose of Data</b> To account for financial transactions for the Flood Protection Corridor Program: bond measure approved in 2000 for \$70 million for Flood Protection Corridor Program, \$57 million of which was for grants.
<b>Purpose of Testing</b> To verify the completeness and accuracy of the data on the flood protection program expenditures in the department's accounting records.	<b>DRA Determination</b> <i>Sufficiently reliable</i>

**DEPARTMENT OF HEALTH SERVICES**  
*It Has Not Yet Fully Implemented Legislation Intended to Improve the  
Quality of Care in Skilled Nursing Facilities*

Dates: 2/15/07, 8/30/2007, 5/10/07, 06/26/08

Reports: 2006-035, 2006-035.1, 2006-002, 2007-002

**BACKGROUND**

The Skilled Nursing Facilities Quality Assurance Fee and Medi-Cal Long-Term Care Reimbursement Act (Reimbursement Act), Chapter 875, Statutes of 2004, requires the Department of Health Services (Health Services)<sup>3</sup> to implement a facility-specific reimbursement rate methodology that reimburses each skilled nursing facility (facility) based on its costs. The Reimbursement Act also imposes the Quality Assurance Fee (fee) on each facility to provide a revenue stream to Health Services that would increase reimbursements to facilities and support quality improvement efforts in facilities.

About 1,300 skilled nursing facilities in the State provide services to patients covered by the California Medical Assistance Program (Medi-Cal) that may be affected by the Reimbursement Act. This audit report discusses Health Services' progress in fulfilling the provisions of the Reimbursement Act.

**KEY FINDINGS**

- Although Health Services promptly created and obtained federal approval for the reimbursement rate and fee systems, it was slow to calculate the new reimbursement rates and apply them to Medi-Cal claims submitted by facilities. Health Services stated that the delay was caused by other work it needed to complete before applying new rates, such as responding to approximately 300 requests from facilities to review their new rates.
- Health Services has yet to meet all the auditing requirements included in the Reimbursement Act, having reviewed only about two-thirds of the State's facilities. When it does not audit facilities' reported costs, Health Services cannot be certain it is developing accurate rates.
- Health Services has yet to reconcile fee receipts to its records of anticipated collections. As a result, Health Services may not have identified all of the delinquent facilities and has not followed up with the 325 facilities that reported significantly more or fewer patient days than anticipated.
- To implement the Reimbursement Act, Health Services' contracting unit reported spending almost \$4 million for consulting contracts. However, when using contracted services, Health Services did not always follow sound contracting practices. Specifically, the contract did not specify either the product Health Services wanted the consultant to provide or set a date when Health Services would take over administration of the reimbursement rate system.
- Health Services' contractor responsible for receiving and paying facility Medi-Cal claims paid some facilities more than once. The contractor was unaware it was making duplicate payments until we brought it to the contractor's attention. During our review, we found more than 2,100 duplicate payments totaling more than \$3.3 million between August 1, 2005, and July 31, 2006. Our reviews that followed the original report, which was issued in February 2007, disclosed additional duplicate payments.

**KEY RECOMMENDATIONS**

We made numerous recommendations to Health Services, including the following:

- Conduct all the audits of facilities called for in the Reimbursement Act to reduce the risk of using flawed data to calculate reimbursement rates.
- Promptly initiate collection efforts for Quality Assurance Fees from facilities that are delinquent and reconcile the facilities' fee payments to the estimated payments due, following up on all significant variances.
- Amend the consultant contract to clearly describe the scope of work and to include a statement that describes how Health Services will take over developing reimbursement rates for facilities.

<sup>3</sup> On July 1, 2007, the California Department of Health Services was reorganized and became two departments—the Department of Health Care Services and the Department of Public Health. The Department of Health Care Services is now responsible for the Medi-Cal program.

- Develop detailed documentation that includes all of the complexities of the reimbursement rate development methodology.
- Follow best practices for contracting in the future by including clear language to describe the products or services it expects from the agreement.
- Further investigate the possibility that duplicate payments were authorized by the contract consultant beyond those we noted to ensure that the magnitude of the problem is identified and corrected.

**Health Services, Department of**

<p><b>Description of Data</b></p> <p>Electronic Data Systems (EDS) payment data</p>	<p><b>Agency Purpose of Data</b></p> <p>Health Services develops the skilled nursing facility rates and forwards them to EDS, the State's fiscal intermediary, which loads the rates into its system and applies them to the Medi-Cal claims each facility submits. The EDS creates a remittance advice detailing each facility's payments and forwards it to the State Controller's Office, which issues payments to the facility for the amount stated on the remittance advice: 1,300 skilled nursing facilities and more than \$1 billion in annual Medi-Cal payments under the new reimbursement rates.</p>
<p><b>Purpose of Testing</b></p> <p>To calculate reimbursement payments to skilled nursing facilities.</p>	<p><b>DRA Determination</b></p> <p>Undetermined reliability—EDS indicated a problem with its system causing it to provide only a portion of the data we requested. We could not verify the extent of the problem. In addition, during the course of our audit (2006-035) we noted that EDS inadvertently implemented a flawed procedure its examiners followed when receiving possible duplicate claims. EDS inappropriately overrode certain suspended claims and authorized their payment. We identified 2,100 duplicate payments, totaling \$3.3 million, for services rendered between August 1, 2005, and July 31, 2006. See text, page 8, for additional information disclosed in report 2007-002.</p>
<p><b>Agency Response Date:</b></p>	<p>Various</p>
<p><b>Corrective Action Recommended</b></p>	<p><b>Status of Corrective Action</b></p> <p>See text of this report, page 8, for recommendations and corrective action taken and planned.</p>

<p><b>Description of Data</b></p> <p>Health Services fee data</p>	<p><b>Agency Purpose of Data</b></p> <p>Health Services develops the skilled nursing facility rates and forwards them to EDS, the State's fiscal intermediary, which loads the rates into its system and applies them to the Medi-Cal claims each facility submits. The EDS creates a remittance advice detailing each facility's payments and forwards it to the State Controller's Office, which issues payments to the facility for the amount stated on the remittance advice: 1,300 skilled nursing facilities and more than \$1 billion in annual Medi-Cal payments under the new reimbursement rates.</p>
<p><b>Purpose of Testing</b></p> <p>To determine data needed for the calculation of the new facility-specific reimbursement rate system. To determine if Health Services calculated the fiscal year 2005–06 rates appropriately for freestanding standard skilled nursing facilities (not attached to hospitals).</p>	<p><b>DRA Determination</b></p> <p><i>Sufficiently reliable</i></p>

**DEPARTMENT OF HEALTH SERVICES**  
*Its Licensing and Certification Division Is Struggling to Meet State and Federal Oversight Requirements for Skilled Nursing Facilities*

Date: April 12, 2007

Report: 2006-106

**BACKGROUND**

Each year citizens who need ongoing nursing care rely on more than 1,200 state skilled nursing facilities (facilities). The Department of Health Services (Health Services)<sup>4</sup> oversees these facilities, as well as administers a broad range of health programs, in fulfilling its mission of protecting and enhancing the health of the State's citizens. Health Services licenses facilities that operate in California and recommends to the federal government certification for facilities that meet requirements for receiving federal funds. It also investigates complaints from facility stakeholders and regularly inspects facilities to determine whether the facilities comply with state and federal requirements.

**KEY FINDINGS**

- We found some shortcomings in Health Services' oversight of facilities. Specifically, Health Services:
  - » Did not initiate and close complaint investigations promptly. Of the complaints received from July 1, 2004—April 14, 2006, Health Services initiated only 51 percent within the time frame stipulated by law and promptly completed only 39 percent of the cases closed.
  - » Did not always communicate with the complainants within the required time frames.
  - » Should have classified at least six of 35 complaints we reviewed as immediate-jeopardy, requiring it to conduct an on-site inspection within 24 hours rather than 10 working days.
  - » Understated the severity of some deficiencies identified during its reviews of facilities for compliance with federal regulations.
  - » Has not fully implemented an on-line inquiry system—required by law nearly five years ago—that provides consumers with information on skilled nursing facilities.
- The system Health Services uses to track complaint investigations contains data that may be incomplete or unreliable.
- Health Services has weak controls for disbursing certain funds—it disbursed more than \$14.7 million based primarily on e-mails from vendors with no subsequent assurance the vendors performed as expected.
- Even though Health Services was recently authorized to hire 115 additional facility evaluators, it continues to face significant vacancy rates due in part to statewide nursing shortages.

**KEY RECOMMENDATIONS**

To improve its business practices in order to provide more effective oversight of skilled nursing facilities, Health Services should:

- Periodically evaluate the timeliness and consistency of initiating and completing complaint investigations and strategize resources to ensure timely completion of investigations and corrective action.
- Develop strong application controls over its complaint-tracking system to ensure its data are accurate, complete, and consistent.
- Cycle the federal recertification surveys to make their timing less predictable and enhance their value.
- Impose more stringent fiscal controls on its disbursements.

<sup>4</sup> On July 1, 2007, the California Department of Health Services was reorganized and became two departments—the Department of Health Care Services and the Department of Public Health. The Department of Public Health is now responsible for monitoring skilled nursing facilities.

**Health Services, Department of**

<p><b>Description of Data</b>                  Automated Survey Processing Environment (ASPEN) tracking system, complaints and recertification surveys</p>	<p><b>Agency Purpose of Data</b>                  To track complaint investigations for all facilities within California: 17,042 complaints and reports of incidents received between July 1, 2004, and April 14, 2006.                  To track federal recertification surveys for all facilities within California: more than 1,200 skilled nursing facilities statewide.</p>
<p><b>Purpose of Testing</b>                  To determine how quickly Health Services initiated and concluded its complaint investigations.                   To determine whether Health Services promptly communicated with complainants.                   To analyze the time between skilled nursing facilities' last two recertification surveys to determine whether the timing of the surveys was predictable.                   To identify the severity levels of deficiencies found during recertification surveys at skilled nursing facilities during fiscal years 2004–05 and 2005–06.</p>	<p><b>DRA Determination</b>   <i>Undetermined reliability</i>—We could not verify the accuracy and completeness of the data because Health Services' documentation was often based solely on the data whose reliability we were trying to assess. Health Services also lacked controls that would prevent erroneous data from being entered or that would detect errors or omissions in its system.   <i>Not sufficiently reliable</i>—Health Services informed us that its staff did not always enter data in key data fields and these fields are used for different types of communications.   <i>Sufficiently reliable</i>   <i>Sufficiently reliable</i></p>
<p><b>Agency Response Date:</b></p>	<p>July 2008</p>
<p><b>Corrective Action Recommended</b>                   To improve the accuracy of complaint data used to monitor its workload and staff performance, Health Services should develop strong application controls to ensure that its data are accurate, complete, and consistent. This process should include validating the data entered into key data fields; ensuring that the key data fields are complete; and training staff to ensure consistent input into key data fields, such as the field designed to capture the date on which the investigation was completed.</p>	<p><b>Status of Corrective Action</b>   <i>Corrective action taken</i>—Health Services reports that it has developed standard performance measures for each district office. One of the performance measures requires, on a quarterly basis, random checks by the support staff supervisor to ensure the accuracy of data input as well as complaint files. Our review of Health Services' quality assurance program confirmed that it evaluates whether the information noted in the complaint file agrees with its data system. Finally, Health Services reports that it has begun a recurring training program where it reminds staff of data input and accuracy procedures.</p>

## DEPARTMENT OF HEALTH SERVICES

*It Needs to Improve Its Application and Referral Processes When Enrolling Medi-Cal Providers*

Date: April 17, 2007

Report: 2006-110

**BACKGROUND**

Low-income Californians who lack health insurance can benefit from the California Medical Assistance Program (Medi-Cal)—a federal program, funded and administered by the Department of Health Services (department)<sup>5</sup> through a state and federal partnership. An eligible Medi-Cal beneficiary can receive services from a provider, who in turn can bill the Medi-Cal program for services only when the provider has obtained a valid Medi-Cal provider number. The department is responsible for reviewing and approving providers, and reimbursing approved providers when services are rendered to eligible beneficiaries. Nearly seven years ago, the department established the Provider Enrollment Branch (branch), whose primary function is to review applications from potential providers and to prevent providers with fraudulent intent from participating in the Medi-Cal program.

**KEY FINDINGS**

Our review of the Medi-Cal provider enrollment and referral processes revealed the following key findings:

- For the period October 1, 2005, through September 30, 2006, the branch did not process 108 applications within the required time periods and of these, it did not automatically enroll or appropriately notify 100 applicants.
- Despite concerns we raised nearly five years ago, branch staff continue to enter incorrect data into the system that it uses to track the status of applications.
  - » Staff omitted or entered incorrect dates.
  - » Duplicate applications were created and not removed from the system until long after the original applications' due dates.
  - » Four applications were improperly handled because staff did not appropriately record the information in the system.
  - » Fictitious provider records were created during staff training and branch testing and were not removed from the system.
- Applications referred to other units for further review that were processed during federal fiscal year 2006 remained in the enrollment process for an average of 318 days—nearly one year—from the date of receipt to the date status was determined. One of the applications, which was ultimately approved, took 1,007 days—nearly three years. Additionally, the reasons for referral lacked specificity or did not clearly tie to fraud indicators or a high-risk checklist.

**KEY RECOMMENDATIONS**

To improve its application and referral process, the department should:

- Protect the integrity of the data in the provider enrollment tracking system—eliminate fictitious data and periodically review staff entries.
- Reduce application processing time by adopting certain policies and practices, in particular, for those applications referred for further review.
- Reevaluate the high-risk checklist and fraud indicators periodically.
- Streamline its application processing—track federal government changes and possibly rely on some of Medicare's data in the future.

<sup>5</sup> On July 1, 2007, the California Department of Health Services was reorganized and became two departments—the Department of Health Care Services and the Department of Public Health. The Department of Health Care Services is now responsible for the Medi-Cal program.

**Health Services, Department of**

<p><b>Description of Data</b> Provider Enrollment Tracking System (PETS)</p>	<p><b>Agency Purpose of Data</b> To track applications for enrollment as Medi-Cal providers: 20,819 applications received in federal fiscal year 2005–06.</p>
<p><b>Purpose of Testing</b></p> <p>To determine application type (provider, preferred provider, or resubmitted) submitted for the Medi-Cal program.</p> <p>To determine whether applications still in process as of September 30, 2006, requested preferred provider status.</p> <p>To identify denied applications and the reasons for their denials</p> <p>To determine the number and reasons for applications being referred for secondary review and the units in Health Services to which they are referred.</p> <p>To determine when applications were received, approved, closed, or referred and whether the dates were timely.</p> <p>To determine the applicants' provider types for the Medi-Cal program.</p>	<p><b>DRA Determination</b></p> <p><i>Undetermined reliability</i>—Due to lack of sufficient source documents, we were not able to conclude on the accuracy of the data. The branch returns many application packages to applicants seeking enrollment because they lack required information. The branch does not maintain copies of these application packages, and applicants do not always resubmit them.</p> <p><i>Not sufficiently reliable</i>—We found that three of nine documents we examined for the preferred provider status were inaccurate.</p> <p><i>Undetermined reliability</i>—Due to lack of sufficient source documents, we were not able to conclude on the accuracy of the data.</p> <p><i>Not sufficiently reliable</i>—Key data were missing from the tracking system.</p> <p><i>Undetermined reliability</i>—Source information was inconclusive. For example, some document numbers were illegible. Also, the branch returns many application packages to applicants seeking enrollment because they lack required information. The branch does not maintain copies of these application packages and applicants do not always resubmit them.</p> <p><i>Not sufficiently reliable</i>—The error rate in the provider type data exceeded the tolerable level that we established.</p>
<p><b>Agency Response Date:</b></p>	<p>April 2008</p>
<p><b>Corrective Action Recommended</b></p> <p>The process of returning incomplete enrollment packages is an appropriate methodology. Thus, no recommendation was warranted for that issue.</p> <p>We did not recommend corrective action of the reliability of preferred provider data because we recommended elimination of preferred provider status.</p> <p>We recommended that the branch coordinate with the department to update PETS to reflect the specific reasons that it refers applications for further review, so that they are aligned with its fraud indicators and high-risk review checklist.</p> <p>We recommended the branch modify PETS to track the length of time applications it recommends for denial remain in its policy section for review to ensure that it does not automatically enroll or pay the claims of ineligible providers when the review does not occur in a timely manner. The branch should also include in management's secondary review of applications periodic reviews to ensure that staff are accurately and consistently entering into PETS the correct dates the branch received, processed, or returned the applications</p> <p>Because provider type is not a field the branch typically uses to monitor its application processing, we did not include a recommendation about it. Provider type includes physician specialty and categories of nonphysicians such as nurse practitioners or audiologists.</p>	<p><b>Status of Corrective Action</b></p> <p><i>Partial corrective action taken</i>—The department asserts that the intent for creating preferred provider status remains valid. It has taken steps to promote awareness of the availability of the status and noted that new legislation has reduced the department's processing period from 90 days to 60 days.</p> <p><i>Corrective action taken</i>—The branch reported that it was working collaboratively with the Medical Review Branch staff and they had reviewed the current list of high-risk indicators and identified changes that had to be made to PETS. The branch reported that it had updated the reasons applications are referred in the PETS to accurately reflect the referral indicators, which it asserted was completed in March 2008.</p> <p><i>Corrective action taken</i>—The branch stated that it had modified PETS and created a policy denial report that is reviewed weekly. The branch also stated that PETS now includes a tracking capability to ensure that no applications subject to denial are allowed to default. Further, the branch reported that managers were currently monitoring staff work to ensure that staff were accurately entering dates into PETS and that it had updated its procedure manual for this area in December 2007.</p>

**DEPARTMENT OF SOCIAL SERVICES**  
*In Rebuilding Its Child Care Program Oversight, the Department Needs to  
Improve Its Monitoring Efforts and Enforcement Actions*

Date: May 25, 2006

Report: 2005-129

**BACKGROUND**

The child care program within the Department of Social Services' (department) community care licensing division provides child care licensing services and performs monitoring across the State. The child care program operates through 12 regional offices. As of February 2006, there were more than 60,000 licensed child care facilities in the State. The department conducts several kinds of visits and evaluations to ensure that a facility is complying with established licensing laws and regulations and, when necessary, consults with the licensee, issues citations, or assesses civil penalties. The department has a system of progressive disciplinary actions against child care facility licensees, employees, or others who demonstrate that they do not comply with laws and regulations. If deemed necessary, the department can take legal action in the form of probation, exclusion from child care facilities, or license revocation.

**KEY FINDINGS**

Our review of the department's oversight of licensed child care facilities found that:

- The department has struggled to make required visits to the facilities and carry out its other monitoring responsibilities. For example, the department is not on track to meet its statutory requirement to visit each facility at least once every five years, even though the requirement is one of the least frequent in the nation.
- It began a three-phase effort in 2005 to rebuild its oversight activities for its licensing programs. Nevertheless, a question for the State's decision makers to consider is whether the level of monitoring required by statute, toward which the department is working with its rebuilding effort, is sufficient.
- For facility files we reviewed at four regional offices, the department usually conducted complaint visits within established deadlines but did not always complete the investigations within deadlines. In addition, it did not always determine whether child care facilities corrected the deficiencies it identified during its visits to facilities.
- The department could increase its use of civil penalties as a response to health and safety violations. For example, we found the department assessed civil penalties in a more limited manner for child care homes (homes) than it did for child care centers because regulations for homes establish civil penalties only for specific violations.
- Although it appropriately prioritized and generally ensured that legal cases were processed within expected time frames, its regional offices did not always adequately enforce legal actions against licensed child care facilities. For example, our review of selected facilities found that regional offices often did not make visits as required after the facilities' licenses were revoked to ensure that the facilities were no longer operating.

**KEY RECOMMENDATIONS**

To ensure that it continues to make monitoring visits and carries out its other required responsibilities for child care facilities, the department should:

- Develop a plan to measure its random and required visits against its statutory requirement to visit each facility at least once every five years and reliably assess its progress in meeting the requirement.
- Continue its efforts to rebuild the oversight operations of its child care program and assess its sufficiency.
- Complete complaint investigations within its established deadlines.
- Ensure that deficiencies identified during its monitoring visits are corrected within its established time frame, that evidence of corrective action is included in its facility files, and that required plans of correction submitted by facilities are written so that it can verify and measure the actions taken.
- Ensure that the regional offices adequately enforce legal actions against facilities.

**Social Services, Department of**

<p><b>Description of Data</b> Field Automated System</p>	<p><b>Agency Purpose of Data</b> To provide electronic versions of forms that analysts use to document their work. Because of the unreliability of the data, we cannot provide accurate information on the number of inspection visits.</p>
<p><b>Purpose of Testing</b> To determine the department's statistics for fiscal years 2002–03 through 2004–05 on the number of its periodic inspection visits to licensed child care facilities to compare to the number of visits required by state law.</p>	<p><b>DRA Determination</b> <i>Not sufficiently reliable</i>—We found multiple errors and missing and duplicate data in our accuracy testing.</p>
<p><b>Agency Response Date:</b></p>	<p>May 2007 and August 2007</p>
<p><b>Corrective Action Recommended</b> We recommended that the department develop a plan to measure its random and required visits against its statutory requirement to visit each facility at least once every five years and ensure that the data it uses to assess its progress in meeting the various requirements are sufficiently reliable.</p>	<p><b>Status of Corrective Action</b> <i>Partial corrective action taken</i>—The department has developed an information technology strategic plan to provide systems and tools to eliminate or mitigate problems identified in the audit, such as for measuring its random and required visits. The department stated its feasibility study related to the plan has been approved but that implementation of the plan is dependent upon funding. In the meantime, it is using interim solutions. In particular, it stated that it has developed special reports to identify child care facilities that have not received a visit and the number of facilities visited each year. In addition, the department stated that it has taken efforts to improve the accuracy of the data maintained in its systems. For example, the department completed a project that allowed automated field data to be electronically shared with its licensing information system. Finally, the department stated that it would continue its efforts to prevent any duplication of information.</p>

**MEDICAL BOARD OF CALIFORNIA*****It Needs to Consider Cutting Its Fees or Issuing a Refund to Reduce the Fund Balance of Its Contingent Fund***

Date: October 16, 2007

Report: 2007-038

**BACKGROUND**

Responsible for protecting the public through proper licensing and regulation of California's health care professionals, the Medical Board of California (medical board) licenses physicians and surgeons (physicians), investigates complaints against its licensees, and disciplines those found guilty of violating the law. To fund such activities, the medical board assesses fees to physicians as established by the California Business and Professions Code (code).

**KEY FINDINGS**

We reviewed the medical board's financial status and its projections related to expenses, revenues, and reserves and the amount of refunds or licensure fee adjustments needed to maintain the mandated reserve balance. Our review revealed that the medical board:

- Has reserves well above the mandated levels. In fiscal year 2006–07, its fund balance increased to \$18.5 million, which is nearly 4.3 months of reserves—more than twice what is allowed by the code.
- Has overestimated expenditures by at least \$2 million in each of the last four years.
- Is unlikely to reduce its reserves significantly over the next five years if no action is taken.

**KEY RECOMMENDATIONS**

We recommended that the medical board consider taking the following actions:

- Seek amendments to the code to allow it to adjust fees when necessary to maintain proper reserves.
- Refund or decrease fees for physicians to reduce the reserve balances to the level legally mandated.

### Medical Board of California

<b>Description of Data</b> California State Accounting and Reporting System	<b>Agency Purpose of Data</b> To account for the Medical Board's financial transactions: fund balance of \$18.5 million in fiscal year 2006-07.
<b>Purpose of Testing</b> To determine the Medical Board's revenues, expenditures, and reserve balance.	<b>DRA Determination</b> <i>Sufficiently reliable</i>

**DEPARTMENT OF INDUSTRIAL RELATIONS**  
*Its Division of Apprenticeship Standards Inadequately Oversees Apprenticeship Programs*

Date: September 7, 2006

Report: 2005-108

**BACKGROUND**

Apprenticeship programs help prepare individuals for careers in the skilled crafts and trades by providing access to classroom instruction and on-the-job training. The Division of Apprenticeship Standards (division), under the Department of Industrial Relations, has primary responsibility for the oversight of programs. State law requires the division to foster, promote, and develop the welfare of the apprentice and industry; to improve the working conditions of apprentices and advance their opportunities for profitable employment; to ensure that selection procedures are impartially administered to all applicants for apprenticeship; and to cooperate in the development of programs and randomly audit them.

**KEY FINDINGS**

The division suspended apprenticeship program audits in 2004 and did not follow up on corrective action related to audits it had started. Until the division resumes its audits and ensures that the apprenticeship committees correct any weaknesses identified, it will have difficulty measuring the success of the programs and the quality of the training apprentices receive.

The division has not resolved apprentice complaints in a timely manner, taking over four years in some cases to investigate the facts of complaints.

The division has not adequately monitored the apprentice recruitment and selection process, making it nearly impossible to determine whether committees are adhering to equal opportunity requirements or to identify potential barriers to women and minorities.

Division field offices could improve their oversight of committees through improved attendance at committee meetings, establishing a formal process for tracking the resolution of issues or questions, and maintaining an up-to-date list of programs.

While the division's staffing levels have not increased in step with legal obligations, the division has failed to document priorities for meeting these obligations for existing staff, which would help maximize the use of existing staff and identify additional staffing needs.

The division does not adequately track and disseminate information to the Legislature, thus missing the opportunity to make it aware of programs and gain valuable feedback.

The department is slow to distribute apprenticeship training contribution funds. It has only distributed as grants \$1.1 million of the roughly \$15.1 million that had been deposited into the training fund as of June 30, 2005.

The division does not properly maintain its data on the status of apprentices. This data, if accurate, could be used to oversee programs.

**KEY RECOMMENDATIONS**

To better manage the State's apprenticeship program, the division should do the following:

- Follow through on its planned resumption of audits, and ensure that recommendations are implemented and that audits are closed in a timely manner.
- Establish time frames for resolving complaints and develop a method for ensuring that complaints are resolved within these time frames.
- Conduct systematic audits and reviews of apprenticeship recruitment and selection to ensure compliance with Cal Plan requirements and state law.
- Establish a process for regularly reconciling information on the current status of apprentices with information maintained by committees.

**Industrial Relations, Department of**

<p><b>Description of Data</b>                  Division of Apprenticeship Standards (division) data</p>	<p><b>Agency Purpose of Data</b>                  To track enrollment, dropout, graduation rates, and graduation timetables: 68,000 active apprentices as of December 2005.</p>
<p><b>Purpose of Testing</b>                  To determine dropout and graduation rates for the apprenticeship programs the division oversees.</p>	<p><b>DRA Determination</b>  <i>Not sufficiently reliable</i>—We found multiple errors when we tested the accuracy of the system data.</p>
<p><b>Agency Response Date:</b></p>	<p>August 2008</p>
<p><b>Corrective Action Recommended</b>                  We recommended that the division establish a process for regularly reconciling information on the current status of apprentices in the division's database with information maintained by committees.</p>	<p><b>Status of Corrective Action</b>  <i>Partial corrective action taken</i>—The division stated that consultants have been aggressively working with programs to synchronize program and division records. It also says that its roll-out of the electronic transmission of apprentice registration and dropout forms has been moving more slowly than planned, but about 30 percent of apprentices are now being reported electronically.</p>

**BOARD OF EQUALIZATION*****Its Implementation of the Cigarette and Tobacco Products Licensing Act of 2003 Has Helped Stem the Decline in Cigarette Tax Revenues, but It Should Update Its Estimate of Cigarette Tax Evasion***

Date: June 29, 2006

Report: 2005-034

**BACKGROUND**

The Cigarette and Tobacco Products Licensing Act of 2003 (act), which took effect in January 2004, seeks to lessen cigarette tax evasion by requiring the Board of Equalization (Equalization) to license all entities engaged in the sale of cigarettes and tobacco products in California. These entities may purchase cigarettes and tobacco products only from other licensed entities. The licensing process also allows Equalization to identify entities from whom it should be receiving cigarette taxes and those that Equalization should be subjecting to enforcement activities related to the illegal sales of cigarettes and tobacco products.

Cigarettes are subject to a cigarette tax, also known as an excise tax, as well as a cigarette and tobacco products surtax. Distributors pay the tax and surtax by purchasing cigarette tax stamps. Each package of cigarettes must have a stamp affixed before it can be distributed. Currently each tax stamp costs 87 cents per pack of 20 cigarettes, of which 10 cents is deposited in the State's General Fund and the remaining 77 cents is deposited in various special funds used for early childhood health and education programs, tobacco-related education and research, and breast cancer research. Tobacco products are subject only to the cigarette and tobacco products surtax and are not required to have a tax stamp. Equalization's five-member board determines the surtax rate each year; for fiscal year 2005-06 the surtax rate was 46.76 percent of the product's wholesale price. The surtax from tobacco products is entirely allocated to the special funds used for early childhood health and education programs and tobacco-related education and research. The State's cigarette tax is in addition to a federal cigarette tax of 39 cents per pack and state and local sales taxes levied on cigarettes' retail price (which includes the state and federal excise taxes on cigarettes and tobacco products).

**KEY FINDINGS**

Our review of Equalization's implementation of the act revealed the following:

- Based on its analysis of cigarette tax stamps sold, Equalization estimates it received \$75 million in additional cigarette tax revenues between January 2004 and March 2006 because of the act and the new tax stamp.
- Equalization's estimate of \$292 million in annual cigarette tax evasion is based on an unrepresentative sample and an overstated number of retailers of cigarettes and tobacco products. Moreover, Equalization has not updated its tax evasion estimate since 2003, but continues to use that amount as the amount that the State loses each year from cigarette tax evasion.
- Although the act and the new tax stamp have caused a stabilization of the historical decline in cigarette tax revenues, these revenues will continue to decline as long as more Californians stop smoking.
- In fiscal years 2003-04 and 2004-05, Equalization spent \$9.2 million to implement the provisions of the act, with most of that amount paid toward staff salaries and benefits for licensing and enforcement activities.
- Equalization imposes penalties in accordance with the provisions of the act.

**KEY RECOMMENDATIONS**

To provide a more accurate estimate of the extent of cigarette tax evasion, Equalization should update its calculation of cigarette tax evasion using data gathered after implementation of the act.

**Equalization, Board of**

<b>Description of Data</b> Integrated Revenue Information System	<b>Agency Purpose of Data</b> To track all Equalization revenues: estimated \$75 million in additional cigarette tax revenues between January 2004 and March 2006.
<b>Purpose of Testing</b> To determine the level of additional revenues generated by the act compared with the period before its implementation.	<b>DRA Determination</b> <i>Sufficiently reliable</i>
<b>Description of Data</b> Expenditure data	<b>Agency Purpose of Data</b> To account for Equalization's expenditures: \$2.5 million in fiscal year 2003-04 and \$6.7 million in fiscal year 2004-05 for the program.
<b>Purpose of Testing</b> To determine costs of administering the act and summarize them by category and function.	<b>DRA Determination</b> <i>Sufficiently reliable</i>
<b>Description of Data</b> Inspection zone database	<b>Agency Purpose of Data</b> To track the conduct and results of inspections Equalization conducts: approximately 38,000 licensed retailers as of May 16, 2006.
<b>Purpose of Testing</b> To determine the appropriateness of penalties assessed as a result of inspections Equalization conducted.	<b>DRA Determination</b> <i>Sufficiently reliable</i>

## DEPARTMENT OF INSURANCE

**Former Executive Life Insurance Company Policyholders Have Incurred Significant Economic Losses, and Distributions of Funds Have Been Inconsistently Monitored and Reported**

Dates: October 19, 2006, and January 31, 2008

Reports: 2005-115.1, 2005-115.2

**BACKGROUND**

In 1991 the Insurance Commissioner (commissioner) took over the operations of an insolvent company that operated in California since 1962— the Executive Life Insurance Company (ELIC). The commissioner rehabilitated and partially liquidated ELIC and developed a rehabilitation plan that outlined the sale of the estate’s assets, and that planned for restructuring ELIC’s policy obligations and how policyholders would share in any distributions. The commissioner eventually assumed responsibility for managing the ELIC estate, initially through the appointment of special deputy commissioners and, as of August 1997, through his Conservation and Liquidation Office (CLO).

**KEY FINDINGS**

In our review of the Department of Insurance’s (department) management of the ELIC estate, we reported the following:

- The commissioner used the ELIC assets to continue insurance, reduce policyholder losses, and pay administrative costs. It transferred \$6.7 billion to Aurora National Life Assurance Company (Aurora) for use in its role as successor insurer to ELIC. The commissioner paid policyholders and other beneficiaries of the estate a total of \$2.7 billion and has used \$528 million to administer the ELIC estate.
- Policyholders have experienced significant economic losses as a result of the ELIC insolvency. We estimate the economic losses to be \$3.1 billion as of August 2005—\$2.2 billion more than the department’s estimated losses related to original policy rights. The department used a different method to measure losses. In its calculation:
  - » The department did not include the time value of money.
  - » The department did not include the financial impact caused by changes to policy terms.
- The commissioner has not consistently ensured that Aurora complies with key ELIC agreements.
  - » While the commissioner reviewed distributions that occurred prior to 1998 and those occurring in 2007, he did not monitor distributions that occurred from 1998 through 2006. Thus, policyholders have less assurance that the \$225 million distributed during this time period was distributed in accordance with key ELIC agreements.
  - » According to the department’s legal counsel, under the ELIC agreements the commissioner does not have general rights to review or audit Aurora’s records.
- Some reports authorized by the California Insurance Code or required by trust agreements were not produced, and inconsistent accounting practices and varying availability of supporting documents hinder a complete accounting of the ELIC estate.

**KEY RECOMMENDATIONS**

We recommended that the commissioner seek the right to review Aurora’s future distributions of ELIC estate funds to ensure that the distributions are appropriate. We also recommended that the CLO strengthen its controls and practices to ensure financial information is accurate and that the commissioner continues to periodically audit the ELIC estate.

**Insurance, Department of**

Description of Data	Agency Purpose of Data
First Executive Corporation (FEC) Litigation Trust spreadsheet	To record FEC litigation transactions and identify proceeds and expenses. Approximately \$84 million in contingency and certain other legal fees and expenses (more than \$80 million of which were contingency fees); additional legal fees of \$1 million; and \$347 million in FEC litigation proceeds in 1992 through 2006.
<b>Purpose of Testing</b>	<b>DRA Determination</b>
To determine FEC litigation contingency fees.	<i>Sufficiently reliable</i>

To determine the FEC litigation additional legal fees and expenses recorded from 1994 through 1997.	<i>Not sufficiently reliable</i> —Of the sample of 29 transactions that we selected for testing, we found that the CLO could not provide support for four transactions. In addition, three of the transactions were incorrectly coded. Also, there was inaccurate classification of expenses and incomplete documentation of transactions. (Note: the 29 transactions were from 1992–1997, but problems were concentrated in 1994–1997.)
To determine the reliability of the spreadsheet to track litigation proceeds obtained by the FEC litigation trust.	<i>Sufficiently reliable</i>

**Corrective Action Recommended**

We did not recommend corrective action for Insurance processes because the transactions with data that were not sufficiently reliable took place before 2000 and the ELIC estate was expected to close in late 2008.

<b>Description of Data</b> CLO's accounting system, legal expenses, and financial data extracts	<b>Agency Purpose of Data</b> Extracts provided to us by the CLO for the purpose of determining the funds spent on legal expenses related to the Altus litigation and certain FEC matters and on financial transactions when the CLO was administering the ELIC estate: \$80 million in Altus legal expenses from 1998 through 2005 and January through March 2006, and \$325 million in assets available at December 31, 2006.
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<b>Purpose of Testing</b> To determine Altus litigation and some FEC expenses from the ELIC estate.  To determine amounts received and disbursed for the ELIC estate for the period when the CLO administered the estate, through December 31, 2006.	<b>DRA Determination</b> <i>Sufficiently reliable</i>  <i>Undetermined reliability</i> —The CLO had numerous weaknesses in internal controls over its accounting system.
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**Corrective Action Recommended**

We made no recommendations for corrective action because the Department of Finance had already issued a report identifying the many weaknesses in internal controls and the CLO had addressed many concerns by the time we issued our second report in January 2008.

<b>Description of Data</b> Trust Administration System, Holdback Database	<b>Agency Purpose of Data</b> To track the disposition of policyholder funds from the Holdback Trust for the ELIC estate: 6,292 policies and \$2.1 million held in trust as of May 2006.
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<b>Purpose of Testing</b> To determine the reliability of the recorded dollars held in the Holdback Trust.	<b>DRA Determination</b> <i>Undetermined reliability</i> —We did not test the amounts held in the Holdback Trust due to weaknesses in the CLO's internal controls over its general ledger.
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**Corrective Action Recommended**

The CLO estimated that it would close the ELIC estate at the end of calendar year 2008. Therefore, we did not recommend corrective action for this process. The CLO indicated that it was working to address the Department of Finance's recommendations, and the Department of Finance was scheduled to perform a follow-up review in February 2007.

<b>Description of Data</b> Trust Administration System, Opt-out Database	<b>Agency Purpose of Data</b> To track payments made to opt-out policyholders and remaining amounts in trust: 6,203 policies and \$14.6 million held in trust as of May 2006.
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<b>Purpose of Testing</b> To determine whether the database contains accurate and complete information on payments the Insurance Commissioner made to opt-out policyholders.	<b>DRA Determination</b> <i>Sufficiently reliable</i>
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**JUDICIAL COUNCIL OF CALIFORNIA*****Its Governing Committee on Education Has Recently Proposed Minimum  
Education Requirements for Judicial Officers***

Date: August 29, 2006

Report: 2005-131

**BACKGROUND**

The Judicial Council of California (Judicial Council) is the policy-making body of California's court system and is charged with improving the administration of justice. It adopts rules and makes recommendations for court administration, practice, and procedure. This report focuses on current education requirements as well as the process its governing committee on education employed in developing its recent proposal on minimum education requirements. We also reviewed the costs and purposes of traditional delivery education programs for judicial officers offered by the Administrative Office of the Courts' (AOC) Education Division and staff from the Violence Against Women Education Project (VAWEP) during fiscal years 2002-03 through 2004-05. Finally, we reviewed the amounts allocated and spent for education for those fiscal years and tested selected expenditures for the period July 2004 through December 2005.

**KEY FINDINGS**

- The Judicial Council has authorized the Education Division of the AOC to implement a comprehensive education program for the judicial branch. Although the Education Division offers a broad variety of courses to judicial officers, much of the education offered is not required, and judicial officers take most courses at their discretion. In fact, current education requirements apply only to new judicial officers and those hearing certain types of cases.
- The governing committee that advises the Judicial Council on education has proposed education requirements that would generally require judicial officers to attain 30 hours of training over a three-year cycle. If adopted, the Rule of Court would require judicial officers to annually submit records of participation in education programs to their applicable presiding judges.
- Judicial officers have questioned the proposal, including the Judicial Council's constitutional authority to establish minimum education requirements. In mid-August 2006, after further review, the governing committee voted to move forward the proposal with slight modifications. The proposal is scheduled for submission to the Judicial Council for its consideration in October 2006.
- The Legislature does not appropriate funding specifically for judicial education; rather, the Judicial Council and the AOC allocate funding to the Education Division. The Education Division uses various methods to provide training to judicial officers, such as traditional delivery education in which faculty and participants interact in the same place and time. Some training is offered by the federally funded VAWEP program; staff responsible for administering the VAWEP collaborate with the Education Division to provide education to judicial officers in the areas of domestic violence, sexual assault, and stalking.
- Our review of selected Education Division and VAWEP expenditures for the period July 2004 through December 2005 found they were for appropriate and allowable purposes.

**KEY RECOMMENDATIONS**

The Judicial Council should implement a plan to ensure that there is a system for tracking participation to meet judicial education requirements and that the records kept are accurate and timely. It should also continue its efforts in designing curricula to use in developing its judicial education programs and formally assess whether it has been successful.

### Judicial Council of California

<b>Description of Data</b> Accounting data	<b>Agency Purpose of Data</b> To record and collect financial data for reporting and budgeting purposes: approximately \$1.7 million in traditional delivery training program expenditures for fiscal year 2004–05.
<b>Purpose of Testing</b> To determine the amount appropriated and spent for training judicial officers for a three-year period.	<b>DRA Determination</b> <i>Sufficiently reliable</i>

**EMERGENCY PREPAREDNESS**  
*California's Administration of Federal Grants for Homeland Security and Bioterrorism  
Preparedness Is Hampered by Inefficiencies and Ambiguity*

Date: September 12, 2006

Report: 2005-118

**BACKGROUND**

All disasters are, first and foremost, local disasters. When an event occurs it is in a city or county, and the local entity's fire department, law enforcement, and health care providers, in addition to others, are most likely the first to respond to the event's impacts. As such, entities at all levels of government are involved in emergency preparedness, which is defined by the federal government as the ability to plan, organize, equip, train, and exercise homeland security personnel to perform their assigned missions. The State of California Emergency Plan describes the Governor's Office of Emergency Services (Emergency Services) as the lead state agency for all phases of emergency management—preparedness, response, recovery, and mitigation. The Governor's Office of Homeland Security (State Homeland Security) serves as the lead state contact with the U.S. Department of Homeland Security as well as the governor on matters relating to terrorism and state security and maintains the California Homeland Security Strategy. The California Department of Health Care Services (Health Care Services) coordinates the State's overall public health preparedness and response efforts and maintains California's public health emergency plans, including the Public Health Emergency Response Plan and Procedures and other subject-specific supporting plans.

**KEY FINDINGS**

Our review of the State's administration of 10 federal grants for homeland security and bioterrorism preparedness revealed several concerns. Specifically:

- Although the State has conducted exercises simulating various threats over the last few years, California's two major annual exercises—Golden Guardian and the Statewide Medical and Health Disaster exercises—have not exerted sufficient stress on medical and health systems to determine how well they can respond to emergencies.
- The State has been slow in spending federal funds awarded to it since 2001 for homeland security. As of June 30, 2006, Emergency Services and State Homeland Security had spent only \$404 million (42 percent) of the \$954 million awarded to the State for homeland security.
- Although Emergency Services has established a timetable for receiving and reviewing local emergency plans, the State has not kept up with its schedule and has failed to receive and review the plans of 35 of California's 58 counties, including several of the State's most populous counties. Additionally, Emergency Services is unaware of how recently it reviewed emergency plans for 15 of the 19 state agencies it considers critical to emergency response. Also, Health Care Services has not finalized its plans for conducting on-site monitoring of cost reports prepared by subrecipients of federal funds.
- The State's organizational structure for ensuring emergency preparedness is not streamlined or well defined. Continuing ambiguity surrounds the relationships between Emergency Services and State Homeland Security and among the numerous committees that advise the State in its administration of federal grants for homeland security and bioterrorism preparedness.

**KEY RECOMMENDATIONS**

To better prepare the State for responding to terrorism events and other emergencies, state entities, including State Homeland Security and Emergency Services, should ensure that future exercises sufficiently test the response capabilities of California's medical and health systems.

To identify steps that could be taken to help increase the pace of spending for federal homeland security grants, State Homeland Security should create a forum for local administrators to share both best practices and concerns with state administrators.

To ensure that the emergency plans of key state entities and local governments are as up-to-date as possible, integrated into the State's response system, and periodically reviewed, Emergency Services should develop and implement a system to track its receipt and review of these plans.

To simplify and clarify California's structure for emergency response preparation, the following steps should be taken:

- The governor and the Legislature should consider streamlining the preparedness structure. For instance, they should consider establishing one state entity to be responsible for emergency preparedness, including preparedness for emergencies caused by terrorist acts.
- The Legislature should consider statutorily defining the preparedness structure in law.
- The Legislature should consider statutorily establishing State Homeland Security in law as either a stand-alone entity or a division within Emergency Services. Further, if it creates State Homeland Security as a stand-alone entity, the Legislature should consider statutorily defining the relationship between State Homeland Security and Emergency Services.

**Homeland Security, Office of**

<p><b>Description of Data</b> Accounting system</p>	<p><b>Agency Purpose of Data</b> The Office of Homeland Security (OHS)—To post reimbursement requests to the federal government (based on payments) into the automated ledger system (ALS). The Office of Emergency Services (OES)—To use this information to post to CALSTARS. \$954 million in grants as of June 30, 2006.</p>
<p><b>Purpose of Testing</b> To analyze expenditures, encumbrances, and grant allocation data for homeland security grants the OES administers and homeland security grants for which OES provided accounting services on behalf of the OHS.</p>	<p><b>DRA Determination</b> <i>Sufficiently reliable</i></p>

**CALIFORNIA DEPARTMENT OF CORRECTIONS AND REHABILITATION**  
*It Needs to Improve Its Processes for Contracting and Paying Medical Service Providers as Well as for Complying With the Political Reform Act and Verifying the Credentials of Contract Medical Service Providers*

Date: April 19, 2007

Report: 2006-501

**BACKGROUND**

Approximately 172,000 adult inmates in the State's prisons rely on the California Department of Corrections and Rehabilitation (Corrections) to provide adequate and timely medical care when needed. A court-appointed receiver is currently managing Corrections' health care delivery system as a result of a lawsuit alleging that the medical services provided to California inmates were "deliberately indifferent" to their medical needs in violation of their constitutional rights.

**KEY FINDINGS**

Several years ago we reported deficiencies in Corrections' contracting and payment processes. In this report, we identified many of the same issues. We reviewed 21 medical registry services contracts for fiscal year 2005-06 and found that Corrections:

- Did not properly award half of the competitively bid contracts.
- Awarded two competitive contracts without justifying its inability to receive three bids and awarded two noncompetitively bid contracts, with a maximum award amount of \$80 million, without proper justification.
- Allowed contractors to commence work under four contracts prior to receiving final approval.
- Did not always include contract terms that would better protect the State's interest.

We further reported that Corrections:

- Did not adequately monitor some of the medical service invoices of its registry contractors, and prisons did not comply with procedures and contract terms related to invoicing.
- Did not verify the credentials of all providers who treated inmate patients and unnecessarily spent time on other credentialing activities.
- Lacked adequate controls to ensure designated employees filed the required financial disclosure statements on time. Of 124 statements we reviewed, 78 were filed after the deadline—21 of which were filed almost one year late. Further, 14 employees did not file statements. Additionally, we referred a former contract pharmacist-in-charge to the Fair Political Practices Commission for further inquiry and possible enforcement action, and referred some potential conflicts of interest to our Investigations Division for further analysis.

**KEY RECOMMENDATIONS**

We made numerous recommendations to Corrections in this report, including the following:

- Comply with contracting laws and regulations, policies and procedures, and contract terms and conditions to protect the State's interests and ensure appropriate medical services at the most competitive prices.
- Ensure that medical service contracts contain terms that, at a minimum, call for the standard of care required to protect the constitutional rights of inmates.
- Track whether its designated employees, including consultants, file their financial disclosure statements timely and identify potential conflicts of interests.
- Verify the credentials of contracted providers.

**Corrections and Rehabilitation, Department of**

<b>Description of Data</b> Contracts Database	<b>Agency Purpose of Data</b> To maintain data on the medical registry contracts: 33,102 contracts and amendments as of October 2006.
<b>Purpose of Testing</b> To determine the completeness of the database in order to draw a random sample of contracts for our review.	<b>DRA Determination</b> <i>Sufficiently reliable</i>

cc: Members of the Legislature  
Office of the Lieutenant Governor  
Milton Marks Commission on California State  
Government Organization and Economy  
Department of Finance  
Attorney General  
State Controller  
State Treasurer  
Legislative Analyst  
Senate Office of Research  
California Research Bureau  
Capitol Press