

Excellence in Evaluation Award Submission

The California State Auditor is the State's independent and nonpartisan auditing and investigative arm, serving the California State Legislature and the public. For over 60 years, the office has served California by auditing and reviewing state, local, or publicly created agency performance and operations; identifying wrongdoing or mismanagement; and providing insight on issues. Our audits result in truthful, balanced, and unbiased information that clarifies issues and brings more accountability to government programs. We pride ourselves on proposing innovative solutions to problems identified by our audits so that state agencies can better serve Californians. Each year our recommendations result in meaningful change to government, saving taxpayers millions of dollars.

HIGHLIGHTS FROM OUR WORK DURING 2013-2016

152	Performance evaluation audits and investigations
1,779	Recommendations made to auditees
\$589 M	Monetary value from our findings
58	Bills enacted that relied in part from our audits
83	Presentations and testimonials made to Legislative members and organizations

Impact

Because our audit efforts bring the greatest return when the audited or investigated agencies act upon our findings and recommendations, we monitor the agencies' efforts to implement the recommendations we make in each of our reports. Agencies must report to us their progress in implementing recommendations we make at 60-days, 6-months, and one year from report issuance. We may also initiate a follow-up audit if deemed necessary. In addition, the office is required to produce an annual report regarding recommendations that state agencies have not fully implemented within a year of issuance. Accordingly, for those state agencies we determine have not fully implemented one or more recommendations within one year of the issuance of an audit report, we will follow up and request an update of each respective agency's plans to implement outstanding recommendations.

Using this information and some follow-up with agencies, we track the number of recommendations we make and are implemented. We also identify, when possible, the monetary value associated with our findings and recommendations as well as impact on legislative or policy changes.

Each year we report to the Legislature the impact of our work through several annual reports:

- Implementation of the State Auditor's Recommendations (over a two-year period)
- Recommendations for Legislative Considerations From Audits Issued (over a two-year period)

Over the last four years, the office has made nearly 1,779 recommendations in audit reports and investigations that we issued. Of those, agencies asserted they have fully or partially implemented 76 percent of the recommendations. Further, our work identified different types of monetary benefits, such as potential cost recoveries, cost savings, increased revenues, and wasted funds. Attachment D summarizes the monetary value associated with certain findings from reports we issued during January 1, 2013 through December 31, 2016. We estimate that if entities implemented our recommendations contained in these reports, they could realize over \$589 million in monetary value either by reducing costs, increasing revenues, or avoiding wasteful spending. For example:

- In April 2016 we reported that regular evaluation of corporate income tax expenditures—tax benefits for qualifying corporations—would improve their efficiency and effectiveness. These tax expenditures include exemptions from certain taxes, deductions from taxable income, credits that reduce total tax liability, and elections that allow a choice in how taxes are calculated such as the water's edge election. The water's edge election allows multinational corporations to limit their taxable base to income derived from domestic sources, but may allow them to shield income in offshore tax havens. We reported that extending the water's edge to countries considered tax havens, as other states have done, could result in additional state revenue of \$20 million to \$40 million without violating the purpose of the tax expenditure.

- In our March 2014 report on an investigation at the Employment Development Department (EDD), we reported that EDD failed to take advantage of a federal program that would have allowed it to collect an estimated \$516 million owed to the State in unemployment benefit overpayments made to claimants. Several states chose to participate in the federal Treasury's Offset Program to collect unemployment benefit overpayments from 2011 through 2013 with great success. However, EDD, acting on behalf of California, did not participate in this aspect of the Treasury's Offset Program, and instead persisted with its existing collection efforts.

Further, the results of our work are frequently used to introduce legislation, provide support to pending legislation, or refute pending legislation. Attachment E provides a sample from the office's special reports to the Legislature on recommendations for legislative consideration from audits issued over the last four years. The tables in the report present legislation chaptered or vetoed during two regular legislative sessions and relate to the subject of a California State Auditor report, were based in part on recommendations in a state auditor's report, or the analysis of the bill relied in part on a state auditor's report. The results of our audits were used in 67 bills that were introduced—87 percent of which were ultimately chaptered—to either support or disaffirm changes in policy. In those cases where we recommended changes to policy, but at the end of the year, had not been acted on, we highlighted the recommendations in our special report to the Legislature.

Moreover, our audit findings are frequently used as leverage for advocacy groups, stakeholders, and lawmakers. For example, we conducted an audit on the State's low income dental program. Our work was highlighted in a May 2015 letter signed by 16 members of Congress who wrote to California's Governor and legislative leaders urging them to prioritize funding for oral health care in the State's 2015–16 budget (see Attachment F).

Body of Work

As you can see from the listing of reports in Attachment B, our work has touched upon nearly every aspect in California Government. We have also provided performance evaluations on a vast array of programs involving sexual assault and harassment at universities, sterilization of female inmates, child welfare services, sexual assault evidence kits, unemployment benefits, Indian gaming, housing bonds, medication for foster children, admission practices at universities, school safety and nondiscrimination, mental health services, cybersecurity, health care facilities, college accreditation, and veterans' services, to name a few. Based on the audits we performed within the last four years, our staff performed 95 percent of the audit work. There were a few audits that required the expertise of outside specialists, such as the use of an actuary or IT specialist.

After more than five years of drought in California, the Joint Legislative Audit Committee approved more evaluations focusing on water districts and their water rate structures. In the past four years, we performed seven audits in this area. Additionally, with the cost in higher education increasing, the Legislature has heightened attention in higher education, as evidenced by the six audits we have conducted. Our office has also seen an increase in audits involving information technology (IT) projects, as California has many legacy systems that need modernization as well as the need for new IT projects for various state programs—the State currently has over 27 IT projects with costs totaling \$3.1 billion. Many of these IT projects have experienced significant problems, resulting in increased costs to the State and delayed implementation. In the past four years we have conducted 18 audits/status reports involving IT projects or current IT systems.

Because of the complexity of many programs we audit, the office uses two types of formats to write and display its reports clearly and effectively for all our stakeholders. Not only are our reports well organized and easy to follow, visual elements such as tables, graphics, or highlights are inserted into each report to help communicate key concepts or pertinent information. (See Attachment C.) Many of our graphics are requested by media outlets so they can duplicate them in their press pieces. We describe programs and convey the intricacies of government operations in a manner that is easy to understand so that when we present our findings and recommendations, the reader can easily follow the discussion and agree with our conclusions. Because we adhere to strict audit standards, the information and evidence is sound and appropriate and has been reviewed for accuracy.

To assist members of the Legislature, journalists, and the public in obtaining relevant audit report facts expeditiously, we developed several useful documents in addition to providing titles, subtitles, and pullouts. These documents are all accessible on our website (www.auditor.ca.gov)

- **Fact Sheet**—highlights key findings of a report and is specifically geared for getting our message out in a concise manner and garnering interest in reading the report and for those that need to know the most critical information in a short amount of time, such as members of the Legislature and journalists.
- **Highlights**—captures the most significant findings and sometimes the primary recommendations presented in the report. Many readers use this to learn what the report covers and whether they will read the report.
- **Executive Summary**—provides an overview of the audit findings and chief recommendations. Because it includes the highlights, a brief description of the audit results, our recommendations, and auditee's comments, it is meant to be a quick, but more thorough reference for the busy reader such as the Legislature, legislative staff, or journalists who may only have enough time to read this portion.

The office's reports are transmitted to the Governor, legislative leaders, and the public concurrently. We also offer a free on-line subscription service that notifies subscribers when a report has been released. Subscribers have the option of being notified when any report is issued or reports in specific topic areas (or when follow-up responses are posted on our website). All reports released since 1993 are accessible on our website. Upon release of a report, the State Auditor and her staff brief members of the Legislature or their staff about the results and presents a quick synopsis of the report. Often, the office is frequently asked to provide testimony at legislative hearings or give presentations to discuss the results of an audit. Over the last four years, the office has made 83 presentations or provided testimony. Moreover, members of the Legislature often call on the State Auditor to meet with them to discuss audit ideas, results of prior audits or investigations, or potential policy changes resulting from our work.

Work Products

Performance Evaluation Reports

Representing 60 percent of our workload, performance audits and evaluations are the most common type of audit our office performs. During the past four years, our performance audits consisted of a myriad of topics. Performance audits can be mandatory—enacted by legislation—or discretionary, whereas they are requested by a member of the Legislature. The Joint Legislative Audit Committee approves performance evaluation audits that are feasible, useful, and important to state policy. Other performance audits can be conducted as identified through the high risk program described below.

Follow-Up Reports

The office has authority to conduct follow-up reviews of performance audits as needed. The review will focus on the auditee's progress in implementing the office's initial recommendations.

High Risk Reports

The office identifies statewide issues or specific state government agencies as high risk for waste, fraud, abuse, and mismanagement or that have major challenges related to efficiency and effectiveness. The office's authority includes conducting evaluations of state agencies or areas identified as high risk, issuing reports with recommendations for improvement in issues it identifies as being high risk and requiring the responsible state agencies to periodically report on the status of their progress in mitigating or resolving identified risks.

Investigative Reports

Under the California Whistleblower Protection Act, the office has broad authority to perform independent investigations into complaints that state employees or agencies have engaged in improper conduct. The office typically issues two summary reports per calendar year. These reports summarize allegations the office received, investigated, and substantiated, as well as the corrective actions taken by the agencies involved and follow up for previous investigations.

Annual Special Reports to the Legislature (See Attachment E)

- *Implementation of State Auditor's Recommendations*

Early each year, the office summarizes the major findings and recommendations from audit reports issued during the previous two years. Additionally, the office identifies what actions auditees have taken to implement the recommendations. The office makes available these summary reports to members of the Legislature for their use in the Assembly and Senate budget committees and standing (i.e. policy) committees.

- *Recommendations for Legislative Consideration From Audits*

The office is a resource to the Legislature to assist in its oversight and accountability of government operations. While the office's recommendations are typically directed to the auditee, we also make recommendations for the Legislature to consider in striving for more efficient and effective government operations. These special reports summarize recommendations the office makes during two calendar year periods for the Legislature to consider or recommendations for the auditee to seek legislative changes.

- *Recommendations Not Fully Implemented After One Year; The Omnibus Audit Accountability Act of 2006*

The office's audits bring the greatest returns when auditees act upon findings and recommendations. The Omnibus Audit Accountability Act of 2006 (Accountability Act) requires state agencies to report to the office their status in implementing the recommendations we make in our audit reports. Further, the Accountability Act requires the office to annually report to the Legislature the recommendations that have been outstanding for a year and that state agencies have yet to fully implement.

New Audit Program

On July 1, 2015, regulations for the new California State Auditor's High Risk Local Government Agency Audit Program became effective. We initiated this program by analyzing public information for more than 450 California cities to identify a city that is at high risk for the potential of waste, fraud, abuse, or mismanagement or that has major challenges associated with its economy, efficiency, or effectiveness. We identified six cities that caused us concern for being at high risk for major challenges, requested audits on two, and conducted audits as approved on those two. In addition, this program gives us authority to assess, and when JLAC approves, audit counties and the thousands of special districts in California. We updated our website to explain this process and to educate local government entities, lawmakers, and the public on this new audit program (see Attachment G).

Reporting on the Status of Recommendations

In 2013, the office began requesting audited agencies to submit their responses in implementing our report recommendations through a secured website and email supporting documentation, when feasible. Once the agency responses are evaluated, the responses are posted on our public website. Having greater accessibility and more real-time updates on agencies' implementation efforts to our recommendations has greatly assisted the Legislature for use during policy and fiscal committees. This is especially beneficial during crucial points in the budget cycle to facilitate legislative oversight of audited agencies. Additionally, the two annual special reports we provide

to the Legislature reflect the status of recommendations and implementation efforts. Having this information available electronically has streamlined the compilation process for these reports and thus, has saved staff and office resources.

Raising Awareness of Our Work to Stakeholders

California has 120 legislatures and with term limits, several new legislators are typically elected during each election cycle. To ensure that each legislative member is informed on how our office can serve them as well as their constituents, we reach out to each newly elected member to set-up a “meet and greet” with the State Auditor. The purpose of the meeting is to develop a cooperative partnership by providing information on the role of the office and how our office can assist them in providing oversight, holding government programs and officials accountable, and enhancing California’s government. For the meeting, we prepare an informational dossier (folder) that highlights our mission, services, audit process, and work in progress. We also personalize the contents for each member—one of the inserts in the dossier has the name of the member we are meeting with and a short list of audits we have conducted that impact the member’s district and focus on policy issues that are of interest to the member or the committees on which he or she serve. A sample dossier is located in the right pocket of the binder. We have received positive feedback from the legislative members and their staff concerning the dossier, in particular with the quality and personalized information.

Additionally, we continually update our website over the past four years taking into consideration comments from users—legislative staff, federal agencies, media, and the public. We have restructured our home page to ensure users could easily access those pages/information they accessed most frequently—recently released reports, work-in-progress, recently approved audits. We created an “EasySearch” tool for our publications page to allow users to quickly find reports of interest. We also changed our process for signing up for email notifications when the office issues reports. Users can subscribe to our listserv and be notified when any report is issued or specify their area of interest and be notified only when reports are issued in that particular area. Attachment H is a copy of our homepage and publications page from our website.

Contributions to the Field of Legislative Evaluation

The California State Auditor’s Office (office) continues to be an active participant in NLPES activities. In the last four years, the office submitted reports for consideration of the NLPES Certificates of Impact and was awarded certificates for each in those years. Additionally, office staff attend the NLPES webinars and annual professional development seminars. Staff have often served as panelists or speakers on sessions covering various topics such as cost savings reports, audit planning approaches, impact of recommendations, the legal side of audits and evaluations, IT considerations for audits and evaluations, and managing audits and evaluations in the legislative environment.

Further, Dale Carlson of our staff was a member of NLPES’ Executive Committee (EC) from 2007 to 2016 and has frequently been a speaker or panel moderator at the Professional Development Seminars. Mr. Carlson also chaired the EC’s Communications Subcommittee from 2012 to 2016. Accomplishments that the subcommittee achieved during Mr. Carlson’s tenure include the ongoing revision and updating of the NLPES’ website to make it more relevant to users; restructuring and reformatting NLPES’ periodic newsletter, *The Working Paper*; and establishing and coordinating the EC’s annual outreach campaign to increase awareness of and participation in the NLPES.

Additionally, we have used the NLPES list serve to gain insight and information from our peers in other states who provide valuable information that we can utilize in our audits, and we have also shared our insights with others. We plan to continue our participation in NLPES as our office views NLPES as a valuable resource and an excellent means to network and exchange ideas with other program evaluators.

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