

The seal of the California State Assembly is a large, circular emblem with a serrated outer edge. It features a central shield with a scale of justice, a book, and a sun. The shield is flanked by two figures holding a banner. The text "CALIFORNIA STATE ASSEMBLY" is written around the inner circle, and "LEGISLATORUM" is written below the shield. A banner at the bottom contains the Latin motto "EST JUSTAS LEGES CONDERE".

**ASSEMBLY COMMITTEE ON
ACCOUNTABILITY
AND ADMINISTRATIVE REVIEW**

2009-10 Session

Summary of First Year

ASSEMBLY COMMITTEE ON ACCOUNTABILITY AND ADMINISTRATIVE REVIEW

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V. Manuel Pérez
Michael Villines

COMMITTEE PURPOSE

The Assembly Committee on Accountability and Administrative Review is a standing committee charged with investigating California state government programs and agencies to help improve program performance, find efficiencies and save taxpayers' money. The Committee can use confidential sources to develop information.

The Committee investigates topics such as:

- Inefficient use of state dollars by a government department or agency;
- Misuse or abuse of state funds or property;
- A state government program, department or agency's failure to perform its required duties to serve the public.

CONSULTANTS

Nancy D. Chaires
Mark Martin
Linda Morshed

COMMITTEE SECRETARY

Elizabeth Delgado

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REPORTING REQUIREMENTS OF STATE AGENCIES A SNAPSHOT OF COMPLIANCE

Hearing Date: February 25, 2009

In researching government functions to find savings or create efficiencies, the Assembly Committee on Accountability and Administrative Review found over 3,000 reports required from over 175 State agencies due to past legislative requests. Many of these reports were no longer relevant but current procedures do not contain adequate controls to ensure that work is no longer required once issues or information is no longer required.

Some examples of obsolete reports are:

- Y2K readiness, due quarterly since 1998
- A report analyzing a sharp increase in the price of gas in the Spring of 1996
- A quarterly report on the implementation schedule for interim Statewide Automated Welfare System beginning July 1, 1994.

The Committee also found required reports that could be considered vital that are not being completed. One example is the report required every four years on Environmental Goals and Policy by the Governor's Office of Planning and Research (OPR). This report was the reason that OPR was created in 1970 by Governor Ronald Reagan and was last completed during Governor Davis' Administration.

The oldest obsolete report is one required in each even-numbered year by the Secretary of State to the Governor on all official actions and all expenditures since the last report. This report has not been completed since 1936.

Committee Recommendation: The Committee voted to introduce legislation to abolish obsolete reports. In addition, the Committee worked with Legislative Counsel to create a new process to limit and sunset future reports requested by the Legislature.

Results: Assembly Bill 1585, introduced and co-authored by every member of the Committee, eliminates over 1600 existing reports that are no longer required or necessary. AB 1585 also reduces paperwork, increases electronic reporting and implements a provision to repeal report requirements in the future whenever a report is no longer useful.

AB 1585 will place specified time limits on future reports and it is estimated will result in \$5-8 million in savings. It has been passed by the Legislature and is awaiting action by Governor Schwarzenegger.

CALIFORNIA DEPARTMENT OF CORRECTIONS AND REHABILITATION GROWTH IN BUREAUCRACY

Hearing Date: March 11, 2009

The California Department of Corrections and Rehabilitation houses more than 166,000 inmates with a budget of more than \$10 billion annually. An Assembly Committee on Accountability and Administrative Review investigation showed that administrative positions in the Department had grown by 32 percent between Fiscal Year 2005/06 and 2008/09, despite only a 1 percent increase in inmate population. This increased spending on administrative positions during this period from \$262 million to more than \$397 million, a 54 percent rise in costs.

The Committee found duplicative positions in several administrative offices, including three different offices with positions designed for community outreach and overlapping deputy director positions within the Office of the Secretary.

During the hearing, the Executive Director of the Prison Law Office testified that the substantial size of the CDCR administration led to inefficiencies and an inability to make decisions and implement policy changes.

Committee Recommendation: The Committee recommended that the Assembly Budget Committee freeze the Department's ability to fill more than 1,500 vacant administrative positions.

Result: The CDCR announced in July that it would cut 400 administrative positions for a savings of \$35 million.

FEDERAL STIMULUS TRANSPARENCY

Hearing Date: March 25, 2009

The Assembly Committee on Accountability and Administrative Review reviewed the federal American Recovery and Reinvestment Act funding to stimulate the economy. The Committee explored plans for the distribution and accounting for the use of funding coming to California and the impact on job creation.

Testimony was received from representatives of the Superintendent of Public Instruction, the California Department of Transportation, the Energy Commission, and the Department of Housing and Community Development. These agencies are likely to receive the largest portions of funding from the federal stimulus program and the Center on Policy Initiatives relative to job creation.

At the time, the amount of funds estimated to come to California ranged from \$31 to \$78 billion and there appeared to be no way to show job creation figures, especially spread across job categories for direct, indirect and induced employment.

Committee Recommendations: Committee staff was directed to work with key stakeholders to develop a tool to estimate job creation. Doing so may allow a uniform standard devised to assess the economic impact of stimulus funds.

Results: A "Jobs Calculator" was developed that local and state government agencies can use to estimate the primary and secondary jobs resulting from stimulus funding.

This model can estimate total jobs attributable to an amount and category of funding and break them down to occupations within industry groups. It takes 16 major employment sectors comprising 59 major industries, breaks them down to industry occupational codes for 219 industry sub-groups and 732 job titles. Using the most recent federal and state government sources for information applicable to California, the "calculator" applies the accepted multipliers and other data and estimates what the job yield by category and salary will be from a given amount injected into an industry across California. Further, the calculator will provide the spread of jobs and the relative educational levels required.

This tool could provide the ability to estimate the benefits of stimulus funding and check against results to evaluate the effectiveness of capital outlay funding.

EMPLOYMENT DEVELOPMENT DEPARTMENT PROCUREMENT SAFEGUARDING THE STATE

Hearing Date: April 15, 2009

The Employment Development Department (EDD) entered into a contract for telephone services that required the Department to pay five cents each time a caller to the unemployment insurance call center was unable to connect with an operator and was routed instead to a pre-recorded message. Given the increase in unemployment, callers trying to reach EDD flooded the call center, costing the state \$4.4 million for the messages between December 2008 and March 2009.

The Assembly Committee on Accountability and Administrative Review investigated EDD due to the failure of its unemployment insurance system to cope with the surge in phone calls resulting from the economic downturn, and for structuring a service contract in a way that left the state liable for millions of dollars in overage charges. The Committee examined the state's information technology procurement system, EDD's activities to improve access to the unemployment insurance program, and to renegotiate its unemployment insurance telephone service contract.

Committee Recommendations: The Committee directed the Department of General Services (DGS), the Department of Technology Services, the Department of Finance (DOF), and the Office of the Chief Information Officer to adopt deadlines by which they will respond to state agencies requesting approval for information technology procurement.

The Committee recommended that EDD institute assigned call times for unemployment insurance claims. The Committee directed DGS to implement caps on contract fees, sliding scales, or other reforms to limit the State's exposure for cost overruns. The Committee also directed DGS to cap the compensation of consultants who may have a financial incentive to prolong the implementation and cost of projects, such as the Independent Validation and Verification consultant (IV&V) and the Independent Project Oversight Consultant.

Result: As a result of the Committee's investigation, EDD re-negotiated its call center contract and received a \$2.6 million credit to be used against future phone bills. Under the new pricing agreement, the original price of 5 cents per message played will apply for the first 2.5 million callers who hear the recorded message each month. In months when the message plays more than 2.5 million times, the fee will be decreased to 2.5 cents or even 1.5 depending on the call volume.

The Office of the Chief Information Officer and the Department of General Services have integrated the Committee's recommendations into their ongoing procurement reform effort. EDD undertook an internal review process which resulted in caps on some of its volume-based contracts to limit the State's exposure for cost overruns. The hearing also resulted in unidentified savings due to mechanisms instituted to better control costs of volume-based contracts, and to increase the efficiency of the IT procurement process.

REGIONAL CENTERS FAMILY COST PARTICIPATION PROGRAM

Hearing Date: April 29, 2009

California's system of services for the disabled generally provides services free of charge. Regional Centers are nonprofit, private corporations that contract with the Department of Developmental Services to provide or coordinate services and supports for individuals with developmental disabilities. This system was established in statute by the Lanterman Developmental Disabilities Act. There are 21 centers throughout California which serve individuals living within their regions.

The state spends over \$4 billion per year on these programs and expenditures are expected to continue their rapid increase. The Committee examined one of the only means-tested programs, the Family Cost Participation Program, which assesses a share of cost to parents of children who receive three specific regional center services: day care, respite, and/or camping services.

Committee Recommendations: The Committee recommended to the Budget Subcommittee #1 on Health & Human Services that they expand the Family Cost Participation Program to include all services purchased by Regional Centers for consumers except 24-hour out-of-home placement.

Result: The adoption of this recommendation would have resulted in savings of \$11 to \$19 million.

CALIFORNIA DEPARTMENT OF TRANSPORTATION SOLE SOURCE PROCUREMENT

Hearing Date: May 13, 2009

The Assembly Committee on Accountability and Administrative Review obtained internal Caltrans e-mails and memoranda that showed the Department steered millions of dollars of business to a company whose vice-president was a former Caltrans official through a procurement process that limited competition.

The Department bought high-tech devices to count vehicles at freeway locations around the state from one company, even though there were multiple other companies selling similar products. There also was evidence that Department headquarters staff pressured Caltrans districts into purchasing the devices. Caltrans eventually spent more than \$16 million on the equipment.

The Committee determined that Caltrans' process for entering into sole-source procurement lacked proper checks and balances to ensure competition and prohibit favoritism that could lead to higher costs to taxpayers.

Committee Recommendations: The Committee recommended that Caltrans amend its procurement process to ensure that an outside agency be allowed to review any Department effort to steer state construction dollars to a proprietary product without competitive bidding.

Result: Caltrans agreed to rewrite its sole-source procurement process to ensure that the Secretary of Business, Transportation and Housing Agency authorize requests by Caltrans to purchase proprietary products without competitive bidding. The Department also instituted a change in its process for purchasing vehicle detection devices that will allow for more competition.

VICTIM COMPENSATION AND GOVERNMENT CLAIMS BOARD: ADMINISTRATIVE COSTS

Hearing Date: May 27, 2009

The Assembly Committee on Accountability and Administrative Review received material regarding the flawed computer system at the Victim Compensation and Government Claims Board (VCGCB) put into use to pay victim claims, the continuing costs associated with the system at approximately one-third implementation, and excessive administrative costs.

The Committee's investigation revealed an abundance of internal information that was being suppressed, including evidence that over \$8 million in excess of agency authority had been spent on the computer system. Additionally, the system repeatedly overpaid or made duplicate payments, electronically lost claims, had misplaced or purposely misplaced hundreds of unpaid claims over multiple years, and repeatedly made unverified payments with no evaluation.

In December of 2008, the Bureau of State Audits conducted an audit of the VCGCB and the victim program's funding structure and accessibility of services to victims of crimes that noted in its findings:

- A 50 percent decrease in payments to victims while support costs increased;
- Claims processing in excess of the Board's stated 90 day policy;
- A lack of detail in follow-up procedures for and communications with verifying entities leading to inconsistencies;
- Numerous problems remain with the new computer system for processing victim applications and bills.

Recommendations: VCGCB was directed to reduce administrative costs from 31.2% to below 15%, take reasonable steps to eliminate the claims backlog, and develop a system to eliminate duplicate payments, and identify the rate of recovery for erroneous payments and improve such collections.

Results: As a result of the Committee's investigation, the Office of the Chief Information Officer sent personnel to oversee the computer project at VCGCB. The Committee contributed language to AB 1270 to require additional oversight of the VCGCB computer system to correct operational and management issues. Governor Schwarzenegger vetoed the bill.

The Committee is unable to verify claims by Board staff that VCGCB has reduced administrative costs, expedited processing and eliminated the backlog until the State Auditor conducts another audit.

REGIONAL CENTERS OVERSIGHT AND ACCOUNTABILITY

Hearing Date: June 10, 2009

Regional Centers are nonprofit, private corporations that contract with the Department of Developmental Services to provide or coordinate services and supports for individuals with developmental disabilities. This system was established in statute by the Lanterman Developmental Disabilities Act. There are 21 centers throughout California which serve individuals living within their regions.

The Assembly Committee on Accountability and Administrative Review examined the oversight of Regional Centers for the disabled, and the operational transparency and accountability of these publicly-funded non-profit organizations. The Committee heard testimony related to the difficulty of getting information regarding regional center budgets and operations, and improving the operational transparency of Regional Centers. The Committee also heard allegations of retaliation against individuals who attempted to expose wrong-doing on the part of Regional Centers.

Committee Recommendations: The Committee recommended legislative changes, LAO analysis, and an audit by the Bureau of State Audits, to address the range of issues discussed at the hearing.

Result: The Committee introduced AB 1589 in September 2009 to create whistleblower protections for regional center employees, penalties for acts of retaliation against regional center employees, and greater transparency with respect to financial dealings involving family members of regional center directors and board members.

At the Committee's request, the Bureau of State Audits began an investigative audit of selected regional centers in November 2009, and the LAO developed recommendations pertaining to the creation of an Inspector General for regional centers.

STATE REIMBURSEMENT RECOVERY

Hearing Date: July 1, 2009

The Assembly Committee on Accountability and Administrative Review evaluated three audits conducted by the Office of the State Controller and made inquiry of the respective departments regarding the low rate of recovery on funds owed to the state. A combination of factors were identified as the reason for low rates of recovery, including the lack of expertise at some agencies at pursuing repayments and the existing state procedure which allows an agency to discharge debt after one year for budget purposes although collections are still to be sought. The Committee examined the efforts to collect outstanding debt from the California Highway Patrol (\$9.6 million in delinquent billings for the costs of investigating Driving Under the Influence (DUI) incidents), the Department of Industrial Relations (\$54 million in fines for citations issued against employers), and the Public Utilities Commission (\$20.6 million in fines levied against telecommunications providers that defrauded consumers).

Recommendations: The Committee recommended each state agency or entity with collection responsibilities conduct a risk assessment of its collection functions and activities once every two years to encompass the legal authority to impose fines and penalties, collect and record valid debts and ensure they are properly reflected in financial statements, develop the resources to identify and collect amounts due.

The Committee also recommended establishing a centralized collection system within state agencies with the proven ability to act as collectors for agencies that choose to report receivables and allow recovery be pursued by other agencies.

Results: The State Controller and State Auditor agreed with the committee recommendations to implement more consistent and regular reviews.

The Committee evaluated a process underway to study centralized collection and determined that generally, but not exclusively, the Franchise Tax Board would be the collector-of-choice in most instances. It will take two years for a study to evaluate the potential recovery and whether the costs are justified by the amounts recovered.

IMPROVING EFFICIENCY AND ACCOUNTABILITY IN YOUTH CRIME PREVENTION AND JUVENILE JUSTICE FUNDING

Hearing Date: August 26, 2009

The Assembly Committee on Accountability and Administrative Review found that California administered more than \$4.2 billion in federal and state funds on youth crime prevention and juvenile justice programs between Fiscal Year 2006/07 and 2008/09. California administers these programs without tracking which programs or funding streams are the most cost-effective at reducing youth crime and lowering recidivism.

The Committee's review found that 14 different offices in eight different state agencies administered between 38 and 42 different funding streams, making it difficult for any one office or person to advise policymakers on the programs providing the best results. The Committee questioned officials with the Corrections Standards Authority, Department of Education and Emergency Management Agency and found examples of duplicative programs and funding streams with little oversight.

Committee Recommendations: The Committee recommended that state agencies administering youth crime prevention or juvenile justice programs seek to consolidate similar programs into block grants.

The Committee also unanimously voted to prepare legislation in 2010 to begin shifting state-administered youth crime prevention and juvenile justice programs toward programs and practices that have been proven to lower crime and reduce recidivism. The legislation will seek to require that a growing percentage of funds be dedicated to evidence-based practices beginning in 2010-11 and ending in 2012-13, when 85 percent of all funds will be dedicated to evidence-based practices.

Result: The Committee is working with the Legislative Analyst's Office to develop recommendations for the Budget Committee to consolidate programs and funding streams. In addition, Assemblywoman Anna Caballero has introduced AB 2549, a bill intended to require that state-funded juvenile justice programs gradually increase the use of evidence-based practices.

CALIFORNIA STATE LOTTERY OVERSIGHT

Hearing Date: September 23, 2009

The California State Lottery (Lottery) was established by Proposition 37 in 1984. This agency operates the state lottery, distributes funds to winners and public education. The Lottery's menu of games includes seven different types with the majority of sales coming from two of the most popular games -- the SuperLotto and Scratchers tickets. The newest game, the "Make Me a Millionaire" television show, debuted on January 17, 2009.

The Lottery Act specifies that the proceeds of lottery ticket sales shall be distributed as follows: At least 50 percent shall be returned to the public in the form of lottery prizes; no more than 16 percent shall be used for administrative expenses of operating the lottery; and at least 34 percent shall be allocated to various levels of public education.

The Assembly Committee on Accountability and Administrative Review examined the operations of the Lottery and identified issues requiring further inquiry or Lottery action. For example, the Committee identified a previously undisclosed drawing error that resulted in some contestants winning millions of dollars to which they were not entitled, while other contestants who should have played for millions were denied that opportunity.

Committee Recommendations: The Committee discussed the possibility of requesting an audit from the State Auditor to investigate allegations of anomalies in draw procedures impacting the outcome of games. The Committee also requested that the Lottery provide information regarding the status of its 2008 inquiry to the Attorney General on the possible misuse of public funds at an employee recognition event.

Result: The hearing resulted in improved oversight and increased transparency of Lottery operations.

The Lottery subsequently allowed those contestants who were erroneously prohibited from playing the correct game, to play the correct game for the correct jackpots. In October 2009, the Lottery awarded \$264,000 in additional prizes to these contestants.

ADMINISTRATIVE OFFICE OF THE COURTS IMPROVING TRANSPARENCY

Hearing Date: October 28, 2009

The Administrative Office of the Courts is the central bureaucracy charged with overseeing Judicial Branch budgets and operations. The Assembly Committee on Accountability and Administrative Review found that the Administrative Office of the Courts did not provide the same detailed information about its budget as Executive Branch agencies, such as staffing levels within the bureaucracy and travel and conference expenditures. The Committee also found that the Administrative Office of the Courts had underestimated the total cost of a major information technology project by more than \$1 billion and had increased the size of its staff by 60 percent in five years.

During the hearing, the Committee questioned court officials about budget transparency and the Court Case Management System, which was developed without the same information technology development and procurement processes used by other state agencies. Additionally, the Committee heard testimony regarding the decreased level of services provided to the public because of court closures related to budget cuts.

Committee Recommendation: The Committee recommended four areas in which the Judicial Branch could provide more budget information on an annual basis, including a breakdown of staffing levels at the Administrative Office of the Courts, a breakdown of spending within the Trial Court Trust Fund, and legislative notification when the Administrative Office of the Courts transfers money within funds during the Fiscal Year.

The Committee also recommended that the Administrative Office of the Courts prepare a report on their information technology project that provides information on total projected costs of the project and a timeline for implementation. Officials with the Administrative Office of the Courts agreed to comply with the Committee's requests.

Result: The Committee referred its recommendations to the Assembly Budget Subcommittee #4 on State Administration, which will implement the recommendations during the budget process. The Judicial Branch will improve its budget transparency, allowing the Legislature and public more information to improve decision-making.

In addition, the Administrative Office of the Courts will provide a full accounting of the projected costs of the Court Case Management System for the first time since launching the project. Based on the Committee's hearing, the Joint Legislative Audit Committee approved a request to audit the Court Case Management System.

STATE INFORMATION TECHNOLOGY PROJECTS LESSONS LEARNED

Hearing Date: November 18, 2009

State projects related to new or improved IT systems have garnered much attention for what is wrong. In attempting to look into this subject, the Committee sought to clarify the issue through an examination of the roles and responsibilities of various participants and present the Legislature with tools to better evaluate projects in the future. The Committee found that information related to projects sponsored by disparate agencies is not reported to the Legislature in a uniform fashion from or with the information necessary to identify past responses to the Legislature in policy or budget committees.

The Assembly Committee on Accountability and Administrative Review determined the ability for decision-makers to track complicated, large-scale IT projects easily by managing information from year to year in the same format would be a major improvement.

Recommendations: The Committee directed staff to develop a suggested template of questions that should be raised as information technology projects are brought before the Legislature for policy or financial approval. The Legislative Analyst's Office and Budget Committee staff were encouraged to utilize it as a historical record for ongoing evaluation of each state IT project. In this way, future legislators can better assess requests for project approval and can obtain data to inform the Legislature about past actions on an IT project.

Results: With input from the Office of the Chief Information Officer, Department of Finance, Legislative Analyst's Office, and the Franchise Tax Board, the Committee developed a document that divides IT projects, regardless of their size, into six phases covered by thirty-six questions.

The Committee adopted the template of questions and forwarded it to the Assembly Budget Committee and the Legislative Analyst's Office.

These questions should allow comparisons of the problems, progress and performance from year-to-year resulting in a more comprehensive assessment to identify projects that should be altered, reformed, or stopped.

FEDERAL STIMULUS FUNDING A FIRST LOOK AT IMPLEMENTATION

Hearing Date: December 9, 2009

On February 17, 2009 President Obama signed the American Recovery and Reinvestment Act (ARRA or "Recovery Act"). The California Recovery Task Force estimates that ARRA will provide \$85 billion in total benefits to California. The Recovery Act provides federal funding for a wide range of federal, state and local programs as well as tax relief for qualified businesses and individuals.

According to the federal government, the top recipients in California are the Governor's Office of Planning and Research (\$5.5 billion), the Department of Education (\$2.4 billion), and Department of Transportation (\$1.3 billion). The funds received by the Office of Planning and Research were allocated to K-12, higher education, and corrections purposes.

To ensure that its spending authorization is used effectively and for its intended purposes, ARRA contains strong reporting requirements and oversight guidelines. The Committee assembled the leaders of the California Recovery Task Force, the State Auditor, and the Inspector General for Recovery Act funding, to assess the dissemination of Recovery Act dollars and the state's oversight system.

Committee Recommendations: The Committee identified specific information that the Task Force needs to produce in order to provide the Legislature and the public with accurate and meaningful data on the results of the Recovery Act. For example, the Committee requested more straightforward figures for the amount awarded to the State, more reasonable estimates of job creation and retention, and greater detail on direct grants not administered by the State.

Result: The Committee collected and consolidated information requests from the public and the Legislature, and worked with the Recovery Task Force to make that information publicly available. The Task Force provided the requested information to the Committee on February 15, 2010 and in its response indicated where information was publicly available.

The Committee will continue to work with the Recovery Task Force to ensure that all of the requested information becomes publicly accessible.

CALIFORNIA DEPARTMENT OF CORRECTIONS AND REHABILITATION OUT-OF-STATE PRISON PROGRAM

Hearing Date: January 20, 2010

Governor Schwarzenegger declared a state of emergency in the prison system on October 24, 2006, citing severe overcrowding as a threat to health and safety in 29 of the state's 33 prisons. The declaration allowed the California Department of Corrections and Rehabilitation (CDCR) to enter into contracts to house California inmates in out-of-state prison facilities. The emergency declaration remains in effect.

The Committee questioned CDCR about its procurement process for obtaining out-of-state prison beds. CDCR entered into a \$22.9 million contract with one vendor that grew to a contract worth more than \$600 million, without ever conducting a competitive bidding process. It is impossible to determine if the state got the best deal for out-of-state prison beds that it could have due to the informal procurement process utilized by CDCR.

The Committee also questioned CDCR about its staffing levels for overseeing the out-of-state prison program. CDCR has more than 170 administrators overseeing the program and is seeking to add 37 more in Fiscal Year 2010/11.

Committee Recommendations: The Committee recommended that any effort by the Department of Corrections and Rehabilitation to expand the out-of-state prison program be authorized by the Legislature only after the Department commits to holding a formal, competitive bidding process.

The Committee also recommended that the Budget Committee reject the Budget Change Proposal to add 37.5 positions to CDCR to administer the out-of-state prison program. Amid the state's fiscal crisis, the Department should either reduce the ratio it has set to determine the number of certain staff positions to inmates or reduce the number of higher-ranking officials it is using to oversee the program.

Result: The Committee referred its recommendations to the Assembly Budget Subcommittee #4 on State Administration, which will address the out-of-state prison program during the budget process.

STATE EXPENDITURES

Hearing Date: February 10, 2010

Governor Schwarzenegger issued an Executive Order in 2009 directing an end to new contracts for goods and services after March 1, 2009 and further ordered a 15% reduction in spending for each department and a 15% reduction on existing contract costs. Exceptions or exemption processes were included for emergency needs, cancellations that would pose a legal liability, achieve significant savings or avoid revenue loss.

The Committee found expenditures on new and ongoing contracts throughout the year for expenditures of new vehicles, furniture and conferences and meetings at hotels. Despite the Governor's Executive Order, \$33.7 million in spending was reported in these three categories by state agencies for the period from January 1 – March 15, 2009. State agencies reported another \$41.3 million in spending over the course of the 2009 calendar year in the same categories.

The Committee questioned why spending was proceeding as if there was no financial crisis, specifically focusing on bureaucratic responses that seemed to justify expenditures because they were "allowed by the fleet manual" or "not a violation of the executive order". Committee members questioned the bureaucratic justification offered and requested additional information.

Committee Recommendations:

The Committee made several recommendations to improve the quality and transparency of the data that is posted on-line concerning state expenditures because of flaws that became apparent during its inquiry.

The Committee directed the following changes to reduce state costs:

- The Department of General Service should change the replacement criteria contained in the State of California Fleet Handbook to extend vehicle life for all non-emergency light duty vehicles.
- Agencies and Departments of California State Government should develop a personnel-to-vehicle ratio for employees who need a vehicle to do their job. These agencies and departments should conduct a census of employees who utilize state vehicles to determine who needs a vehicle full-time and who might share a pool vehicle for occasional use.
- The Department of General Services should develop an electronic database of all state facilities with conference and meeting rooms with a contact person for each facility.
- State agencies should adopt a policy of using state or other municipal facilities for meetings rather than private facilities in an effort to reduce costs.

Result: Governor Schwarzenegger directed the DGS to inform state agencies and departments that no contracts will be approved that would result in the expenditure of funds unless the expenditure is certified in writing to be "vital and mission critical" and signed by the Agency's Secretary or Department's Director, or their designees.

**CALIFORNIA DEPARTMENT OF MANAGED HEALTH CARE AND CALIFORNIA
DEPARTMENT OF INSURANCE
RESCISSION SETTLEMENT AGREEMENTS**

Hearing Date: March 10, 2010

A Committee investigation revealed that consumer protection actions taken by the Department of Managed Health Care and Department of Insurance regarding health insurance rescissions had failed to help 95 percent of the affected consumers. Data gathered by the Committee showed that the agreements made between the Department of Managed Health Care and the Department of Insurance and health insurers allowed less than 5 percent of consumers who lost health insurance to regain insurance, and even fewer – only 170 out of 6,006 - recouped money for medical expenses.

The Committee examined steps taken by the two departments to address rescission – the practice health insurers use to withdraw health coverage when consumers get sick and begin incurring medical costs. The departments reached settlements with health plans that required the plans to offer new insurance coverage to consumers and a path to recover some expenses. Concerns about the departments' processes included poor outreach to consumers, overly legalistic remedies that favored insurance companies over consumers, and a lack of standardized requirements to prevent future illegal rescissions.

Testimony from the departments indicated neither had a clear picture explaining why so few consumers participated.

Committee Recommendations: The Committee recommended that the Department of Managed Health Care and the Department of Insurance provide a report to the Legislature describing the results of each department's rescission settlement agreements. The Committee also recommended that the Department of Managed Health Care require an independent Third Party Review process for rescission for each of the five health plans under its authority and that the Department of Managed Health Care complete the rescission rule-making process it began in 2007. Finally, the Committee recommended that the departments attempt to locate consumers affected by their rescission settlement agreements to determine why so few consumers participated. The Committee also recommended that the Budget Committee reject the Budget Change Proposal to add 37.5 positions to CDCR to administer the out-of-state prison program. Amid the state's fiscal crisis, the Department should either reduce the ratio it has set to determine the number of certain staff positions to inmates or reduce the number of higher-ranking officials it is using to oversee the program.

Result: The Committee sought to better protect consumers from illegal rescission in the future and asked the department to analyze the results of their settlements to better understand how they could handle similar situations in the future.