THE INTERNAL AUDITING PROGRAM

OF THE

EXECUTIVE BRANCH

OF

CALIFORNIA STATE GOVERNMENT

By the

COMMISSION ON CALIFORNIA STATE GOVERNMENT ORGANIZATION AND ECONOMY

March, 1974

STATE OF CALIFORNIA

RONALD REAGAN, Governor

COMMISSION ON CALIFORNIA STATE GOVERNMENT ORGANIZATION AND ECONOMY

11th & L BUILDING, SUITE 550, (916) 445-2125

SACRAMENTO 95814

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Beverly Hills

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L. H. HALCOMB
Executive Officer

March 21, 1974

Honorable Ronald Reagan
Governor, State of California

Honorable James R. Mills
President pro Tempore, and to Members of the Senate

Honorable Robert Moretti
Speaker, and to Members of the Assembly

Gentlemen:

The Commission has completed an inventory and analysis of the internal audit activities within the Executive Branch of California state government. The objective of the study was to ascertain the extent to which these fiscal, performance and evaluation audits meet the needs of the state service. Additionally, the Commission believes that its effort will focus the attention of state management on the significance of audits as a necessary and valuable management tool.

The Commission's principal conclusion is that the existing pattern of divided responsibility for the conduct of fiscal audits weakens their desired independence, objectivity, and credibility. Accordingly, the Commission recommends that the State Controller be charged with the responsibility for the conduct of all fiscal audits within the Executive Branch. The action required to implement this and other recommendations contained in the report is shown in Appendix I. Responsibility for the establishment and review of fiscal policy, of course, should be retained by the Director of Finance.

Within recent years the Department of Finance, as well as some of the other larger departments, has increased the scope and frequency of performance and evaluation audits. The Commission recommends that the Department of Finance be given specific responsibility to expand this program further and for

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the functional supervision of all such audits throughout the Executive Branch. At the same time, although the audit talent of the Department of Finance should be available to all other departments, it is not suggested that the established and sophisticated performance audit units within the larger departments be transferred to the Department of Finance; the work of such departmental units is an integral part of their management and should be retained within the departments. The activity of these units, however, should be subject to supplementary fiscal audits by the State Controller.

The study was conducted under the supervision of a Commission Subcommittee consisting of Walter H. Lohman and Howard A. Busby. We believe the findings of the Commission are sound, the recommendations justified and, in some instances, long overdue. Although neither the Commission's initial goals nor its findings are pointed to produce significant dollar savings in the state budget, the recommendations are another step toward making state government more efficient, more effective and more accountable to the Legislature and the public.

Respectfully,

Manning J. Post, Chairman
H. Herbert Jackson, Vice-Chairman
Senator Alfred E. Alquist
Howard A. Busby
Assemblyman Jack R. Fenton
Harold Furst
Harold C. Henry
James E. Kenney
Andrew L. Leavitt
Walter H. Lohman
Senator Milton Marks
Assemblyman Ernest N. Mobley
Nathan Shapell

THE INTERNAL AUDITING PROGRAM OF THE EXECUTIVE BRANCH OF CALIFORNIA STATE GOVERNMENT

To meet statewide and local public needs, the Legislature has provided a wide variety of operations and services which now require an annual expenditure of over $9.8 billion in state funds. These programs are administered by the Executive Branch of state government through elected officers and boards, state agencies and departments, and the universities. A major portion of the funds are subvented to local school systems and to local governments for a variety of public services. In addition, substantial funds are received from the Federal Government for use by the state or for allocation to local governments. To aid in the control of these funds and to evaluate performance, the Executive Branch will spend at least $12 million in the 1973-74 fiscal year for an internal audit activity. In addition, the Legislature employs the Auditor General and the Legislative Analyst to assure that the Administration has met the Legislature's intent in an effective and economical manner.

The purpose of this study by the Commission on California State Government Organization and Economy is to inventory the internal auditing activity of the Administration to ascertain if its effort has been productive and is meeting the objectives and needs of the Administration, the Legislature, and the public. Audits made by revenue producing agencies for the purpose of tax enforcement or regulating industry are not encompassed within the scope of this study.

Commission interest was focused on the fiscal auditing practices of the Executive Branch as well as on 'management', 'performance' or 'program' audits performed by the Department of Finance and by some of the larger departments.

Management or performance audits are conducted for the purpose of evaluating or measuring the effectiveness and efficiency of departmental operations, while program evaluation relates primarily to determination of the need for such operations. Fiscal audits are concerned with fiscal integrity of state agencies, with funds subvented to local government, with funds disbursed to suppliers, and with the proper payment of other claims against the state.

STUDY METHOD

A questionnaire, designed by Commission staff, was distributed to the Department of Finance and 46 other state departments*. (See Appendix II.) Staff discussions were held with representatives of the departments performing internal and/or subvention audits for the purpose of gaining a fuller understanding of the scope, objective, and results of their respective auditing efforts. In addition, meetings were held with agency secretaries, the Legislative Analyst, the Auditor General, and other legislative staff members. The results of this effort are summarized in Appendixes III and IV. Appendix III lists the 19 state departments in addition to the State Controller and the Department of Finance that have fiscal and/or subvention audit staffs. The 15 departments, in addition to the Department of Finance, who conduct performance and evaluation audits are also shown in Appendix III.

*The University of California and the California State University and Colleges were not included within the scope of the study.

More than 650 employees are engaged in these audit activities. Audits referred to in the report as 'subvention audits' and departments performing such audits are reported in column 5. Performance and evaluation audit activity is tabulated by departments in column 6. Departments which do not conduct either fiscal or performance audits are enumerated in Appendix IV.

INTERNAL AUDITING FUNCTION

For the purpose of this study we have regarded an internal audit of the Executive Branch to include any audit or evaluation activity conducted by state personnel for the purpose of aiding state managers in discharging their accountability for resources, in measuring the efficiency and effectiveness of their particular organization, and in evaluating the progress of their activity toward meeting the identified public need.

The study identified five principal needs for internal auditing activities performed within the Executive Branch:

Fiscal Audits of Departments. The fiscal audits of departments are conducted by the Department of Finance, as well as by some operating departments, primarily to verify the integrity of funds handled by the department and to determine the adequacy of the departmental accounting system. Such fiscal audits are also made by the Department of Finance of the University of California, local school districts, and other agencies which function with some degree of constitutional independence. (See Appendix III.)

Subvention Fiscal Audits. The auditing of state or federal funds allocated to local governments is conducted primarily by the State Controller. In some instances, however, the department responsible for the disbursal of such funds is responsible for the conduct of the audit. For example, the Department of Benefit Payments has a staff of 63 persons assigned to audit the Aid to Families with Dependent Children Program; the Department of Health has assigned 152 staff members to audit the state's several health care programs. Several other departments also have small staffs engaged in auditing subvented funds administered by them. (See Appendix III.)

Subventions to school districts are usually audited by certified public accounting firms engaged by individual school districts. These audits are conducted in accordance with standards established by the Department of Finance. The Department of Finance is also responsible for performing the audits, if a school district neglects to do so, or if an audit fails to meet the prescribed standards.

Performance and Program Evaluation Audits. The need for evaluation of performance and its effectiveness has been recognized by both the Executive and Legislative branches of the state government. Within the past year the Department of Finance has devoted considerable effort in developing techniques for measuring and evaluating the efficiency and effectiveness of state programs. Similar interest has been shown by the Legislature by broadening in 1972 the scope of the activities of the Auditor General to include the evaluation of performance. Other state departments maintaining

internal audit units for this purpose are shown in Appendix III. This activity clearly demonstrates the recognition of the need for management to have reliable information to account to the Legislature and, in turn, to the public for performance and for justification of requests for resources needed for the administration of their programs. There is a need for more refined techniques to evaluate the effectiveness or performance of a state activity or program.

The success of the program planning and budget system concept first utilized by the state in the 1966-67 budget makes necessary an ongoing evaluation of the need for and effectiveness of programs authorized by the Legislature through the annual budget. The Division of Audits and Evaluation of the Department of Finance has established the Program Review Branch to accomplish both performance and program evaluation audits. The Legislature, in addition, receives independent evaluations from both the Auditor General and the Legislative Analyst.

Revenue Sharing Audits. The revenue sharing program of the Federal Government allocates funds to the state through the Department of Finance. Finance is responsible, in turn, for allocating these funds for various authorized local programs. Federal requirements stipulate that these funds are to be subjected to an 'independent' state audit to be reviewed by the Federal Government. Since the Department of Finance administers the funds, federal regulations preclude that department from conducting the required audits. It has not yet been determined whether such audits will be performed by the Controller or the Auditor General.

Fiscal Audit of Federally Disbursed State Funds. Under the provisions of Title XVI of the Federal Social Security Act (1972), the Federal Government assumed responsibility on January 1, 1974 for the administration of the categorical aid programs to the aged, blind, and disabled. The Legislature has determined that the federal payment will be supplemented by state funds to bring the payments to the level required by state legislation. The audit of these programs entails fiscal accountability for both federal and state funds. The need for a separate audit by the state of the state's share of this program is yet to be determined. Additionally, if the state assumes some auditing responsibility in this area it has not yet been determined with whom the responsibility should be placed.

RESPONSIBILITY FOR AUDITING ACTIVITIES WITHIN THE EXECUTIVE BRANCH

Internal audits with varying scope and objectives are conducted by the Department of Finance, Controller, other state departments, and certified public accounting firms. In addition, the Auditor General conducts audits of the Executive Branch on behalf of the Legislature while the Federal Government audits some state departments which spend federal funds. The statutory authorization and responsibility for each of these state auditing activities is summarized in Appendix V.

In evaluating these existing internal audit activities of the state and in arriving at recommendations, the Commission considered the following basic criteria:

- There should be a clear understanding by all concerned of the objective, scope, function, and authority of the auditors in

connection with each audit or review.

- The internal audit activity of the Executive Branch should be organized to insure the maintenance of checks and balances required or intended by the State Constitution.

- The auditor should be in a position to be objective in the conduct of his audit. An audit report should not become self-serving to the authority under which the auditor is working.

- Management should not be in a position to suppress or water down an audit report which has disclosed shortcomings in the administration of the operation audited.

Department of Finance. The Department of Finance, through the Division of Audits and Evaluation, has assumed primary responsibility for the conduct of internal audits of state departments. The Division is organized into three operational units: the Financial Audit Branch with a professional staff of 42 persons and a 1973-74 budget of $829,000; the Program Review Branch with a professional staff of 72 and a 1973-74 budget of $1,442,000; and the Accounting Systems Branch, a small unit charged with the responsibility for devising, installing and supervising the state's accounting systems.

The increasing role of the Department of Finance in conducting performance reviews and program evaluations is a constructive step. This activity will improve the effectiveness of the state's management and will provide the appropriate management tool for evaluating the Administration's performance.

In addition to the program review by the Division of Audits and Evaluation, some of the larger departments have developed their own management performance and evaluation operations. (See Appendix III.) Combined, this input provides information on which the Administration can account to the Legislature and the public on both performance and program effectiveness.

The Commission staff found little indication of overlap or duplication of audit effort. There are instances where the Department of Finance and Auditor General have worked in concert to avoid duplication or overlap of review areas. Any inadequacies in audit coverage are attributable to a lack of manpower rather than that of oversight. In some instances there is a time lag of two to five years between audits.

As the Governor's principal fiscal advisor, the Director of Finance is charged with responsibility for the establishment and review of fiscal policy, for designing the accounting system and for the compilation of the Governor's budget. The Commission questions the appropriateness of that official also having responsibility for, in effect, auditing his own system.

The Commission recognizes that the Governor must have the assurance that fiscal policy for which he is responsible is being administered in accord with his intent. To provide this assurance the Legislature in 1973 charged the Department of Finance with responsibility of supervising, installing and updating the state's uniform accounting system. These systems should include the necessary internal checks and controls. The Commission believes that it would be of advantage to the Governor, from the Administration standpoint, to be able to demonstrate

to the Legislature and the public that the state's financial resources are subject to the review of an independent fiscal audit.

Some departmental administrators have voiced skepticism regarding the performance audits conducted by the Department of Finance because the work was performed by persons allegedly lacking in appropriate management experience. Staff of the Division of Audits and Evaluation, on the other hand, has expressed concern that departmental management personnel have sometimes failed to utilize the information attained from management evaluation reports. The Division personnel are of the opinion that the benefits of their work will not be fully realized until their product gains the acceptance and support of those responsible for the management functions of the state. To some degree a greater acceptance could be attained in the performance audit function through the utilization of personnel who have operational and management experience.

The Division of Audits and Evaluation has been successful in recruiting staff with advanced academic degrees. There well could be an advantage in augmenting and/or rotating such staff with personnel experienced in the actual management of the state activity being audited. Such a policy would not only broaden the experience and exposure of audit personnel to a wide range of management problems but would also provide departmental management with a greater appreciation of the value of performance and program evaluation audits. In addition, the Commission recommends that the Personnel Board establish a statewide training program for audit personnel. In-service training courses and seminars should be conducted on a regular

schedule to train new employees, as well as to update current audit staffs on new methods, procedures, and objectives.

It is also noted that a major portion of the activities of the Program Review Branch of the Department of Finance in 1972-73 was concerned with programs which operate with some degree of statutory or constitutional independence of the Governor. Such activities include community mental health programs, year-round schools, salary surveys of non-academic classes at the University of California, and the operation of the libraries of the University of California. While these audits were productive and were probably of aid to the Legislature and to the organizations audited, the limited resources of the Program Review Branch could have been better spent in reviewing the effectiveness and efficiency of those functions more directly responsible to and controllable by the Administration. The auditing of operations for which the Governor is not directly responsible should more appropriately be a responsibility of the Auditor General (the Legislature).

The Commission recommends that the Program Review Branch in the Department of Finance be strengthened and expanded. The services of this Branch can be an important aid to the Administration, the various departments and the Legislature to assure that there is a continuing effort to improve the efficiency and effectiveness of state management. Administrators should recognize more fully that the services of this Branch are available for assistance in solving management problems.

The current activities (January 1974) of the Program Review and Financial Audit Branches of the Division are shown in Appendixes VI and VII.

Office of State Controller. The State Constitution provides for an independent state fiscal office, through the process of the election of the State Controller. The primary objectives of the Controller's Office are to provide state fiscal control over receipt and disbursement of public funds, to report the financial operations and conditions of the state and local government, to assure that money due the state is collected, to provide equitable, effective, and economical tax administration, and to provide fiscal assistance and guidance to local government. The total budget of this office for the 1973-74 fiscal year is $12,257,891.

As shown in Appendix III, the Controller conducts most of the audits of funds subvented to local government by or through the state. To perform these audits, the office maintains a professional staff of 72 persons with budget costs of $1,371,000. In addition the Controller has a small audit staff which conducts fiscal and performance audits of the internal activities within the Controller's Office. This group also audits payroll disbursements made by the Controller's Office. The Controller does not audit fiscal reports or activities of state departments. The Controller's current auditing activities (January 1974) of subvented funds are shown in Appendix VIII.

The establishment of an elected fiscal officer would imply a constitutional intent that there be an independent fiscal check on the activities of the Executive Branch. Because of constitutional uncertainties and a long standing practice, the Controller is not now performing this check. That office does not audit the fiscal reports or activities of state departments.

The Commission believes it would be desirable to provide for such an independent check and recommends, therefore, that responsibility for the conduct of all fiscal audits within the Executive Branch be charged (transferred) to the Controller's Office.

This recommendation is backed further by the fact that the Department of Finance, which now conducts fiscal audits, also devises, installs, and supervises the accounting systems for the departments in the Executive Branch. It is a basic and generally accepted auditing premise that one charged with designing, installing and maintaining an accounting system should not also be charged with the responsibility for auditing the integrity of that system.

The Controller maintains the state's general control and fund accounts and prepares annual financial statements and reports. To do this the office relies on the fiscal information provided by the departments. It would be an aid in assuring the reliability of the Controller's overall state financial statement if he were also responsible for the internal fiscal audits which make up the individual segments of the overall statements. To the Commission's knowledge there are only two other states (Idaho and Rhode Island) that place responsibility for the conduct of the fiscal audits of state operations within the same agency that is responsible for the state's accounting system and for the preparation and administration of the annual budget.

As indicated previously, the Controller conducts all major subvention audits except those performed by the Department of Health, the Department of

Benefit Payments, and several other smaller agencies which also audit programs for which they are responsible. (See Appendix III.) It is recommended that the Controller be charged with the responsibility for conducting all these subvention audits and that the scope of the audits be expanded to include comment on the uses of and results obtained from subvented funds. The Controller has long been constitutionally and statutorily responsible for the conduct of most subvention audits, and the ability of the office to perform this service independently has been ably demonstrated.

The Commission also recommends that the Controller perform the fiscal audits of the receipt and disbursement of federal revenue sharing funds administered by the Department of Finance. As mentioned earlier, Federal requirements preclude the Department of Finance from conducting such audits. The Commission believes that the office of the State Controller has the capacity and required independence to assure objectively that the state has received all funds to which it is entitled and meets the requirements for their acquisition and disbursement.

It is the Commission's further recommendation that the Controller perform the fiscal audits needed in connection with the newly established program under which the Federal Government disburses the state's portion of categorical aid funds discussed on Page 6.

Finally, the Commission recommends that the activities of the Controller be subject to annual independent audit by the Auditor General subject, of

course, to approval by the Legislature.

Other State Departments. Some of the larger departments have developed capability for conducting systems review pointed toward evaluating the efficiency and effectiveness of their management systems. These audit staffs also conduct limited fiscal review to assure compliance with law and the adequate functioning of their internal fiscal controls. Such a capability gives the management of a large department current and reliable information about ongoing operations and provides information which is used to account to others for fiscal integrity and operational effectiveness. The Commission concurs with the need and value of such activity and suggests that these existing staffs be retained within the departments. The Division of Audits and Evaluation of the Department of Finance, should provide such evaluation performance audits for the smaller departments. At the same time the Division should be charged with the responsibility to provide functional supervision to those departments having internal performance evaluation groups.

ACTION REQUIRED TO IMPLEMENT COMMISSION RECOMMENDATIONS

Type of Audit	Present Assignment	Recommended Assignment	Action Required
Fiscal Audits			
Fiscal audits of state departments and other state organizations	Finance	Controller	Amend Government Code Section 13070 and Sections 13293-13299; amend Welfare & Institutions Code Section 15154; Insurance Code Section 1061; Health and Safety Code 34327.6. Examine various bond resolutions adopted under legislative authority to assure that fiscal audit responsibilit is assigned to the Controller. Transfer fiscal audit responsibility to the Controller through the budgetary process. The existing fiscal audit staff of Finance is not sufficient to accomplish those audits on a 3-year cycle. It will therefor be necessary not only to transf fiscal audit staff from Finance to the Controller, but it will also be necessary to augment the budget for the Controller.
Federal Revenue Sharing Funds	Unassigned	Controller	Assign responsibility to State Controller through the budgetary process and legislation placing specific responsibilit Augment Controller's budget.
Categorical Aid Funds furnished by State and disbursed by Federal Government; i.e., aid to the aged, blind, and disabled	Unassigned	Controller	Assign responsibility to State Controller through the budgetary process and legislation placing specific responsibilit Augment Controller's budget.

ACTION REQUIRED TO IMPLEMENT COMMISSION RECOMMENDATIONS

Type of Audit	Present Assignment	Recommended Assignment	Action Required
Subvention Audits			
School Districts	Finance	Controller	Amend Education Code Section 17206; adopt SB 18. Review and adjust existing contracts between Finance, local school districts and Department of Education. Transfer responsibility to State Controller through budgetary processes.
Hospital providors of community mental health programs. Community public health programs, prepaid health plans, and other funding of local health programs	Health	Controller	Amend Welfare & Institutions Code Section 5712 to eliminate conflict with Section 5714.1 which assigns fiscal audit responsibility to Controller in connection with the Short-Doyle mental health program. Assign fiscal audit responsibility to the Controller thru the budgetary process, with legislation placing fiscal audit responsibility with Controller.
Categorical Aid Funds; i.e., aid to families with dependent children and food stamp programs	Benefit Payments	Controller	Sponsor legislation to requir contracts between the Departm of Benefit Payments and the Controller to meet the Federa single agency concept and requirement. Transfer fiscal audit responsibility to the Controller through the budget process.
Railroad relocation allocations	Transportation	Controller	Transfer responsibility to State Controller through the budgetary process. Enact legislation assigning fiscal audit responsibility with Controller.
Davis-Grunsky Program Flood Control Subventions	Water Resources	Controller	Same as Above

ACTION REQUIRED TO IMPLEMENT COMMISSION RECOMMENDATIONS

Type of Audit	Present Assignment	Recommended Assignment	Action Required
Subvention Audits			
Aerial fire fighting contracts	Conservation	Controller	Transfer responsibility to State Controller through the budgetary process. Enact legislation assigning fiscal audit responsibility with Controller.
Grants to local government from State Beaches and Parks Fund and from Federal Land and Water Fund	Parks and Recreation	Controller	Same as Above
Air Resources Control funds allocated to local government	Air Resources Control Board	Controller	Same as Above
Grants to local government to build recreational marine facilities	Navigation and Ocean Development	Controller	Same as Above
Federal grants to private workshops	Vocational Rehabilitation	Controller	Same as Above
County Veteran Service Officers	Veterans' Affairs	Controller	Same as Above
Performance Audits	Finance	Finance	Department of Finance should have sufficient staff to enable them to review performance efficiency and effectiveness of state departments and operations on a reasonable time cycle. Finance should be able to respond promptly to requests from management for assistan

ACTION REQUIRED TO IMPLEMENT COMMISSION RECOMMENDATIONS

Type of Audit	Present Assignment	Recommended Assignment	Action Required
Internal Audits by Departmental Staffs	Departments	Departments	The larger departments should limit these audits to activit needed for management control and evaluation. Finance should be responsible for assuring that departmental audit activity does not excee management control needs whic would result in duplication with the State Controller's independent fiscal audit.

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RONALD REAGAN, Governor

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Beverly Hills

L. H. HALCOMB
Executive Officer

The Commission on California State Government Organization and Economy is conducting a study of the internal audit activity of the executive branch.

The study will consist primarily of the development of an inventory of the internal audit activities as they now exist. For the purposes of this study we will consider that internal audits include those performed by state personnel covering the expenditure of funds obtained from or through the state government by local government units such as counties, cities, districts or courts. It will also include the management audits conducted by your department with departmental staff.

The study will not include the audits for purposes of tax enforcement, nor will it include audits conducted to regulate industry.

We need to know:

1. Do you now conduct internal audits of your own department using personnel of the department?

2. Do you now conduct audits of local governmental units in connection with funds furnished to them by or through the state?

   Do you consider the scope of such audits as being confined primarily to fiscal matters or do they include evaluation of the management and results of the activity for which the funds were furnished?

3. If you do conduct internal audits of your department, please provide an organization chart of your internal audit organization. If you have a separate organization conducting any sort of management review or evaluation, please furnish an organization chart of such units. We ask that the charts show the lines of authority and position classifications for each internal audit or management review organization.

4. You are requested to furnish a narrative describing each sort or type of internal audit you conduct. We hope the questions which follow will aid you in preparing the narrative with such content and form that it will not only provide the information needed, but will also relate it to the narratives prepared by the other agencies and departments. Your comments on any additional points you consider to be relevant to the study are expectantly anticipated. If you believe it would be helpful, we will be glad to meet with you and your staff to clarify the questions raised.

   a. What is the primary purpose of this sort of audit?

   b. What is your statutory and other authority to perform this audit?

   c. Do you consider this audit to be primarily a fiscal audit or a management (performance) audit, or both? Please comment on the reasons you classified this audit as a fiscal or management audit.

   d. Within what frequency span is this type of audit performed? What are the legal requirements as to frequency of audit?

   e. How and by whom is this type of audit initiated?

   f. What is the scope of the audit? Include the time frame of the audit in man-years and in span of total time. Describe where it is performed and the organization, staffing, and supervision of the audit crew. Do you augment the audit crew with resource people of special skills, such as knowledge of electronic data processing?

   g. Describe the audit report produced, including who writes the report; who reviews it; and who presents it to what authority for further attention to the audit recommendations or findings. If this is a management (performance) audit, does it primarily cover only internal operations as such or does it encompass a look at whether the program touched by the audit is being adequately carried out or is still necessary?

   h. Please describe any problems you encounter in following an adequate 'audit trail' when the party under audit maintains his accounting records through an electronic data processing system.

i. Describe the specific benefits to the State through any action taken as a result of this kind of audit.

Please furnish a copy of a typical audit report for each type of internal audit you described. Select audits which demonstrate the purpose, scope, and results of this sort or type of audit. Include a description of the staff used for the audit, the time frame, who initiated it and why, and what results were obtained or expected through the audit report.

5. What methods are used to implement the operational or other changes you recommended through the audits? To what extent is there enforced compliance with the audit recommendations? Describe the procedure available to the audited party to present his views regarding the findings and recommendations developed by the audit.

6. Has either the Department of Finance or the Auditor General performed an audit of your department? If so, for each of them, please respond to the following questions:

   a. When was the most recent audit completed?

   b. What was the time interval between that audit and the prior audit?

   c. Was the most recent audit primarily a fiscal audit or was it primarily a management audit, or was it a combination of both?

   d. Was this audit in considerable depth or detail or was it restricted to a review of the internal audits, management or fiscal, performed by your department with its own personnel?

   e. Was your department furnished a report of the audit findings or recommendations? If so, please furnish a copy of the most recent audit report.

   f. Describe what disposition or use your department made of the recommendations offered in the audit report.

   g. Do you consider that your department is required to implement the suggestions offered in the audit report?

h. Was there an opportunity for the department to offer its views regarding proposed audit recommendations either before or after the audit report was submitted? If so, how was this done?

i. We will appreciate any additional information you deem relevant toward describing the performance or impact of your department performed by either the Auditor General or the Department of Finance.

7. Describe the extent to which the Department of Finance has incorporated information or schedules developed by your audits into the internal audits they have performed in connection with the same party.

8. Describe the extent to which the Auditor General or the Legislative Analyst has incorporated into their audits or reviews any information or schedules developed by your audits.

Sincerely,

ELVIN L. FUNDER
Staff Consultant

SUMMARY OF INTERNAL FISCAL AND PERFORMANCE AUDITS
EXECUTIVE BRANCH OF CALIFORNIA STATE GOVERNMENT

FEBRUARY 1974

1 Department	2 Total State Departmental Budget and Positions 1973-74	3 Identified Fiscal Audit Budget and Positions 1973-74	4 Internal Fiscal and Compliance Audits	5 Subvention Audits Local Government-Fiscal Intermed.-Vendors	6 Identified Performance Audit Budget And Positions 1973-74
Finance	$ 5,893,076 270 positions	$ 829,000 42 positions (a)*	yes	yes	$ 1,442,000 72 positior
Controller	12,257,891 665	1,443,000 67 (b)	yes (c)	yes (b)	
		486,000 39 (d)	no	yes (d)	69,000 (c) 4
Department of Justice	50,444,304 2,260	none	no	no	159,000 11
Board of Equalization	41,875,810 2,385	101,900 9	yes	no	148,000 12
Education	2,728,428,238 2,560	In Process of Organizing	yes	no	none
Office of Criminal Justice Planning	81,643,517 118	191,313 13	no	yes (e)	none
BUSINESS AND TRANSPORTATION AGENCY					
Transportation	998,530,621 17,667	654,000 33	yes	yes (f)	(g)
Highway Patrol	154,640,518 7,977	none	yes	no	33,36 (h) 8
Motor Vehicles	93,998,866 6,980	82,492 6	yes	no	383,10 20±

* See Footnotes, Pages 25-27

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EXECUTIVE BRANCH OF CALIFORNIA STATE GOVERNMENT

FEBRUARY 1974

1 Department	2 Total State Departmental Budget and Positions 1973-74	3 Identified Fiscal Audit Budget and Positions 1973-74	4 Internal Fiscal and Compliance Audits	5 Subvention Audits Local Government-Fiscal Intermed.-Vendors	6 Identified Performance Audit Budge And Positio 1973-74
RESOURCES AGENCY					
Water Resources	$ 220,450,465 2,727	$ 129,812 9	yes	yes (i)	$ (j)
Conservation	79,261,873 3,906	16,600 1	no	yes (k)	none
Parks & Recreation	32,824,328 1,897	76,514 5	no	yes (l)	34,932 (m) 2
Air Resources Board	12,773,675 307	none	no	yes (n)	(o)
Navigation and Ocean Development	10,118,646 60	19,691 1	no	yes (p)	none
HEALTH AND WELFARE AGENCY					
Health	2,470,571,127 20,528	2,481,302 164	no	yes (q)	194,304 (r) 13
Benefit Payments	2,671,609,854 780	299,000 21	yes (s)	no	1,192,000 59 (t)
Employment Development	1,267,879,856 10,040	176,460 12 (u)	yes	no	471,108 24
Corrections	166,575,686 7,825	none	no	no	134,008 6

SUMMARY OF INTERNAL FISCAL AND PERFORMANCE AUDITS
EXECUTIVE BRANCH OF CALIFORNIA STATE GOVERNMENT

FEBRUARY 1974

1 Department	2 Total State Departmental Department Positions 1973-74	3 Identified Fiscal Audit Budget and Positions 1973-74	4 Internal Fiscal and Compliance Audits	5 Subvention Audits Local Government-Fiscal Intermed.-Vendors	6 Identified Performance Audit Budget And Positions 1973-74
Department of Rehabilitation	$ 66,612,176 2,127	$ none	no	yes (v)	$ 402,816 (w) 22
AGRICULTURE AND SERVICES AGENCY					
General Services	122,486,193 4,174	(x)	no	no	none
Veterans' Affairs	453,895,288 990	none	no	yes	19,650 1
Franchise Tax Board	38,090,781 2,258	none	no	no	161,196 12
Food and Agriculture	33,373,231 1,677	113,039 16	yes (y)	no	none
Workmen's Compensation Insurance Fund	31,435,995 Not Shown	none	no	no	105,600 7
Personnel Board	16,232,180 608	none	no	no	240,932 (z) 15
Consumer Affairs	22,406,537 1,039	61,662 4	yes	no	none

-FOOTNOTES-

(a) Finance examines the financial records of state agencies as director deems necessary. Responsible for fiscal audits of local school districts.

(b) Controller audits most subventions to local government.

SUMMARY OF INTERNAL FISCAL AND PERFORMANCE AUDITS
EXECUTIVE BRANCH OF CALIFORNIA STATE GOVERNMENT

FEBRUARY 1974

-Footnotes-

(c) Controller has a budget of $69,000 and 4 auditors to conduct internal audits of the department's operations and the state payroll system.

(d) Pre-payment desk audits of claims submitted by departments to pay vendors.

(e) Audits are primarily fiscal with a cursory review to see if sub-grantee is accomplishing the purpose for which the Federal funds are allocated.

(f) Railroad relocation allocations, highway fund subventions.

(g) Office of Programs and Budgets, and Management Systems Branch audit costs comingled with other functions of these groups.

(h) Office of Inspection.

(i) Davis-Grunsky Program. Flood control subvention programs.

(j) Program Budget and Control System group, comingled costs.

(k) Aerial fire fighting contractors.

(l) Grants from Beaches and Parks Fund; grants from Federal Land and Water Fund.

(m) Thirty-five percent of time of Management Analysis Section is applied to management review and evaluation.

(n) Air Resources Board management and technical staff to evaluate program effectiveness in connection with grants to local government of $4,600,000 in 1973-74.

(o) Program evaluation done by line managers. Legislation requires a quarterly report to Legislature of 'program goals, objectives, and means of accomplishment.'

(p) Grants to local government to build recreational marine facilities.

(q) Health Financing Audit Section conducts fiscal audits of hospital providors, community mental health programs, public health programs, prepaid health plans, etc. Health Protection Systems conducts fiscal compliance and operations audits of contract counties.

(r) Health Administration Systems, Management Consultation Section, conducts studies as requested by systems deputies or program managers.

SUMMARY OF INTERNAL FISCAL AND PERFORMANCE AUDITS
EXECUTIVE BRANCH OF CALIFORNIA STATE GOVERNMENT

FEBRUARY 1974

-Footnotes-

(s) Clerical staff conducts desk audits of claims by counties for Federal and State funds for categorical aid.

(t) Quality Control Bureau conducts case study performance audits of Aid to Families with Dependent Children recipients and food stamp programs. Program Review Bureau performs county operations, improvement studies and special projects.

(u) The internal audit section was created as a prerequisite to the establishment of the cash payment and bank payment systems for unemployment insurance benefit payments. A Governor's report and Auditor General's report, according to the department, established internal audit functions as a departmental responsibility.

(v) Two persons from Program Standards Section audit federally funded private non-profit workshop contracts.

(w) Program Standards, Evaluation and Consultation Section which conducts field reviews to determine program effectiveness.

(x) Are seeking 2 positions to conduct internal audits.

(y) Fiscal and performance audits of county fairs; county agricultural commissioners, sealers, and others supervised by the department.

(z) Personnel Board conducts ongoing audits of performance of delegated testing, personnel management services, career opportunities development, local government services. They have fiscal aspects but are primarily for the purpose of performance evaluation.

DEPARTMENTS WHICH DO NOT HAVE INTERNAL FISCAL AUDIT UNITS OR PERFORMANCE REVIEW UNITS

Department	Staff	1973-74 Budget
Public Utilities Commission	806	$ 15,696,729
Secretary of State	169	3,006,596
Treasurer	86	1,584,518
Council on Criminal Justice Planning	118	81,643,517
Business and Transportation Agency		
Alcoholic Beverage Control	437	7,685,017
Insurance	300	4,318,692
Corporations	298	5,213,949
Real Estate	257	6,443,769
Housing & Community Development	165	3,336,456
Savings & Loan	156	3,291,965
Banking	102	2,098,685
Resources Agency		
Fish and Game	1,396	29,200,267
Water Resources Control Board	412	42,442,232
State Lands Division	204	2,561,789
Health & Welfare Agency		
Youth Authority	3,687	99,754,918
Agriculture & Services Agency		
General Services	4,174	122,486,193
Industrial Relations	1,747	38,313,056
Public Employees' Retirement System	404	7,310,997
Teachers' Retirement System	323	5,059,031
Commerce	144	2,500,579
Fire Marshal	151	2,916,313

LAW RELATED TO INTERNAL AUDITING ACTIVITIES INCLUDED WITHIN THE SCOPE OF THIS STUDY

State Controller

Constitution - Article XIII, Section 20
Annotations
Authority for claim audits
Post-disbursement audits

Department of Finance

Government Code, Section 13070 - Investigations
Government Code, Section 13293-13299 - General fiscal audit responsibility
Government Code, Section 13300 - Accounting Systems
Education Code, Section 17206 - Review CPA audits
Welfare & Institutions Code, Section 15154 - County reports audited by Controller
Welfare & Institutions Code, Section 5712 and 5714.1
Insurance Code Section 1061 - Insurance company liquidations
Health & Safety Code Section 34327.6 - Housing Authority Funds

Department of General Services

Government Code, Section 14616-14619 - Contracts

Auditor General

Government Code Section 10500-10528 - Defines Authority and Responsibilities

Pending Legislation

SB 17, 1973, Audits of school districts by Department of Finance
SB 18, 1973, Audits of school districts by State Controller

Audits by CPA Firms

Insurance Code Section 11860 - State Compensation Insurance Fund
*Government Code Section 20233 - Public Employees' Retirement System
*Education Code Section 13891.5 - Teachers' Retirement System

* Added by statutes of 1972 with first audit to cover year ending June 30, 1974.

ACTIVITIES OF THE PROGRAM REVIEW BRANCH
OF THE DIVISION OF AUDITS AND EVALUATION
JANUARY 1, 1974

Audit Assignment	Purpose	Budgeted Hours	Starting Date	Estimated Completion Date
Development Centers	Assess budget level.	900	10-12-72	2-10-74
Educational Opportunity Program	Formulate data base for Program Effectiveness Measure.	1,300	2-5-73	3-1-74
Higher Education Capital Outlay	Develop model for planning purposes.	3,000	6-1-73	3-1-74
Libraries - California State University and Colleges	Feasibility of Library cooperation.	1,400	4-5-73	3-1-74
State Library	At request of State Library.	1,500	4-16-73	2-1-74
Redirection	Assistance in planning operation capital outlay budgets for Higher Education.	800	12-1-73	4-1-74
All Public Libraries	To evaluate the program size, scope, and performance.	4,000	11-5-73	12-31-74
Commission on Teacher Preparation and Licensing	Status of Ryan Act implementation.	880	10-19-73	3-1-74
University of California Budget and Expenditure Cycle	To develop in-house information and reports for budget purposes.	2,000	7-73	6-74
Extended Degree Programs	Develop budgetary support position for program.	500	8-73	11-73
Riverside and Berkeley M. D. Programs	Assess and report on desirability of supporting new medical programs.	800	12-73	3-74
Instructional TV in Higher Education	To determine if instructional TV is meeting its stated objectives and if its funding level is appropriate.	960	12-1-73	6-30-74

ACTIVITIES OF THE PROGRAM REVIEW BRANCH
OF THE DIVISION OF AUDITS AND EVALUATION
JANUARY 1, 1974

Audit Assignment	Purpose	Budgeted Hours	Starting Date	Estimated Completion Date
California Maritime Academy - Need for and Location	To assess need for California Maritime Academy and recommend budgetary position.	160	12-73	1-74
Articulation	To determine student costs and foregone income as a result of inadequate articulation.	*	12-73	9-1-74
University of California Recruitment	To determine extent and nature of U.C. recruitment of students and develop position thereon.	*	12-73	6-1-74
Higher Education Budget Projects	Building productivity and marketing incentives into doctoral program budgets.	2,000	7-73	6-74
Increasing State Aid to Private Higher Education Feasibility and Desirability	Report - See title of project.	2,400	1-74	6-1-74
Adoptions Program	Determine 1973-74 level of funding and to improve program effectiveness by evaluating the relationship of foster care to adoptions.	1,100	7-10-73	1-31-74
Preschool Program	Fiscal management audit as directed by AB 451 (Chapter 1005/73.)	9,000	8-27-73	2-1-74
Veterans' Affairs	Comprehensive audit, including fiscal compliance on economy, efficiency and program result reviews.	3,000	12-3-73	10-31-74

* Project Scope Under Review

ACTIVITIES OF THE PROGRAM REVIEW BRANCH
OF THE DIVISION OF AUDITS AND EVALUATION
JANUARY 1, 1974

Audit Assignment	Purpose	Budgeted Hours	Starting Date	Estimated Completed Date
Follow-up on SB 90	Follow-up study to assess the impact of SB 90 (1972) and its trailer bills on local entities.	*	9-1-73	5-1-74
State Regulation - Alcoholic Beverage Industry	To evaluate the current status of the state's policies with respect to regulating the alcoholic beverage industry.	1,200	9-1-73	2-1-74
State Teachers' Retirement System Management Review	Management review of Teachers' Retirement System operations at request of its Board.	1,800	1-74	5-1-74
Department of Consumer Affairs	Management review.	1,440	9-73	2-1-74
Crippled Children's Services	Program Evaluation.	2,400	8-1-73	11-1-73
House Counsels	Study the relationship between House Counsels and the Office of the Attorney General.	700	7-73	10-30-73
Management Audit Policy - Local Assistance	To determine the level of auditing by the state of local assistance.	700	5-1-73	8-31-73
Mental Health Follow-up	To evaluate Health's plan for implementing recommendations from earlier report.	400	10-73	1-31-74
Clean Water Bond Act	To determine status of Clean Water Funds	900	8-13-73	11-15-73

*Project Scope Under Review

ACTIVITIES OF THE PROGRAM REVIEW BRANCH
OF THE DIVISION OF AUDITS AND EVALUATION
JANUARY 1, 1974

Audit Assignment	Purpose	Budgeted Hours	Starting Date	Estimated Completion Date
Department of Health - Construct Facilities	Workload and efficiency - effectiveness evaluation.	*	1-1-74	7-1-74
Department of Health - Task Force	Organizational study - preliminary hearings.	*	1-1-74	7-1-74
State Administrative Manual Revision	Update manual.	100	1-1-74	2-1-74
Corrections Program Effectiveness	Evaluate the effectiveness of the various correctional treatment programs employed by California Department of Corrections and California Youth Authority.	6,688	12-1-73	9-30-74
Program Effectiveness Measures				
Housing and Urban Development Grant	Evaluate Program Effectiveness of Air Resources Board and other agencies to be selected, plus the development of the Air Pollution Control program.	7,400	7-1-73	7-1-74
MISCELLANEOUS				
Miscellaneous Small Projects		600		

ACTIVITIES OF THE FINANCIAL AUDIT BRANCH
OF THE DIVISION OF AUDITS AND EVALUATION
JANUARY 1, 1974

Audit Assignment	Budgeted Hours	Audit Period From	Audit Period To	Starting Date	Estimated Completion Date
Unit 1. Higher Education					
California State University at San Diego	1,000	9-30-69	6-30-73	7-73	2-28-74
California State University at San Jose	1,000	3-1-70	6-30-73	4-73	2-28-74
California State University at San Francisco	1,000	6-30-70	6-30-73	1-74	4-30-74
Unit 2. General Government, Agriculture and Services Agency, Constitutional Officers					
State Controller	3,200	9-30-69	6-30-73	10-73	6-30-74
Department of General Services (including the 29 small agencies for whom the department provides accounting services.)	9,480	Various	6-30-73	6-72	3-31-74
California State Fair and Exposition	700	12-31-69	12-31-73	8-73	3-31-74
Department of Veterans' Affairs	720	6-30-69	6-30-74		
Unit 3. Business and Transportation Agency, Resources Agency, Retirement Systems					
Department of Housing and Community Development	600	3-31-70	6-30-73	11-73	3-31-74
Department of Water Resources	4,000	6-30-71	6-30-73	8-73	4-30-74

ACTIVITIES OF THE FINANCIAL AUDIT BRANCH
OF THE DIVISION OF AUDITS AND EVALUATION
JANUARY 1, 1974

Audit Assignment	Budgeted Hours	Audit Period From	Audit Period To	Starting Date	Estimated Completion Date
Public Employees' Retirement System	3,200	6-30-69	6-30-73	7-73	3-31-74
Unit 4. K-12 Education					
School District Audit Supervision	2,700	Annual-Intermittent		7-73	6-30-74
School Apportionment Audits:	3,600				
Community Colleges		Annual-Intermittent		7-73	6-30-74
K-12 Districts					
Unit 5. Health & Welfare Agency					
Department of Corrections (including its Divisions and Facilities)	3,000	Various	6-30-73	7-73	6-30-74
Inmate Welfare Fund (including all Divisions and Facilities)	2,600	Various	6-30-73	7-73	5-31-74
Correctional Industries (including all Divisions and Facilities	2,600	Various	6-30-73	6-73	5-31-74
Department of Youth Authority (including its Schools and Camps)	1,200	Various	6-30-73	7-73	6-30-74
Department of Health Care Services (Close-out Audit)	900	12-31-70	6-30-73	9-73	Note (1)
Special Audits, Etc.					
Staff Work Assignments		Not Applicable		Various	Various
Audits of Data Processing Service Centers, Board of Equalization, Franchise Tax	900	Not Applicable		5-73	1-31-74

Note (1), Assignment suspended - assigned to Program Review Branch, Department of Veterans' Affairs Comprehensive Audit.

STATE CONTROLLER - SUBVENTION AUDITS
DIVISION OF AUDITS
INVENTORY OF STAFF ASSIGNMENTS
January 1974

NATURE OF AUDIT	LOCATION	DURATION MAN DAYS
County Welfare*		
County Welfare Department	San Diego	360
County Welfare Department	Placerville	6
Napa County Welfare Department	Napa	180
Alameda County Welfare Dept	Alameda	8
San Benito County Welfare Dept	San Benito	120
Los Angeles - Department of Public Social Services	Los Angeles	135
Los Angeles District Welfare Office	Glendale	225
Los Angeles District Welfare Office	San Fernando	90
Los Angeles District Welfare Office	Pomona	90

* The county welfare audits are performed under a standard audit program

Disaster Projects		
Flood Relief	Humboldt County	10
Federal Disaster	Vallejo and Marin Counties	10
Flood Control	Alameda County	9
Flood Relief	San Bernardino County Road Dept	16
Flood Relief	Santa Barbara Department of Public Works	14
Flood Relief	Orange - Orange County Flood Control District	36

STATE CONTROLLER - SUBVENTION AUDITS
DIVISION OF AUDITS
INVENTORY OF STAFF ASSIGNMENTS
January 1974

NATURE OF AUDIT	LOCATION	DURATION MAN DAYS
School Audits		
School Audits	Santa Clara County	30
School Audits	Shasta County	10
School Building Aid	Las Virgenes District	10
School Building Aid	San Bernardino	4
School Building Aid	San Juan Capistrano	1
Tax Programs		
Property Tax Relief Bus. Inv. - Livestock	Marin County	5
Property Tax Relief Bus. Inv. - Livestock	San Mateo County	13
Property Tax Relief Bus. Inv. - Livestock	San Diego	30
Public Safety		
Peace Officers' Standards and Training	Richmond	5
Probation Service	Marysville	6
Traffic Safety Projects	Richmond	2
Traffic Safety Projects	San Leandro	2
Traffic Safety Projects	San Francisco	2
Traffic Safety Projects	Siskiyou County	2
Traffic Safety Projects	Shasta County	2
Probation Service Special Supervision Program	Orange County	30

STATE CONTROLLER - SUBVENTION AUDITS
DIVISION OF AUDITS
INVENTORY OF STAFF ASSIGNMENTS
January 1974

NATURE OF AUDIT	LOCATION	DURATION MAN DAYS
Peace Officers' Standards and Training Program	Oceanside	3
Traffic Safety Project	Compton	17
Airport Assistance Program	Sacramento County (3 airports)	12
Legal Assistance to Indigents	Sacramento County	7
Air Pollution Control	Orange County	2
Mental Health	San Andreas	10
Municipal and Justice Courts	Sacramento	10