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California State Auditor
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California State Auditor/Bureau of State Audits

The California State Auditor is the State's independent and nonpartisan audit, evaluation, and investigative arm of the Legislature and Californians. In addition to conducting performance audits as requested and approved by the Joint Legislative Audit Committee or mandated in statute, my office is responsible for annually conducting California's statewide Single Audit—a combination of the independent financial statement audit and the independent audit of numerous federal programs administered by California. Federal law conditions receipt of over \$76 billion in federal funds on this annual audit performed by an independent auditor. Equally important, bond rating firms and others rely on our independent audit of the state's financial statements.

My office conducts all our audits including the Single Audit in accordance with audit standards issued by the United States Comptroller General/Government Accountability Office (GAO), including standards that we must follow to qualify as an independent auditor. To preserve the independence of our office and to ensure the receipt of federal funds, state law requires my office to follow those standards and explicitly frees my office from control by the executive branch. Further, our independence also allows my office to provide accurate, nonpartisan reports to the Legislature about the performance of the executive branch.

The Importance of Independence to California's Receipt of Federal Funds

Recognizing the importance of audit independence and consistent with audit standards, Government Code Section 8543 states:

“In order to be free of organizational impairments to independence, the bureau shall be independent of the executive branch”

Government Code Section 8546 also provides that my office, the Bureau of State Audits, be “free from influence of existing control agencies that could be the subject of audits.” The exemptions from executive branch controls are essential in fulfilling the independence requirements of the Government Auditing Standards and to assure acceptance of our audits by the federal government, bond rating companies and others.

Our independence is critical to California's receipt of billions of dollars of federal funds. In fact, federal law conditions receipt of those funds on an annual audit performed by an

independent auditor. To preserve the independence of my office and to ensure the receipt of federal funds, state law requires my office to follow all standards, including those relating to independence, and, as stated above, explicitly frees my office from control by the executive branch.

Every three years the California State Auditor’s office is reviewed by a “peer group” of other state auditors to, among other things, assess whether my office complies with audit standards, including the standards requiring independence. If we do not comply with the audit standards, we are required to disclose that in the opinion accompanying California’s annual audited financial statements—which are relied on by bond rating companies—and, to the federal government when transmitting the annual single audit. Noncompliance with audit standards could jeopardize California’s receipt of annual federal funds and likely, funds California is receiving under the American Recovery and Reinvestment Act.

American Recovery and Reinvestment Act (Federal Stimulus)

Although many questions need to be answered and more guidance is forthcoming, it is clear that the influx of \$31 billion of federal funds will create additional oversight and accountability responsibilities on the recognized state’s independent auditor—the California State Auditor’s office. The Act directs a newly created Recovery Accountability and Transparency Board to coordinate its oversight activities with the GAO and State Auditors.

Current Oversight of Federal Programs

The federal programs audited and number of programs audited each year as part of the Single Audit is formula driven as stipulated by federal Office of Management and Budget (OMB). Last year our office audited 43 programs, which represented 78 percent of federal receipts. The OMB requires certain programs to be audited every year (Type A) and others to be audited on a cyclical basis (Type B).

Below are the results of the prior year audit, *State of California: Internal Control and State and Federal Compliance Audit Report*, Issued in June 2008:

Federal dollars received by California as of June 30, 2007	\$ 76 billion
Federal receipts audited by the California State Auditor	\$ 59 billion

Total Programs Audited

Type A programs	23 programs	(threshold is \$73.6 million)
Type B programs	20 programs	(threshold is \$14.7 million)

Key Issues Reported

- Reporting requirements
- Subrecipient monitoring
- Matching Level of Effort
- Cash Management

Estimated Additional Workload for Oversight

Based on our initial analysis of the portion of estimated stimulus funds that California will receive and the formula for determining which programs to audit, it is likely that the California State Auditor’s office will need to conduct 8 additional audits of Type A programs. Further, we estimate six new Type B programs. Moreover, draft guidance provided by OMB indicates that other programs can be deemed high-risk (and “Type A”) if the federal agency determines it is necessary, in which case, the State Auditor would be required to conduct an audit of those programs.

Additionally, we anticipate that 14 programs that we currently audit as Type A will receive more funds, potentially increasing the audit effort needed and thus the cost to audit those programs. Finally, the OMB guidance indicates that the Recovery Act may establish new requirements under existing programs, which would also impact the audit efforts.

Although the Recovery Act allocates funds to our federal counterpart, the GAO and to federal Inspectors General offices for oversight and accountability, it does not provide funding at the state level. The Act provides the following funds at the federal level:

Accountability and Transparency Board	\$84 million
GAO	\$25 million
Inspectors General	\$221.5 million

The GAO has selected 16 states, including California, to review, audit and report on the use of stimulus funds. The GAO has already initiated coordination with State Auditors and met with our office regarding the review and audit activities. Additionally, my office has already participated in several discussions with the federal accountability community and will continue to do so. We are also providing feedback to OMB regarding the guidance it is providing to states regarding the states’ oversight of funds received under the Recovery Act.

The Voters First Act/Proposition 11

Approved by voters at the November 4, 2008 General Election, the Voters First Act (Proposition 11) is California’s new law for drawing boundary lines for State Assembly, Senate, and Board of Equalization districts. A newly created Citizens Redistricting Commission (Commission) will draw new boundary lines following each U.S. Census. The next Census is in 2010.

The Voters First Act places significant new responsibilities on the State Auditor’s Office for implementation of the act. Specifically, our office is charged with creating the Commission. In order to create the Commission, the California State Auditor is developing regulations relating to, among other things, the application and selection process. Also, as contemplated by the Voters First Act, our office will need to engage in an extensive outreach campaign to make voters aware of the opportunity to serve on the Commission.

To carry out these responsibilities, among other things, our office has contracted for legal services to develop regulations. We are also issuing a Request for Proposals from outreach experts to assist in our responsibility to make voters aware of the opportunity to serve on the commission. Additionally, once the regulations are established, our office will need to administer the application and selection process.

No funding is currently provided. We estimate the cost for fiscal year 2008-09 will be \$477,000. However, the cost estimate for 2009-10 will be significantly larger since the application and process must begin by January 1, 2010 and thus, regulations must be developed and outreach conducted prior to that date.

KEY DATES (as specified in the Voters First Act):

Application process begins	January 1, 2010
Three 20-person pools to Legislature	October 1, 2010
Commission established	December 31, 2010
Final Maps drawn	September 2011

Employee Compensation

Employee Compensation/Furlough

Recently, the Governor issued an executive order to furlough state employees to trim each department's budget by nearly 10 percent. That cut to the budgets of each department has been implemented by the Legislature in the recently enacted budget packages. As you know, on February 19, 2009, we notified the Governor's office and the Legislature that our statutes make us exempt from the furlough order.

My legal counsel has advised that state law makes it clear that my office is free from executive branch control, including the furlough order. More specifically, state law provides as follows:

"...[T]he State Auditor may employ and fix the compensation, in accordance with Article VII of the California Constitution, of those professional assistants and technical, clerical, deputy state auditors, and other officers and employees as he or she deems necessary for the effective conduction of the work under his or her charge." (Sec. 8544(a), Gov. C.)

"It is the intent of the Legislature that the Bureau of State Audits have the independence necessary to conduct all of its audits in conformity with "Government Auditing Standards published by the Comptroller General of the United States and the standards published by the American Institute of Certified Public Accountants, free from influence of existing state control agencies that could be the subject of audits conducted by the bureau ... The State Auditor is delegated the authority to establish and administer the personnel policies and practices of the Bureau of State Audits...without oversight or approval by the Department of Personnel Administration." (Sec. 8546, Gov. C.)

My chief counsel has been working with the Legal Affairs Secretary at the Governor's Office to get this issue resolved and were just notified that the Governor's Office believes my office is exempt from the furlough by Section 8546 of the Government Code. Nonetheless, clarification from the Legislature, by amending the budget control language, that my office is not subject to executive branch agency budgets at the request of the administration., is essential to our continued oversight of the federal funds and thus, California's continued receipt of federal funds.

Budget Impact

I recognize the fiscal challenges the state is facing. In fact, the Governor's budget shows that we have reduced our budget by nearly \$1.8 million from fiscal year 2008-09 to 2009-10 which equates to approximately a 10% reduction. In addition, our office has taken measures to operate as economically as possible. Thus, a furlough or even another reduction to our budget would significantly hamper our ability to carry out our responsibilities, particularly in light of the additional workload my office is facing as a result of the impending influx of federal funds from the Recovery Act and the new responsibilities placed on my office by the Voters First Act.

I take pride in the fact that my office consistently operates in a fiscally prudent manner. Past practices, such as those listed below, demonstrate our commitment to be as effective as possible in an economical manner.

- Allowed a total of \$1.6 million of excess funds, to revert to the General Fund in three fiscal years (FY 00/01 through FY 02/03).
- Made few budget augmentation requests—only two totaling \$2.3 million since I was appointed to serve as the California State Auditor in 2000.
- Reduced our contracting costs by \$385,000 by issued another RFP to increase competition for a portion of the federal compliance work of the Single Audit.

Moreover, our office has absorbed additional responsibilities mandated over the years, without receiving additional funding. Those responsibilities include:

- Bond audits for Children's Hospital Bonds, Housing Bonds, and High-Speed Rail
- Audits for Campus Crime Reporting (every three years)
- Ongoing reviews per AB 900—Public Safety and Offender Rehabilitation Act
- Ongoing monitoring of the Fi\$Cal project throughout its development
- High Risk Program—Section 8546.5 of the Government Code authorizes my office to establish a high-risk government agency audit program to identify, audit, and issue reports on any state entity

- Omnibus Audit Accountability Act—requires my office to report on the status of recommendations made to state entities that are not implemented after one year.

Thus, with our track record of absorbing mandated additional responsibilities, consistently operating in a fiscally prudent manner, having self-imposed a 10% reduction to our budget, and with the additional responsibilities from the influx of federal stimulus funds and with the Voters' First Act, another cut to our already trim budget would adversely affect our ability to conduct audits for the Legislature.