



## **Fraud, Waste and Mismanagement: Just Scratching the Surface Identifies \$8 Billion-Plus**

Financial mismanagement of public funds in California is being reported regularly by this state's media. Just scratching the surface identifies a dozen notorious examples of fraud, waste and mismanagement of state tax dollars that total at least \$8 billion. These examples demonstrate a state-level budget and financial management system that is broken. This system serves no one except those who are ripping off taxpayers and those for whom the tax dollars are intended to serve. Dozens of additional examples that have been reported by newspapers and other media outlets and can be found at Cal-Tax Online (<http://www.caltax.org>).

- Medi-Cal: \$3 Billion-Plus.
- Welfare (Child Care Claims): \$1.5 Billion.
- Child Support Mismanagement: \$1.3 Billion.
- Education Mismanagement: Billions.
- State Prisons (Medical Costs): \$1 Billion and Climbing.
- Food Stamps: \$172 Million.
- Public Pension Mismanagement: \$500 Million.
- University of California: \$800 Million.

Mismanagement has allowed the state's safety net programs to be ripped off before dollars get to the poor for whom the dollars are supposed to help, the state's neediest citizens: Medi-Cal, welfare, food stamps. On this short list, these add up to nearly \$6 billion in rip-offs, usually by crooked providers of services in their billings.

The total doesn't include the woefully unaccountable categorical programs in the Department of Education that have spent as much as \$17 billion a year while pretty much repelling repeated attempts by legislative reformers until a bit of a breakthrough two years ago. Actually, the Legislature's response to the problem was far short of what reformers believe is needed.

From news media reports and government audits in recent years, Cal-Tax has compiled hundreds of examples of fraud and waste, including managerial blunders. Here is a [link](#) to the list on fraud and waste.

Here are some details:

**Medi-Cal: \$3 Billion-Plus.** As much as 10 percent of Medi-Cal billings by doctors, dentists, pharmacists and others are fraudulent, the *Los Angeles Times* reported in December 2002. The FBI told the newspaper: "Health care crime is rampant in California" and stepped up efforts to combat it were merely holding the line on the amount of tax dollar losses. That

would be some \$3.5 billion out of a more than \$35 billion Medi-Cal budget today. (*Los Angeles Times*, December 26, 2002.)

**Welfare (Child Care Claims): \$1.5 Billion.** Statewide, fraudulent welfare claims for child care expenses are costing taxpayers as much as \$1.5 billion a year, authorities say. (*Los Angeles Daily News*, January 31, 2006.)

**Child Support Mismanagement: \$1.3 Billion.** The state expected to have to pay the federal government penalties amounting to \$1.3 billion by 2006 for failing to meet national standards for a computerized child support collection system. (Bureau of State Audits, December 2002.) Cal-Tax: California works to get waivers from federal penalties, while the programs is dreadfully slow to respond to custodial parents who need help securing child support.

**Food Stamps: \$172 Million.** California issued more than \$172 million in food stamps to ineligible persons and underpaid others by about \$79.5 million, federal officials said in 2003, when the Bush Administration notified the state of a \$62.5 million fine because of its error rate was the worst among states. (*Los Angeles Times*, June 28, 2003.)

**Education Mismanagement: Billions.** Poor management plagues the \$17 billion of tax dollars that are spent on categorical education programs, about one-third of the state education budget, according to the Bureau of State Audits. There is no estimate of the dollars wasted or stolen, but they'd logically amount to tens of millions of dollars, possibly hundreds of millions. Presumably, most of this spending is hitting the mark, but it is hard to say how much. State auditors need program accountability to judge, and this has been lacking in the past. State auditors reported in 2003 that the Department of Education failed to implement a pilot project to reform categorical programs and had not strengthened oversight methods that state auditors criticized in a 2000 report. The *Sacramento Bee*, in an award-winning series of articles, provided the impetus for legislation in 2004 that began to address the problem, shifting 22 of 120 categoricals into six new block grants totaling more than \$1.8 billion. The author of the legislation, then-Senator Dede Alpert, expressed frustration as the bill – her sixth on the subject – was battered by lobbyists and politicians, providing far less than had been sought by reformers.

The potential for mismanagement and waste still exists. For example, the textbooks program has been criticized for pressuring school districts into purchases of books not necessarily needed at the time or risk losing funding. The 2004 legislation "was nowhere near what I wanted, but all of us felt that actually getting a bill to the governor and him signing it was at least showing acknowledgement of the problem," Ms. Alpert said recently. It may take another year to measure the impact of the block grant process so those opposed to reform will hopefully see that the world did not come to an end and more steps can be taken, she said. (*Sacramento Bee*, September 7, 2004, Bureau of State Audits reports January 2000 and November 2003; Cal-Tax interview, February 13, 2006.) (Cal-Tax: There also are numerous reports of questionable, even allegedly illegal misuse of tax dollars by many of the thousand or so local school districts on things ranging from extravagant expense account living to millions of dollars being poured into Los Angeles' ill-conceived Belmont Learning Center on an abandoned oil and gas field still emitting noxious gases. A growing number of school districts have been reported to be overspending their resources, causing more reliance on parcel taxes for their operations.)

**Public Pension Mismanagement: \$500 Million.** At least \$500 million a year was added to the taxpayer costs of state employee pensions by legislation pushed by the public employee-controlled California Public Employees' Retirement System. The 20-year cost: \$10 billion, at least. But SB 400 of 1999 sailed through the Legislature without much debate as CalPERS told lawmakers that it was essentially cost-free. Not only has SB 400 hammered

the state treasury, it has cost local governments billions, as the higher benefits for state public safety employees also were made available to local government employee police and firefighters through collective bargaining. (Dan Weintraub in the *Sacramento Bee*, August 10, 2003.)

**University of California: \$800 Million.** High-ranking executives of the University of California were given in compensation in addition to salaries, including secret deals that were not reported to the Board of Regents. These deals amounted to more than \$800 million in 2004, the *San Francisco Chronicle* reported in a series of articles in 2005 and 2006. UC hierarchy has apologized and acknowledged mistakes, including failure to abide by its own rules and not gaining approval from the UC Board of Regents for large settlements.

**State Prisons: \$500 Million.** State prison guards received double-digit pay raises and lucrative pension benefits from a labor contract that stuck taxpayers with at least \$500 million in new costs that could reach \$1 billion (*Los Angeles Times* and *San Jose Mercury News*, May 16, 2002). That contract changed workplace rules that, among other things, resulted in a \$200 million overtime bonanza to cover shifts vacated by guards taking advantage of a liberalized sick leave policy (*Los Angeles Times*, February 10, 2003).

**State Prison (Medical Costs): \$98 Million.** A state audit has found that California prisons paid local hospitals \$112.6 million in 2003, or as much as eight times more than Medicare would for the same procedures. The average 21 percent annual increase in health care costs over the past five years is almost three times the national inflation rate for hospital services, even though there was no significant increase in the inmate population. (Bureau of State Audits report, July 2004.)

**State Prisons (Medical Costs): \$1 Billion ... and Climbing.** California's \$6 billion-a-year prison system spends nearly \$1 billion on medical bills, and a legislative hearing on June 1, 2004 raised questions about some of the costs: Why was a male inmate given breast reduction surgery? Why does the state contract with a Beverly Hills dermatologist for skin treatments? Why does the state spend millions to transport prisoners to hospitals hundreds of miles from their prison cells? (Coverage by *The Associated Press*, *Los Angeles Times*, *San Francisco Chronicle* and *San Jose Mercury News*.) Prison medical costs, \$98 million in 1998, were \$263 million in 2003, despite warnings from the state auditor that millions were being wasted. Though much of the additional cost has been mandated by the courts, public outrage has been expressed over round-the-clock guarding at hospitals of comatose inmates and a heart transplant for an inmate at the Stanford University hospital. The inmate died within a year after running up some \$2 million in bills. The average heart transplant across the United States that year was a \$200,000 procedure. (*Inland Valley Daily Bulletin*, January 26, 2003.)