



Action Steps for Sacramento Policymakers to Improve Financial Management of Hard-Earned Tax Dollars

Fraud, waste and mismanagement in public spending in California are costing taxpayers billions of dollars, according to media reports. News outlets are reporting frequently on the serious and costly mismanagement in this state.

According to *Governing Magazine*, California's financial management ranks next to the bottom among states. While the general public may not read *Governing Magazine*, polling and focus group results in recent years underscore high levels of dissatisfaction from the public regarding the mismanagement of state spending by Sacramento decision-makers.

The problem for taxpayers is that in California, the budget process provides little comprehensive, systematic performance review of state spending. The state budget routinely rolls current spending forward with few questions and fewer answers about the cost effectiveness, outcomes, and performance of programs that cumulatively spend more than \$100 billion in General Fund revenues. Management information that is critical to deciding budget issues is, for the most part, unavailable to the Legislature and governor.

Misuse of California tax dollars has been well-chronicled by investigative reporting and official government audits. For example: after a year of careful review, *The Sacramento Bee* identified categorical school spending – 30 percent, or \$17 billion, of school spending – on programs for which there are no measurable results. The *Los Angeles Times* has reported that Medi-Cal fraud consumes 10 percent (or \$3 billion) of the public dollars allocated for programs to help the poor and elderly. On January 31, 2006, the *Los Angeles Daily News* reported that fraud in state-funded child-care programs could reach \$1.5 billion. Additional press reports on waste, fraud and mismanagement can be found at www.caltax.org.

More than any other state, California offers promising opportunities to redirect and reprioritize spending. If elected officials in Sacramento had the political will to challenge public spending that is being ripped off, future structural budget deficits could be zeroed out and more funding could be allocated to high-priority, high-performing state-funded services.

Those who oppose reform and vigilantly protect the status quo identify numerous areas of the budget that cannot be reduced: K-12 schools, debt service, public employee pensions and numerous other areas of spending. To stop any discussion of spending reform, they identify spending that is constitutionally or contractually obligated. The goal of the status quo lobby is to prevent financial management

strategies in Sacramento. Whether it is protected spending or other areas of the budget, there is an opportunity to better manage spending to benefit children in school, to build transportation infrastructure, to improve safety net programs for the poor, and to address other critical needs.

We recommend the following steps to achieve greater assurance of solid financial management:

1. Begin immediately to develop a plan to stop funding waste, fraud and misspending. It is very costly, difficult, time-consuming and insufficient to prosecute fraud after the fact. California must demonstrate that it can interrupt the flow of money to those who steal from taxpayers as well as from children, the poor, and those for whom tax dollars are intended. Likewise, programs that are badly mismanaged must be reformed or abandoned in favor of more effective service delivery.
2. Require budget officers and program managers to respond after credible reports of fraud and mismanagement, and identify strategies that immediately interrupt the flow of funds to organizations and individuals defrauding the state or engaging in spending that is recklessly mismanaged.
3. As part of the annual budget process, require legislative and budget review hearings on media reports and audits that identify waste, fraud and mismanagement above specified thresholds.
4. For career advancement, require budget officers and program managers for the state to have a track record of effectively challenging mismanagement of public funds. It is vital that budget officers and managers demonstrate the capability to successfully challenge misspending as a criterion for promotion.

Budget officers and program managers must present better information for legislators to use in attempting to make appropriation decisions. Appropriation authority of the Legislature cannot be properly exercised unless information is provided on program effectiveness, program benefits, quality of service provided and alternatives to current costly programs that are not achieving desired results. At a minimum, the following information must be developed to assure taxpayers that legislators and the governor have management information necessary for meaningful budget oversight:

- Require an annual statement of clear goals and objectives for each program, making it clear what will warrant the expenditures. Make sure budget officers, administrators and managers are aware that they will be accountable to report results as part of the regular budget process.
- Identify measurable evidence of the value of the program being funded, such as the numbers of Californians who are helped, as well as its social benefit.
- Regularly consider alternative program delivery systems that may be more cost-effective for intended recipients and for taxpayers paying the bill. An alternative delivery system might be another public agency or private-sector company with a track record of careful and effective management and

delivery of services. Example: Would there be improved outcomes for families if child support enforcement was provided by another state agency or by a reputable private vendor that specializes in collecting debt?

- Determine if there are other less-costly and more effective ways of obtaining these objectives. An example would be greater reliance on county and regional transportation authorities for building needed highways.
- Question where the program would fit in if all programs were displayed in order of importance. Also ask: How important is the spending compared with more urgent spending demands? Or have we concluded that all state spending is equally valuable? If so, on what basis do we conclude that all spending is equal? This is a particularly troublesome issue for taxpayers, since some programs have substantial waste, fraud and mismanagement. Are these programs considered to be as valuable as high-performing, high-priority programs?
- Determine if the benefits would be greater if a portion of the funds spent on the program under review were reallocated to other programs. An important element of a thorough budgeting procedure is prioritizing spending. Because it is unrealistic to meet all spending demand for government programs and activities, it is useful to have a ranking of programs and activities based on demonstrated effectiveness, as well as suggested alternatives to expensive or ineffective programs.