

Press Reports and Audits on Governmental Waste, Fraud and Mismanagement

Compiled by the California Taxpayers' Association

State Agencies

L.A. Dept. of Water and Power Ordered to Pay \$224 Million for Overcharging **Dollar Amount: \$224,000,000** **Other**

A San Bernardino County Superior Court judge ruled June 12 that the Los Angeles Department of Water and Power intentionally overcharged other government agencies for electricity, and now must pay \$224 million in damages. The judge criticized "the lack of a sense of responsibility to good government exhibited" by the department and the city, the Los Angeles Times reported. Among the overcharged entities was the Los Angeles Unified School District, which is to receive \$94.7 million under the judge's ruling. City officials said they would appeal. Attorney General Jerry Brown, whose office represented 11 state agencies that were overcharged, praised the judge's decision. (Source: Los Angeles Times, June 13.)

Region: So. California

Jurisdiction: County

Source: LA Times - June 13, 2007

CPUC Fails to Collect Millions in Fines

Dollar Amount: \$33,000,000

The California Public Utilities Commission has failed to collect at least \$33 million in fines imposed since 1999 on telecommunications companies. The commission's deputy general counsel, Lionel Wilson, reacting to an apparently premature report that a private collection firm had been hired, said such a decision had not been made. "We are trying to get a handle on this," he said. "Pursuing collections can be very difficult." A recent commission memo said outstanding debt owed by utilities that have been fined or penalized amounted to at least \$33 million. CPUC staff began looking into uncollected fines last year after getting a routine memo from the Department of Finance on the importance of collecting debts owed to the state. One company, Vista Group of Ohio, was fined \$7 million for switching long-distance carriers without customers' permission; another firm, Coral Communications of Florida, was fined \$5.1 million for billing unauthorized surcharges. These fines were not collected. Former CPUC commissioner Carl Wood said that in some cases, the companies folded as the commission waited too long to try to collect. This becomes "outright theft," he said, and "people should be outraged." He added that he would be regretful if any of this happened under his watch. The president of a nationwide watchdog group, Thomas Schatz of Citizens Against Government Waste, said, "This goes to mismanagement of the agency." He said a private collection firm should be hired because government is better at spending money than collecting debt. Some say the CPUC imposes heavy fines for publicity, or that the fines themselves drive unscrupulous outfits out of business. On the other hand, those who quit without paying fines may be getting away with pocketing ill-gotten gains. (Source: Contra Costa Times, April 15.)

Region: Statewide

Jurisdiction: State

Source: Contra Costa Times - April 15, 2007

Berkeley Housing Director Resigns in Midst of Scandal

Dollar Amount: \$25,000,000

Berkeley Housing Department Director Steve Barton resigned June 5 amid a scandal involving mismanagement of \$25 million in federal money – some of which was used to pay rent subsidies for dead people as long as two years after they died. The eight-year city employee's resignation was effective immediately. Two investigative reports released last month detailed years of problems at the agency, and stated that employees actively thwarted an investigation into wrongdoing. As reported in the Cal-Taxletter of May 25, 2007, the Berkeley City Council has fired all 22 employees of the city housing authority, but 14 of the employees are protected by union contracts and were expected to be transferred to other city jobs. A former manager, Sharon Jackson, resigned in early 2006 during an investigation involving claims that the agency had given fraudulent data to the federal Housing and Urban Development Program. Ms. Jackson now works for Benicia's housing authority. The housing authority's governing body includes City Council members. Councilman Gordon Wozniak, who has asked for an investigation into the agency, as well as a new independent oversight panel, said the "buck really stops with the City Council and the housing authority," and added, "We give directions to the city manager and the housing director. I don't think we took (problems) seriously enough." (Source: Contra Costa Times, June 6.)

Region: Bay Area

Jurisdiction: City

Source: Contra Costa Times - June 6, 2007

Santa Clara County Information Technology Department is Inefficient, Grand Jury Says

Dollar Amount: \$6,700,000

A report by the Santa Clara County Grand Jury charges that the county's information technology department is ill-managed and inefficient. Savings of \$6.7 million over five years could accrue to the county if network servers and services were consolidated. Joyce Wing, the county's information officer, trashed the report, saying the data was not current. (Source: Palo Alto Daily News, July 2.)

Region: Bay Area

Jurisdiction: County

Source: Palo Alto Daily News - July 2, 2007

Audit Hits Veterans Affairs Department

Dollar Amount: \$5,700,000

The Bureau of State Audits, in a report issued in December, found problems with the Department of Veterans Affairs cash management, to wit: Since the state Department of Health Services decertified the Barstow home in July 2000, this home lost \$5.7 million in federal and state funds through June 2001. "The department lacks an understanding of the data in its system, in addition to adequate tools and resources, to allow it to effectively manage the fiscal operations of its veterans homes," the report stated. The department responded that efforts were under way to regain certification of the Barstow home.

Region: Statewide

Jurisdiction: State

Source: State Audit - December 2002

- Orange County Supes Spend \$1 Million on Office Upgrades, Including a \$7,800 Television **Dollar Amount: \$1,000,000**

Orange County's supervisors and treasurer are spending extravagantly on their offices, using tax dollars to purchase a \$7,800 television, a \$1,200 office chair and many other high-end items that few taxpayers can squeeze into their own family budgets. The Los Angeles Times detailed the spending: "Supervisor John Moorlach bought an \$8,990 desk for the reception foyer of his office, and spent \$10,300 on shelving in the supply room. Supervisor Patricia Bates bought a \$3,375 conference table, and a \$1,200 executive high-back chair. Supervisor Janet Nguyen installed \$1,300 worth of track lighting with a dimmer switch. County Treasurer Chriss Street spent nearly \$50,000 on 90 office chairs from the high-concept Herman Miller design line. And all four ordered 52-inch wall-mounted flat-screen televisions. The supervisors' televisions, which will go in their personal offices, cost \$4,000 apiece; Street's, in his conference room, cost \$7,800." The three newly elected supervisors and treasurer, who collectively spent more than \$1.1 million to upgrade their offices in recent months, said offices and furniture hadn't been changed in decades. "If I'm asking professionals to work for me on a \$6 billion budget, it doesn't make sense to ask them to sit on ... antique furniture that wouldn't even sell at a garage sale," Mr. Moorlach said. Mr. Street, the elected treasurer and former bond trader, is spending more than \$578,000 for a massive renovation. The Times reported: "Walls are being torn out to create a more open floor plan, and employees who once worked in individual offices are being consolidated in one area designed to look like a miniature version of an investment bank's trading floor. It will be just outside Street's office, separated by a glass wall with a sliding door. ... Demolition of the walls cost \$44,800. One of the torn-down walls was the back of Street's office, thus expanding his work space to where a hallway previously led to an exit door. The door was turned into a window for his office, with installation of the glass walls throughout costing an additional \$55,000. ... Asked if the changes were needed to carry out the work of the treasurer's office, Street said: 'We had \$7 billion in cash being managed here, and you couldn't see what people were doing. ... There is no way you can even have \$100 million managed by people sitting in closed rooms. That's taxpayer funds. It's grossly inappropriate.'" State Senator Lou Correa, who left the Orange County Board of Supervisors six months ago, questioned the spending, saying, "I don't think I need a 52-inch wall-mounted TV to do my job." (Source: Los Angeles Times, June 3.)

Region: So. California

Jurisdiction: County

Source: LA Times - June 3, 2007

Director of New State Agency Gets \$800,000 Office **Dollar Amount: \$800,000**

The state is in the process of creating a Department of Public Health, and the government is paying for an office suite to be remodeled for the director – at a cost to the taxpayers of \$800,000. Senator Elaine Alquist noted that the price tag for the renovation is "more than it would cost to buy two houses in Sacramento." The spending includes \$138,000 for new furniture and tens of thousands of dollars on items like bulletproof glass for the front reception area. The Sacramento Bee notes that the office is on the seventh floor of a state building that has security guards posted at the front desk. The new department, scheduled to open July 1, also is spending \$150,000 on outside consultants to develop plans on "change management" and "organizational leadership." (Source: The Sacramento Bee, March 25.)

Region: Statewide

Jurisdiction: State

Source: Sacramento Bee - March 25, 2007

State Credit Car Used in Thefts

Dollar Amount: \$320,000

A state procurement analyst, using a state credit card and her position to forge purchasing documents, went on a \$320,000 buying binge with state taxpayers picking up the bill for a flat-screen television, hot tub, gazebo, iPods, handcuffs, chains and whips, according to state police. Carey Renee Aceves, 34, worked first worked for the state from 2001 to 2005 with the Department of Fish and Game, then worked 17 months for the Child Support Services Department. As officials began investigating her purchases, she moved to the State Board of Equalization on January 2, where she was given training to make purchases. She was placed on paid administrative leave by the BOE, where officials were unaware of the investigation because authorities told Child Support Services officials not to discuss the probe while it was under way. Ms. Aceves allegedly changed the paperwork to show that she bought office supplies with her credit card. She "fenced" many of the items she bought to finance the purchase of a new Lexus automobile, authorities said. Her salary with the state was \$62,064 a year, just slightly more than the sticker price of her Lexus. Michael Champion, assistant chief of the California Highway Patrol (a.k.a. state police) Valley Division said, "It's probably, in CHP history, one of the larger cases (of state employee embezzlement) we've uncovered." Investigators were examining other purchases she made at Child Support Services, and a spokesman for Fish and Game said a legal opinion was being sought on how far back her work can be traced. (Source: Sacramento Bee, February 7.)

Region: C. Valley

Jurisdiction: State

Source: Sacramento Bee - Feb. 7, 2007

Taxpayers to Pay State Energy Consultant's Ethics Law Fines

Dollar Amount: \$69,500

The Davis administration has agreed to pay \$69,500 in fines imposed for ethics law violations by failing to require energy consultants it hired to file statements of economic interests. The Sacramento Bee on March 8 reported that the Department of Water Resources admitted ethics laws were violated and agreed with the Fair Political Practices Commission to pay the fine. It could have been as high as \$260,000. Legislative Republican Leaders Jim Brulte and Dave Cox threatened to block use of public funds to pay the fines. They said whoever was responsible for the violations – either the managers or consultants – should pay the fines, not the taxpayers. "To do otherwise holds no one accountable," they said. The FPPC on March 14 approved the fine, an unprecedented action against a state agency. Secretary of State Bill Jones said it was "an outrage and an affront to the taxpayers." The FPPC's enforcement chief, Steven Russo, was quoted in The Bee as saying the fine was levied on the agency because it was "a violation caused by the agency itself and the procedures breaking down. It didn't appear to be caused by any one person."

Region: Statewide

Jurisdiction: State

Source: Sacramento Bee - Mar. 8, 2002

Bug Board Keeps it Stipends

Dollar Amount: \$42,000

Trustees of the Orange County Vector Control District, an agency charged with controlling mosquitoes, flies, fire ants, rats and other disease-carrying pests, have rejected a proposal to eliminate their \$100-per-meeting stipend to save taxpayers up to \$42,000 a year. The OC Blog reported that at the trustees' March 15 meeting, they refused to support a proposal by trustee Mike Merino, who wanted the savings to help offset costs related to the district's retirement system. After a discussion of whether Robert's Rules of Order are advisory or mandatory, Mr. Merino's proposal was killed without a vote. Mr. Merino does not collect a stipend. (Source: OC Blog, www.ocblog.net, March 20.)

Region: So. California

Jurisdiction: County

Source: OC Blog - March 20, 2007

Report: State's Contract Database Riddled With Mistakes

Dollar Amount: \$21,000

The Associated Press has reported that tens of thousands of state contract records were incomplete or contained errors. Acknowledging gaps in its system, the Department of General Services told The AP, following the news agency's inquiries, that it is telling all state departments to "precisely follow the guidelines" for entering contract information. Errors are to be reported immediately. The AP found that the Mental Health Department actually spent \$21,000 on a two-day training conference in Los Angeles, not the \$877 million that state records showed in 2005. Invoices showed the smaller amount was actually paid, not the eye-popping amount that an employee had mistakenly entered into the system. Further, an attempt to fix the mistake created a duplicate entry, causing more confusion. The State Contract and Procurement Register System was set up in 2003 to provide transparency in state purchasing after a state audit found that the state had overpaid, by \$41 million, for a \$95 million software contract with Oracle Corp. The contract was dropped by the Gray Davis administration after it was reported that he had gotten a \$25,000 campaign contribution from Oracle. Things were really bad then, but officials still don't have a complete picture of what is being purchased with tax dollars. J. Clark Kelso, the state's technology chief, said, "I don't think there is a reliable number. Errors creep into all these things." In an editorial, the Los Angeles Daily News commented: "It's no wonder the state has such budget problems – no one seems to know exactly how it spends billions of taxpayer dollars. If the state's doing that bad a job of keeping track of the billions it spends on the public's behalf, it's not a far stretch to wonder whether it's doing an equally bad job of spending it." (Sources: The Associated Press, as published in the Orange County Register, April 15, and the Los Angeles Daily News, April 15.)

Region: Statewide

Jurisdiction: State

Source: LA Daily News - April 15, 2007

L.A. Housing Department Pays \$18,000 to Teach Managers How to Breathe

Dollar Amount: \$18,000

The Los Angeles Times reports: "The Los Angeles Housing Department has paid thousands of dollars to a Zen Buddhist priest from Hawaii for management training that includes teaching breathing with sphincter control, learning 'how to stand' and playing with wooden sticks." Former Hawaii state lawmaker Norma Wong was paid \$18,819 for at least four training sessions for city staff – including a class held earlier this month – and last year the City Council unanimously awarded her another contract for up to \$15,000 for future classes. City officials say the two-day sessions are good for "team-building" and for teaching employees how to react to problems in the Housing Department, which has more than 500 employees and a budget of \$45 million. But some employees aren't so sure. The Times reported that Lynn Hansen, a former assistant manager, "was put off by the presumption that she and her colleagues 'had to be taught how to breathe and how to stand.'" She described the classes as involving classroom training, along with an exercise in the parking lot where participants wielded large wooden sticks like swords. Another class participant told the newspaper that they encircled the general manager of the department with their backs to her while wielding the sticks, and were told to imagine that they were shielding their boss from opposing forces, including the City Council. Ms. Wong and the general manager disputed that claim, saying they did not lead any such drill. (Source: Los Angeles Times, May 11.)

Region: So. California

Jurisdiction: City

Source: LA Times - May 11, 2007

Lottery Drawing

Dollar Amount:

As the Sacramento Bee reported on February 12, the California Lottery's free \$1 million drawing has fallen about half an inch short. The Lottery's officials, trying to make up for past problems with Scratchier games, told the public to submit entries on 3-by-5-inch cards. However, those who sent them in, paying 24 cents postage, are getting them returned, stamped "undersized" in red ink. The Post Office says the cards are too small for automated equipment. They must be 3.5-by-5-inch cards. The purpose of the March 22 drawing is to "make things right" because tickets continued to be sold after all the top prizes had been awarded in 11 Scratchier games since 1996. People can put their 3x5 cards or pieces of paper in envelopes and mail them to the Lottery, but it would cost them 34 cents postage. People can send in as many entries as they want, as long as they don't put more than one in the same envelope. Lottery spokesperson Vincent Montane said that perhaps some of the instructions "needed clarification."

Region: Statewide

Jurisdiction: State

Source: Sacramento Bee - Feb. 12, 2002

State Auditor Finds Waste in State Agencies

Dollar Amount:

A report from State Auditor Elaine Howle, released September 20, summarizes a number of instances of waste in state government. The document, entitled "Investigations of Improper Activities by State Employees," reports on state employees and departments engaged in improper activities, including the following: The Highway Patrol bought 51 vans more than two years ago and has yet to use them for their intended purposes. This cost taxpayers \$881,565; The Coalinga State Hospital purchased two Ford Crown Victoria police vehicles, but did not use them for police purposes. After a stint in the motor pool, they were used by three hospital officials in violation of state law. Two of the officials used them to commute 390 to 980 miles a week; Viewing pornographic material on university computers; Using a state computer for personal purposes, including uploading modeling photos of a spouse; Providing an unfair advantage to a registration service by allowing a friend to circumvent the registration and payment processes; Using state resources to conduct a private catering business. An employee in the Employment Development Department used state time and resources to conduct her private catering business. She did not even have a valid health permit and violated state law relating to food preparation; Failing to charge their collective leave balances for 54 hours they did not work; Failing to meet teacher credentialing requirements.

Region: Statewide

Jurisdiction: State

Source: Auditor Report - Sept. 20, 2007

State's Foreign Trade Offices Overstate Benefits

Dollar Amount:

Nine of the state's 12 foreign trade offices fall woefully short of meeting the California Technology, Trade and Commerce Agency's stated goal of \$2 for the state's economy for every \$1 in taxes consumed in the process, reported the Orange County Register (May 25-26, 2003). The paper's investigation found \$44 million in false or overstated deals in an annual report that the administration uses to persuade the Legislature to continue funding the \$6 million-a-year offices. According to The Register, about a dozen companies contacted said the trade offices played a direct and pivotal role in generating business. However, the paper said, most of the 58 companies contacted were not impressed, including Dave Murray of American Safety and Rescue, which went to a trade fair to market its equipment. "They are not providing anything that is unique or beneficial," Mr. Murray said of the trade offices. Governor Gray Davis' Technology, Trade and Commerce Agency secretary, Lon Hatamiya, told the paper, "I'm presuming that everything they report is accurate. We're relying on the validity of what (the trade offices) are providing." The successful trade offices – Taiwan, Japan and Singapore – more than met the \$2-for-\$1 goal, the article stated, and the trade office budget, although taking some cuts in recent years, has been allowed to grow in number of offices (Shanghai the most recent, added in 2000) by the Legislature. Senator Burton: "As long as I have been in the Legislature, governors have opposed any attempt to eliminate the trade offices. I assume they consider them mini-embassies and want them as political plums for their friends. They've said (trade offices) help California businesses, but they have never demonstrated whether they did or didn't." (Editor's note: The 2003-04 state budget phases out the existing dozen trade offices.)

Region: Statewide

Jurisdiction: State

Source: OC Register - May 25-26, 2003

Child Support Services Mistakenly Releases Information

Dollar Amount:

Officials at the California Department of Child Support Services reported that personal information, such as Social Security numbers, of 1,175 individuals, has been inadvertently released. The department has begun notifying the people and believes none of the information has been subjected to unauthorized use. (Source: Stockton Record, January 30.)

Region: Statewide

Jurisdiction: State

Source: Stockton Record - Jan. 30, 2007

Big Pay Raise for Housing Agency Leader

Dollar Amount:

Needing to fill key jobs, the Schwarzenegger administration has boosted the pay of the head of the California Housing Finance Agency by 45 percent and given nine other top managers in the agency raises ranging from 10 percent to 47 percent. Terri Parker's salary went from \$138,338 to \$200,000, making her on par with investment managers at the state's two major pension systems. According to the Sacramento Bee: "After years of austerity during budget crises, the state has started loosening the reins on top salaries." (Source: Sacramento Bee, January 27.)

Region: C. Valley

Jurisdiction: State

Source: Sacramento Bee - Jan. 27, 2007

State Wasting Money Busting Low-level Football Pool

Dollar Amount:

Apparently some state employees at the Department of Alcoholic Beverage Control have nothing better to do than busting a \$50 National Football League pool run by a widowed great-grandmother at a Riverside-area Elks Lodge. State agents arrested Margaret Hamblin, 73, and Cari Gardner, 39, who entered not-guilty pleas. The agents said they found \$5 from each of the 10 members taking part in a pool. The object of the pool was to come closest in guessing the total points of the Jacksonville Jaguars vs. New York Giants football game. Four agents armed with guns came in, said Ms. Gardner. State employee Timothy Clark, who heads the ABC's Riverside district office, said, "Football pools are a violation of law and we will take whatever action we feel is appropriate..." Richard Ackerman, lawyer for the two women, said the prosecution is a pointless use of resources in a court system bogged down by too many cases and too few judges. He added, "I'm not sure why we're wasting our time on a football pool when I know for a fact that even judicial employees have football pools." A preliminary hearing is set for February 28. They could be subject to a year in jail and a \$5,000 fine. (Source: Riverside Press Enterprise of February 8.)

Region: Statewide

Jurisdiction: State

Source: Riverside Press-Enterprise - Feb. 8, 2007

Report: Justice Department Hid Contracts

Dollar Amount:

According to an Associated Press investigation, the California Department of Justice, violating its own confidentiality rules, kept secret tens of millions of dollars worth of contracts. The department's internal agency review was requested by AP. It found information on scores of contracts erroneously labeled "confidential" and omitted from computerized state records. While the department says no open-record laws were broken, and there was no deliberate effort to hide spending or conceal information regarding contractors, the agency decided to review how it withholds mention of certain contracts. The pacts, issued between 2003 and last year when Bill Lockyer was attorney general, included two no-bid contracts worth as much as \$489,000 for a Washington lobbyist group led by a former legislative director for Lockyer friend Vic Fazio, a former congressman. Another was a \$2 million contract to a law firm that had donated to Mr. Lockyer's political committees. There was about \$1 million in no-bid contracts for parking spaces for department workers. Tom Dresslar, a spokesman for now-state Treasurer Lockyer, said the classification was simply a mistake and there "is nothing to hide." (Source: Associated Press, January 30.)

Region: Statewide

Jurisdiction: State

Source: AP - Jan. 30, 2007
