

a decade of waste, fraud, and mismanagement



Cal-Tax Research Bulletin

March 2010

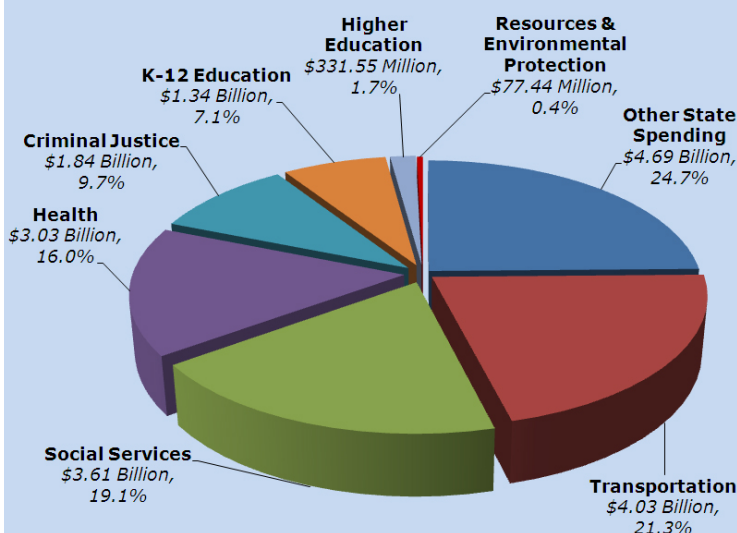
Waste, fraud and mismanagement by state government has cost taxpayers more than \$18.9 billion since 2000. During the past 10 years, California faced its share of difficult budget cycles. In any one-year period, eliminating waste, fraud or mismanagement would not have been enough to bridge a particular year's budget gap. However, from Caltrans' \$3.2 billion Bay Bridge fiasco, to a \$1 billion fine for failing to track child support payments, to welfare fraud estimated at \$1.5 billion per year, each case represents one example of California's inability to control spending during budget booms and busts. Had state officials engaged in more responsible spending oversight, the state budget would be billions closer to balance, and the people of California would benefit from more efficient, quality services.

With proper oversight and careful review, waste, fraud and mismanagement can be eliminated from state programs and agencies. The cases identified by Cal-Tax are based on government audits and media reports, and they represent just the tip of the iceberg in terms of overall government waste - much of which goes unreported or cannot be quantified in dollars and cents. The task that policymakers now face is how to solve this problem and provide services to Californians with the money already available in department and program budgets - particularly during a time when state budget deficits constrain spending. By following up on the cases included in this report, policymakers can take the necessary steps to ensure that these examples of waste are not repeated in the next decade.

This report includes 127 quantifiable cases of state waste, fraud and mismanagement. More than 138 cases could not be quantified in dollars and cents. Also, spending under local government jurisdiction was excluded from the report to provide a more comprehensive picture of state-level spending concerns.

For the complete list of cases cited in this research report, visit <http://www.caltax.org/DecadeOfWaste3-15-10.pdf>.

\$18.9 Billion Wasted by State Government



(Source: Press reports and audits on waste, fraud and mismanagement, compiled by Cal-tax from 2000-2009.) Notes: *K-12 Education excludes waste, fraud and mismanagement under local government and local school district jurisdiction.

The California Taxpayers' Association is a non-partisan, non-profit organization founded in 1926 to protect taxpayers from unnecessary taxes and to promote government efficiency. We serve our members through research and advocacy on significant tax and spending issues in the legislative, executive and judicial branches of government.

California Taxpayers' Association
1215 K Street, Suite 1250
Sacramento, CA 95814
916.441.0490

Editor | David Kline
Research Analyst | Robert Gutierrez

TRANSPORTATION

Cal-Tax Archives: Your Tax Dollars at Work Caltrans' Neglect on Bay Bridge Costs \$3.2 Billion

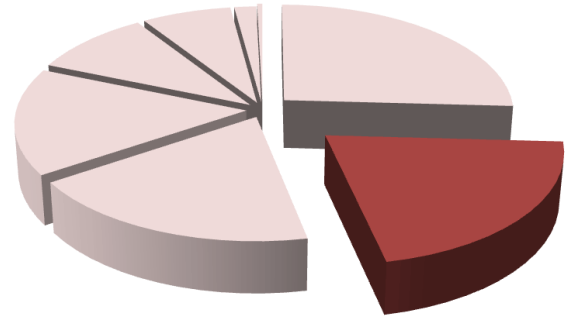


San Francisco Bay Bridge (Photo courtesy of the U.S. Department of Transportation, Federal Highway Administration)

Auditing one of the hottest political potatoes in recent California transportation history, state Auditor Elaine Howle blamed neglect at the state Department of Transportation for \$3.2 billion in cost overruns since April 2001 on the now \$8.3 billion Toll Bridge Retrofit Program. Most of the additional cost is for the controversial eastern span of the Bay Bridge between Oakland and San Francisco. The audit, released December 22, 2004, set the new cost of the Bay Bridge project at \$5.9 billion. It criticized Caltrans' mismanagement for lack of a comprehensive risk management plan and failure to alert the Legislature about increasing costs. Replacement of the eastern span of the bridge was required after it was extensively damaged

during the Loma Prieta earthquake of 1989. Initial plans to rebuild the bridge were scrapped as the mayors of San Francisco and Oakland asserted their political will. Former Governor Jerry Brown demanded a more scenic suspension structure as a landmark gateway to the East Bay; former Assembly Speaker Willie Brown was interested in his city's stake in land affected by the replacement structure. Governor Gray Davis, after taking office in 1999, finally brokered a deal calling for the more elaborate span. The audit blames about a third of the cost overruns on politicians' demands for a fancier suspension span, while most of the additional expenses were due to Caltrans' mismanagement. (Source: *California State Auditor Report*, December 2004.)

21.3 percent of all quantifiable state waste, fraud or mismanagement involved transportation programs.



Top Transportation Headlines Since 2000

Benicia-Martinez Bridge Cost Overruns Won't Halt \$600,000 Grand-Opening Party — *Contra Costa Times*, May 2007

California Highway Patrol Employees Claimed Overtime While Sick and on Vacation — *The Sacramento Bee*, January 2007

Caltrans Employees Schmooze With Feds at Desert Junket — *CBS-13 Sacramento, On the Money*, October 2009

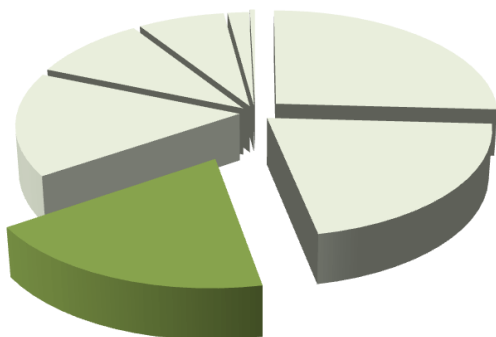
Transportation Waste, Fraud, and Mismanagement Since 2000, by Department/Program

California Highway Patrol	\$	643,000
Department of Motor Vehicles	\$	51,125,000
Department of Transportation	\$	3,975,903,477
Office of Traffic Safety	\$	2,000,000
TOTAL	\$	4,029,671,477

SOCIAL SERVICES

19.1

percent of all quantifiable state waste, fraud or mismanagement involved social services programs.



Cal-Tax Archives: Your Tax Dollars at Work Welfare Fraud Loots Public Treasury

Welfare fraud involving child care is “looting the public treasury” by as much as \$1.5 billion a year statewide, according to Los Angeles County officials. Cases usually involve welfare-to-work recipients

who fabricate employers or work hours to qualify for child care assistance, and then split the cash with friends and relatives who say they are caring for the children. (Source: *Los Angeles Daily News* - January 2006.)

Top Social Services Headlines Since 2000

Audit Underscores Lack of Accountability in Spending Prop. 10 Tobacco Taxes — *State Audit Reports*, October 2007

State Pays \$1 Billion in Fines for Failing to Track Child Support — *San Diego Union-Tribune*, March 2007

Errors in Administration of Food Stamps Cost \$172 Million — *Los Angeles Times*, June 2003

Tobacco Taxes Pay for P.R., Not Children — *Bakersfield Californian*, December 2004

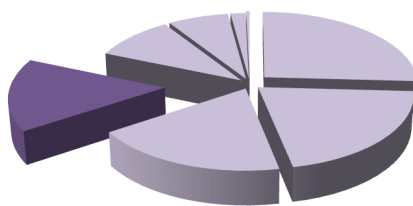
Social Services Waste, Fraud, and Mismanagement Since 2000, by Department/Program

California Work Opportunity and Responsibility to Kids	\$	519,600,000
Children and Families First Commission	\$	52,700,000
Department of Child Support Services	\$	1,401,000,000
Department of Social Services	\$	1,637,500,000
TOTAL	\$	3,610,800,000

HEALTH

16.0

percent of all quantifiable state waste, fraud or mismanagement involved health programs.



Cal-Tax Archives: Your Tax Dollars at Work Medi-Cal Fraud Costs at Least \$2.5 Billion

An investigation found that doctors, dentists, pharmacists and others steal \$2.5 billion per year from the Medi-Cal program. While criminal charges are filed each year, officials note that fraud is “so enormous, and the

opportunities so widespread, that they haven’t done much more than hold the line.” One example involved a dentist who charged for filling teeth that had been extracted. (Source: *Los Angeles Times* - December 26, 2002.)

Top Health Headlines Since 2000

Planned Parenthood’s Alleged Overbilling Is a Bitter Pill for Taxpayers — *The Associated Press*, March 2008

State Overpaid \$1.2 Million for Wheelchairs, Auditor Says — *State Auditor Report*, June 2008

Health Waste, Fraud, and Mismanagement Since 2000, by Department/Program

Department of Developmental Services	\$	1,000,000
Department of Health Care Services	\$	2,729,933,667
Department of Mental Health	\$	301,000,000
Department of Public Health	\$	800,000
Total	\$	3,032,733,667

CRIMINAL JUSTICE

9.7 percent of all quantifiable state waste, fraud or mismanagement involved criminal justice programs.

Top Criminal Justice Headline Since 2000

Sick Leave Among Prison Guards Costs \$200 Million —
Los Angeles Times, February 2003

Criminal Justice Waste, Fraud, and Mismanagement Since 2000, by Department/Program

Department of Corrections and Rehabilitation/California Prison Health Care Receivership	\$	1,734,562,000
Department of Justice	\$	2,400,000
Youth and Adult Correctional Agency	\$	98,525,000
Other Criminal Justice Expenses	\$	141,146
TOTAL	\$	1,835,628,146

Cal-Tax Archives: Your Tax Dollars at Work Prison Drug Treatment: “A Complete Waste”



San Quentin State Prison (Photo courtesy of the California Department of Corrections and Rehabilitation)

California’s drug treatment program for prison inmates has cost taxpayers \$1 billion since 1989, according to a report by the inspector general. The report notes that state prison officials

failed to fix the ailing program and “squandered that opportunity” to “change lives and help relieve the state’s prison overcrowding crisis.” (Source: *Los Angeles Times*, February 2007.)

K-12 EDUCATION

7.1 percent of all quantifiable state waste, fraud, or mismanagement involved K-12 educational expenses. Education expenditures under local control are not included in these figures.

Cal-Tax Archives: Your Tax Dollars at Work \$1.25 Billion to Improve Schools Yields Little

An analysis of the state’s Academic Performance Index (API) has concluded that \$1.25 billion hasn’t improved student performance. Two programs, Immediate Intervention/Under Performing Schools Program and High Priority Schools Grant Program, showed

no difference in academic achievement over time as measured by grade-level proficiency on the California Standards Test. Findings also show the API to be an inaccurate measurement for student achievement. (Source: Pacific Research Institute, 2007.)

K-12 Education Waste, Fraud, and Mismanagement Since 2000, by Department/Program

California Standardized Testing	\$	1,250,000,000
Department of Education	\$	30,250,000
Other K-12 Education Expenses	\$	63,000,000
Total	\$	1,343,250,000

Top K-12 Education Headlines Since 2000

Expensive Legal Battle Over School Conditions Costs State \$13 Million — *The New York Times*, April 2003

State Spends \$9 Million to Lure New Teachers, Districts Send Out Pink Slips — *The Sacramento Bee*, March 2004

HIGHER EDUCATION

1.7 percent of all quantifiable state waste, fraud or mismanagement involved higher education programs.

Cal-Tax Archives: Your Tax Dollars at Work University of California Spends \$3 Million to Learn How to Cut Costs

The University of California, Berkeley is spending more than \$3 million to have Bain & Company tell the university how to reduce its spending. Earlier this year, the University of California campus had to make \$150 million in budget cuts, and hopes the Boston-based firm will suggest further cost-effective solutions. The full \$3 million plus expenses will be paid out over a two-year period, and was taken from the campus infrastructure fund. (Source: *Contra Costa Times*, October 2, 2009.)

Top Higher Education Headline Since 2000

University of California Officials Trade Teachers for Lobbyists — *The Sacramento Bee*, September 2009

Higher Education Waste, Fraud, and Mismanagement Since 2000, by Campus/Department

California State University	\$	200,343,217
Student Aid Commission	\$	3,000,000
University of California	\$	25,986,000
University of California, Berkeley	\$	28,197,500
University of California, Davis	\$	11,815,000
University of California, Merced	\$	31,580,000
University of California, Riverside	\$	30,355,000
University of California, San Diego	\$	248,000
University of California, Santa Cruz	\$	30,282
TOTAL	\$	331,554,999

RESOURCES & ENVIRONMENTAL PROTECTION

4 percent of all quantifiable state waste, fraud or mismanagement were resources and environmental protection expenses.

Top Resources and Environmental Protection Headline Since 2000

Water Resources Employee Earns 4 Years of Vacation Time in 10 Years on the Job — *San Jose Mercury News*, October 2008

Resources and Environmental Protection Waste, Fraud, and Mismanagement Since 2000, by Department/Program

Department of Fish and Game	\$	71,747
Department of Forestry and Fire Protection	\$	7,150,000
Department of State Parks and Recreation	\$	12,042,000
Department of Water Resources	\$	25,069,500
Natural Resources Agency	\$	12,000
Public Utilities Commission	\$	33,000,000
Sierra Nevada Conservancy	\$	98,700
TOTAL	\$	77,443,947

Cal-Tax Archives: Your Tax Dollars at Work Taxpayers Pay for Park They Cannot Use

The state spent \$12 million in bond funds to acquire Point Lobos Ranch in Monterey County. However, state parks officials reported that they have no plans to open the property to the public in the foreseeable future. "In order to have hiking access, we need a general plan or initial general use plan," said Matt Fuzie, Monterey district superintendent. He added, "There hasn't been any public outcry to open the park." (Source: *Carmel Pine Cone*, November 2007.)

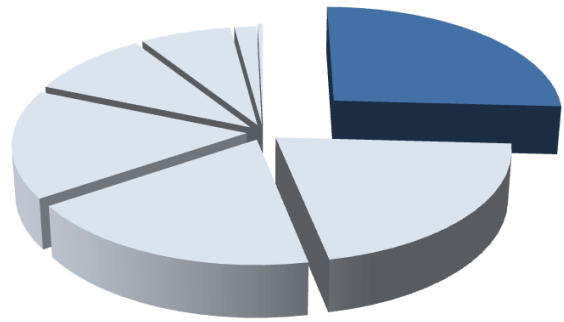
OTHER STATE SPENDING

Other State Spending Headlines Since 2000

Officials Estimate That Workers' Compensation Fraud Costs at Least \$1.3 Billion Per Year — *Orange County Register*, March 2004

Legislature Added 336 Workers to Payroll, Gave Pay Raises as Budget Was Slashed — *San Francisco Chronicle*, August 2009

24.7 percent of all quantifiable state waste, fraud or mismanagement involved other state spending.



Other State Spending Waste, Fraud, and Mismanagement Since 2000, by Department/Program

California Avocado Commission	\$	2,000,000
California Earthquake Authority	\$	160,000
California National Guard	\$	756,564
California State Legislature	\$	14,735,000
California State Lottery	\$	52,307,629
Dept. of Fleet Administration	\$	2,100,000
Dept. of General Services	\$	70,503,000
Dept. of Industrial Relations, Workers' Compensation	\$	1,300,000,000
Dept. of Veterans Affairs	\$	5,700,000
Employment Development Dept.	\$	643,166,667
Office of the Attorney General	\$	230,000
Office of the Secretary of State	\$	2,900,000
Miscellaneous Other State Spending Expenses	\$	2,592,050,000
Total	\$	4,686,608,860

Cal-Tax Archives: Your Tax Dollars at Work General Services Says BOE Must Stay in Run-Down Building, Cost to Taxpayers Exceeds \$65 Million

The Department of General Services refused to let the state Board of Equalization move out of its run-down Sacramento headquarters. BOE officials estimate that it will cost more than \$65 million to fix the building, which is owned by the Department of General Services. Cal-Tax President Teresa Casazza told CBS 13 in Sacramento: "They've had water leakage, bat problems, mold ... they've had windows fall out. This building is not a good use of taxpayer funds." Also, the Department of General Services reported that it would begin window repairs in 2014 as continuing maintenance — previously, faulty windows had fallen out and

shattered on the street. Also, rain storms added to the building's problems. BOE spokeswoman Anita Gore told CBS 13 that the BOE is addressing the additional water damage. In a November 6 update, the BOE reported that the heating system has been reactivated, and repairs of rain damage have been completed. Still, BOE employees are being shuffled from floor to floor as repairs continue. Despite the many problems, the Department of General Services has asked the BOE for a rent increase for the coming year. The state still owes \$90 million on the building. (Source: *Cal-Taxletter* archives, 2009.)