

STATE OVERSIGHT AGENCIES

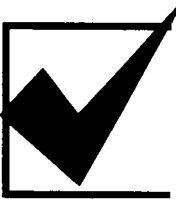
Water Resources Control Board to adopt implementing regulations; the Board is authorized to adopt regulations on an emergency basis concerning the requirements for demonstrating financial responsibility and establishing corrective action requirements. As amended March 26, 2001, this bill would withdraw the Board's specific authority to adopt such emergency regulations to implement those provisions. [S. Appr]

AB 969 (Chan), as introduced February 23, 2001, would establish an additional deduction from income to reduce the share of cost requirements in the Medi-Cal medically needy program for individuals and families. The bill would provide

for work incentive deductions and deductions for conservatorship and other fees for medically needy individuals in long-term care. AB 969 would also amend the Medi-Cal program for aged and disabled individuals who have income up to 100% of the federal poverty level by increasing the couple income deduction from \$310 to \$425, and increasing both the individual and couple deductions annually, beginning January 1, 2004, for cost of living adjustments. DHS would be required to adopt emergency implementing regulations which, along with their first reoption, would be exempt from OAL review. [A. Health]

Bureau of State Audits

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Created by SB 37 (Maddy) (Chapter 12, Statutes of 1993), the Bureau of State Audits (BSA) is an auditing and investigative agency which operates under the administrative oversight of the Milton Marks Commission on California State Government Organization and Economy (also known as the "Little Hoover Commission"). In Government Code section 8543 *et seq.*, SB 37 delegates to BSA most of the duties previously performed by the Auditor General's Office, such as examining and reporting annually upon the financial statements prepared by the executive branch of the state, performing other related assignments (such as performance audits) that are mandated by statute, and administering the California Whistleblower Protection Act, Government Code section 8547 *et seq.* BSA is also required to conduct audits of state and local government requested by the Joint Legislative Audit Committee (JLAC) to the extent that funding is available. BSA is headed by the State Auditor, appointed by the Governor to a four-year term from a list of three qualified individuals submitted by the JLAC.

On August 3, 2000, Governor Davis announced his appointment of Elaine M. Howle as State Auditor. Howle, formerly the deputy state auditor, has been with BSA since 1993. She previously worked for the Employment Development Department from 1992-93 and for the Office of the Auditor General from 1983-92. She is a certified public accountant and a certified government financial manager.

MAJOR PROJECTS

Performance Audit of State Bar

In 1997, then-Governor Wilson vetoed a bill providing the California State Bar—the state's attorney regulatory agency—with its primary source of revenue; the veto led to the Bar's layoff of almost 500 employees during 1998 and a

near-shutdown of the entire agency, including its attorney discipline system. In 1999, Governor Davis signed SB 144 (Schiff and Hertzberg) (Chapter 342, Statutes of 1999), which once again authorized the Bar to collect licensing fees from its members but restricted the Bar's use of those fees and required BSA to conduct a performance audit of the Bar's operations between July and December 2000 (see agency report on STATE BAR for related discussion).

In compliance with SB 144, BSA reviewed several aspects of the Bar's operations and released *State Bar of California: It Has Improved Its Disciplinary Process, Stewardship of Members' Fees, and Administrative Practices, but Its Cost Recovery and Controls Over Expenses Need Strengthening* in April 2001. BSA's findings in these areas are as follows.

- *State Bar Disciplinary Process.* When the Bar was forced to lay off its discipline staff in 1998, it had about 4,400 open complaints in its enforcement inventory; during the shutdown, it accumulated an additional 3,000 complaints against attorneys—resulting in an enormous backlog of uninvestigated complaints. To reduce the backlog, the Bar implemented a plan to prioritize cases so that the most serious complaints receive attention first; cases alleging minor violations are now mediated in the Bar's intake unit, dismissed, or referred to other remedies. BSA found that this prioritization system enables the Bar's investigators to focus most of their attention on serious cases that will likely result in discipline, and lessens the number of cases flowing forward for prosecution, hearing, and review by the State Bar Court. According to BSA, "the data indicate that the priority system is enabling the State Bar to use its resources better than in 1995."

BSA also reported that the Bar has revised the cost model on which its "cost recovery" system is based to increase the

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amount it will charge attorneys who are ultimately disciplined and/or require a payout by the Bar's Client Security Fund (which reimburses clients who are victimized by intentional attorney dishonesty). However, the auditors noted that the cost model has not been updated to reflect the current salaries for Bar employees and that, although it has been charging disciplined attorneys more for its costs associated with investigation and discipline, the Bar continues to have trouble collecting these charges. Since its cost recovery efforts are poor, BSA found that the Bar "uses a greater portion of membership fees than necessary to support its Client Security Fund and disciplinary programs. Consequently, members must pay a fee that is higher than necessary." BSA recommended that the Bar participate in the state's "offset program," under which the State Controller's Office and the Franchise Tax Board can offset from an individual's tax refund any amounts owed to state agencies.

• *Restrictions on Use of Fees.* SB 144 prohibits the Bar from using mandatory Bar dues on its Conference of Delegates and its subject-matter "sections"; SB 144 also restricts the amount the Bar can spend on lobbying and related activities that exceed the parameters established in *Keller v. State Bar*, 496 U.S. 1 (1990). However, the bill permits the Bar to obtain voluntary payments from members to support these two activities. BSA found that the Bar has responded to these provisions by improving the way in which it accounts for revenues and expenses related to its mandatory and voluntary programs. It established two new funds to account for the Conference's activities and for lobbying activities outside the *Keller* parameters (the Bar had already established a separate fund for section activities); BSA found that no mandatory fees were used to fund either the Conference or the sections during 2000. In addition, BSA found that the Bar has changed its system of accounting for section activities so it has better assurance that mandatory fees are not used to provide administrative support for the sections.

• *Procurement Process.* BSA reported that the Bar has also improved its procurement policies since 1998. The Bar achieved this by establishing a purchasing card program to strengthen controls over travel and minor business expenses. It also established competitive bidding requirements to enhance control over its contracting practices. However, BSA found some flaws in these policies. BSA identified approximately \$4,400 in questionable transactions that did not represent prudent use of Bar funds in its review of 36 monthly statements for purchasing cards. This audit sample also disclosed that the Bar paid about \$2,600 for purchasing card transactions without required receipts for the purchases being provided by the employee responsible for the charges. The Bar was also found to have exceeded its general fund budget for discretionary spending in the business expense account by about \$5,500. Finally, BSA discovered that the Bar did not always enforce its policies and procedures for contracting and, thus, cannot be sure the expenses are appropriate and that members' fees are supporting only necessary purchases. BSA recommended that the Bar clarify definitions

of purchases that are appropriate business expenses and enforce its policy of requiring receipts for purchases over \$25 to prevent abuse of the purchasing card program and ensure employees are using the cards appropriately.

Board of Pharmacy's Complaint Handling Practices

In April 2001, BSA released a report entitled *Investigations of Improper Activities by State Employees: July 2000 Through January 2001*. In a chapter entitled *Board of Pharmacy: Gross Inefficiency in Processing Consumer Complaints and Failure to Record and Pay Overtime*, BSA noted that it received an allegation that the Board had a backlog of consumer complaints and was not doing its job to investigate incoming complaints. BSA investigated and substantiated the allegation. Specifically, BSA found that the Board's established timeframes to resolve complaints—up to 290 days for complex complaints and 140 days for all others—are excessive when compared to the timeframes mandated by law or regulation for other consumer protection agencies.

Second, BSA found that the Board fails to meet its own excessive timeframes. Between January 1, 1994 and March 6, 2000, it took the Board an average of 441 days to close 5,265 complaints. Of those complaints, the Board resolved only 35% of its high-risk complaints within 290 days and only 20% of its less complex cases within its 140-day goal. As of March 6, 2000, the Board had not resolved 770 of 1,552 open complaints within its maximum 290-day goal. Although the Board's goal is to complete the investigation phase of its enforcement process within five months, BSA found that Board staff takes on average nine months to complete investigations after the complaint is assigned to an inspector.

Third, BSA examined the Board's system for prioritizing complaints. Based on the subject matter of complaints, the Board categorizes its high-risk complaints as Priority 1 (urgent-immediate), Priority 2 (rapid), Priority 3 (active investigation), or Priority 4 (standard, consistent turnaround). BSA found that this system "does not ensure that complaints involving potential injury are investigated within the maximum allowed time of five months." BSA found that, regardless of risk, the Board took longer than five months to complete about 60% of its investigations.

Fourth, BSA found that the Board has not maintained adequate staff to ensure timely complaint resolution. The Board is authorized to hire only 19 inspectors and two supervising inspectors (all of whom are pharmacists) to cover the entire state of California. In fiscal year 1999–2000, there was a 35.7% vacancy rate for inspector and supervising inspector positions at the Board; 7.5 of the Board's 21 inspector positions were vacant. Had those positions been filled, BSA projected that each inspector would have been able to resolve an additional 51 complaints per year and a backlog would not exist. Finally, BSA noted that the Board failed to maintain records adequate to ensure that staff were compensated for all overtime hours worked, possibly in violation of the federal Fair Labor Standards Act.

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BSA concluded that “these concerns reflect gross inefficiency on the part of the Board. Delays in resolving complaints increase the risk that those violating pharmacy laws will continue to make mistakes that affect the public health, safety, or welfare of California consumers.”

In a written response, the Board agreed it had not investigated and completed cases promptly in the past, and stated that it is taking action to address these concerns. The Board said that it is focusing on clearing away the existing backlog of cases (and is down to 393 pending complaints more than six months old as of March 8, 2001) and will then be better able to prioritize the remaining complaints. The Board noted that it has increased its salaries for pharmacists, hired eight inspectors and one supervising inspector during the seven months prior to January 2001, and expects to fill the remaining three vacant inspector positions soon. The Board also stated it plans to increase consumer awareness by adding a toll-free consumer complaint line and posting this number in every pharmacy later in 2001.

The Energy Crisis

In *Energy Deregulation: The Benefits of Competition Were Undermined by Structural Flaws in the Market, Unsuccessful Oversight, and Uncontrollable Competitive Forces* (March 2001), BSA reviewed the causes of the energy crisis that began during the summer of 2000. In 1996, the legislature enacted and then-Governor Wilson signed AB 1890 (Brulte), moving California towards electricity deregulation in hopes of lower retail prices and expanded power services. However, the bill—and its implementation by the Public Utilities Commission (PUC), the California Power Exchange (PX), and Independent System Operator (ISO), and other entities created by the legislature to participate in the deregulation experiment—resulted in catastrophic market failure, including excessive prices, power outages and intentional disruptions, and a bankruptcy declaration by one of the state’s three investor-owned utilities. The poor credit rating of all three utilities has forced the state to purchase electricity for its citizens to the tune of \$5.1 billion at this writing—most of which will be borne by current and future ratepayers, none of whom voted for deregulation (see agency report on PUC for detailed information).

BSA’s study concluded that a “complex combination of factors” has resulted in the failure of deregulation. That “complex combination” includes (1) the terms of the legislation mandating deregulation; (2) its implementation by the PUC—particularly the Commission’s requirement that investor-owned utilities sell all the power they generated themselves into “sequential short-term markets” or “spot markets” operated by the PX and ISO, and its initial refusal to let the utilities enter into long-term contracts when prices were low; (3) the utilities’ failure to immediately secure long-term contracts when the PUC finally authorized them to do so; and (4) “misjudgments” on the part of the U.S. Federal Energy Regulatory Commission (FERC) and the PUC as to the effective-

ness of their corrective actions. Beginning in 1998, marketing-monitoring groups within the ISO and PX warned FERC and the PUC of potential problems with the market structure and rules. These predictions proved to be accurate, but neither FERC or the PUC adequately addressed these concerns at that time.

BSA also noted some factors contributing to the crisis that are “outside the scope of any regulator or agency”—such as unusual weather patterns (a drought limiting the availability of hydroelectric power), steep increases in natural gas prices, and the state’s failure to invest in new powerplants despite growth in population and industry in the western region and an increased demand for electricity.

BSA made four major recommendations: (1) “eliminate the opportunity for strategic bidding” by stopping real-time bidding and executing forward (long-term) contracts with generators, halting “ancillary services” spot market bidding and buying these forecasted advance reserve purchases through sealed bids, and considering contracting for generation capacity; (2) avoid using a single statewide wholesale price cap as a check on abuse, because that then becomes the “targeted bid price”; instead, BSA recommended that caps be imposed where “markets are found to be noncompetitive and supply is being withheld...”; (3) give the ISO authority to schedule powerplant maintenance, removing that power from the generators—who were allegedly manipulating outages to limit supply and escalate the real-time bid market clearing price; and (4) limit the amount of market data published on Web sites—here, BSA found that the posting of bid and price data immediately after the fact, combined with readily available ISO data and PX pricing models, facilitated the “gaming” of prices to artificially high levels; instead, BSA recommended that bidding and winning bid data should be delayed a full year before public release in any form.

DCA’s Oversight of Consumer Protection Programs

In *Department of Consumer Affairs: Lengthy Delays and Poor Monitoring Weaken Consumer Protection* (November 2000), BSA reviewed the Department of Consumer Affairs’ (DCA) role in overseeing its 35 occupational licensing boards and bureaus. Created in the Consumer Affairs Act of 1970, Business and Professions Code section 300 *et seq.*, DCA is charged with administrative oversight of its constituent agencies, which are in turn charged with licensing trades and professions, setting standards for licensees, enforcement, and consumer education. BSA recognized that DCA’s boards are semi-autonomous in that they are controlled by politically-appointed board members, and that the DCA Director’s direct influence over the boards is limited to reviewing agency-adopted regulations (other than those related to licensing). However, DCA has several independent duties, including auditing and reviewing its agencies’ licensing and enforcement activities; requiring boards to submit reports on any phase of their operations; investigating the work of boards and making copies of their records and data; examining the

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performance of any board contract; and recommending to the boards and/or to the legislature any changes it deems necessary to protect consumer interests.

Based on its review of four DCA agencies (two boards and two bureaus) and its surveys of others, BSA concluded that DCA "has not fulfilled its oversight responsibility, allowing weaknesses in licensing and complaint processing to continue within its boards and bureaus." BSA found that the Department attends to its oversight duties primarily through its internal audit office and through "desk reviews" of information about its boards and bureaus. However, during the audit period, the chief of the internal audit office spent most of her time on special projects and personnel issues other than oversight, and the resources of the office had been diverted to other projects. Further, BSA found that DCA's "desk review" process relies too heavily on information about its boards/bureaus given to it by its boards/bureaus; the only time DCA's boards and bureaus are independently evaluated is during their occasional "sunset review" by the Joint Legislative Sunset Review Committee, which occurs for some agencies only once every six years. As a result, many DCA boards take too long to process license applications. Many have failed to establish time goals to ensure the prompt processing of complaints; others have established time goals that are too long; and still others fail to comply with time goals they have established. "Using its current oversight methods, the department was unable to detect these problems among its boards and bureaus and provide meaningful corrective intervention." BSA also reviewed the extent to which DCA boards/bureaus comply with the Department's complaint disclosure policy (which was adopted in 1979 and, at this writing, is under review by DCA), and found that 19 of 27 boards surveyed do not follow the policy.

To ensure that its boards and bureaus are providing timely and effective consumer protection services, BSA recommended that DCA (1) establish a plan to periodically review and evaluate the licensing and enforcement functions of its boards; (2) better utilize the resources of its internal audit office to review each board and bureau consistently; (3) ensure that each of its boards and bureaus establish monitoring systems and processing goals; and (4) ensure that its boards and bureaus are consistent in releasing complaint information to the public.

In its response, DCA noted that, during the audit period, its internal audit office had been plagued with vacancies and was required to attend to the Y2K project, which affected all of its agencies and all consumers of the services of its agencies. Since that threat has passed, the new DCA Director has taken steps to ensure that vacancies have been filled and audit plans are approved and implemented. DCA also noted that, due to its lack of authority over its boards, compliance with its complaint disclosure policy is discretionary and not mandatory.

DOI Outreach Payment Settlements and Enforcement Practices

The 1994 Northridge earthquake was the most costly

natural disaster in California history, devastating businesses, homes, and lives, and causing \$27 billion in commercial and residential destruction. Following the quake, over 600,000 insured homeowners and businesses filed claims with their insurers. Thereafter, thousands of quake victims were forced to file complaints with the Department of Insurance (DOI), complaining of unfair claims settlement practices by their insurance companies. In January and February of 1999, DOI auditors completed extensive surveys, called "market conduct examinations," of four insurance companies' claims handling practices in connection with the Northridge earthquake; identified numerous alleged violations of Insurance Code section 790.03(h), which prohibits insurers from engaging in unfair claims settlement practices; and recommended that the Department levy over \$3 billion in fines against the companies. Instead, then-Insurance Commissioner Chuck Quackenbush entered into "settlements" with the four insurers for a total of \$12.3 million, and directed them to deposit the settlement money into nonprofit "educational" foundations that used the money to promote Quackenbush. When the scheme was uncovered (with the help of an internal whistleblower), Quackenbush resigned (see agency report on DOI for detailed information).

In *Department of Insurance: Recent Settlements and Enforcement Practices Raise Serious Concerns About Its Regulation of Insurance Companies* (October 2000), BSA sharply criticized DOI and Quackenbush, finding that Quackenbush "abused his authority when he required insurers to pay \$12.3 million in settlement outreach payments directly to nonprofit organizations and vendors for purposes not specifically related to his regulatory responsibilities." The report went on to criticize as "imprudent" other outreach payments totaling \$16.5 million that, while apparently legal in the sense that they were made for purposes related to DOI's regulatory authority, placed the funds outside the reach of state purchasing and expenditure controls and allowed the nonprofits to spend the funds for questionable purposes without DOI or legislative oversight.

Further, BSA noted that many of the settlements with insurers failed to include any monetary penalties against insurance companies found to have violated certain provisions of the Insurance Code and the Unfair Practices Act, such as handling claims in bad faith or receiving illegal monetary benefits on amounts deposited in escrow accounts. According to BSA, "the Department also omitted critical enforcement provisions from settlement agreements, thereby further eroding its ability to effectively regulate insurers." The report noted that by not including cease and desist provisions and failing to impose fines, it appeared that the settlements "absolved them [the insurers] of misconduct." Additionally, by concealing the amount and nature of the settlement payments, and structuring the settlements so that the violations were not reported to the National Association of Insurance Commissioners, DOI limited the amount of information available to other state regulators and consumers and increased

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BSA also found that DOI does not manage its enforcement activities effectively, allowing violations of the law to go unpunished. BSA found that DOI's legal division does not promptly resolve complaints referred to it by other Department bureaus and that DOI is unable to track enforcement cases because of a lack of an integrated monitoring system between the different branches of DOI. The report also found that poor controls over fine payments, cost reimbursements, and outreach activities inhibit DOI's ability to manage these payments and ensure that funds are used to further legitimate regulatory purposes.

BSA recommended that DOI require insurers to remit all settlement payments directly to the Department in order to maintain direct control over expenditures for outreach and education. BSA also recommended that the legislature consider amending the Insurance Code to prohibit settlement payments directly to nonprofit organizations, foundations, or vendors. In addition, BSA recommended that where egregious violations are identified, the insurer should be required to pay an appropriate penalty. DOI should clearly state the amount of such penalty, the date each penalty is due, and all other settlement terms in public settlement agreements that include an order to cease and desist the activities.

Finally, BSA recommended that DOI improve its enforcement program by developing an integrated case tracking system, reviewing open cases periodically, assigning and resolving the existing backlog of open cases in the legal division, requiring insurers to remit payment to DOI directly (and setting up a standardized system for receiving such payments), and strengthening accounting controls within the Department.

PUC Contract Development and Management

In *California Public Utilities Commission: Weaknesses in Its Contracting Process Have Resulted in Questionable Payments* (March 2000), BSA noted that the Public Utilities Commission (PUC)—which has broad powers to regulate investor-owned and operated natural gas, electric, telephone, water, sewer, steam, and transportation companies in California—employs more than 800 people who provide a broad range of expertise. However, the Commission must frequently contract with outside consultants when it does not have the necessary resources to provide certain services. During the 1998–99 fiscal year, the PUC spent \$11 million of its \$106 million budget on contracting services. However, BSA found that the PUC did not always adequately develop and manage these contracts. BSA found numerous deficiencies, including failure to consistently seek competitive bids, clearly define the scope of contracted work, and prepare reasonably detailed budgets and progress schedules. The report also noted a major deficiency in that the PUC did not always review its consultants' invoices to ensure their charges are appropriate and sufficiently supported. As a result, the Commission paid hundreds of thousands of dollars on invoices with inappropriate or insufficiently detailed and supported charges. These improper payments are ultimately made by consumers because

the PUC receives most of its funding from assessments on utility companies which pass those costs on to the public through increased utility rates.

In conducting this audit, BSA reviewed 25 PUC contracts entered into or amended during 1998–99; BSA also followed up to determine whether the PUC had taken corrective action in response to a May 1999 BSA audit of the Commission's handling of a consultant hired to investigate the 1998 San Francisco power outage. [17:1 CRLR 223] Although BSA determined that the PUC consistently identified the need for outside contracts and monitored the progress of consultant work, "it did not always perform other important steps in developing the contracts that we reviewed." For example, the PUC did not always use appropriate selection methods, establish progress schedules, and set reasonably detailed budgets. Further, and despite a BSA recommendation in its May 1999 audit, the PUC did not always adequately review its contractors' invoices; BSA found that, of the \$5 million paid on these 25 contracts in 1998–99, the Commission made at least \$650,000 in questionable payments due to inadequate review.

Based on its audit, BSA recommended that the PUC: (1) include reasonably detailed budgets and progress schedules in its contracts; (2) solicit competitive bids for contracts whenever possible; (3) establish a policy requiring a minimum level of detail for consultant invoices prior to payment; and (4) require contract managers to review charges and expenses contained in consultants' invoices to ensure that only proper payments are made.

2000 LEGISLATION

AB 1730 (Cardenas), as amended August 28, 2000, addresses lead poisoning prevention and, among other things, requires BSA to conduct a follow-up assessment of the effectiveness of specified Department of Health Services child lead poisoning regulations, and submit the results of the assessment to certain legislative committees by May 1, 2001. Governor Davis signed AB 1730 on September 18, 2000 (Chapter 540, Statutes of 2000).

AB 2866 (Migden), as amended June 15, 2000, requires BSA to report to the legislature and the Governor specific findings relating to pharmaceutical and medical supply procurement for offenders in state custody. The bill was signed by the Governor on July 8, 2000 (Chapter 127, Statutes of 2000).

2001 LEGISLATION

SB 413 (Speier). The California Whistleblower Protection Act authorizes the State Auditor to conduct an investigative audit upon receiving confirmation that an employee or state agency has engaged in an improper governmental activity, and (with certain exceptions) protects the identity of the person who provides the information which initiated the investigative audit. The Act also provides that a person who engages in acts of reprisal, retaliation, threats, coercion, or similar acts against a state employee or applicant for state employment for having made a protected disclosure, as de-

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financed, is subject to civil liability and criminal penalties. As amended March 26, 2001, this bill would require the State Auditor to prepare a written explanation of the Act, distribute it to each state agency, and post it on BSA's Web site. Each state agency would also be required to print and post the notice at its offices and send it by electronic mail to employees of the agency every six months.

SB 413 would also require the State Auditor to send a copy of any investigative report conducted under the Act which finds that an employee engaged in improper governmental activity to the employee's appointing power. The appointing power would then have to serve a notice of adverse action upon that employee or set forth in writing reasons for not taking adverse action. A copy of this notice of adverse action or reasons for not taking adverse action must also be provided to the State Personnel Board and the State Auditor by the appointing power.

In addition, SB 413 would repeal existing law which requires any state officer or employee filing a complaint of reprisal or retaliation to have also previously filed a complaint of improper governmental activity with the State Auditor or with the Inspector General.

A person cannot be retaliated against under the State Civil Service Act because he has opposed a practice that has been made an unlawful practice, or made a charge, testified, assisted, or participated in any manner in an investigation, proceeding, or hearing under the Act. This bill would establish that the burden of proof is on the supervisor, manager, employee, or appointing power to demonstrate by clear and convincing evidence that an alleged adverse employment action would have

occurred for legitimate, independent reasons, if a person demonstrates by a preponderance of evidence that opposing any practice made an unlawful employment practice under the act, or making a charge, testifying, assisting, or participating in any manner in an investigation, proceeding, or hearing under the act, was a contributing factor in any adverse employment action taken against him or her. Finally, SB 413 would provide that its provisions shall apply to the California State University and the University of California. [S. Appr]

ABX1 1 (Keeley), as amended January 31, 2001, is part of the state's response to the unprecedented energy crisis that began during the summer of 2000. The bill authorizes the Department of Water Resources (DWR)—until January 1, 2003—to enter into long-term contracts for the purchase of electric power and to sell that power to retail end-use customers and to local publicly owned electric utilities at not more than DWR's acquisition costs; the bill appropriates \$500 million from the general fund to DWR to purchase power. The bill also authorizes DWR to issue revenue bonds, with the authorization of the Department of Finance and the State Treasurer, to finance electricity purchases, and limits the amount that they may be issued to four times the amount of annual revenues generated from wholesale power. ABX1 1 also establishes in the State Treasury a new Department of Water Resources "Electric Power Fund," and requires all revenues payable to DWR under the bill to be deposited in the fund; and requires BSA to conduct a financial and performance audit of DWR's implementation of the bill. This bill was signed by the Governor on February 1, 2001 (Chapter 4, Statutes of 2001-02, First Extraordinary Session).

Legislative Analyst's Office

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The Legislative Analyst's Office (LAO) has been providing fiscal and policy advice to the California legislature for more than 55 years. It is known for its fiscal and programmatic expertise and nonpartisan analyses of the state's budget. Overseen by the 16-member bipartisan Joint Legislative Budget Committee (JLBC), LAO currently has a staff of 49 people. The analytical staff is divided into seven subject area groups of fiscal and policy experts.

The Office serves as the legislature's "eyes and ears" to ensure that the executive branch is implementing legislative policy in a cost-efficient and effective manner. The Office carries out this legislative oversight function by reviewing and analyzing the operations and finances of state government. Historically, one of the most important responsibilities of the LAO has been to analyze the annual Governor's Budget and publish a detailed review at the end of February. This

document, the *Analysis of the Budget Bill*, includes individual department reviews and recommendations for legis-

lative action. A companion document, *Perspectives and Issues*, provides an overview of the state's fiscal picture and identifies some of the major policy issues confronting the legislature. These documents help set the agenda for the work of the legislature's fiscal committees in developing a state budget. LAO staff works with these committees throughout the budget process and provides public testimony on the Office's recommendations.

LAO also reviews requests by the administration to make changes to the budget after it is enacted; prepares special reports on the state budget and topics of interest to the legislature; and prepares fiscal analyses of all proposed initiatives (prior to circulation) and measures that qualify for the statewide ballot.

