



Executive Summary

2009 Press Reports and Audits on Governmental Waste, Fraud, and Mismanagement

In 2009, the news media reported a shocking amount of waste, fraud and mismanagement in California's state and local governments.

From the accounts that Cal-Tax could quantify, the total sum of identifiable waste, fraud or mismanagement amounted to almost \$600 million in 2009. The actual amount of waste, fraud or mismanagement is actually much greater – of the 112 accounts identified, only 49 accounts were able to be quantified.

Cal-Tax compiles reports of misspent tax dollars to underscore the need for more extensive evaluation of government spending, especially at a time when the state and many local governments are experiencing chronic budget problems.

Cal-Tax also maintains an online database of waste from 1999 to the present, with entries based on investigative reporting by the media, government audits, grand jury probes and other sources: http://www.caltax.org/waste/waste_decadeof.html.

The Cal-Tax database chronicles billions of dollars in waste, but this is merely the tip of the iceberg. The news media does not report on all instances of alleged wrongdoing or mismanagement, nor does Cal-Tax staff find and compile every news story on the subject.

It is clear that a thorough evaluation of government spending would demonstrate an even stronger case for performance review and careful allocation of resources. Such a review should be part of the annual budget process at every level of government.

The following pages document many examples of questionable spending from January through August, including the Department of Correction's \$22 million expenditure on hotel rooms for sex offenders, local governments throughout the state spending \$58.3 million on lobbyists in Sacramento, Fresno schools making a \$34 million accounting mistake, Stockton's cost of \$25,000 to clean up elephant manure, and the Riverside District Attorney's \$129 million office building. These are just samples from the complete 2009 waste, fraud, and mismanagement report – the full list would fill 45 pages.

Cal-Tax is not alleging that laws have been broken in these cases. However, many cases represent violations of the sound financial management principles that taxpayers have a right to expect.

Here are some examples of waste, fraud and mismanagement

- **Thousands of Retired Government Workers Receive Six-Figure Pensions.** An *Orange County Register* examination of the state's pension records found that 4,817 of the 476,000 state and local government retirees in the system make more than \$100,000 in pension income, and 24 have pensions in excess of \$200,000. Critics cited by the paper noted that many of the high-dollar pensions are going to managers who shepherded large pay raises for their employees through the political process, and then collected raises of their own. The *Register* found that the 110 residents of Vernon, California paid \$600,000 a year to Bruce Malkenhorst Sr. to serve in six different capacities at once, spiking his pension to \$499,674 – the highest pension in the state's system. Mr. Malkenhorst is currently fighting a criminal indictment charging him with embezzling \$60,000 for such things as massages. Former Anaheim City Manager Jim Ruth, who retired in 2001 on a pension of \$219,045, went on to serve another year as a consultant to the city for \$192,000. Mr. Ruth later did a stint as Orange County's chief executive and, currently, is the county sanitation district chief. His annual salary is \$225,000, but between retirement and salary, he makes \$444,000. (*Orange County Register* - May 15, 2009)
- **Los Angeles County Pays Millions for Unused Phone Lines.** *The Los Angeles Times* revealed on June 19 that the county is spending \$1.5 million on 8,000 phones that never ring. Some lines may never have served a county purpose, such as the line to a now-defunct ticket brokerage in Hollywood, where the county has been paying the phone bill – currently \$38 per month. Supervisor Zev Yarolsavsky said, "This is government at its worst." As the county begins a review, the bill for abandoned phone lines could reach \$3 million. (Source: *The Los Angeles Times* - June 19, 2009.)
- **Already Facing Deficit, LA Supervisors Vote to Spend Millions on a TV Studio.** The Inland Valley Daily Bulletin report says it all: "Already facing the potential loss of more than \$1 billion in state funding, Los Angeles County supervisors voted Tuesday to set aside \$2 million to build a \$4.5 million county television studio. The 4-1 vote, which was opposed by Supervisor Gloria Molina, comes as the county faces increased demands for welfare, health and other services as people lose their homes and jobs in the economic crisis." The county faces a \$173 million gap between proposed spending and anticipated revenue in coming months, on top of the state potentially withholding \$1 billion as it runs out of cash next month. Kris Vosburgh, executive director of the Howard Jarvis Taxpayers Association, said, "What it comes down to is a TV station is a vanity item for the supervisors." The project will require final approval from the supervisors before construction begins later this year. Under the plan, the studio would be constructed inside the press corps area at the downtown county Hall of

Administration, eliminating a number of press offices. (Source: *Inland Valley Daily Bulletin* – January 28, 2009)

- **City of San Diego Partied With Money Intended to Help the Poor.** The city of San Diego may have to repay the federal government more than \$1.8 million, as auditors have found that the city mismanaged grant money intended to help poor residents. The San Diego Union-Tribune reported that money was spent inappropriately, including one case in which "\$4,118 was spent for a festival to celebrate a shopping center, instead of on planning." Government officials also spent money on property acquisition when it was intended for project planning. Federal auditors recommended that the city repay \$1.8 million, plus interest, and they also asked for documentation for another \$11 million that the city did not justify to their satisfaction. Jay Goldstone, San Diego's chief operating officer, said city officials hope to meet with federal officials to negotiate a settlement. San Diego currently faces an estimated \$54 million deficit in the fiscal year that will begin in July. (Source: *The San Diego Union-Tribune* – January 6, 2009)
- **Avocado Commission Misused as Much as \$2 Million, Audit Finds.** State auditors have uncovered as much as \$2 million in questionable spending by the California Avocado Commission during just a three-year period. During the brief time examined by auditors, the 18 employees of the Irvine-based commission used official credit cards to pay for more than \$1.5 million in home remodeling, sports tickets, health club memberships and delivery of restaurant meals. The spending included \$123,227 spent on season tickets to the Anaheim Ducks hockey games and the Los Angeles Angels of Anaheim baseball games between 2005 and 2008 – an amount that equates to more than \$41,000 a year for tickets that often were used by the commission's employees. The employees also ran up charges for \$850-a-night hotel rooms at resorts, and bought clothes from high-end retailers, characterizing the apparel as "uniforms" in their expense reports. Mark Affleck, who recently resigned from his \$300,000-a-year post after serving for 20 years as chief executive of the commission, used commission money to make \$17,000 worth of permanent improvements to his home, reportedly so he could telecommute. Commission board members, family members, guests and employees received "massages, nail service, facials and body treatments" during meetings at luxury resorts, the auditors found. The items and services "may be considered gifts of public funds," the auditors' report said. Commission board Chairman Rick Shade said most perks at the commission have been cut back and officials are seeking reimbursement from employees for some expenditures. He said the state audit resulted from findings reported by the board's own internal audit. The commission is funded by mandatory exactions collected from the state's 6,000 avocado growers. Its activities are overseen by the California Department of Food and Agriculture, which referred the spending audit to California Attorney General Jerry Brown's office for further investigation. (Source: *The Sacramento Bee's State Worker* blog - January 13, 2009)

- **Legislature Added 336 Workers to Payroll, Gave Pay Raises as Budget Was Slashed.** Despite the state's budget problems, the Legislature has been hiring new workers and giving out pay raises to existing employees, according to two newspaper reports. "While state lawmakers were contemplating deep cuts to education, children's health care and welfare payments, the legislators were also busy restocking their offices with new employees this year," the *San Francisco Chronicle* found. The paper reported: "State lawmakers hired 336 employees – about 15 percent of the Legislature's workforce – between January and the end of July, the (Legislature's) records show. The payroll of the new hires totals more than \$1.2 million a month or about \$14.4 million a year. The *Associated Press* reported that at least 87 Assembly staffers recently received pay raises totaling more than \$430,000 on an annualized basis, and nine staffers in the Senate received raises worth \$152,000 a year. (*San Francisco Chronicle* - August 9, 2009)