



July 1, 2015

Assembly Member Susan Bonilla, Chair
Assembly Business and Professions Committee
1020 N St., Room 383
Sacramento, CA 95814

Senator Jerry Hill, Chair
Senate Business, Professions and Economic Development Committee
State Capitol, Room 2053
Sacramento, CA 95814

Re: Pro Rata Study

Dear Assembly Member Bonilla and Senator Hill,

Senate Bill 1243 (Hill, Chapter 395, Statutes of 2014) required the Department of Consumer Affairs (Department) to provide a one-time study of its process for distributing administrative costs (pro rata) among its 39 boards, bureaus, committees, commission and program (boards). The purpose of the study is to:

- Determine if the current methodology is the most productive and cost efficient manner for the Department and the boards;
- Consider whether some services provided by the Department should be outsourced or charged based on usage; and,
- Consider whether boards should be allowed to opt out of paying and receiving certain administrative services.

In December 2014, the Department contracted with CPS HR Consulting (CPS) to conduct a study in accordance with SB 1243. Attached is the completed study, including a survey of the Department's boards in regards to the pro rata process.

The following is a brief summary of what CPS recommends the Department explore as possible alternative approaches to its current process:

- Changing the cost distribution of non-jurisdictional calls and correspondence to all boards evenly.
- Mitigating the effects of high costs in a particular fiscal year, by changing the distribution of Office of Information Services costs to a two-year roll forward methodology as used by the Division of Investigation.
- Use an approach for authorized positions that considers weighted authorized positions and workload or an approach that utilizes historical trends and distributes costs based on an average amount of authorized positions and workload over time.
- Utilizing an activity-based costing (ABC) methodology. ABC is a form of cost accounting that is designed to accurately reflect the cause-and-effect relationships between products or services, activities and costs.

Each of these recommendations will be taken under consideration by the Department as it looks to improve the process for distributing its costs. While basing costs on client usage is often a preferred method for ensuring a fair and equitable distribution, it is not always the most appropriate as it may discourage use of necessary services that are imperative to protecting consumers and ensuring each board complies with its mandate.

In the course of undergoing this review, the Department has also identified the following improvements to promote a more equitable and transparent pro rata process:

- Currently, a portion of the costs for the Office of Professional Examination Services (OPES) are distributed to all boards based on authorized position count, even for programs with no examination requirements. With the upcoming budget cycle, the Department will be removing OPES costs for these programs.
- The Department will be reviewing the Complaint Resolution Program (CRP) to determine the future use of this program. The CRP is currently in the process of closing its Riverside office in order to consolidate its resources to provide services in the most cost effective manner.
- The Department will be moving its annual pro rata review with the boards from January to October. This will provide the boards sufficient time to provide additional input into the Department's process for distributing costs. Part of this change will also include greater outreach to the boards to ensure that each board is aware of the services provided by each division and office, who to contact for assistance, and how those services are distributed.

With regard to the Department's services being outsourced or allowing boards to opt out, in many cases, statutory provisions govern the services provided by the Department. Additionally, a number of the services, especially administrative, are provided by the Department in a delegated role from a control agency in order to ensure that statutes, regulations, policies and procedures governing state agencies are met. As part of the study, CPS also conducted a survey of the Department's boards regarding the ability to opt out and it largely reflected that most programs do not want to opt out of the core Department services. While this is encouraging for the Department, the survey did reveal quality issues with some of the services provided by the Department. As mentioned above, the Department will be focusing on improving its outreach and being more responsive to the concerns and needs of the boards.

SB 1243, specifically Business & Professions Code Section 201, also requires DCA to submit a report of the accounting of the pro rata calculation of administrative expenses to the Legislature by July 1, 2015 and annually thereafter. Attached to this letter is DCA's first submission of this report.

Should you have any questions regarding this study or the Department's pro rata process, please contact Melinda McClain, the Department's Deputy Director for Legislation at (916) 574-7800 or melinda.mcclain@dca.ca.gov.



Awet Kidane
Director
Department of Consumer Affairs

Cc: Graciela Castillo-Krings, Deputy Legislative Secretary, Governor's Office
Anna Caballero, Secretary, Business, Consumer Services, and Housing Agency