# California State Water Resources Control Board

# Performance Audit of the Underground Storage Tank Cleanup Fund

**May 2026**

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# Executive Summary

In 2026, Sjoberg Evashenk Consulting, working on behalf of the State Water Resources Control Board (Board), completed a performance audit of the Underground Storage Tank Cleanup Fund (Fund). The audit assessed the Fund's compliance with applicable requirements, the efficiency and effectiveness of key program processes, the adequacy of internal controls supporting sound fund management, and five-year projections of revenues, expenses, and related trends affecting future Fund resources.

Since the previous performance audit of the Fund in 2021, we found that the Fund has continued to maintain a stable financial position. Specifically, the Fund's cash balance remained substantial, increasing modestly from approximately $863 million as of June 30, 2018, to approximately $891 million as of June 30, 2024. Revenues and expenditures were generally aligned during the audit period after accounting for one-time General Fund loan activity and repayment. Based on our projections, the Fund appears positioned to meet reimbursement demand under stabilized cost assumptions through June 30, 2031. However, the Fund's financial position is sensitive to sustained elevated cleanup costs. Under a higher-cost scenario, projected demand could exceed available resources by June 30, 2031. As a result, while current fee levels appear adequate under stabilized conditions, substantial increases in claim closure costs could require additional revenue or other funding strategies.

Although the Fund remains financially stable, its risk profile has shifted since the prior audit. Going forward, key challenges are maintaining fiscal stability while managing rising cleanup costs, increased Priority Class D reimbursement activity, and weaknesses in internal controls that limit the Fund's ability to demonstrate compliance with statutory requirements. Cleanup reimbursements remain the Fund's largest use of resources, and an increase of Priority Class D claims being processed contributed to higher reimbursement activity and larger average payments. However, key cost-containment mechanisms, including annual claim budget allotments, Cost Guidelines, Budget Change Requests, and required reviews of older claims, were not consistently applied, supported, or documented. As a result, there is reduced assurance that cleanup costs are consistently controlled, exceptions are adequately justified, and older active claims are reviewed for potential closure.

Consistent with findings from prior audits, we found that the Fund continued to exceed certain statutory and regulatory processing timelines. For eligibility determinations, the Fund's own measurement indicated that many applications received an initial determination within 60 days; however, that measure often excluded required technical and settlement reviews. When those reviews were included, most accepted claims exceeded the statutory timeframe. Similarly, the Fund did not meet the statutory 60-day requirement for most reimbursement payments reviewed, and most appeals decisions exceeded the 30-day regulatory requirement. Although reimbursement processing times declined in recent years, limited documentation prevented us from determining whether the decrease reflected improved efficiency, changes in review practices, or other factors.

Weaknesses in SCUFIIS and physical claim files further limited the Fund's ability to monitor compliance and identify causes of delay. The system does not consistently contain full histories of hold periods, technical review dates, settlement review dates, or other key milestones because this information was not consistently entered or maintained. In some cases, dates are overwritten or maintained only as system-generated placeholders. As a result, available data does not consistently distinguish between time attributable to

claimant delays and time attributable to Fund review. These data limitations have persisted despite prior audit recommendations and continue to restrict management's ability to monitor performance and demonstrate compliance with statutory requirements.

Lastly, we found that weaknesses in the Fund's control environment and monitoring activities limit effective oversight. Certain practices were adjusted to improve efficiency and avoid payment delays. However, those adjustments reduced the practical effect of established controls intended to ensure costs were reviewed, justified, and approved before payment. Annual claim allotments did not consistently operate as documented control points, and reimbursements sometimes exceeded assigned allotments without documented Budget Change Request approval, Project Execution Plan amendments, or other authorized exceptions. In addition, the Cost Guidelines functioned more as advisory references than enforceable cost-containment controls because the Fund had not developed internal cost review criteria specifying when additional documentation, supervisory review, Technical Unit review, or formal approval should be required for costs exceeding benchmarks, using unlisted labor classifications, or falling outside established categories. In addition, key eligibility and reimbursement decisions were not consistently subject to formal, documented secondary review, increasing reliance on individual analyst judgment. Required annual fiscal audits under Board Resolution 2009-0042 had not been conducted, and data and system limitations continued to impair reliable reporting and monitoring.

Overall, the Fund has maintained substantial resources and continued to process and close claims. However, additional improvements are needed to sustain fiscal stability, strengthen compliance with statutory requirements, and provide the Board with reliable information for oversight. Fund management should strengthen cost-containment controls, improve documentation of exceptions and secondary reviews, develop internal cost review criteria, implement reliable data tracking mechanisms, and develop formal financial projections to assess future demand and fee sufficiency. Without these improvements, the Board has limited assurance that cleanup costs are consistently controlled, claims are processed in accordance with statutory requirements, and program resources are protected as the Fund continues operating through its current statutory sunset in 2036.

**Recommendations**

To address the noted issues, the report provides 25 recommendations for the Board to consider directing staff to implement. Key recommendations include:

- Develop and periodically update formal financial projections that estimate future revenues, expenditures, reimbursement demand, and cash availability under multiple cost scenarios. Use current financial and program data to prepare the projections, compare projected results to actual outcomes, refine future projections, and support documented management decisions about reimbursement capacity, funding needs, and potential maintenance fee adjustments or other funding strategies.

- Provide Fund management with regular, timely Cash Status Reports that include current financial information and trends in revenues, expenditures, cash balances, reimbursement activity, and available resources. Fund management should use these reports to inform reimbursement planning and future funding assessments.

- Develop internal cost review criteria or supplemental internal guidance for staff to use when evaluating costs that exceed Cost Guideline benchmarks, use labor classifications not listed in the Guidelines, or fall outside established Cost Guideline categories. The internal guidance should specify when additional justification, documentation, secondary review, or formal approval is required, without requiring the Fund to disclose detailed cost parameters to claimants or consultants. Require staff to maintain documentation supporting approval of Cost Guideline exceptions, including the applicable benchmark, claimant justification, evidence reviewed, and basis for determining the cost was reasonable and necessary.
- Develop a process to ensure claims older than five years receive required annual reviews or have contemporaneous written justification maintained in SCUFIIS when required Remedial Status Reports are not prepared.
- Ensure eligibility determinations are not finalized and claims are not placed on the eligibility list until all required technical and settlement reviews are completed and documented.
- Develop and implement a corrective action plan to improve compliance with statutory and regulatory processing timelines for eligibility determinations, reimbursement requests, and appeals. At a minimum, the plan should include modifying SCUFIIS and related data-entry protocols to reliably and consistently track the full duration of processing, including time spent under review and time spent on hold; identifying causes of delay; assigning responsibility for corrective actions; and periodically reporting progress to Fund management and the Board.
- Establish supervisory and system-based controls, including SCUFIIS application controls or checklist controls where feasible, to ensure reimbursement requests requiring technical or settlement review are consistently referred, reviewed, documented, and approved in accordance with Fund policies before payment is issued.
- Implement a mechanism to track appeals processing time by stage to ensure compliance with the 30-day regulatory requirement and support management and Board oversight.
- Reinforce and formally communicate leadership expectations that established cost-containment controls, including required BCRs to exceed budget allotments, internal Cost Guideline thresholds, and documentation requirements, are to function as enforceable mechanisms. Where management intends to modify or relax existing controls, such changes should be formally documented, justified, and aligned with written policy.
- Ensure compliance with Board Resolution 2009-0042 by initiating and sustaining independent annual fiscal audits and by using audit results to inform corrective actions and Board oversight.

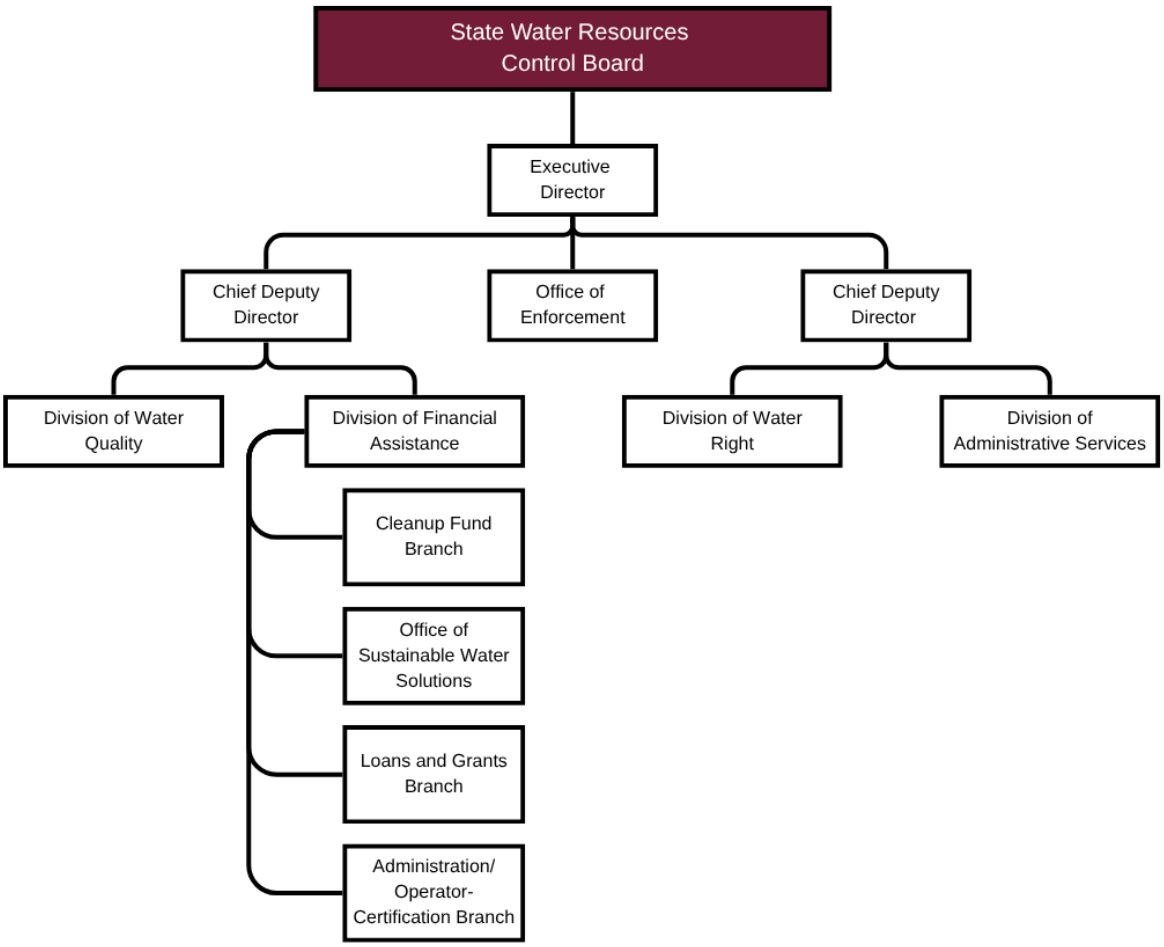
# Introduction and Background

California's Underground Storage Tank Cleanup Fund (Fund) program was established by the Barry Keene Underground Storage Tank Cleanup Fund Act of 1989 (Senate Bill 299) to:

- Provide a means for petroleum underground storage tanks (UST) owners and operators (claimants or responsible parties) to meet the federal and state financial responsibility requirements; and,
- Reimburse eligible owners for corrective action costs associated with the cleanup of contaminated soil and groundwater caused by an unauthorized release of petroleum from underground storage tanks.

The Fund, one of the largest state-funded cleanup programs in the nation, is administered by the California State Water Resources Control Board's (SWRCB) Cleanup and Administration Branch within the Division of Financial Assistance.

**EXHIBIT 1. SWRCB ORGANIZATION CHART (ABBREVIATED)**



**Cleanup Fund Process**

Since the Fund's inception in 1991 through June 30, 2024, the Fund has received almost 21,300 applications. To be deemed eligible to participate in the Fund, claimants must meet specific statutory and regulatory requirements, such as:

- Confirmed as the former or current owner or operator of the UST determined to have leaked a petroleum based or otherwise eligible substance;
- Received a directive from a regulatory agency to cleanup (take corrective action) the site;
- Complied with all UST permitting and corrective action requirements (regulatory cleanup orders);
- Paid all required UST storage maintenance fees to the California Department of Tax and Fee Administration (CDTFA); and,
- Provided adequate financial responsibility coverage for the UST.

As part of its mandate, the Fund follows a "Priority System" to prioritize the funding of reimbursements to eligible claims based on claimants' ability to pay:

- Priority A (residential tank owners);
- Priority B (small California businesses, including nonprofit organizations, and some governmental entities);
- Priority C (certain California businesses, nonprofit organizations, and governmental entities not meeting the criteria for Priority B); and,
- Priority D (all other claimants, typically large corporations and some governmental entities).

The following entities are integral to the Underground Storage Tank Cleanup Fund Program:

- SWRCB—Five-member oversight Board sets statewide water quality policy.
- Regional Boards—Nine semi-autonomous Boards make regional water quality decisions based on surface and groundwater basin plans.
- UST Program—Administers the following UST programs: Leak Prevention, Cleanup, Local Oversight Program, and Tank Tester Licensing.
- USTCF Program (Fund)—Provides reimbursement to eligible responsible parties for corrective action costs associated with the cleanup of contaminated soil and groundwater caused by leaking or unauthorized release of petroleum from underground storage tanks.
- SWRCB's Office of Enforcement— Provides support activities related to both UST leak prevention and cleanup by investigating fraud and violations of the UST laws and regulations related to issues such as improper UST construction, failure to upgrade USTs, tampering with leak detection devices.

- Regulatory Agencies—Provide regulatory oversight of all UST cleanup projects, whether or not the responsible party is a claimant that participates in the Fund and is eligible to receive reimbursement for the cleanup activities. Most cleanup projects are overseen by regulators that are employed at either the Regional Boards or County Local Oversight Programs, but a few projects were also overseen by City Local Implementing Agencies.
- Claimant (responsible party)—Owns or operates a leaking UST and meets specific eligibility requirements to participate in the Fund and receive reimbursement for cleanup activities. Not all responsible parties meet eligibility requirements or receive reimbursement for the cost of cleanup.
- CDTFA—Collects the UST maintenance fees from responsible parties that own or operate USTs in California, which are the source of the Fund's revenues.

# Objectives, Scope, and Methodology

Sjoberg Evashenk Consulting was hired by the State Water Resources Control Board (SWRCB) to conduct a performance audit of the Underground Storage Tank Cleanup Fund (USTCF). The Board established the following objectives for the Cleanup Fund program evaluation:

1. Assess the Cleanup Fund's compliance with statutes, regulations, policies, procedures, and processes at meeting program goals and objectives;
2. Assess the efficiency and effectiveness of the Cleanup Fund's policies, procedures, and processes at meeting program goals and objectives; and,
3. Assess Cleanup Fund's compliance with generally accepted accounting principles (GAAP), State Administrative Manual (SAM) guidelines, and sound Cleanup Fund management practices.
4. Assess the appropriate amount of the fee under H&SC section 25299.43 for the five-year period after the date of audit based on the Contractor's projections of Cleanup Fund revenue and expenses and analysis of trends and factors affecting those projections.

The scope of our audit covered the period from July 1, 2019 through June 30, 2024. Fieldwork was conducted between January 2025 and April 2026.

To provide context for the Fund's operating environment, we gathered relevant information from the California Department of Tax and Fee Administration (CDTFA), SWRCB's Office of Enforcement, Division of Water Quality, and Division of Administrative Services. These entities and divisions are separate from the UST Cleanup Fund, and we did not evaluate their processes because they were outside the scope of this audit.

To meet the audit objectives, we:

- Reviewed California Health and Safety Code, UST Cleanup Fund regulations, Legislative Annual Reports, Board decisions, SWRCB organizational charts, Fund policies and procedures, and prior Underground Storage Tank Cleanup Fund performance audit reports.
- Interviewed SWRCB management and staff of the Cleanup Fund, Division of Financial Assistance's (DFA) Administrative Unit, DAS' Accounting Office, and Office of Enforcement, as well as CDTFA staff.
- Conducted process walk-throughs with and gathered documents from management and staff within SWRCB, including the Fund's Claims Eligibility Unit, Settlement Unit, two Reimbursement Units and one Closures and Support Services Unit within the Reimbursements Section, two Technical Claim Review Units and one Review Summary Reports Unit within the Hydrogeology and Engineering Section, Cleanup Accounts Section (which includes the Expedited Claims Account Program and Site Cleanup Subaccount Program), Grants and Contracts Unit, and DFA's Special Fund Fiscal Unit.
- Analyzed financial data, including revenues, expenditures, transfers, cash balances and reserves, encumbrances, and reimbursement payments.

- Projected future reimbursement demand and available Fund resources through June 30, 2031, under multiple scenarios based on analysis of claim activity, reimbursement payments, closed-claim costs, active claims, priority-list claims, projected new claims, maintenance fee revenue, and cash balances.
- Reviewed selected claim application files, reimbursement request files, invoices, and appeal files to corroborate SCUFIIS data and assess compliance with statutory and regulatory timelines, Fund policies and procedures, Cost Guidelines, annual budget allotments, Budget Change Request and Project Execution Plan requirements, technical and settlement review requirements, appeal requirements, and documentation standards.
- Assessed the reliability of key data used during the audit, including SCUFIIS reports, reimbursement request data, claims data, accounting records, GeoTracker records, and selected physical files. As needed, we discussed data limitations with SWRCB staff, requested additional data, refined audit universes, and corroborated selected information to supporting records.
- Obtained and reviewed GeoTracker system statistical reports related to areas such as active and closed UST cleanup cases, regulatory performance data, and payment reports.
- Compared Fund closure information to available external UST cleanup completion data, including EPA-reported national and California cleanup completion rates.
- Reviewed selected older active claims and Remedial Status Report documentation to determine whether required annual reviews were completed or whether contemporaneous justification was documented when reviews were not performed.
- Assessed the adequacy of selected internal control activities across the claims lifecycle, including eligibility determinations, reimbursement approvals, technical and settlement referrals, appeals, data reliability, monitoring activities, supervisory review, and documentation controls.
- Determined how measures in Board Resolution 2009-0042 and recommendations from the 2019 Underground Storage Tank Cleanup Fund Performance Audit were implemented.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

# Chapter 1: The Fund's Financial Position Is Stable

The Underground Storage Tank Cleanup Fund is intended to provide a reliable source of reimbursement for eligible cleanup costs associated with leaking petroleum underground storage tanks. Because the Fund reimburses claimants after eligible costs have been incurred, its financial condition depends on both the availability of ongoing revenue and the level of current and future reimbursement demand. We reviewed the Fund's revenues, expenditures, cash balances, claim activity, and projected obligations to assess whether the Fund remained financially stable during the audit period and whether existing resources appear sufficient to meet future claims.

Overall, we found that the Fund maintained a stable financial position during the audit period. Revenues and expenditures were generally aligned after accounting for one-time General Fund loan activity, and the Fund's cash balance increased modestly from approximately $864 million as of June 30, 2018, to approximately $891 million as of June 30, 2024. However, future sufficiency depends largely on claim closure costs and reimbursement demand. Under stabilized cost assumptions, projected resources appear sufficient through June 30, 2031; under elevated-cost assumptions, the Fund could face a modest shortfall. In addition, while the Fund monitors current reimbursement activity and cash status, it does not prepare formal, documented projections of future revenues, expenditures, reimbursement demand, or cash availability, limiting management's ability to assess future funding needs on a forward-looking basis.

## Fund Financial Position Remained Stable During the Audit Period

The Underground Storage Tank (UST) Cleanup Fund (Fund) reimburses eligible owners for corrective action costs associated with the cleanup of contaminated soil and groundwater caused by leaking or unauthorized releases of petroleum from underground storage tanks. Because the program reimburses participants after they have incurred cleanup costs, timely reimbursement has historically been the Fund's primary objective. The Fund generates revenue primarily from UST maintenance fees paid by tank owners, as well as interest earnings. Eligible claimants are assigned to one of four priority rankings based on their ability to pay and are placed on the Fund's Priority List:

- Priority A (residential tank owners);
- Priority B (small California businesses, including nonprofit organizations, and some governmental entities);
- Priority C (certain California businesses, nonprofit organizations, and governmental entities not meeting the criteria for Priority B); and,
- Priority D (all other claimants, typically large corporations and some governmental entities).

We found that the Fund's overall financial position remained stable during the audit period. Although revenues and expenditures fluctuated in certain years due to a loan to the State's General Fund and its subsequent repayment, ongoing program revenues and expenditures were generally aligned. As a result, the Fund's cash balance increased modestly from $864 million as of June 30, 2018, to $891 million as of June 30, 2024.

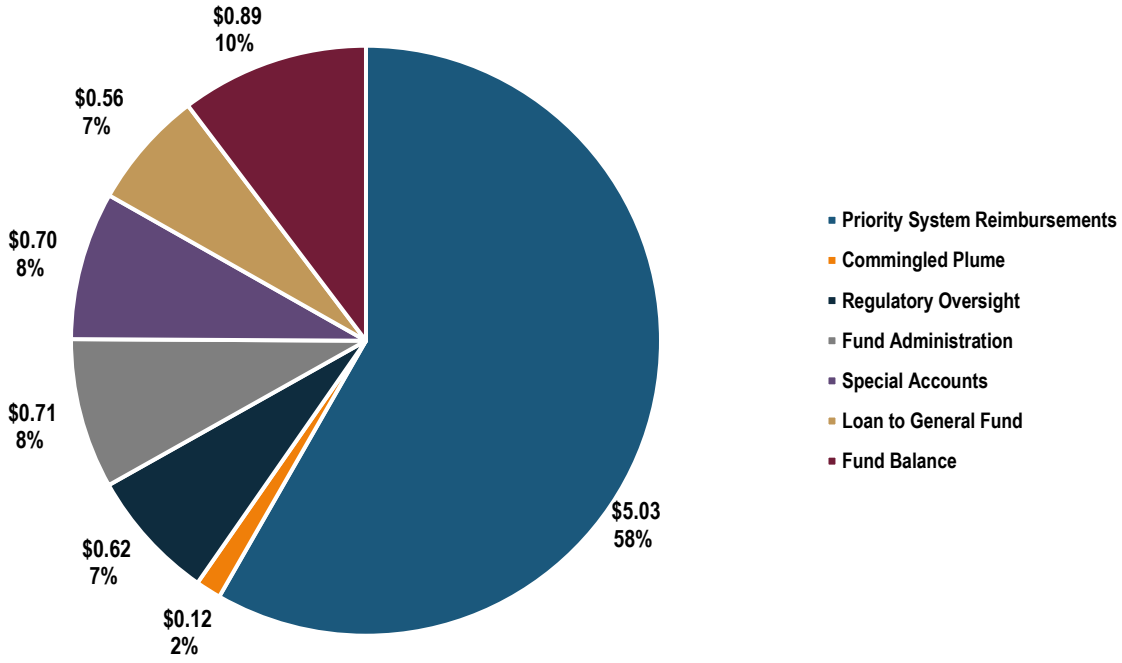
This section describes how the Fund generated and used revenues during the audit period, including reimbursement payments, administrative and oversight costs, transfers to special programs, and loans to the General Fund.

## Cash Balances Remained Stable During the Audit Period

From its inception in 1991 through June 30, 2024, the Fund generated approximately $8.6 billion in revenue, of which about $5 billion (58 percent) was expended on its largest cost category—Priority System reimbursement payments. In addition to the priority system reimbursement payments, the Fund also expended approximately $124 million, or about 1.4 percent of revenue, on commingled plume claim payments, which involve complex claims with multiple responsible parties. Combined, claim reimbursements accounted for approximately 60 percent of total revenues expended.

The remaining 40 percent, or approximately $3.5 billion, supported administrative and regulatory oversight costs, transfers related to special account programs, loans to the State's General Fund, and the maintenance of cash reserves. The Fund's utilization of revenues since inception is illustrated in Exhibit 2.

**EXHIBIT 2. UTILIZATION OF FUND REVENUES—INCEPTION THROUGH JUNE 30, 2024 (IN BILLIONS)**



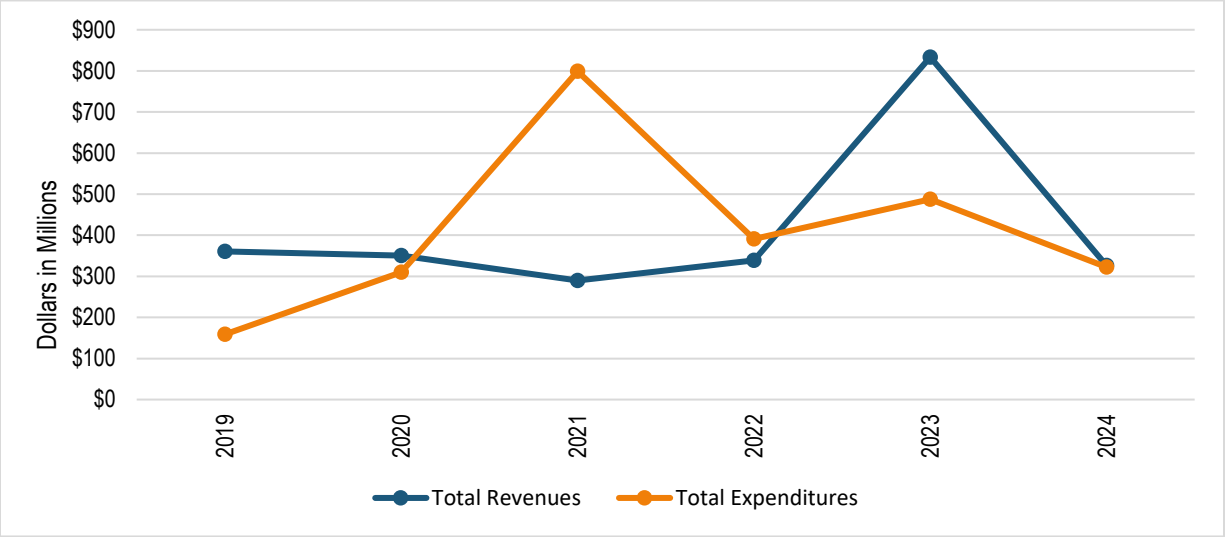

Source: Prior Audit Report; Cash Status Reports

Although the Fund's cash balance declined to just over $27 million in Fiscal Year 2007–08, it has averaged approximately $777 million over the past decade. During the current audit period, the Fund's cash balance remained relatively stable and totaled $891 million as of June 30, 2024.

### Revenues and Expenditures Fluctuated, but Cash Balances Remained Stable

As shown in Exhibit 3, reported revenues and expenditures fluctuated during the audit period primarily due to a $500 million loan to the General Fund in Fiscal Year 2020-2021 and its repayment in Fiscal Year 2022-2023. The loan temporarily increased expenditures in Fiscal Year 2020-2021, while the repayment increased revenues in Fiscal Year 2023.

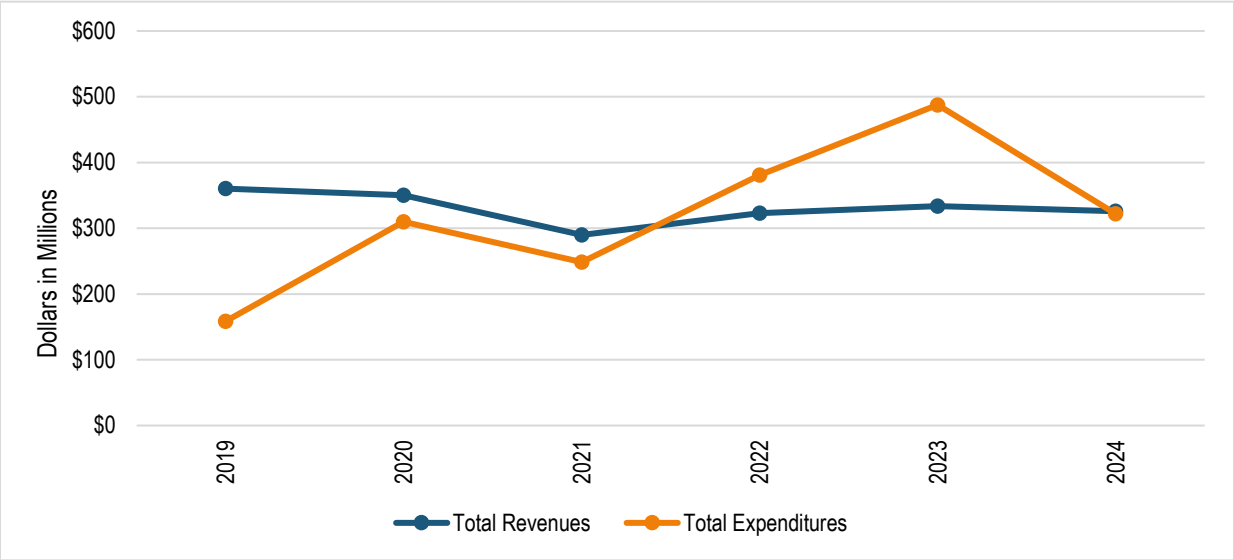
**EXHIBIT 3. FUND REVENUES AND EXPENDITURES, FISCAL YEARS 2018-2019 THROUGH 2023-2024**




Source: Cash Status Reports

Excluding the one-time loan and repayment, underlying program revenues remained relatively stable, averaging approximately $330 million annually. Program expenditures generally increased through Fiscal Year 2022-2023, averaging approximately $318 million per year and peaking at nearly $500 million before declining in Fiscal Year 2023-2024, as shown in Exhibit 4.

**EXHIBIT 4. FUND REVENUES AND EXPENDITURES EXCLUDING GENERAL FUND LOAN AND REPAYMENT, FISCAL YEARS 2018-2019 THROUGH 2023-2024**




Source: Cash Status Reports

Because ongoing program revenues and expenditures were relatively similar in magnitude, the Fund experienced minimal structural surpluses or deficits during the period. As a result, its overall cash position remained stable, despite fluctuations in the middle years attributable to the loan and repayment transactions. Although annual revenues and expenditures were generally aligned during the audit period, the Fund's substantial cash balance reflects accumulation from prior years in which revenues exceeded reimbursement demand. Accordingly, while current operations are near breakeven, the Fund's solvency strength is primarily derived from previously accumulated reserves rather than ongoing annual surpluses.

As shown in Exhibit 5, cash balances increased modestly from approximately $864 million as of June 30, 2018, to $891 million as of June 30, 2024.

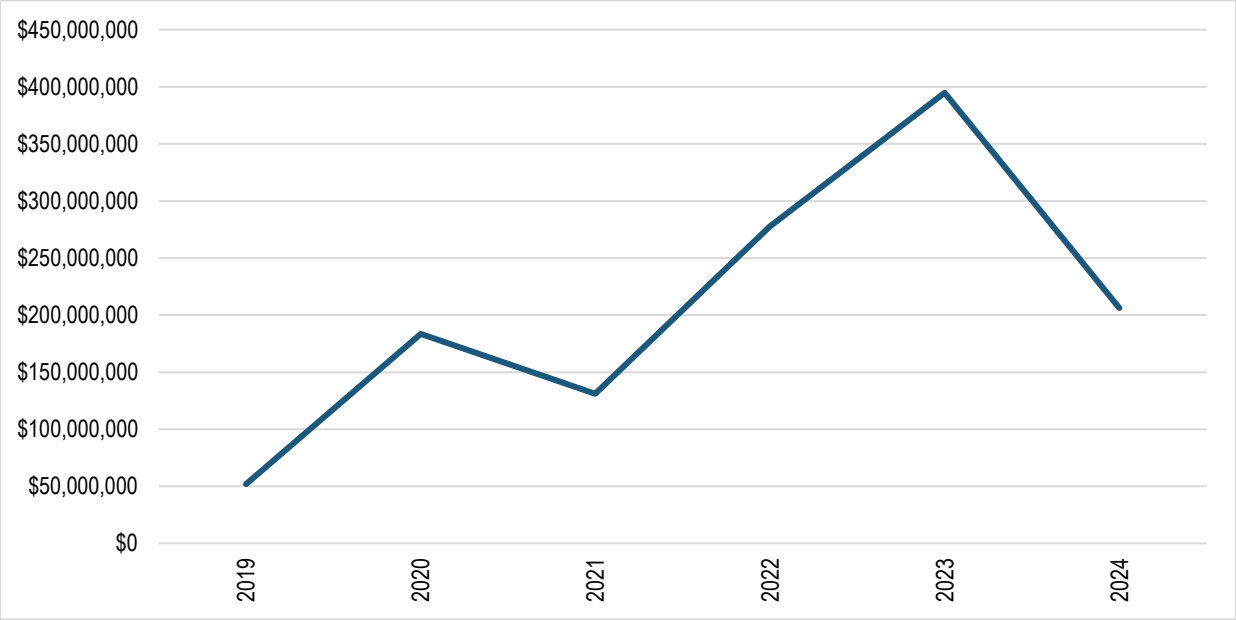
**EXHIBIT 5. CASH BALANCES, FISCAL YEARS 2017-2018 THROUGH 2023-2024**


Source: Cash Status Reports

*Claim Reimbursements Increased Through Fiscal Year 2022-2023 Before Declining*

A closer review of total expenditures shows that claim reimbursements—the Fund's largest expenditure category—increased significantly through Fiscal Year 2022-2023 before declining in Fiscal Year 2023-2024, as shown in Exhibit 6. This pattern is consistent with the overall expenditure trends reflected in Exhibit 3.

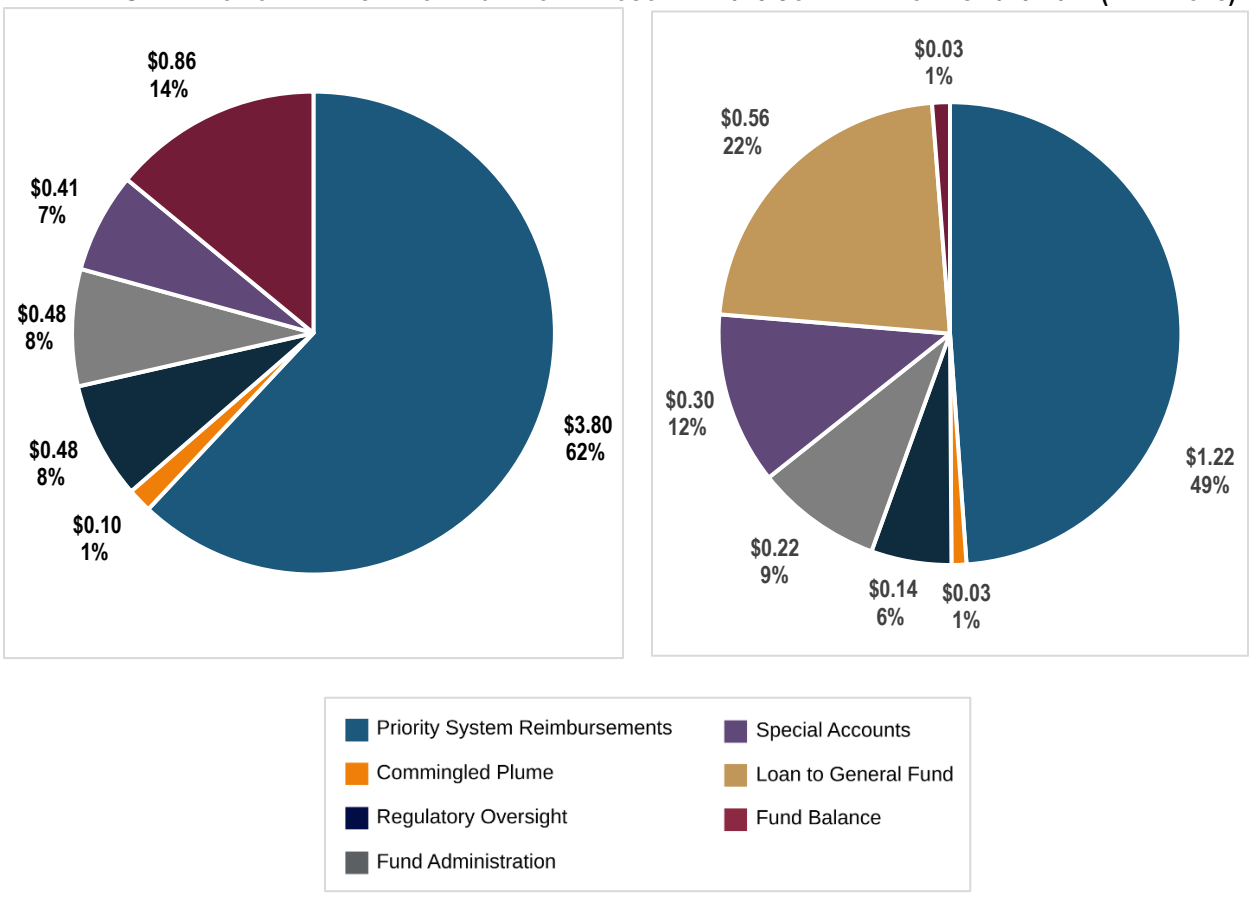
**EXHIBIT 6. ANNUAL CLAIM REIMBURSEMENTS**




Source: SCUFIIS.

As shown in Exhibit 7, the distribution of the Fund's revenue utilization shifted between the earlier period reported in the prior audit and Fiscal Years 2018–19 through 2023–24. From program inception through Fiscal Year 2008–09, claim reimbursements accounted for approximately 62 percent of total revenues. In contrast, between Fiscal Years 2018–19 and 2023–24, reimbursements accounted for 49 percent of revenues. Although annual reimbursement payments increased during the audit period, they represented a smaller share of total revenues compared to earlier decades.

**EXHIBIT 7. UTILIZATION OF REVENUE FROM INCEPTION THROUGH FY 2018 COMPARED TO FYS 2019-2024 (IN BILLIONS)**




Source: Prior Audit Report; Cash Status Reports

However, the proportion of annual revenues used to pay reimbursement claims increased during the audit period. The prior audit reported that in Fiscal Year 2018–19, approximately 32 percent of annual revenues were used to pay reimbursement claims. During the current audit period, that percentage generally increased and averaged approximately 51 percent over the period, as shown in Exhibit 8.

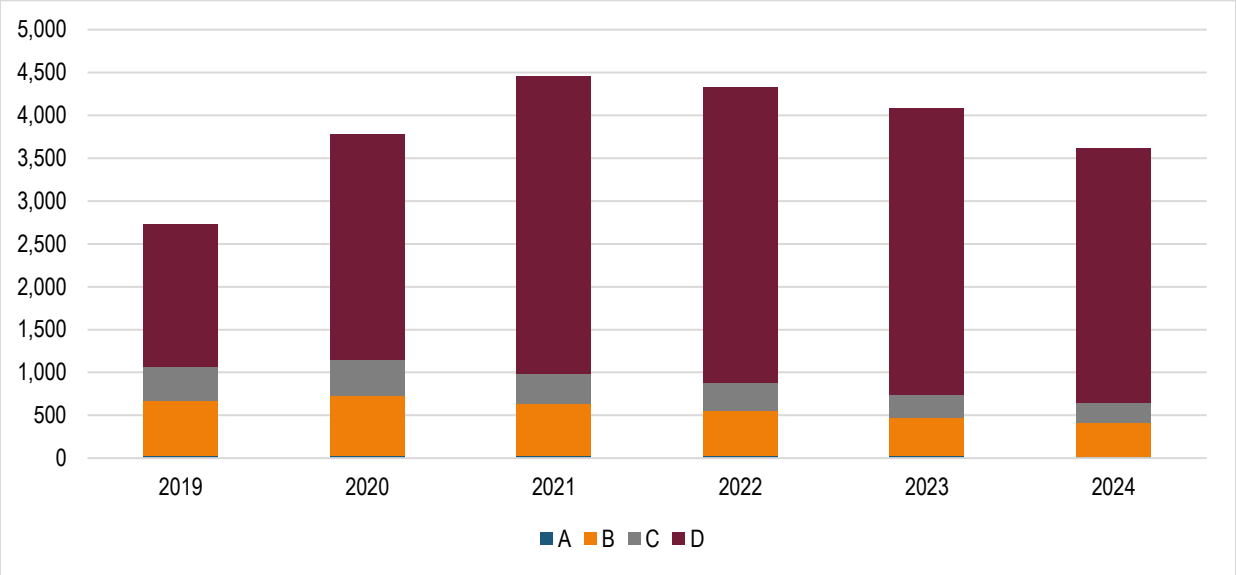
**EXHIBIT 8. PERCENT OF ANNUAL TOTAL REVENUES USED FOR CLAIM REIMBURSEMENTS**


Source: Cash Status Reports

Taken together, Exhibits 7 and 8 present different perspectives on revenue utilization. Exhibit 7 reflects cumulative allocation of total revenues across multi-year periods, showing that reimbursement payments accounted for a smaller overall share of total revenues in the more recent period compared to earlier years. In contrast, Exhibit 8 illustrates that, within the audit period, the Fund directed an increasing proportion of its annual revenues toward reimbursement payments. These results indicate that although reimbursements comprised a smaller share of total cumulative revenues in the recent period, the Fund used a larger share of current-year revenues to pay claims during the audit period.

Furthermore, the increase in claim reimbursement expenditures corresponds with growth in the number of "active" claims—claimants eligible to submit reimbursement requests. As shown in Exhibit 9, the number of active claims increased from 2,722 at the end of Fiscal Year 2018–2019 to just 3,615 at the end of Fiscal Year 2023–24. A contributing factor in this increase was the activation of additional Priority Class D claims and increased participation within that class.

**EXHIBIT 9. ACTIVE CLAIMS POOL BY PRIORITY CLASS, FISCAL YEAR 2018-2019 THROUGH FISCAL YEAR 2023-2024**

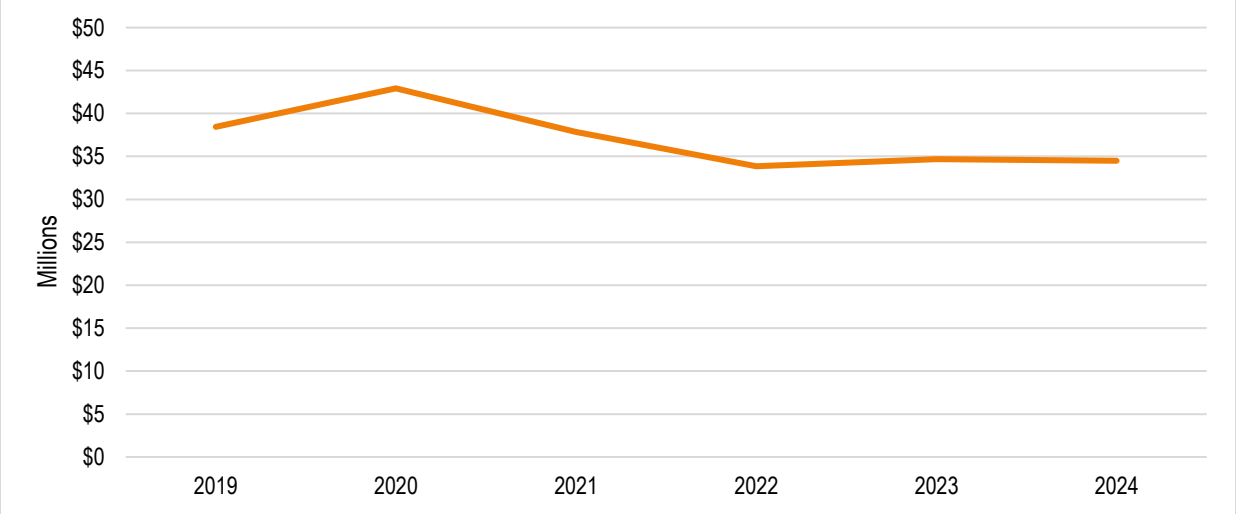



Source: SCUFIIS

*Non-Programmatic Expenses Remained Relatively Stable*

While claim reimbursements increased, non-programmatic expenses remained relatively stable during the same period, decreasing modestly from $38.4 million in Fiscal Year 2018–19 to $35.5 million in Fiscal Year 2023–24 and averaging approximately $37 million annually, as shown in Exhibit 10. These expenses primarily consist of Fund administration costs, pro rata charges, and oversight and support costs from the California Department of Tax and Fee Administration (formerly the California Board of Equalization) and the California Environmental Protection Agency.

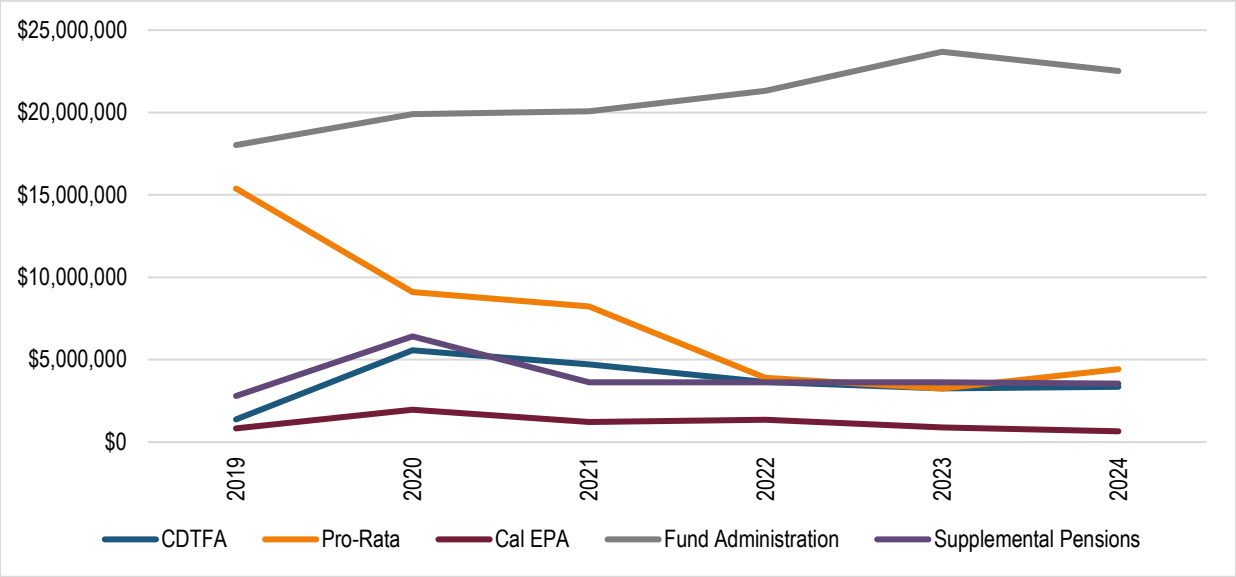
**EXHIBIT 10. NON-PROGRAMMATIC EXPENSES, FISCAL YEAR 2018-2019 THROUGH FISCAL YEAR 2023-2024**




Source: Cash Status Reports

While non-programmatic costs remained relatively stable overall, their composition changed during the audit period, as shown in Exhibit 11. Fund administration costs increased steadily, offset by substantial declines in pro-rata charges, while costs associated with CDTFA, CalEPA, and supplemental pensions remained comparatively modest.

**EXHIBIT 11. COMPONENTS OF NON-PROGRAMMATIC EXPENSES, FISCAL YEARS 2018–19 THROUGH 2023–24**




Source: Cash Status Reports

*Oversight Expenses were Consistent between Fiscal Years 2018-2019 and 2023-2024*

The Fund pays for Regional Water Board and Local Oversight Program activities that direct and oversee cleanup costs, as discussed in Chapter 2. Although oversight costs increased slightly between Fiscal Years 2018-2019 and 2023-2024, these annual costs remained fairly consistent over the entire audit period, averaging just under $24 million and ranging from about $21 million to $26 million over the period. These expenditures are also consistent with amounts reported in the prior audit.

*Some Funding Allocated to Special Accounts and Loaned to General Fund*

In addition to expending monies on reimbursement payments, administrative costs, and oversight activities, the Fund allocates funding to several special accounts. Specifically, Health and Safety Code section 25299.51 requires that $0.003 or 3 mils, per gallon from the existing $0.02 per gallon petroleum storage fee be allocated among the following accounts:

- Removing, Replacing, or Upgrading Underground Storage Tanks (RUST) Loans and Grants—Provides grants of up to $15,000 to small businesses (fewer than 500 employees) to assist with cleanup costs and leak-detection equipment. The allocation of the 3 mills was 50 percent to the RUST program, which averaged approximately $24 million per year. In 2021, the allocation was adjusted downward to 15 percent through the budget change process because the program had

sufficient funding. The RUST program received a total of approximately $94 million between Fiscal Years 2018–19 and 2023–24.

- Site Cleanup Subaccount Program (SCAP)—Provides grants to remediate contamination that impacts, or threatens to impact, surface water or groundwater and is not limited to petroleum releases. The allocation of the 3 mills was 50 percent to SCAP, which averaged approximately $24 million per year. In 2021, the allocation was adjusted upward to 85 percent through the budget change process because the program needed additional funding. SCAP received a total of approximately $185 million between Fiscal Years 2018–19 and 2023–24.
- School District Account (SDA)—Provides grants to school districts for certain petroleum underground storage tank cleanup costs. SDA did not receive allocation of the 3 mills during the audit period. According to Accounting, this program will receive additional funding through future one-time transfers.

The Fund also transferred monies to the following accounts:

- Waste Discharge Permit Fund—Supports the State Water Resources Control Board's water quality regulatory and permitting activities. The Fund transferred nearly $16 million to this fund between Fiscal Years 2018–19 and 2023–24.
- Safe Drinking Water Fund—Supports implementation of drinking water programs, including programs that assist public water systems in providing safe drinking water, particularly in disadvantaged communities. The Fund transferred approximately $1.9 million between Fiscal Years 2018–19 and 2023–24.

In addition to these allocations and transfers, the Fund provided loans totaling $561 million to the State's General Fund in Fiscal Years 2020–21 and 2021–22 to address statewide budget shortfalls. These loans were subsequently repaid but contributed to the volatility in reported revenues and expenditures discussed earlier in this chapter.

Given the Fund's substantial cash balance during the audit period, transfers to special accounts and loans to the General Fund did not appear to inhibit or prevent expenditures on the Fund's primary purpose—paying claim reimbursements.

Overall, despite year-to-year fluctuations driven by loan activity and changes in claim activation, the Fund maintained a stable financial position during the audit period. Revenues and expenditures remained generally aligned, cash balances increased modestly, and the Fund continued to prioritize claim reimbursements as its primary expenditure. To assess whether the Fund's current financial position is sufficient to meet future obligations, we developed forward-looking projections of revenue, demand, and reimbursement capacity through June 30, 2031, as discussed in the next section.

## Fund Resources Are Projected to Meet Demand Under Stabilized Conditions, but Are Sensitive to Elevated Cost Assumptions

The Fund is currently set to sunset on January 1, 2036. Our projections indicate that the Fund is positioned to meet projected reimbursement demand under stabilized cost conditions but may face shortfall risk under sustained elevated-cost conditions.

### Estimates of Future Available Resources

CDTFA prepares internal projections of UST maintenance fee revenue, the primary source of funding for the Fund, for the upcoming two fiscal years. According to the CDTFA, the number of taxable gallons of petroleum stored in USTs has declined by an average of approximately 2.5 percent per year over the most recent five-year period, decreasing from 15.4 billion gallons in Fiscal Year 2018–2019 to 13.5 billion gallons in Fiscal Year 2023–2024, as shown in Exhibit 12.

**EXHIBIT 12. GALLONS OF FUEL STORED IN USTS, FISCAL YEARS 2018-2019 THROUGH 2023-2024**

| Fiscal Year | Gallons Stored | Five-year Average Percent Change |
|---|---|---|
| 2018-2019 | 15,357,598,000 | -2.5% |
| 2023-2024 | 13,506,925,000 | |

Source: California Department of Tax and Fee Administration (CDTFA) Gasoline Tax Statistics.

Similarly, annual UST maintenance fee revenues declined between Fiscal Years 2018–2019 and 2023–2024, from approximately $341 million to $296 million, representing an average annual decrease of approximately 2.8 percent over the five-year period.

CDTFA projects continued modest declines in maintenance fee revenue for Fiscal Years 2024–2025 and 2025–2026, from $296.2 million to $292.8 million—an approximately 1.1 percent decrease.

Changes in maintenance fee revenue historically have also been influenced by statutory adjustments to the per-gallon fee rate. Specifically, the UST maintenance fee increased from $0.014 to $0.020 per gallon on January 1, 2010. However, on January 1, 2014, the fee decreased to $0.014 per gallon, contributing to corresponding decreases in revenue in Fiscal Years 2013–2014 and 2014–2015. On January 1, 2015, the fee was increased again to $0.020 per gallon pursuant to Senate Bill 445, resulting in a corresponding increase in revenue in Fiscal Year 2015–2016. As shown in Exhibit 13, historical fluctuations in revenue reflect not only changes in taxable gallons stored, but also statutory adjustments to the per-gallon maintenance fee rate.

**EXHIBIT 13. HISTORICAL UST MAINTENANCE FEES**

| UST Maintenance Fees Assessed (per gallon) | Fee Collection Timeframe |
|---|---|
| $ 0.006 | January 1, 1991–December 31, 1994 |
| $ 0.007 | January 1, 1995–December 31, 1995 |
| $ 0.009 | January 1, 1996–December 31, 1996 |
| $ 0.012 | January 1, 1997–December 31, 2004 |
| $ 0.013 | January 1, 2005–December 31, 2005 |
| $ 0.014 | January 1, 2006–December 31, 2009 |
| $ 0.020 | January 1, 2010–December 31, 2013 |
| $ 0.014 | January 1, 2014–December 31, 2014 |
| $ 0.020 | January 1, 2015–Present |

Source: California Department of Tax and Fee Administration.

Given recent declines in gallons stored and maintenance fee revenue, we developed two forward-looking projection scenarios for Fiscal Years 2024–2025 through 2030–2031 to evaluate potential revenue stabilization and potential revenue recovery outcomes over the projection period. Using recent CDTFA projections as a baseline, we estimated revenues under:

- **Stabilized Revenue Baseline**, which assumes revenues level off at the 2025–2026 projected level following recent declines; and
- **Growth Scenario**, which applies a 2 percent compounded annual growth rate beginning in Fiscal Year 2024–2025, reflecting a modest recovery relative to recent decline trends and does not assume a return to historical peak volumes.

The growth scenario models a potential stabilization and gradual recovery in taxable gallons and fee revenue rather than a continued contraction. While recent data reflect declining taxable gallons, maintenance fee revenues historically have been influenced by both taxable volume and statutory fee adjustments. The per-gallon fee has remained at $0.020 since January 1, 2015, with no scheduled reductions. Accordingly, neither projection assumes a change in the statutory fee rate. The stabilized baseline assumes that recent declines level off at the projected 2025–2026 level, while the growth scenario evaluates potential revenue outcomes under conditions of stabilized or modestly improving taxable gallon volumes rather than continued contraction.

Exhibit 14 presents projected revenues under both scenarios.

**EXHIBIT 14. ESTIMATED GROWTH IN UST MAINTENANCE FEE REVENUES, FISCAL YEARS 2024-2025 THROUGH 2030-2031**

| Fiscal Year | Stabilized Revenue Baseline | Growth Scenario (2% Annual) |
|---|---|---|
| 2024-2025 | $296,186,000 | $302,109,720 |
| 2025-2026 | $292,820,000 | $308,151,914 |
| 2026-2027 | $292,820,000 | $314,314,953 |
| 2027-2028 | $292,820,000 | $320,601,252 |
| 2028-2029 | $292,820,000 | $327,013,277 |
| 2029-2030 | $292,820,000 | $333,553,542 |
| 2030-2031 | $292,820,000 | $340,224,613 |
| **Total** | **$2,053,106,000** | **$2,245,969,271** |
| **76 Percent Required for Reimbursement Payments** | **$1,560,360,530** | **$1,706,936,646** |

Because the per-gallon fee rate has remained unchanged since 2015 and taxable gallons have declined in recent years, projected revenue growth is inherently constrained absent statutory changes or sustained increases in petroleum consumption.

As reflected in Exhibit 14, the Fund could receive between approximately $2.05 billion and $2.25 billion in maintenance fee revenue from Fiscal Years 2024–2025 through 2030–2031 under the two projection scenarios.

During the prior audit period, reimbursement payments accounted for approximately 76 percent of revenue utilization, compared to approximately 50 percent during the current audit period. For projection purposes, we applied the historical 76 percent allocation to model potential reimbursement capacity under normalized operating conditions, consistent with longer-term program allocation patterns prior to the audit period rather than the reduced utilization observed during the current audit period. The 50 percent utilization observed during the current audit period reflects temporary factors, including pandemic-related reductions in claimant activity, delayed project submissions, and timing fluctuations. If reimbursement utilization remains closer to the recent 50 percent level, actual reimbursement capacity would be lower than modeled, resulting in reduced resources available for claim payments. Applying the 76 percent allocation to projected revenues indicates that approximately $1.56 billion to $1.71 billion could be available for Priority System reimbursements during the projection period, as shown in Exhibit 14.

As described in the prior audit, the Fund accumulated a substantial cash balance due to lower-than-expected reimbursement submissions by claimants and increased maintenance fee revenue collections. We used the Fund's reported cash balance of $891 million as of June 30, 2024, as the beginning balance for projection purposes. Although the balance may have fluctuated following year-end, this figure provides a documented and verifiable starting point.

Adding the estimated $1.56 billion to $1.71 billion in projected reimbursement-available revenues from Exhibit 14 to the Fund's beginning cash balance of $891 million, the Fund could have between approximately $2.45 billion and $2.60 billion in total resources available from July 1, 2024, through June 30, 2031, for priority system reimbursement payments.

**Estimates of Future Demand**

To determine the Fund's future demand for reimbursements, we estimated:

- The future claims pool that will seek reimbursements and
- The reimbursement costs required to close claims.

The following sections describe the process used to estimate the size of the potential claims pool and the associated costs to close claims.

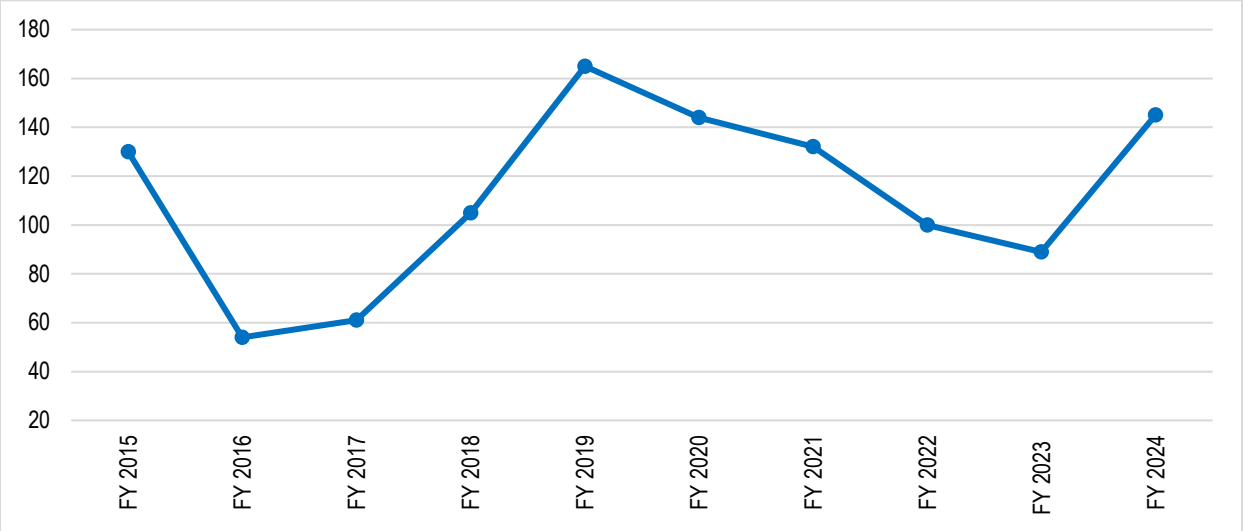
Estimated Future Claimant Volume

The future claims pool consists of three groups: (1) currently active claims seeking reimbursements, (2) claims on the priority list awaiting activation, and (3) new claims not yet on the priority list that will be accepted before June 30, 2031.

The prior audit of the Fund reported that approximately 20,700 applications were submitted from the Fund's inception in 1991 through June 30, 2019. In more recent years, just over 600 additional applications were submitted between July 1, 2019, and June 30, 2024. In total, from inception through June 30, 2024, approximately 21,300 applications have been submitted. Of these, about 16,700 (78 percent) were determined eligible and placed on the priority list.

As shown in Exhibit 15, application volume fluctuated over the past decade. Submissions declined from approximately 130 applications in FY 2015 to about 54 in FY 2016, then increased steadily through FY 2019, peaking at roughly 165 applications. Beginning in FY 2020, applications declined each year through FY 2023, consistent with the impacts of the COVID-19 pandemic. In FY 2024, submissions increased to approximately 145 applications, indicating a recovery in filing activity.

**EXHIBIT 15: APPLICATIONS SUBMITTED BETWEEN JULY 1, 2014 AND JUNE 30, 2024**




Source: SCUFIIS.

According to Fund Management, in recent years larger companies began submitting applications because the Fund increased activation of Priority Class D claims as available resources increased. As shown in Exhibit 16, Priority Class D claims accounted for 81 percent of application submissions between July 1, 2019 through June 30, 2024, up from 39 percent during prior years.

**EXHIBIT 16. APPLICATIONS SUBMITTED AND DEEMED ELIGIBLE BY PRIORITY CLASS, INCEPTION THROUGH JUNE 30, 2024**

| Priority Class | Fund Inception to June 30, 2019 | | July 1, 2019, to June 30, 2024 | |
|---|---|---|---|---|
| | Number of Applications | Percent of Total Applications | Number of Applications | Percent of Total Applications |
| A | 527 | 3% | 15 | 3% |
| B | 5,282 | 32% | 27 | 6% |
| C | 4,178 | 26% | 46 | 10% |
| D | 6,267 | 39% | 374 | 81% |
| **Total** | **16,254** | **100%** | **462** | **100%** |

Source: SCUFIIS.

As reflected in Exhibit 17, a total of 969 applications were submitted and deemed eligible over a 10-year period, resulting in an average of approximately 97 additional applications per year. Projecting this average forward for the period July 1, 2024, through June 30, 2031 (7 years) results in an estimated approximately 679 additional claims (97 × 7 = 679) that could add to demand on Fund resources through June 30, 2031.

We allocated these projected claims among the four Priority Classes in proportion to each class's share of eligible applications during the 10-year historical period. For Priority Class A, we conservatively rounded downward to 35 claims due to the small base and to avoid overstating projected demand. This approach

assumes that the recent 10-year distribution of applications among Priority Classes will continue through 2031. Actual distribution may vary if application trends, funding levels, or activation practices change.

We used the most recent 10-year period to smooth year-to-year fluctuations and pandemic-related volatility and to reflect both pre- and post-COVID-19 application patterns. While application levels have varied in recent years, we have determined that the 10-year average provides a reasonable basis for projecting future application volume absent significant policy changes.

**EXHIBIT 17. ESTIMATES OF APPLICATIONS DEEMED ELIGIBLE BY PRIORITY CLASS, THROUGH JUNE 30, 2031**

| Priority Class | July 1, 2014, Through June 30, 2024 | | | July 1, 2024, through June 30, 2031 |
|---|---|---|---|---|
| | Applications Accepted | Percent | Average per Year | Estimated New Claims |
| A | 53 | 5% | 5 | 35 |
| B | 120 | 12% | 12 | 84 |
| C | 108 | 11% | 11 | 77 |
| D | 688 | 71% | 69 | 483 |
| **Total** | **969** | **100%** | **97** | **679** |

Percentages may not total exactly 100 percent due to rounding.
Source: SCUFIIS.

In addition to the estimated 679 new claims reflected in Exhibit 18, currently active claims and claims on the priority list comprise the remainder of the future claimant pool through June 30, 2031. As of June 30, 2024, the Fund had approximately 3,615 active claims and 39 claims on the priority list, as shown in Exhibit 18. Active claims reflect claims that remained open and eligible to submit reimbursement requests as of June 30, 2024. This total excludes claims that have been closed or fully reimbursed.

**EXHIBIT 18. ESTIMATE OF FUTURE CLAIMS POOL, JULY 1, 2024, THROUGH JUNE 30, 2031**

| Priority Class | Active Claims as of 6/30/2024 | Priority List Claims as of 6/30/2024 | New Claims July 1, 2024, through June 30, 2031 | Estimated Total Claims Through 2031 |
|---|---|---|---|---|
| A | 16 | 2 | 35 | 53 |
| B | 397 | 2 | 84 | 483 |
| C | 232 | 3 | 77 | 312 |
| D | 2,970 | 32 | 483 | 3,485 |
| **Total** | **3,615** | **39** | **679** | **4,333** |

Source: SCUFIIS.

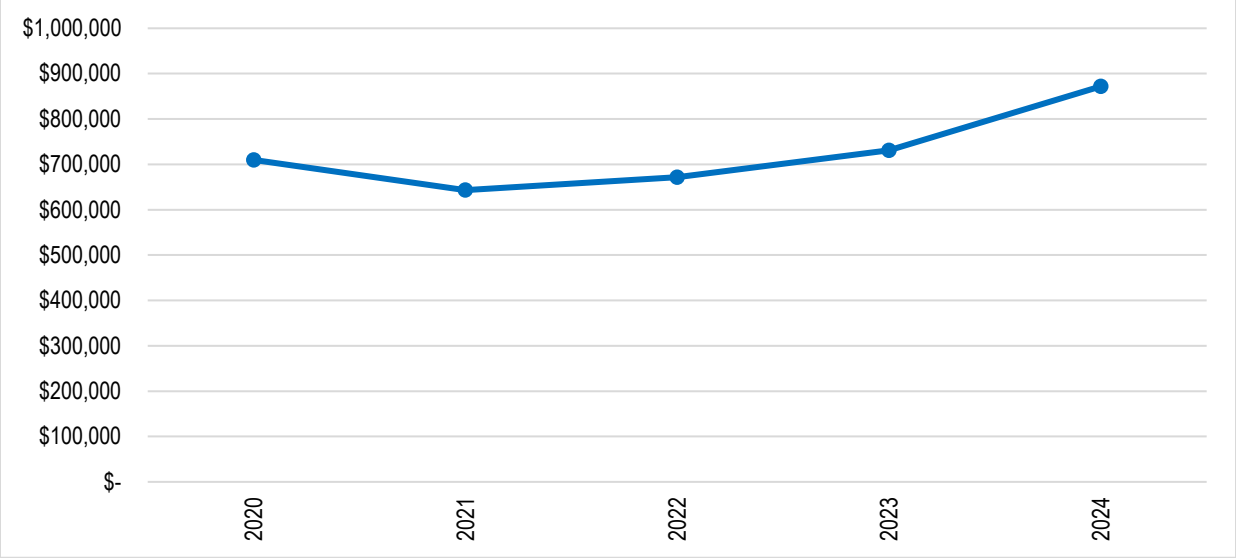
Taken together, the Fund could expect approximately 4,333 total claims through June 30, 2031 that may be eligible to submit reimbursement requests until closed; however, actual reimbursement demand will depend

on the extent to which claimants submit eligible costs. Historical reimbursement activity indicates that not all open claims generate ongoing reimbursement requests; therefore, this estimate reflects potential exposure rather than guaranteed reimbursement activity. Actual reimbursements will depend on claimant activity, eligibility determinations, and timing of project completion.

Estimated Costs to Close Remaining Claims

The prior audit of the Fund reported that the average cost of closed claims began increasing in FY 2010, reaching $631,354 by FY 2019. As shown in Exhibit 19, the average cost of closed claims declined in FY 2021 compared to FY 2020, then increased steadily through FY 2024 to approximately $872,000 per closed claim, the highest level observed during the period and roughly 40 percent higher than the FY 2019 average.

**EXHIBIT 19. AVERAGE COST OF CLOSED CLAIMS, FISCAL YEARS 2019 THROUGH 2024**




Source: SCUFIIS.

However, we noted a significant cost differential between Priority Class A claims and the other priority classes, as shown in Exhibit 20. Specifically, the five-year average cost to close Priority Class A claims was substantially lower at $199,196, compared to approximately $726,000 to $789,000 for Priority Classes B, C, and D.

**EXHIBIT 20. AVERAGE COST OF CLOSED CLAIMS BY PRIORITY CLASS, FISCAL YEARS 2014-2015 THROUGH 2023-2024**

| Fiscal Year | Priority A | Priority B | Priority C | Priority D | All Priority Classes |
|---|---|---|---|---|---|
| 2014-2015 | $173,722 | $589,452 | $674,579 | $701,980 | $621,567 |
| 2015-2016 | $456,399 | $575,009 | $628,274 | $505,710 | $582,494 |
| 2016-2017 | $46,278 | $603,101 | $641,290 | $424,921 | $520,360 |
| 2017-2018 | $80,899 | $699,236 | $706,056 | $586,469 | $648,085 |
| 2018-2019 | $49,084 | $717,073 | $801,557 | $431,457 | $631,354 |
| 2019-2020 | $49,830 | $586,380 | $523,279 | $1,034,833 | $709,585 |
| 2020-2021 | $318,442 | $645,930 | $717,861 | $600,188 | $643,210 |
| 2021-2022 | $98,588 | $804,162 | $960,871 | $526,690 | $671,973 |
| 2022-2023 | $368,052 | $753,446 | $645,162 | $760,874 | $730,925 |
| 2023-2024 | $161,067 | $841,319 | $879,534 | $1,023,730 | $871,904 |
| Average | $180,236 | $681,511 | $717,846 | $659,685 | $663,146 |
| **Average over Last Five Years** | **$199,196** | **$726,248** | **$745,341** | **$789,263** | **$725,519** |

Source: SCUFIIS.

Additionally, we found variation in payments across priority classes. Specifically, of the Fund's 3,615 active claims as of June 30, 2024, 2,929 had received at least one reimbursement payment and averaged approximately $491,000 in cumulative payments-to-date, as shown in Exhibit 21. While average paid-to-date amounts for Priority Classes B and C exceed their respective five-year historical closure averages, and Priority Class A claims also exceed the five-year average for that class, Priority Class D claims—comprising the majority of active claims—reflect substantially lower paid-to-date amounts relative to their historical closure averages. As a result, the overall average paid-to-date across active claims remains below the five-year average cost to close claims reflected in Exhibit 20.

**EXHIBIT 21. REIMBURSEMENTS ON ACTIVE CLAIMS WITH AT LEAST ONE PAYMENT AS OF JUNE 30, 2024**

| Priority | Active Claims | Cumulative Paid on Active Claims | Average Paid per Active Claim |
|---|---|---|---|
| A | 14 | $3,957,515 | $282,680 |
| B | 380 | $308,785,126 | $812,592 |
| C | 216 | $183,986,377 | $851,789 |
| D | 2,318 | $941,374,147 | $405,940 |
| **Total** | **2,929** | **$1,438,103,165** | **$490,988** |

Source: SCUFIIS.

The remaining 686 of the 3,615 active claims as of June 30, 2024, had not yet received a reimbursement payment and were primarily Priority Class D claims. Because these claims have not yet submitted reimbursement requests, their ultimate closure costs are uncertain but may align more closely with historical averages reflected in Exhibit 20.

To provide robust cost estimates, we developed two scenarios.

**Cost Scenario 1**—For approximately a third of the 4,333 future claims pool (Exhibit 18), we calculated the cost to close claims using the overall five-year averages reflected in Exhibit 20. Combined, the 39 claims on the priority list, the 686 active claims that had not yet sought a reimbursement payment, and the estimated 679 new claims could cost $1,074,405,582 to close, as shown in Exhibit 22.

**EXHIBIT 22. TOTAL COST TO CLOSE CLAIMS THAT HAVE NOT YET RECEIVED A REIMBURSEMENT REQUEST**

| Claim Priority | Active Claims with No RR Payments | Claims on the Priority List | Estimated New Claims Added after 6/30/2024 | Total Claims | Five-Year Average Cost of Closed Claims | Total Remaining Costs - Claims with No RRs Paid |
|---|---|---|---|---|---|---|
| A | 2 | 2 | 35 | 39 | $199,196 | $7,768,644 |
| B | 17 | 2 | 84 | 103 | $726,248 | $74,803,544 |
| C | 16 | 3 | 77 | 96 | $745,341 | $71,552,736 |
| D | 651 | 32 | 483 | 1,166 | $789,263 | $920,280,658 |
| **Total** | **686** | **39** | **679** | **1,404** | | **$1,074,405,582** |

Additionally, for the remaining two-thirds of the 4,333 future claims pool, we estimated the cost to close the 2,929 active claims that have received at least one reimbursement payment using cumulative reimbursements paid-to-date as a conservative lower-bound estimate of total closure costs. Although payments-to-date do not represent full closure costs, they provide a reasonable minimum exposure estimate. In total, these claims could cost approximately $1,438,103,165, as shown in Exhibit 21. Historical claim patterns indicate that many active claims—particularly Priority Class D claims—have already incurred a substantial portion of total project costs prior to reimbursement submission or activation. Accordingly, while additional costs may be incurred prior to closure, paid-to-date amounts reflect a defensible floor for modeling remaining exposure.

Together, the total cost to close all estimated 4,333 claims in the claims pool under Cost Scenario 1 is $2,512,508,747 ($1,074,405,582 plus $1,438,103,165).

Cost Scenario 1 reflects continuation of recent historical closure cost patterns and paid-to-date trends and does not incorporate elevated statutory cap assumptions.

**Cost Scenario 2**—In addition to the approximate $1,074,405,582 to close the claims reflected in Exhibit 22, we modeled an elevated-cost scenario for the 2,929 currently active claims to evaluate potential exposure under higher reimbursement conditions.

The $1,000,000 elevated-cost assumption is applied only to claims that have demonstrated reimbursement activity and therefore exhibit observable cost exposure. For claims with no reimbursement requests submitted, insufficient empirical data exists to support modeling at statutory maximum levels. Accordingly, we applied historical five-year average closure costs to those claims rather than statutory caps.

Under this elevated-cost scenario, Priority Classes B, C, and D are modeled at $1,000,000 per claim, and Priority Class A at $500,000, as reflected in Exhibit 23. For approximately 80 percent of active claims, the $1,000,000 amount represents the statutory maximum reimbursement level; for the remaining 20 percent—eligible for up to $1,500,000—it represents a level below the statutory cap.

Although only 8 percent of closed claims during the audit period reached their statutory maximum reimbursement, recent closure data indicate upward cost pressure. Average closure costs reached approximately $872,000 in FY 2023–24, with Priority Classes B and C approaching $900,000 and Priority Class D exceeding $1,000,000 in that year (Exhibit 20). In addition, paid-to-date averages for active Priority Class B and C claims are already in the $800,000 range. Given these trends and the statutory reimbursement limits applicable to most claims, modeling closure at $1,000,000 for Priority Classes B, C, and D provides a reasonable elevated-cost sensitivity scenario for evaluating potential Fund exposure.

For Priority Class A claims, we modeled closure costs at $500,000, which exceeds both the five-year historical average and the current paid-to-date average for that class.

Cost Scenario 2 reflects a sustained elevated-cost environment and is intended as a sensitivity analysis rather than a most-probable outcome.

**EXHIBIT 23. ESTIMATED COST TO CLOSE ACTIVE CLAIMS WITH AT LEAST ONE REIMBURSEMENT PAYMENT– SIGNIFICANT ADDITIONAL COST ASSUMED**

| Claim Priority | Active Claims w/ at least one RR Paid | Estimated Costs to Close Claims | Estimated Costs |
|---|---|---|---|
| A | 14 | $500,000 | $7,000,000 |
| B | 380 | $1,000,000 | $380,000,000 |
| C | 216 | $1,000,000 | $216,000,000 |
| D | 2,318 | $1,000,000 | $2,318,000,000 |
| **Total** | **2,929** | | **$2,921,000,000** |

Together, the total cost to close all estimated 4,333 claims in the future claimant pool under Cost Scenario 2 is $3,995,405,582 ($1,074,405,582 from Exhibit 22 plus $2,921,000,000 from Exhibit 23).

**Projected Fund Balance Through June 30, 2031 Under Alternative Scenarios**

To compare estimates of the Fund's future demand against estimates of available resources described throughout the previous sections, we developed two scenarios that provide a range of possible outcomes based on our estimates:

- **Cash Balance Scenario 1**—Optimistic: Lower Demand / Higher Resource Case
- **Cash Balance Scenario 2**—Conservative: Higher Demand / Lower Resource Case

The divergence between scenarios is driven primarily by differing cost-to-close assumptions, with revenue growth assumptions producing comparatively smaller changes in projected available resources.

As shown in Exhibit 24, projected Fund resources exceed projected demand under Scenario 1 but fall short under Scenario 2. Under the more optimistic Scenario 1, demand is modeled using paid-to-date amounts for active claims and historical five-year average closure costs for claims with no reimbursement activity. This approach reflects that for many active claims—particularly Priority Class D claims, where projects are often complete prior to reimbursement submission—remaining cost exposure may be limited. Assuming 2 percent annual revenue growth and a beginning cash balance of approximately $891 million on July 1, 2024, the Fund is projected to have approximately $1.52 billion more in resources than projected demand by June 30, 2031.

In the less optimistic Scenario 2, which assumes significant remaining costs for claims that have received one or more reimbursements, a stabilized revenue baseline, and a beginning cash balance of approximately $891 million on July 1, 2024, the Fund is projected to have approximately $106 million less in resources available than demand by June 30, 2031.

**EXHIBIT 24. ESTIMATES OF FUND DEMAND AND RESOURCES, JULY 1, 2024 THROUGH JUNE 30, 2031**

| Scenario 1 - Optimistic | | Scenario 2 – Conservative | |
|---|---|---|---|
| Low Estimate of Fund Demand<br>See Demand Scenario 1 Page 27 | $2,512,508,747 | Estimated Fund Demand – High<br>See Demand Scenario 2 Page 28 | $3,995,405,582 |
| Less Amounts Paid on Currently Active Claims through June 30, 2024<br>See Exhibit 21 | $1,438,103,165 | Less Amounts Paid on Currently Active Claims through June 30, 2024<br>See Exhibit 21 | $1,438,103,165 |
| **Total Projected Demand Through June 30, 2031** | **$1,074,405,582** | **Total Projected Demand Through June 30, 2031** | **$2,557,302,417** |
| Projected Revenues July 1, 2024, through June 30, 2031 - Growth Scenario (2% Annual)<br>76 Percent Available for Reimbursements<br>See Exhibit 14 | $1,706,936,646 | Projected Revenues July 1, 2024, through June 30, 2031 – Stabilized Revenue Baseline<br>76 Percent Available for Reimbursements<br>See Exhibit 14 | $1,560,360,530 |
| Cash Balance on July 1, 2024<br>See Page 9 | $890,911,493 | Cash Balance on July 1, 2024<br>See Page 9 | $890,911,493 |
| **Total Projected Available for Reimbursements Resources July 1, 2024, through June 30, 2031** | **$2,597,848,139** | **Total Projected Available for Reimbursements Resources July 1, 2024, through June 30, 2031** | **$2,451,272,023** |
| **Projected Excess on June 30, 2031** | **$1,523,442,557** | **Projected Shortfall on June 30, 2031** | **($106,030,394)** |

Together, the scenarios indicate that projected resources exceed projected demand under Scenario 1; however, under Scenario 2, demand exceeds resources by approximately $106 million by June 30, 2031. Under the elevated-cost assumptions reflected in Scenario 2, resources are only modestly lower than demand, indicating limited margin for adverse variation. Eliminating the projected $106 million shortfall over seven years would require approximately $15 million in additional annual revenue—equivalent to roughly 5 percent of projected annual maintenance fee collections (Exhibit 14).

### Maintenance Fee Adjustment Considerations

The projections above provide a framework for evaluating whether the current $0.020 per gallon maintenance fee is sufficient under varying cost conditions.

Under Scenario 1 (lower-demand assumptions), projected resources exceed projected demand by a substantial margin. If average closure costs stabilize near historical trends and reimbursement activity remains consistent with recent payment patterns, current fee levels appear sufficient through June 30, 2031.

Under Scenario 2 (elevated-cost assumptions), projected demand exceeds projected resources by approximately $106 million over seven years—equivalent to roughly $15 million per year, or about 5 percent

of projected annual maintenance fee collections. Under sustained elevated-cost conditions, maintaining the current fee level would likely result in a shortfall by June 30, 2031.

The need for maintenance fee adjustment depends primarily on future closure cost trends. If closure costs continue to increase and approach sustained $1,000,000 exposure for Priority Classes B, C, and D claims, projected resources would be insufficient under the elevated-cost scenario. In that case, a modest increase in annual revenue of approximately 5 percent would eliminate the projected shortfall. Specifically, based on Exhibit 14 projected annual maintenance fee revenues of approximately $293 million to $302 million and the current $0.020 per gallon rate, implied taxable gallons are approximately 14.7 to 15.1 billion gallons annually. At that volume, each $0.001 per gallon increase would generate approximately $15 million in additional annual revenue. Under the assumptions used in Scenario 2, a $0.001 per gallon increase would generate approximately enough additional annual revenue to offset the projected $106 million shortfall over seven years. This calculation is intended only to illustrate the approximate scale of additional revenue that would be needed under the elevated-cost scenario; it is not a recommendation to increase the fee.

In summary, current fee levels appear adequate under stabilized cost conditions, while the elevated-cost scenario indicates that a modest additional revenue source may be needed if closure costs remain high.

## Fund Monitors Current Financial Activity but Lacks Formal Projections Needed to Assess Future Funding Needs

The Fund has several processes for monitoring reimbursement-related financial activity, including encumbrance tracking, payment tracking, purchase order reports, and annual cash status information prepared by Accounting. These processes help management understand current expenditures, available budget authority, and purchase order status. However, they do not provide a formal, documented assessment of future revenues, expenditures, reimbursement demand, or cash availability. As a result, despite prior audit recommendations to improve financial projections, the Fund continues to rely on existing tracking tools and informal discussions with Accounting to assess whether resources are sufficient to meet future reimbursement obligations.

### The Fund Tracks Encumbrances and Reimbursement Spending Through Multiple Financial Processes

Management of the Fund's financial resources occurs both within the Fund and through the State Water Resources Control Board's (SWRCB) Division of Administrative Services (DAS), including its Accounting and Budgeting Branches. The Accounting Branch processes payments for reimbursement requests and other Fund expenditures through Fi$CAL, SWRCB's financial system, and prepares financial statements and other reports on Fund activity. The Budget Branch prepares SWRCB's annual budget, including the Fund.

Within the Fund, the Financial and Reporting Unit supports financial oversight by reviewing program requests to encumber funds for future reimbursements when a Letter of Commitment is issued and using spreadsheets to track activity against those encumbrances after accounting creates and processes reimbursement payment vouchers in Fi$CAL. The unit also records payment information in SCUFIIS to support additional

tracking and external transparency. In addition, the Financial and Reporting Unit provides Fund management with monthly budget authority and purchase order tracking reports <B-7b> that monitor reimbursement-related encumbrances, available funding, and the status of purchase orders. These reports show how much budget authority has been allocated, how much remains available, and whether purchase orders are pending approval or have been dispatched. Together, these tracking and reporting efforts provide Fund management with information on claimant encumbrances, expenditures, available funding, and purchase order status, helping the Fund oversee reimbursement activity and remain within available spending authority.

**Prior Audit Recommendations to Improve Financial Projections Were Not Implemented**

Although prior audits recommended that the Fund develop and maintain formal revenue, expenditure, and cash flow projections, Accounting and Fund management do not currently prepare documented projections to assess future revenues, reimbursement demand, expenditures, or cash availability. Accounting recently began providing the Fund with annual Cash Status Reports that detail revenues, expenditures, and net cash balances; however, Accounting staff indicated that upcoming system issues may affect their ability to continue producing these reports in the near term. Accounting staff also stated that they would ultimately like to provide these reports quarterly, pending sufficient resources.

In the absence of formal projections and more timely cash status reports, Accounting and Fund management reported that they discuss cash availability informally during monthly meetings, including whether cash receipts appear sufficient to support appropriations. Accounting and Fund management stated that, given the Fund's current cash position, they believe the Fund has sufficient resources and does not need formal projections. However, while the Fund's encumbrance and purchase order tracking provides management with useful information to monitor current reimbursement activity, available budget authority, and purchase order status, these reports do not constitute formal documented projections of future revenues, expenditures, reimbursement demand, or cash availability. Given the Fund's significant annual receipts and expenditures, formal projections would provide a more documented basis for assessing whether available resources are sufficient to meet future reimbursement obligations and remain within appropriated spending authority. Without such projections, the Fund relies primarily on current activity tracking, annual cash status information, and informal discussions between Accounting and Fund management to assess cash availability.

**Recommendations**

To improve the Fund's ability to assess future funding needs and determine whether resources remain sufficient to meet reimbursement demand, the Board should consider directing Fund management, the Budget Office, and Accounting to work collaboratively to:

1. Develop and periodically update formal financial projections that estimate future revenues, expenditures, reimbursement demand, and cash availability under multiple cost scenarios. Use current financial and program data to prepare the projections, compare projected results to actual outcomes, refine future projections, and support documented management decisions about reimbursement capacity, funding needs, and potential maintenance fee adjustments or other funding strategies.

The Board should consider directing Accounting to:

2. Provide Fund management with regular, timely Cash Status Reports that include current financial information and trends in revenues, expenditures, cash balances, reimbursement activity, and available resources. Fund management should use these reports to inform reimbursement planning and future funding assessments.

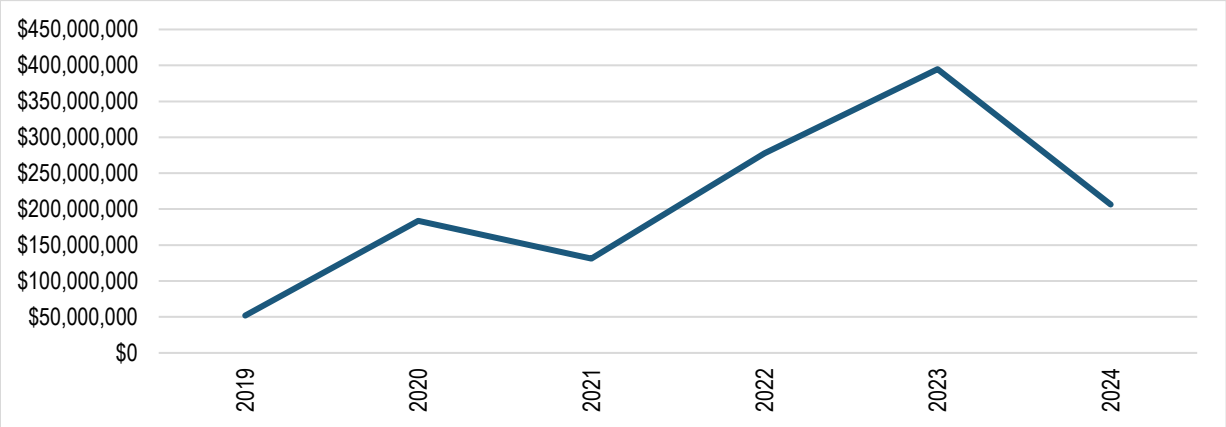
# Chapter 2: Cleanup Costs Are Increasing and Cost-Containment Controls Are Not Consistently Enforced

Cleanup reimbursements represent the Fund's largest use of resources, and cleanup cost pressure increased during much of the current audit period. This pressure was driven in part by a larger active claimant pool, particularly Priority D claims, and higher average reimbursement payments early in the period. As cost pressure increased, the Fund's principal mechanisms for managing cleanup costs—annual claim budget allotments, Cost Guidelines, ECAP coordination, and required reviews of older active claims—became increasingly important. However, we found that these mechanisms did not consistently operate as effective cost-containment controls. Claims exceeded assigned annual budget allotments without documented approval or other authorized exceptions, costs exceeding or falling outside Cost Guideline benchmarks were not consistently supported by documented justification or secondary review, and required reviews of older active claims were not always completed or documented. Although annual claim closures increased in recent years, average closed-claim costs also increased, underscoring the importance of active cost management throughout the life of a claim. As a result, the Fund has limited assurance that cleanup reimbursements are reasonable, consistently reviewed, and aligned with established funding parameters before claims reach closure.

## Increased Cleanup Reimbursement Costs Heightened the Importance of Cost-Containment Controls

Since the inception of the Fund in 1991 through June 30, 2024, the Fund has expended $8.6 billion. Priority system reimbursements for the cost of cleanup projects account for the vast majority, $5 billion, or 58 percent, of the Fund's use of resources, as shown in Exhibit 2 in Chapter 1. The prior audit of the Fund found that the Fund's annual expenditures on cleanup reimbursements decreased significantly from 2009 through 2019. During the current audit period, annual cleanup reimbursement expenditures generally increased from Fiscal Year 2019–20 through Fiscal Year 2022–23, before declining in Fiscal Year 2024, as shown in Exhibit 25.

**EXHIBIT 25: ANNUAL CLEANUP REIMBURSEMENTS—JULY 1, 2019 THROUGH JUNE 30, 2024**




Source: SCUFIIS data.

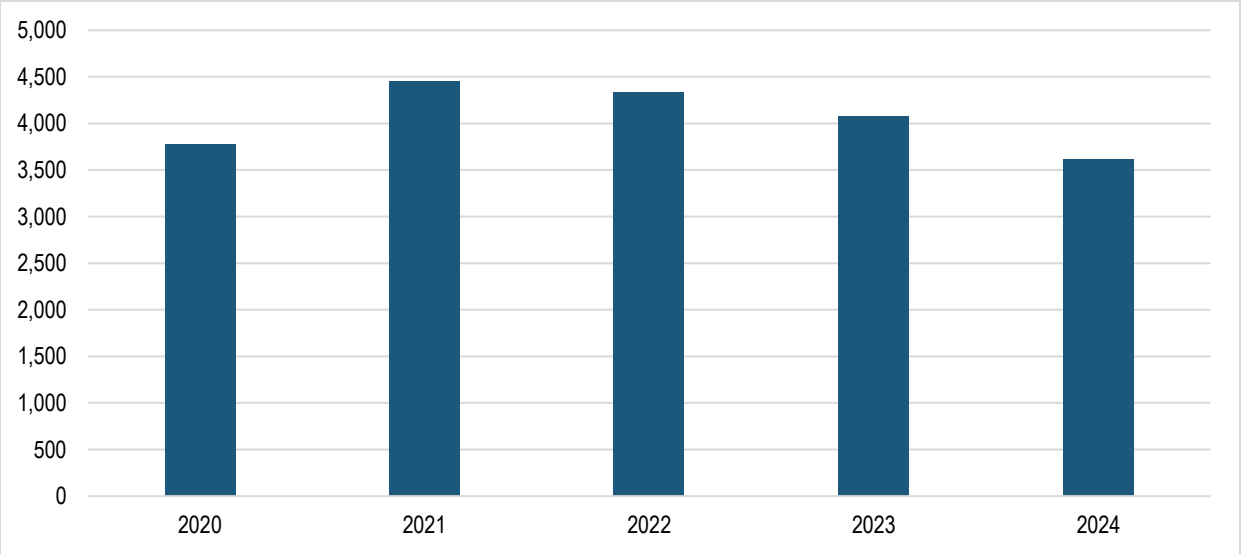
*More Active Claims, Particularly Priority D, Contributed to Increased Cleanup Reimbursement Payments*

Under provisions of the program, once a claimant is determined to be eligible to participate in the Fund and is "activated" from the Priority List, the claimant may request repayment of eligible cleanup activities. The Fund reimburses "reasonable and necessary" corrective action costs paid or incurred for work performed after January 1, 1988 that was the result of an unauthorized release of petroleum from a UST that caused contamination of soil and/or groundwater. Cleanup projects typically involve the following types of activities, but can vary greatly depending on the degree of cleanup required and directed by local regulatory agencies:

- Corrective and Remedial Action Plan Preparation
- Regulatory Report Preparation
- Site Investigation
- Groundwater Monitoring
- Soil Excavation and Remediation
- Waste Transportation and Disposal

One factor contributing to the increase in cleanup reimbursements during the current audit period is the growth in the number of active claims. The prior audit reported that the active claimant pool had steadily declined from Fiscal Year 2010 through Fiscal Year 2017, after which it began increasing and reached approximately 2,725 claims by 2019. During the current audit period, the number of active claims increased further and has remained relatively stable, averaging approximately 4,000 claims, as shown in Exhibit 26. The prior audit reported that 61 percent of active claims were Priority D claims in 2019, which has since increased to 82 percent during the current audit period.

**EXHIBIT 26: NUMBER OF ACTIVE CLAIMS FROM JUNE 30, 2019, THROUGH JUNE 30, 2024**

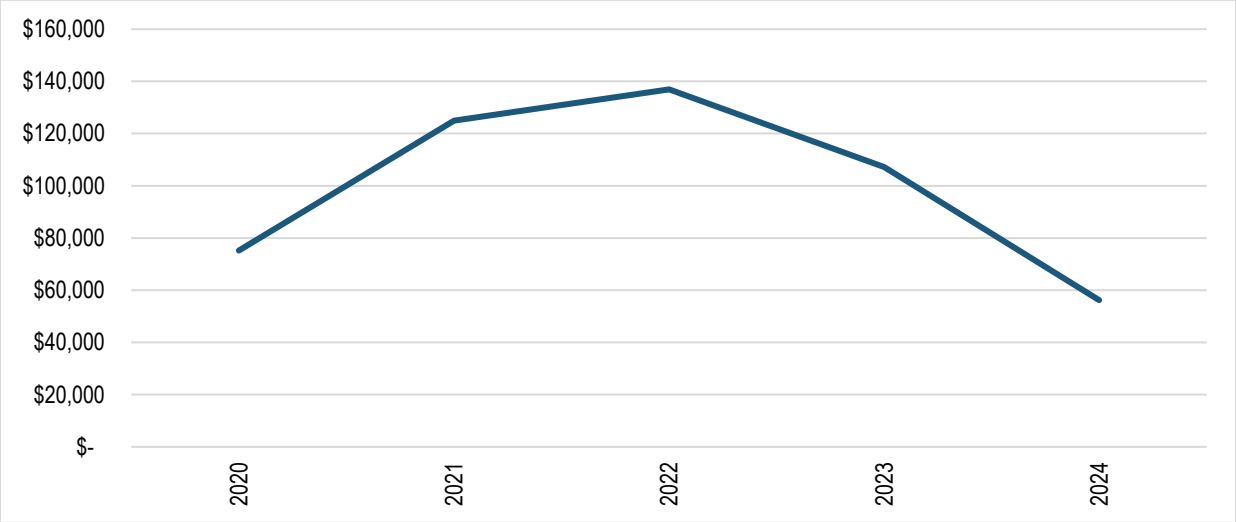



Source: SCUFIIS data.

However, the increase in total annual reimbursements cannot be attributed solely to the growth in active claims; it also reflects increases in the average reimbursement amount. As the prior audit reported, the average reimbursement payment increased notably beginning in Fiscal Year 2019 to approximately $45,000. This increase corresponded with higher average payments to Priority D claimants, as more of these claims became active. In addition, Priority D claimants typically submit fewer reimbursement requests—generally three or four—associated with completed projects, resulting in larger individual payment amounts. In contrast, claimants in other priority classes generally submit many reimbursement requests for ongoing work.

During the current audit period, average reimbursement payments remained substantially higher than amounts reported in the prior audit. Average payments across the period were nearly $140,000, although they began declining after Fiscal Year 2020–21 and fell to about $56,000 by Fiscal Year 2023–24, as shown in Exhibit 27. This decline appears to reflect the Fund's progress in clearing the backlog of Priority D claims and the decreasing number of Priority A, B, and C reimbursement requests submitted.

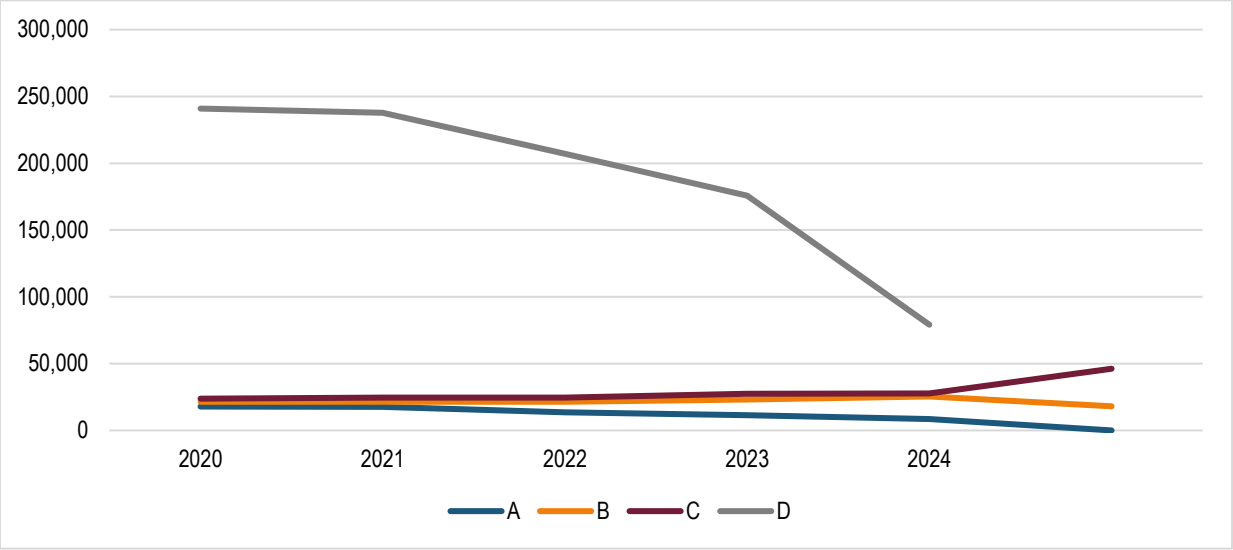
**EXHIBIT 27: AVERAGE REIMBURSEMENT PAYMENT, JULY 1, 2019 THROUGH JUNE 30, 2024**




Source: SCUFIIS data.

Looking at individual priority classes, the average payment to Priority D claimants was substantially higher than other classes, averaging just over $200,000 during the current audit period, compared to $14,000 to $29,000 for Priority A, B, and C claims. However, the average Priority D payment declined beginning in Fiscal Year 2021, falling to just under $79,000 by Fiscal Year 2024, as shown in Exhibit 28.

**EXHIBIT 28: AVERAGE REIMBURSEMENT PAYMENT BY PRIORITY CLASS, JULY 1, 2019 THROUGH JUNE 30, 2024**




Source: SCUFIIS data.

## Some Annual Budget Allotments Were Exceeded Without Documented BCR Approval

The Fund assigns annual budgets to active Priority A, B, and C claims to establish the maximum reimbursement amount for each fiscal year. Although the Fund refers to these amounts as annual budgets, they are not budgets in the traditional sense of approved spending plans or separate appropriations. Rather, they function as annual allotments used to estimate the amount of current and future Fund resources that may be encumbered by project phase and fiscal year. These budget allotments are based on standard amounts for each cleanup phase derived from historical project cost data and are intended to serve as a cost-containment mechanism to help preserve future funding availability.

To develop budget allotments for active Priority A, B, and C claims, the Fund's Technical Unit reviews historical cleanup costs and evaluates each claim's current phase of work. Staff rely on GeoTracker, California's online database that tracks compliance information for UST cleanup sites, to confirm project status, regulatory milestones, and anticipated scope of work. Based on this information, the Technical Unit assigns an annual budget allotment aligned with expected activities for the upcoming fiscal year. Exhibit 29 shows the standard budget amounts by project phase approved for Fiscal Year 2019/20 that continue to be used in Fiscal Year 2023/24.

**EXHIBIT 29: STANDARD BUDGET ALLOTMENTS BY PROJECT PHASE ASSIGNED TO PRIORITY A, B, AND C CLAIMS**

| Project Phase | Budget Amount |
|---|---|
| Soil & Water Investigation | $33,700 |
| Remedial Selection/Interim Remedial Action | $50,500 |
| Corrective Action Plan/Remediation | $78,500 |
| Verification Monitoring | $28,000 |
| Site Closeout | $25,500 (if closed)<br>$28,000 (if open) |

If claimants determine that assigned annual budget allotments are insufficient, they may submit a Budget Change Request (BCR), supported by a Project Execution Plan (PEP), which outlines the tasks, schedule, and multi-year cost estimates needed to achieve site closure. According to the Fund, the purpose of the BCR process is not to prevent all costs above the assigned allotment, but to require claimants to justify additional costs before exceeding it and to allow Fund staff to determine whether those additional costs are necessary, allowable, and reasonable. Because cleanup costs can vary by site conditions, project phase, geographic area, and market conditions, exceeding the assigned allotment may be appropriate when supported by an approved BCR and PEP. In this way, the BCR and PEP process serves as a cost-containment mechanism by requiring additional review before higher project costs are reimbursed. The Technical Unit reviews the PEP, claim history, and project progress before approving or denying the BCR. When a reimbursement request exceeds the assigned annual allotment, but the extra costs are deemed reasonable and necessary, PEP program summary indicates that the excess amount should be held and paid in a subsequent fiscal year.

We conducted a targeted review of 18 reimbursement requests approved during the audit period and associated with 50 hard-copy claim files. Of the 18 requests reviewed, 8 (44 percent) remained within their approved annual or categorical budget allotment limits, 8 (44 percent) exceeded their approved limits without documented evidence of an approved BCR or PEP amendment authorizing the additional expenditures, and 2 (11 percent) had no annual budget allotments assigned for the fiscal year under review. The frequency of budget allotment overages without documented approval in our targeted review indicates a control weakness and suggests these issues were not limited to isolated documentation lapses.

Of the 8 reimbursement requests that exceeded their approved annual or categorical budget allotment limits, only one claimant submitted a BCR for the fiscal year under review. The BCR was approved for the amount requested, and the approved amount was within the standard allotment for the applicable project phase. However, the claim file contained only the decision letter, and the submitted BCR documentation was not retained. Because the decision letter included limited information regarding the basis for approval, we could not determine the extent of review performed before approval.

The remaining 7 reimbursement requests that exceeded assigned budget allotments were approved without documented evidence of an authorized BCR or PEP amendment supporting the additional costs. For example, one claim received reimbursements totaling $235,355 during a fiscal year in which the assigned

budget was $78,500. The claim file contained no documentation of a BCR or other formal approval authorizing expenditures beyond the assigned amount. In another case, reimbursements exceeded the assigned $28,000 budget allotment by more than $100,000 without evidence of additional review or written authorization.

In addition, documentation in several claim files lacked evidence that staff monitored cumulative expenditures against approved annual budgets during the fiscal year. Fund PEP program description contemplates that annual budget allotments function as ideal or average spending limits; however, documentation did not consistently demonstrate monitoring of cumulative expenditures against those limits prior to reimbursement approval. Fund staff indicated that reviewers primarily focus on evaluating whether individual line-item costs comply with Cost Guidelines rather than tracking whether total reimbursements remain within assigned annual budgets. As a result, budget overages may not be identified until after reimbursement has occurred.

With respect to the two reimbursement requests for which no annual budget allotments had been assigned, Fund management stated that the absence of assigned allotments was an oversight due to periods of inactivity.

These lapses occurred, in part, because the Fund does not have an automated control within SCUFIIS or the payment review checklist to flag reimbursements that exceed assigned budgets or to require documentation of an approved BCR prior to payment. In the absence of system-based controls or consistent supervisory review, budget allotments do not function as effective spending limits. As discussed in Chapter 4, management's elimination of the prior pause-and-BCR requirement and reduced emphasis on formal budget enforcement further limited the effectiveness of annual budget controls.

Not consistently enforcing BCR and PEPs for exceeding the budget allotments undermines the Fund's ability to contain costs and ensure equitable use of limited resources. When reimbursements exceed assigned budgets without documented approval, the risk increases that claimants may be treated inconsistently and that expenditures may not align with established funding parameters. To strengthen this monitoring process, the Fund should re-establish supervisory review of cumulative project expenditures prior to reimbursement approval, require documentation of approved BCRs or PEP amendments before processing claims that exceed assigned budgets, and implement automated controls within SCUFIIS to flag claims that are over-budget allotments for management review before payment authorization.

## Cost Guidelines Were Applied as Flexible Benchmarks Rather Than Enforceable Controls

The Fund established Cost Guidelines to promote consistency, reasonableness, and transparency in reimbursing corrective action costs and to provide a structured framework to support cost containment. These Guidelines are intended to serve as structured benchmarks to guide claimants and Fund analysts in reviewing labor and non-labor expenditures. However, our interviews and testing indicate that exceptions to guideline

benchmarks are not consistently supported by documented evaluation, supervisory review, or formal approval, limiting assurance that such costs were appropriately assessed prior to reimbursement.

**Discretion Permitted Under the Cost Guidelines with Documented Justification**

State law requires the Fund to develop a summary of expected costs for common corrective actions to guide claimants in selecting and supervising consultants and contractors. To comply, the Fund developed Cost Guidelines establishing benchmark labor rates, unit costs, and allowable expense categories across multiple technical areas, including professional labor, analytical testing, equipment, investigation activities, monitoring, remediation, and expense markups. The Cost Guidelines were updated in July 2023 to adjust labor rates and unit costs using the Consumer Price Index for All Urban Consumers (CPI-U).

The Cost Guidelines recognize that some costs may be influenced by factors other than inflation and allow claimants to submit site-specific justification for costs that exceed benchmark amounts. Accordingly, analysts may approve costs exceeding guideline benchmarks when sufficient justification is provided. Management further indicated that analysts may obtain additional technical review from the Technical Unit, as needed, to support their determinations. Management also indicated that experienced analysts rely on professional judgment in applying the Cost Guidelines and assessing cost reasonableness based on site-specific conditions.

Although the Guidelines allow site-specific justification for costs above benchmark amounts, they do not establish defined variance thresholds, documentation standards, or approval parameters for permitting such exceptions. Management stated that the Cost Guidelines are intended to serve as general guidance rather than strict limits and that flexibility is needed to account for site-specific conditions, geographic differences, and market variability. Management also stated that because the Guidelines are available to claimants and consultants, adding detailed cost ranges or thresholds to the public Guidelines could create an incentive for consultants to bill at the highest allowable amounts. However, the Fund has not developed internal cost review criteria for staff to use when evaluating costs that exceed benchmark amounts. As a result, staff may approve costs above benchmark amounts without documenting why the excess costs were necessary. These results suggest that weaknesses arise primarily from inconsistent enforcement and documentation of benchmark thresholds and, in some instances, from the absence of internal guidance that would allow staff to evaluate exceptions consistently without disclosing detailed cost parameters to claimants or consultants.

**Labor and Non-Labor Cost Testing Identified Costs Above or Outside Guideline Benchmarks That Were Not Consistently Documented**

Our testing of reimbursed labor and non-labor costs identified charges that exceeded Cost Guideline benchmark amounts or could not be clearly aligned to defined guideline categories. Although such exceptions may be appropriate under certain site-specific conditions, the claim files did not consistently demonstrate how exceptions to benchmark amounts were reviewed, justified, and approved prior to reimbursement. This limited assurance that the Guidelines were functioning as an effective cost-containment mechanism.

Of the 2,929 claims active during the audit period that received at least one reimbursement payment, we selected payments associated with 29 claims, representing 30 reimbursement requests approved during the audit period. To assess how Cost Guideline benchmarks were applied in practice, we performed targeted testing of these reimbursement requests. Our testing focused on adherence to established Cost Guideline benchmarks and the documentation supporting exceptions to evaluate the effectiveness of the Guidelines as a cost-containment measure, rather than conducting an independent technical assessment of cost reasonableness. Because claim files are maintained in hard copy, contain extensive documentation, and require substantial time to review, we used a stop-and-go testing approach. Under this approach, we tested the selected reimbursement requests and assessed the results as testing progressed. After identifying exceptions to guideline benchmarks and documentation weaknesses that reflected consistent patterns, we determined that additional testing beyond the 30 selected items was unlikely to change our conclusions.

To evaluate the calculation of labor charges and supporting documentation, we selected 49 invoices from the 30 reimbursement requests for detailed review. We examined documentation to verify labor classifications, rates applied, and consistency with approved reimbursement amounts. We identified eight invoices (16 percent) in which professional labor rates did not align with Cost Guideline benchmarks. In six of these invoices, professional labor rates exceeded guideline amounts by $3 to $23 per hour. The exceptions included the following classifications:

- Project Manager—$105 per guidelines versus $120 charged
- RR Analyst—$70 per guidelines versus $93 charged
- Staff Engineer/Geologist—$99 per guidelines versus $115 charged
- Clerical—$65 per guidelines versus $70-$72 charged
- Senior Claims Analyst—$70 per guidelines versus $75.27 charged
- Technician—$87 per guidelines versus $90 charged

In all six instances, the claim files did not contain documented justification supporting reimbursement at rates above established guideline amounts.

In two additional instances, labor classifications not explicitly listed in the Cost Guidelines—such as Staff Scientist and Senior Claims Analyst—were reimbursed without documentation demonstrating how the rates were evaluated for reasonableness or aligned to comparable guideline categories.

Similar weaknesses were identified in our review of non-labor costs. We selected 10 invoice packages associated with the 30 reimbursement requests for detailed review, encompassing 184 non-labor charges related to equipment, utilities, staff travel, and meals. Of the 184 charges reviewed, 19 (10 percent) were clearly within established Cost Guideline parameters. The remaining 165 charges (90 percent) either exceeded applicable Cost Guideline amounts or could not be clearly aligned to a specific Cost Guideline category. For example, one claimant was reimbursed $768 for 64 units of cement; however, Cost Guidelines specify a reimbursement rate of $7 per unit, indicating the claimant should have received $448, representing $320 above the applicable guideline benchmark. In another instance, a claimant was reimbursed $4,000 for

"an airknife to remove well boxes and patch"; however, this expense could not be clearly aligned with any defined Cost Guideline category.

To understand the reasons for these exceptions, we interviewed Fund staff regarding how guideline benchmarks are applied in practice. Staff indicated that costs exceeding guideline amounts may be appropriate in certain circumstances based on site-specific conditions or market variability. However, the claim files did not consistently document the analysis or justification supporting these exceptions.

In addition, invoices often lacked sufficient detail regarding the nature of the work performed, quantities, rates applied, or linkage to eligible corrective action activities. Although staff indicated that analysts may rely on supplemental documentation, such as consultant reports or project records in GeoTracker, to assess reasonableness, we found no consistent documentation demonstrating that such reviews were performed or how determinations were reached. We also did not identify evidence of supervisory review or formal approval for costs exceeding guideline benchmarks or falling outside established categories.

Staff reported that reductions to costs exceeding guideline amounts are frequently appealed and that appealed amounts are often approved. As discussed further in Chapter 3, our review of appeal outcomes was generally consistent with this statement, as most appealed costs reviewed were ultimately approved. This pattern may limit the practical effect of Cost Guideline thresholds as a cost-containment mechanism unless reductions, exceptions, and appeal outcomes are consistently documented and monitored.

Collectively, these documentation and review gaps meant that Fund staff and auditors could not readily determine whether costs exceeding guideline benchmarks or falling outside defined categories were consistently evaluated and documented prior to reimbursement. Although such costs may be reasonable, the Fund did not have internal cost review criteria establishing when additional documentation, secondary review, or formal approval should be required. As such, the Fund lacks assurance that such exceptions were reasonable and appropriate. In the absence of documented oversight and internal review criteria, reimbursement decisions may rely primarily on the professional judgment of individual analysts, increasing the risk that similar costs are evaluated differently across claims. This reliance weakens the effectiveness of the Cost Guidelines as a structured cost-containment framework by reducing consistent benchmark application and limiting the Fund's ability to demonstrate that exceptions were justified.

### ECAP No Longer Operates as a Separately Funded Program, but the Fund Views Its Collaborative Approach as Useful for Cost Containment

In addition to annual budgets and Cost Guidelines, the Fund has used ECAP as a tool to coordinate long-standing claims and support case closure. ECAP was originally established to expedite closure and reduce project costs through Project Execution Plans, coordinated review by a Joint Execution Team, and streamlined reimbursement processing. Fund management stated that it would like to use ECAP more because the program's collaborative approach brings together Fund staff, regulators, claimants, and consultants to identify needed work, resolve issues, and move claims toward closure, which may help contain costs.

However, ECAP no longer functions as a distinct, separately funded cost-containment and case-closure program. Fund management stated that ECAP has not received additional dedicated funding since the original $100 million transfer in Fiscal Year 2016 and that newer ECAP claims are paid from the Fund's main corrective action expenditure account. Management also stated that ECAP claims are not materially different from non-ECAP claims, except for the additional coordination provided.

Although this coordination may provide value, because the Fund does not currently track ECAP as a distinct program, the Fund cannot readily demonstrate whether ECAP continues to reduce costs, expedite claim closure, or produce better outcomes than the regular claims process.

## Rising Closed-Claim Costs and Lengthy Closure Durations Underscore the Importance of Timely Case Reviews

Required annual reviews of older active claims are intended to help determine whether additional cleanup work is needed, whether impediments to closure remain, or whether the claim can be closed. Therefore, trends in closed-claim costs and claim duration are important because they show why timely and documented case reviews remain a key cost-containment control.

Average closed-claim costs increased during the current audit period, even though those claims were open for fewer years on average than claims closed during the prior audit. While shorter closure durations can limit the period during which claims may continue to incur reimbursable costs, closure duration is only one factor affecting total claim costs. The fact that closed-claim costs increased despite shorter average closure durations reinforces the importance of active cost management throughout the life of a claim. Timely closure can reduce the period during which claims may continue to incur reimbursable costs, but it does not substitute for controls that ensure costs are reasonable, justified, and consistent with established funding parameters before claims are closed.

In the current audit period, higher closed-claim costs may reflect a combination of factors, including cost growth within certain priority classes, the mix of claims closed during the audit period, and broader increases in cleanup-related costs. As discussed earlier in this chapter, the Fund did not consistently enforce or document key cost-containment controls, including annual budgets and Cost Guidelines. These weaknesses limit the Fund's ability to demonstrate that cleanup costs were controlled before claims reached closure.

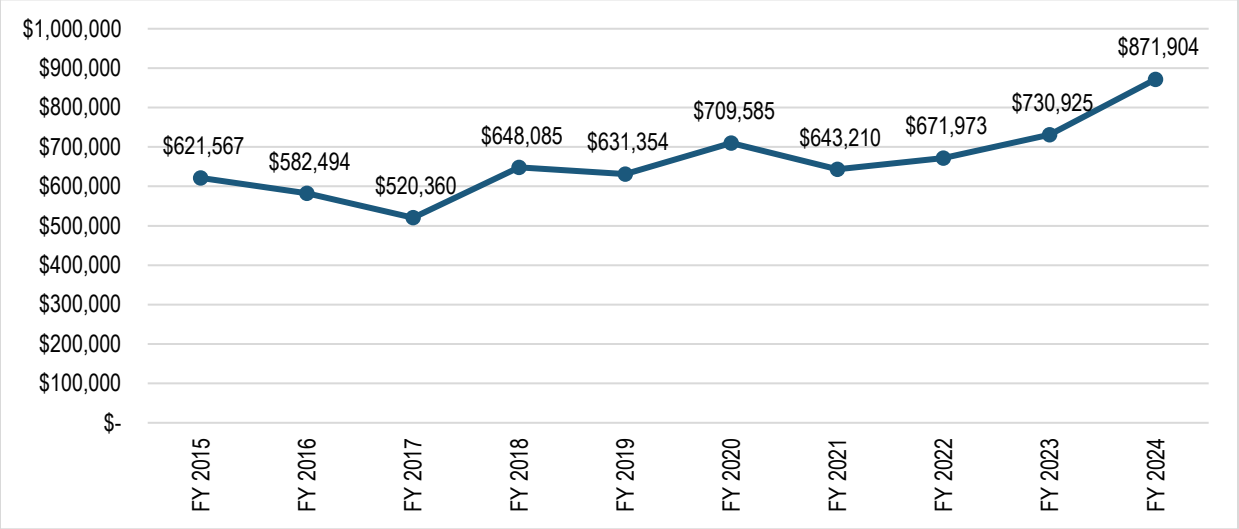
### Average Closed-Claim Costs Increased Despite Shorter Closure Durations

Active claims are generally closed for one of three reasons: the claimant reaches the applicable maximum reimbursement amount of $1.5 million or $1 million; the State Water Board, Regional Water Board, or Local Oversight Program agency determines that the cleanup project is complete; or Fund management closes the claim for administrative reasons, such as the claimant's failure to respond after activation or failure to submit reimbursement requests. Most claims are closed because the cleanup project is deemed complete.

Compared to the prior audit, we found that the average total cost of closed claims has increased. Across Fiscal Years 2014–15 through 2018–19, the average cost of closed claims across all priority classes was

approximately $601,000. In Fiscal Years 2019–20 through 2023–24, that average increased about 21 percent, to approximately $726,000. Looking only at the current audit period, the average cost of closed claims increased from approximately $710,000 in Fiscal Year 2019–20 to approximately $872,000 in Fiscal Year 2023–24, an increase of about 23 percent. Although annual closed-claim costs fluctuated during the period, the overall trend indicates that claims were closing at a higher average cost by the end of the audit period than at its start, as shown in Exhibit 30.

**EXHIBIT 30. CLOSED CLAIMS COST SHIFT BETWEEN PRIOR AUDIT AND CURRENT AUDIT**




Source: SCUFIIS

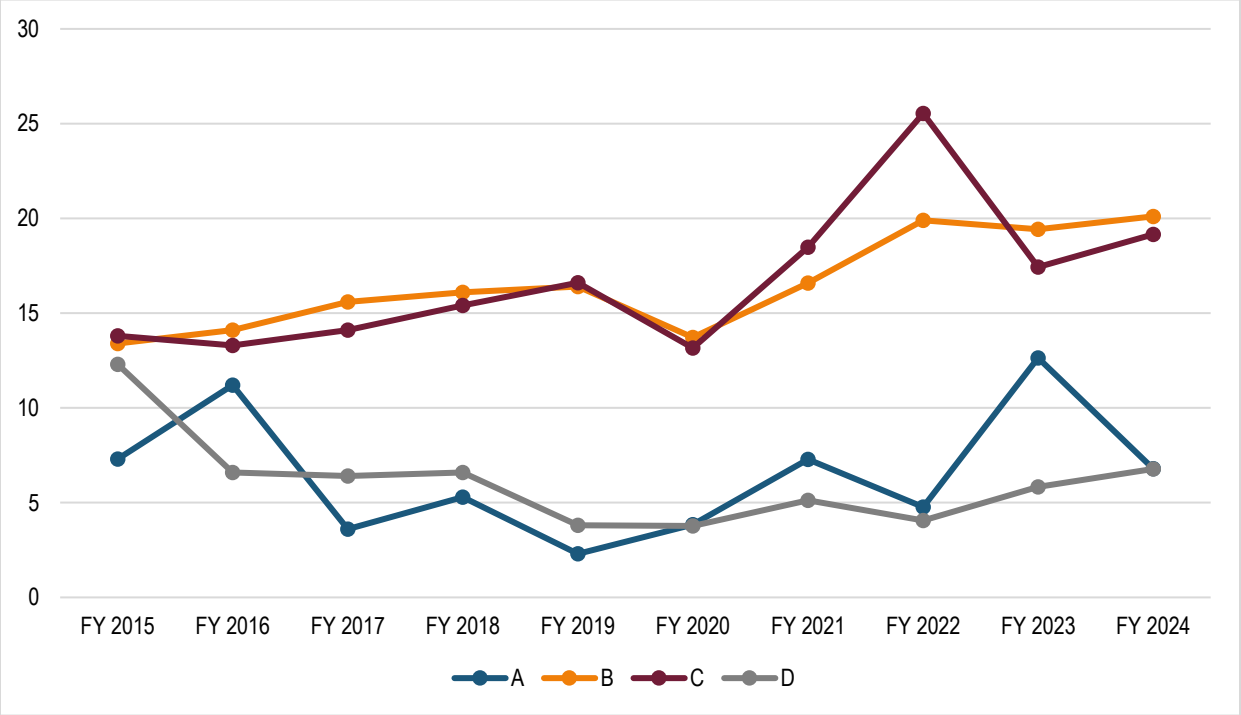
The increase in closed-claim costs varied by priority class when comparing the current audit period to the prior audit period, with the most pronounced shift occurring for Priority Class D claims:

- **Priority Class A:** Average closure costs increased from approximately $161,000 to approximately $199,000, an increase of about 24 percent. However, these claims remained substantially less costly than claims in Priority Classes B, C, and D.
- **Priority Class B:** Average closure costs increased from approximately $637,000 to approximately $726,000, an increase of about 14 percent.
- **Priority Class C:** Average closure costs increased from approximately $690,000 to approximately $745,000, an increase of about 8 percent.
- **Priority Class D:** Average closure costs increased from approximately $530,000 during the prior audit period to approximately $789,000 during the current audit period, an increase of about 49 percent.

Within the current audit period, Priority Class B and C claims showed notable cost increases from Fiscal Year 2019–20 to Fiscal Year 2023–24. Priority Class B claims increased by about 43 percent, while Priority Class C claims increased by about 68 percent. Priority Class D claims remained among the highest-cost claims

overall. In addition, as shown in Exhibit 31, many recent closures were Priority Class B, C, and D claims, which contributed to the overall increase in average closed-claim costs during the audit period.

**EXHIBIT 31. CLOSED CLAIMS BY PRIORITY FY 2015 – FY 2024**

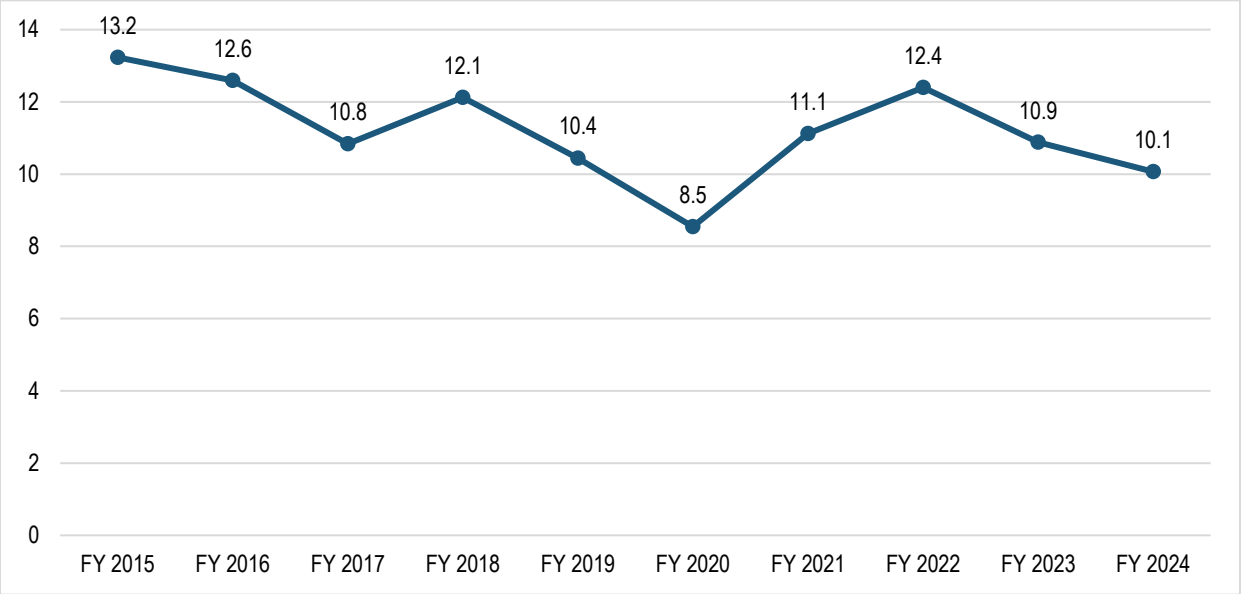



Source: SCUFIIS Closed Claims Data

The increase in overall closed-claim costs appears to reflect both higher costs within certain priority classes and the composition of claims closed during the audit period. Specifically, many recent closures were Priority Class D claims, which tend to have comparatively high costs at closure. As the Fund continued reimbursing and closing a larger share of older Priority Class D claims, those closures likely contributed to the higher average closed-claim costs observed during the current audit period. Therefore, the increase in average closed-claim costs appears to have been driven by both claim cost growth within certain priority classes and the concentration of closures among higher-cost Priority Class D claims.

The relationship between claim age and closure cost was more nuanced during the current audit period. The prior audit reported that the average number of years claims remained active before closure increased through Fiscal Year 2014–15, when it peaked at 13.2 years, before declining to 10.4 years in Fiscal Year 2018–19. During the current audit period, the average age of claims at closure remained somewhat lower overall than during the prior audit period but continued to fluctuate year to year, as shown in Exhibit 32.

**EXHIBIT 32. YEARS ACTIVE BEFORE CLOSURE FY 2015-FY 2024**




Source: SCUFIIS

Specifically, the average claim remained active for approximately 8.5 years in Fiscal Year 2019–20, increased to 11.1 years in Fiscal Year 2020–21 and 12.4 years in Fiscal Year 2021–22, and then declined to 10.9 years in Fiscal Year 2022–23 and 10.1 years in Fiscal Year 2023–24. Across Fiscal Years 2019–20 through 2023–24, claims remained active for an average of approximately 10.7 years before closure, compared to approximately 11.8 years during the prior audit period, a decrease of about 9 percent. Thus, while closure durations during the current audit period did not reach the peak observed during the prior audit period, claims continued to remain open for lengthy periods before closure.

Closure duration varied substantially by priority class. During the current audit period, Priority Class B and C claims continued to remain active the longest before closure. On average, Priority Class B claims remained open for approximately 17.9 years, and Priority Class C claims remained open for approximately 18.8 years. These durations were substantially longer than the overall average of 10.7 years. By comparison, Priority Class A claims remained active for approximately 7.1 years on average, and Priority Class D claims remained active for approximately 5.1 years.

The yearly data also show that Priority Class B and C claims were consistently the oldest claims at closure during the audit period. Priority Class B claims generally ranged from approximately 14 to 20 years at closure, while Priority Class C claims ranged from approximately 13 to 26 years. In contrast, Priority Class A and D claims generally closed in fewer years, although both experienced some year-to-year fluctuation.

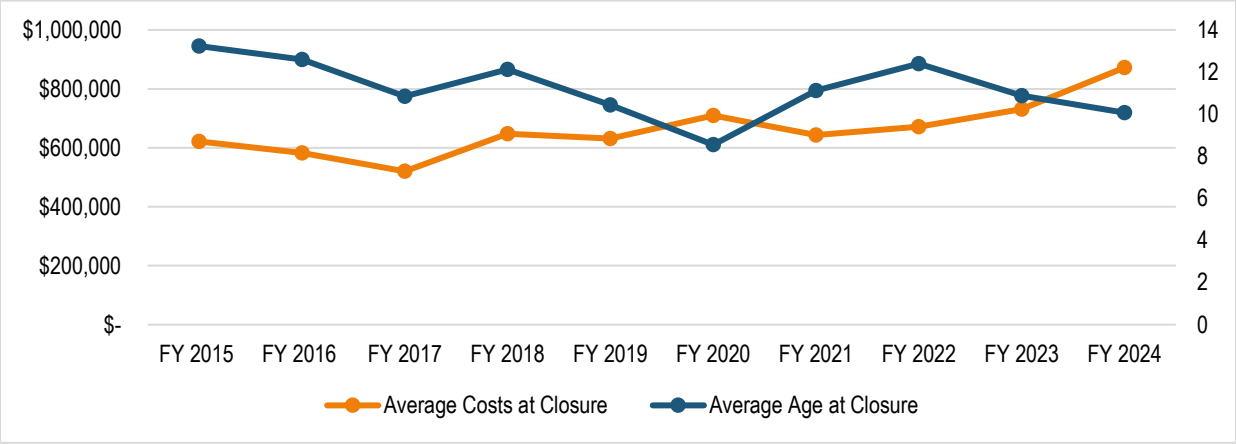
These results are generally consistent with the explanation provided in the prior audit. Priority Class B and C claims appear to continue taking the longest to close because they may involve more complex or logistically difficult remediation. Conversely, Priority Class D claims continued to close more quickly, which is consistent with claims for which remediation work may have largely been completed before claim activation and closure

depends more on reimbursement processing. Priority Class A claims also remained shorter in duration than Priority Class B and C claims, which may reflect the smaller number of such claims and claimants' incentives to complete cleanup and close claims more quickly.

### Both Claim Duration and Claim Mix Contributed to Higher Closed-Claim Costs

As shown in Exhibit 33, the current audit period indicates that higher closed-claim costs are associated with both the length of time claims remain open and the mix of claims being closed. Priority Class B and C claims had the longest average closure durations and were among the highest-cost claims at closure, suggesting that longer-open claims can continue accumulating costs over time. However, Priority Class D claims generally closed more quickly than Priority Class B and C claims while still having relatively high costs at closure. This indicates that claim mix also affected overall cost trends.

**EXHIBIT 33. AVERAGE COST AND AGE OF CLAIMS AT CLOSURE FY 2015 – FY 2024**




Source: SCUFIIS

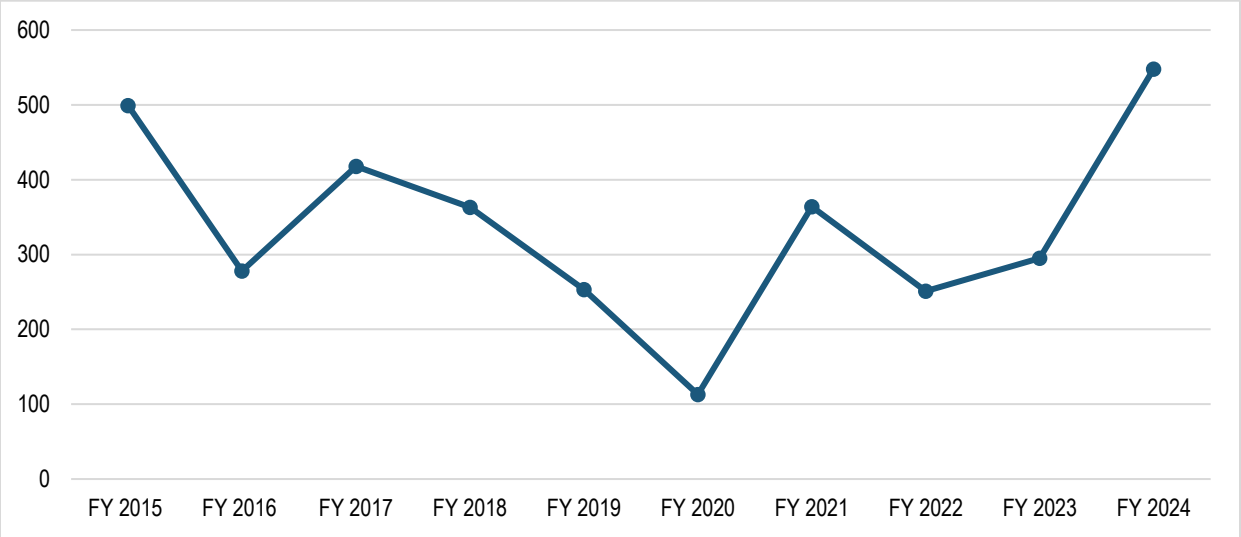
Overall, the data indicate that average closed-claim costs increased even though claims closed during the current audit period remained open for fewer years on average than claims closed during the prior audit period. This suggests that the increase in closed-claim costs was not driven solely by claims remaining open longer. Instead, higher costs appear to reflect a combination of factors, including cost growth within certain priority classes and the concentration of closures among higher-cost Priority Class D claims. This pattern is consistent with concerns discussed earlier in this report regarding the Fund's ability to manage and contain cleanup costs.

### Annual Claim Closures Increased, but Required Reviews Were Not Always Completed

The prior audit reported an overall claim closure rate of about 80 percent, which tracked closely with national and state underground storage tank case closure rates. As of March 31, 2024, the EPA reported that approximately 90 percent of confirmed UST releases nationwide and 96 percent of confirmed UST releases in California had completed cleanup. However, during the current audit period, the Fund's overall claim closure rate was approximately 77 percent, a slight decrease from the prior audit and below the closure rates EPA reported for both the nation and California.

As shown in Exhibit 34, annual claim closures increased substantially during the current audit period after reaching a low point in Fiscal Year 2019–20, when approximately 100 cases were closed. By Fiscal Year 2023–24, the number of closed cases had increased to 548. Although the unusually low number of closures in Fiscal Year 2019–20 may have been influenced by disruptions associated with COVID-19, the broader trend in subsequent years shows a marked rebound in closure activity. This suggests that the Fund accelerated claim closures during the current audit period, even though its overall claim closure rate remained below the rate reported in the prior audit.

**EXHIBIT 34. CLOSED CLAIMS BY YEAR FY 2015 – FY 2024**




Source: SCUFIIS

Health and Safety Code section 25299.39.2 requires the Fund to annually review the status of all UST cases with active claims older than five years to determine whether each case can be closed. As part of this annual review process, and consistent with Board Resolution 2009-0042, the Fund's RSR Unit prepares Remedial Status Reports (RSR) to concur with local regulatory agency corrective action plans or recommend case closure. If a case is not ready for closure, the RSR may recommend additional corrective action and describe impediments to closure and the benefits of additional work at the site. Fund procedures also require the Fund Manager to elevate cases to the State Water Board Chief Deputy Director when the regulatory agency denies closure. Completed case reviews are made publicly available on the Board's GeoTracker website.

Similar to the prior audit, we found that the Fund does not always complete RSRs annually for each claim older than five years, which the Fund attributed to inadequate resources. In the years reviewed, active claims older than five years exceeded the number of RSRs completed. For example, the Fund completed 379 RSRs in Fiscal Year 2022–23, compared to 452 active claims older than five years, and completed 264 RSRs in Fiscal Year 2023–24, compared to 395 active claims older than five years.

In the prior audit, Fund staff explained that some older claims did not receive annual RSRs because staff first reviewed project activity in SCUFIIS and may have determined that an RSR was not needed if there had been no significant project activity since the prior review. The prior audit also reported that staff were expected

to document the reason for not completing an RSR in the claim's SCUFIIS file. In the current audit, however, our review of five claims older than five years that did not have all required RSRs found that four did not have written justification in SCUFIIS. Although staff were able to provide likely reasons why these claims did not receive an RSR, the Fund did not consistently maintain contemporaneous documentation supporting the decision not to complete a required review. Without contemporaneous documentation, the Fund cannot demonstrate that it consistently evaluated older claims for potential closure or appropriately justified exceptions to the annual review requirement.

The Fund showed mixed progress during the current audit period. Annual claim closures increased significantly, indicating that the Fund closed more claims in recent years. However, because the Fund continued to have a substantial active claim population, the cumulative share of claims closed remained below the rate reported in the prior audit and below EPA-reported national and California cleanup completion rates. In addition, the Fund did not always complete or document required reviews of older active claims. Strengthening completion and documentation of RSRs would help the Fund demonstrate that it is actively identifying claims that can be closed and reducing the risk that older claims remain open longer than necessary.

**Recommendations**

To strengthen the Fund's cost-containment measures, the Board should consider directing Fund management to:

3. Develop and implement procedures requiring staff to monitor cumulative fiscal-year reimbursements against approved annual or categorical claim budget allotments before approving reimbursement requests.

4. Require documentation of approved Budget Change Requests, Project Execution Plan amendments, or other authorized exceptions before processing reimbursements that exceed assigned annual or categorical budget allotments.

5. Modify SCUFIIS or reimbursement review checklists to flag reimbursement requests that exceed approved annual or categorical budget allotments before payment authorization.

6. Develop internal cost review criteria or supplemental internal guidance for staff to use when evaluating costs that exceed Cost Guideline benchmarks, use labor classifications not listed in the Guidelines, or fall outside established Cost Guideline categories. The internal guidance should specify when additional justification, documentation, secondary review, or formal approval is required, without requiring the Fund to disclose detailed cost parameters to claimants or consultants.

7. Require staff to maintain documentation supporting approval of Cost Guideline exceptions, including the applicable benchmark, claimant justification, evidence of review and approval, and basis for determining the cost was reasonable and necessary.

8. Periodically compare approved annual claim budget allotments, claimant-provided cost estimates, Cost Guideline benchmarks, and actual reimbursement payments to identify recurring exceptions, assess whether budget and guideline amounts remain reasonable, and inform future cost-containment strategies.

9. Develop a process to ensure claims older than five years receive required annual reviews or have contemporaneous written justification maintained in SCUFIIS when required Remedial Status Reports are not prepared.

10. Use claim age, closure cost, priority class, and reimbursement activity data to identify older or higher-cost claims that may warrant additional management review or closure-focused action.

# Chapter 3: The Fund Did Not Meet Statutory Processing Timelines and Lacks Reliable Mechanisms to Monitor Compliance

Timely and well-documented processing of eligibility determinations, reimbursement requests, and appeals is central to the Legislature's intent in establishing the Underground Storage Tank Cleanup Fund. Statute and regulation impose specific timeframes for completing these activities to ensure claimants receive prompt decisions and payments while safeguarding public resources through appropriate review and oversight. This chapter examines whether the Fund complied with required statutory timelines for eligibility determinations, reimbursement payments, and appeals decisions during the audit period. It also evaluates whether the Fund maintained reliable systems, documentation, and review practices necessary to monitor performance, demonstrate compliance, and ensure that required technical and settlement reviews were completed before key decisions were finalized.

As discussed below, although the Fund processes a large and increasingly complex volume of claims and reimbursement requests, limitations in its information systems, documentation practices, and supervisory controls constrained its ability to consistently meet statutory deadlines and to assess the effectiveness and integrity of its processing activities.

## The Fund Did Not Comply with Statutory Requirements for Timely and Complete Eligibility Reviews

This section evaluates whether the Fund complied with statutory timelines for eligibility determinations and whether it maintained adequate records to demonstrate compliance.

To be deemed eligible to participate in the Fund, submitted applications must demonstrate that claimants meet specific statutory and regulatory requirements, including:

- Confirmed as the former or current owner or operator of the UST determined to have leaked a petroleum based or otherwise eligible substance;
- Received a directive from a regulatory agency to cleanup (take corrective action) the site;
- Complied with all UST permitting and corrective action requirements (regulatory cleanup orders);
- Paid all required UST storage maintenance fees to the Board of Equalization; and
- Provided adequate financial responsibility coverage for the UST.

Under Health and Safety Code section 25299.56, the Fund is required to determine an applicant's eligibility and issue a Letter of Commitment (LOC)—a formal notice from the state obligating funds for eligible cleanup costs—within 60 days of receiving an application[1].

[1] Health and Safety Code is a collection of state statutes relevant to health and safety.

The eligibility determination review process begins when the Fund's Eligibility Unit receives a claimant's application. An analyst performs a preliminary assessment to ensure the application is complete, the claimant appears to meet eligibility requirements based on the submitted information, and the claimant has complied with applicable regulatory permitting requirements.

The eligibility determination process may require reviews by the Fund's Technical or Settlement Units if the application meets certain criteria. These advanced reviews serve as specialized components of the eligibility determination process, ensuring that complex or unique claim circumstances are evaluated appropriately before a final decision is made. Technical reviews are conducted when claims involve site-specific environmental or operational complexities, such as above-ground tanks, prior releases, or uncertain contamination sources. Settlement reviews address administrative or legal issues, such as ownership changes, deceased claimants, or duplicate claims.

Eligibility determinations include:

- **Accepted**—The claim application has been fully reviewed, including any required technical or settlement reviews, and eligibility has been confirmed. Once an application is accepted, the eligibility determination is considered final and the claim is placed on the eligibility list.
- **Conditionally Accepted**—The claim application has undergone a preliminary assessment, but required technical and settlement reviews have not been completed and a final eligibility determination has not been made. Conditionally accepted applications are placed on the eligibility list.
- **Rejected**—The claim application has been fully reviewed, including any required technical or settlement reviews, and ineligibility has been determined. Although the application has been rejected, the claimant may provide additional documentation or appeal the decision to Fund management.

Before eligibility determinations are made, there are no secondary reviews by unit supervisors or the Fund Manager.

A claimant must receive a final eligibility determination of accepted before being issued a LOC and allowed to submit reimbursement requests.

**Fund Did Not Always Comply with Statutory Deadlines for Eligibility Determinations**

Our review found that the Fund did not always comply with the 60-day statutory requirement for determining claim eligibility, and did not consistently include the full time needed to complete technical and settlement reviews. Further, incomplete and unreliable data within the Fund's tracking system and physical files limited the Fund's ability to monitor compliance and identify bottlenecks and causes of delay.

According to SCUFIIS data, the system the Fund uses to track claim status and activity, 462 claims applications were accepted between July 1, 2019 and June 30, 2024.

To assess the timeliness of the eligibility determination processes and compliance with the 60-day statutory requirement, we analyzed the number of days it took to issue the eligibility determination for the 462[2] accepted applications. Fund management states that the 60-day requirement begins on the date a claim application is submitted and ends when the Eligibility Unit issues the "First Staff Eligibility Determination" of accepted, conditionally accepted, or rejected.

Our review found that while 376 (81%) applications received a First Staff Eligibility Determination within 60 days, 86 (19%) did not, as shown in Exhibit 35.

**EXHIBIT 35. COMPLIANCE WITH 60-DAY STATUTORY REQUIREMENT FOR ACCEPTED CLAIMS MEASURED FROM SUBMISSION TO FIRST STAFF ELIGIBILITY DETERMINATION**

| Complied with 60-Day Requirement? | Number of Applications | Percentage of Applications |
|---|---|---|
| Yes | 376 | 81% |
| No | 86 | 19% |
| **Total** | **462** | **100%** |

Source: SCUFIIS Claim Application Data from FY 2020-FY 2024

However, Exhibit 35 reflects the best-case scenario for the percentage of applications meeting the required timeline. This is because the timelines associated with many of the 376 applications receiving the First Staff Eligibility Determination within 60-day does not include the time spent in technical or settlement review. Specifically, of the 376 claims that met the 60-day requirement, 93 (25%) included the time spent in technical and/or settlement review within the First Staff Eligibility Determination, while 283 (75%) did not.

For example, a claim application submitted on June 21, 2019, received its First Staff Eligibility Determination on July 1, 2019. However, this claim application did not undergo technical review until nearly two years later, from May 11, 2021, through November 15, 2023, meaning the year and a half of time spent in technical review is not captured within the First Staff Eligibility Determination. Conversely, a claim application submitted on March 10, 2022, received its First Staff Eligibility Determination on April 7, 2022, and underwent technical review from March 24, 2022, to March 25, 2022. In this case, the time spent in technical review was captured within the First Staff Eligibility Determination.

As such, the 60-day compliance measurement shown in Exhibit 35, which relies solely on the issuance of the First Staff Eligibility Determination, does not accurately represent the total time required to determine eligibility for the 462 accepted claims. This is because the First Staff Eligibility Determination, which triggers placement on the eligibility list, excluded the technical and settlement review processes for many of these claims. According to Fund management, technical and settlement reviews for Priority D claims were often intentionally deferred because those claims typically remained on the eligibility list for many years, and delaying the reviews helped manage workload. However, once a claimant is added to the eligibility list, they cannot be removed, making it risky and ineffective to conduct the technical and settlement reviews only after

[2] For 432 of the applications, we used the initial eligibility determination date. For the remaining 30 applications, the first eligibility determination date was either missing or unreliable (data-entry error); therefore, we used the final eligibility determination decision date.

placement. Fund management reported that in 2022, it stopped issuing First Staff Eligibility Determinations before completing all required technical and settlement reviews.

To more fully assess the timeliness of the eligibility determination process, we reanalyzed the data to include the total time the 462 accepted claims spent in technical and settlement reviews. For claims in which the First Staff Eligibility Determination incorporated these reviews, we measured the number of days from claim submission to issuance of that determination. For claims in which the First Staff Eligibility Determination did not include these reviews, we measured the time from claim submission to issuance of the LOC, which Fund management identified as the earliest date consistently reflecting completion of required technical and settlement reviews in those cases.

Under this expanded analysis, which incorporates the time necessary to complete required technical and settlement reviews, most claim applications did not receive a complete eligibility determination within 60 days—only 118 (26 percent) did, while 344 (74 percent) exceeded the statutory timeframe, as shown in Exhibit 36. Because technical and settlement reviews are integral to determining whether statutory eligibility criteria are satisfied, excluding those review periods from the compliance calculation would not reflect the full time required to render a complete eligibility determination consistent with Health and Safety Code section 25299.56.

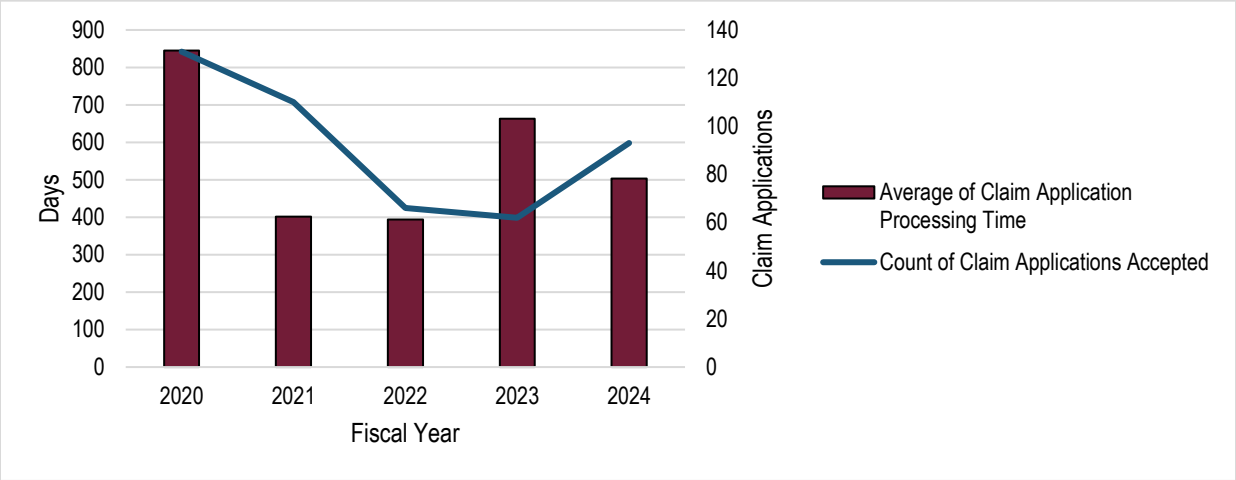
**EXHIBIT 36. EXPANDED ANALYSIS OF COMPLIANCE WITH 60-DAY STATUTORY REQUIREMENT FOR ACCEPTED CLAIMS MEASURED FROM SUBMISSION TO FIRST STAFF ELIGIBILITY DETERMINATION OR LETTER OF COMMITMENT ISSUANCE**

| Complied with 60-Day Requirement? | Number of Applications | Percentage of Applications |
|---|---|---|
| Yes | 118 | 26% |
| No | 344 | 74% |
| **Total** | **462** | **100%** |

Source: SCUFIIS Claim Application Data from FY 2020-FY 2024

To further expand the analysis, we reviewed the average processing times associated with the 462 accepted claims. Exhibit 37 shows that claim processing times and the count of claims accepted have increased in the last few years.

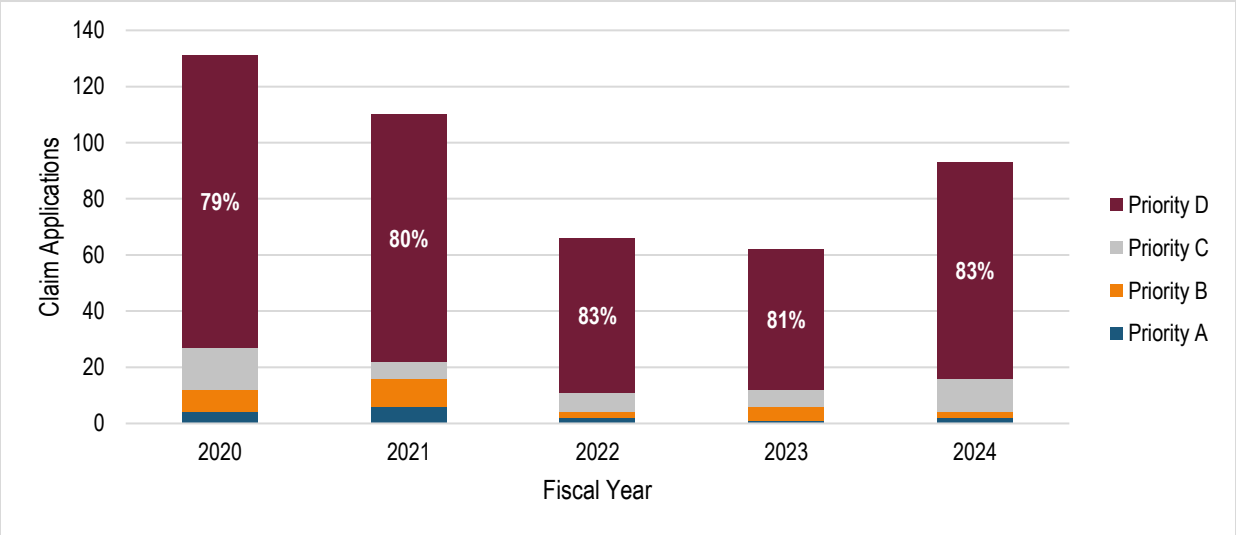
**EXHIBIT 37. AVERAGE PROCESSING TIMELINES FOR ACCEPTED CLAIMS MEASURED FROM SUBMISSION TO FIRST STAFF ELIGIBILITY DETERMINATION OR LETTER OF COMMITMENT ISSUANCE**




Source: SCUFIIS Data pulled by SWRCB USTCUF of claim applications accepted between FY2020-FY2024

Exhibit 38 demonstrates that Priority D claims—typically the most complex—account for the majority of accepted claims and therefore drive most of the year-to-year changes in both total claim volume and overall processing times reflected in Exhibit 37.

**EXHIBIT 38. CLAIM APPLICATIONS ACCEPTED BY PRIORITY CLASS FY 2019 – FY 2024**




Source: SCUFIIS Data pulled by SWRCB USTCUF of claim applications accepted between FY2019-FY2024

While the available data reflects that many claimants did not receive timely eligibility determinations and processing timelines have increased, mitigating factors may have contributed, such as the time applications remained on hold. However, we could not assess the impact of these hold periods because data to verify hold dates were unavailable. Specifically, when an incomplete application is initially rejected, the system records the rejection date, which indicates the application is "on hold" pending additional information. Once

the information is submitted, Eligibility Unit staff overwrite the rejection date in the system with the re-evaluation date. As a result, the system does not retain how long applications remained on hold, preventing us from distinguishing between time spent under review and time spent on hold.

Further, to identify where specific bottlenecks may be occurring within the eligibility review processes or significant contributing factors to delays, we attempted to comprehensively analyze the length of time taken to complete interim steps within the review process using SCUFIIS data, focusing on technical and settlement reviews. Of the 462 accepted claim applications, 204 applications went through a technical review and 323 went through a settlement review.

As shown in Exhibit 39, across the five years, the technical review process made up about one-third of the total processing time required to render an eligibility decision for the 204 accepted claims that went through a technical review.

**EXHIBIT 39. TECHNICAL REVIEW PROCESSING TIMELINE**

| | FY 2020 | FY 2021 | FY 2022 | FY 2023 | FY 2024 | 5-YEAR AVERAGE |
|---|---|---|---|---|---|---|
| TOTAL APPLICATIONS ACCEPTED | 17 | 13 | 25 | 60 | 90 | **41** |
| AVERAGE TOTAL PROCESSING TIME | 1401 | 1131 | 585 | 515 | 518 | **633** |
| AVERAGE TECHNICAL REVIEW PROCESSING TIME | 216 | 409 | 196 | 161 | 115 | **165** |
| TECHNICAL REVIEW PERCENTAGE OF TOTAL PROCESSING TIME | **15%** | **36%** | **34%** | **31%** | **22%** | **26%** |

Source: SCUFIIS

Additionally, the time spent in settlement review represented a very small portion of the total processing time, indicating that this review process did not materially affect timeliness.

However, the data in Exhibit 39 likely does not capture the full duration of the technical review process. Fund staff routinely overwrite the technical review start and end dates in SCUFIIS when applicants submit new information or when additional review work is performed. As a result, the system does not maintain a complete record of how long claims actually remained in technical review. Consequently, the average technical review durations shown in the exhibit likely reflect only a portion of the actual review period and may understate the total time spent in this stage.

Because Exhibit 39 may not reflect the full time and effort required to complete technical reviews, we selected 25 of the 462 hard-copy claim files for a detailed examination to better understand the associated time requirements. We attempted to identify the dates when claims entered and exited the technical and settlement review stages; however, eligibility analysts did not document in the physical files when claims

were forwarded to the Technical or Settlements Units. As a result, we could not determine how long claims remained in these stages or assess their contribution to overall processing delays.

Past audits of the Cleanup Fund similarly found that eligibility determination timelines consistently exceeded the 60-day requirement and application processing timelines could not be fully assessed due to insufficient information. In fact, the most recent audit of the Cleanup Fund dated March 2021 recommended the Fund ensure consistent and complete information is entered and tracked in SCUFIIS and ensure SCUFIIS captures the time applications spend waiting for additional information. The Fund has not implemented prior recommendations to ensure consistent tracking of review activities and to capture the full duration of applications on hold. Without complete information, the Fund is unable to effectively monitor its compliance with the mandatory 60-day eligibility determination requirement or easily identify where delays in the process may be occurring. These gaps in recordkeeping not only prevent a full understanding of where delays occur but also raise concerns about the completeness and reliability of the Fund's eligibility review records.

The Fund should collect reliable data for each step of the claims eligibility review process and establish realistic internal benchmarks for those steps. Doing so would enable the Fund to identify opportunities to improve efficiency without compromising review quality. The Fund should also ensure that its measurement of compliance with the 60-day requirement is applied consistently and reflects all key review activities, including technical and settlement reviews, which are essential to determining eligibility. In addition, the Fund should assess whether the statutory 60-day timeframe remains feasible given current processing complexities and the Fund's historical inability to meet statutory time requirements, and adjust internal procedures or resources as needed.

**Inadequate Technical and Settlement Review Practices Reduced Assurance Over Eligibility Determinations**

The Fund's policies and procedures require eligibility analysts to obtain additional review from the Technical Unit and/or Settlements Unit before making eligibility determinations when certain conditions are present, as described earlier. Our review found that the Fund did not always perform required technical or settlement reviews timely or at all.

*Fund Could Not Demonstrate that Required Technical and Settlement Reviews Were Completed*

We selected 25 of the 462 accepted claim application hard-copy files for a detailed examination to evaluate whether the criteria used to review whether claim applications needed technical and settlement reviews was properly applied to our selected sample.

Our review found that the Fund did not consistently refer claim applications for these required reviews. Of the 25 accepted claims, 11 met one or more criteria requiring Technical Unit review, such as identifying prior releases, chemical storage on the property, or the presence of maintenance areas or hydraulic lifts. However, none of the 11 claim files contained evidence that a technical review occurred. We also found that 2 of the 25 accepted claims required review by the Settlements Unit due to ownership changes or unclear primary owner. However, neither of these claim files contained documentation showing that a settlement review was completed. Fund staff acknowledged that the reviews did not occur and stated that eligibility analysts

exercised discretion in cases perceived as minor, straightforward, or familiar based on past experience, even when the claims met the criteria for required review.

The Fund does not have a supervisory review process to ensure that all required reviews are completed before eligibility is determined. Instead, a single eligibility analyst may issue an eligibility determination—granting a claimant a permanent placement on the eligibility list—without secondary oversight to confirm that all review and approval steps were followed. Fund staff also noted that SCUFIIS lacks controls requiring sign-off by the Technical or Settlements Unit before eligibility approval.

Without conducting required reviews, the Fund cannot demonstrate that complex, technical or settlement-sensitive claims were subjected to the level of scrutiny intended to ensure eligibility and protect Fund resources. To ensure compliance with its own procedures, the Fund should reinforce the requirement for Technical and Settlements Unit referrals during claim review, train staff on identifying and documenting qualifying conditions, and enhance SCUFIIS to include mandatory fields confirming completion of referral forms before an eligibility determination can be finalized.

*Deferring Required Reviews Undermines the Eligibility Determination Process*

As described earlier, the Fund issued First Staff Eligibility Determinations that did not always include the required technical and settlement review processes. According to Fund management, technical and settlement reviews for Priority D claims were often intentionally deferred because those claims typically remained on the eligibility list for many years, and delaying the reviews helped manage workload. However, once a claimant is added to the eligibility list, they cannot be removed, reducing the effectiveness of post-placement reviews as a control to prevent ineligible or improperly reviewed claims from remaining on the eligibility list. Conducting technical or settlement reviews after placement renders limits their effectiveness because issues identified at that stage cannot be used to remove a claim from the priority list. Consequently, the only remaining leverage the Fund has is to restrict what the claimant may receive during the reimbursement process. Fund management reported that in 2022, it stopped issuing First Staff Eligibility Determinations before completing all required technical and settlement reviews. Because claims placed on the eligibility list cannot later be removed, issuing eligibility determinations before completing required reviews increases the risk that claims may receive long-term access to Fund resources without the full intended review.

Overall, the Fund did not consistently meet the statutory 60-day requirement for determining claim eligibility. Although SCUFIIS data show that most accepted applications received a First Staff Eligibility Determination within 60 days, this measure often excluded the time required to complete mandatory technical and settlement reviews. When the full eligibility determination process—including deferred reviews and issuance of Letters of Commitment—is considered, most claims exceeded the statutory timeframe. In addition, incomplete and overwritten system data and insufficient file documentation prevented the Fund from reliably tracking processing timelines, identifying bottlenecks, or demonstrating that required reviews were completed before claims were permanently placed on the eligibility list, reducing assurance over the completeness and consistency of eligibility determinations.

## The Fund did not Meet Required Reimbursement Processing Timelines

This section evaluates whether the Fund complied with statutory timelines for processing reimbursement requests and whether it maintained adequate records to demonstrate compliance.

The maximum reimbursement payout to claimants is $1 million. Fund management reduced the maximum reimbursement that can be paid in a single year as of January 1, 2015, assigning annual budgets to claims by project phase, and updating cost guidelines. For any claim made before December 31, 2014, the fund establishes a maximum payment amount of $1.5 million.

Pursuant to Health and Safety Code section 25299.57(i), the Fund must issue payment for eligible cleanup project costs within 60 days of receiving an expenditure invoice. Our current audit—which reviews reimbursement requests (RRs) processed from July 1, 2019 through June 30, 2024—continues to find that the Fund has been unable to consistently meet this deadline.

Most RRs arrive electronically via the GeoTracker system—California's online database used to track and archive compliance data from UST cleanup sites—although claimants may submit hard-copy packets by mail. Upon receipt, Reimbursement Unit analysts perform an initial triage to confirm that the packet is complete, including verifying the presence of all required forms, technical reports, and original signatures. Only those RRs that pass triage are deemed eligible for further processing.

Once initial triage is complete, Reimbursement Unit supervisors assign each RR to an analyst in the unit to begin a multi-step review. The analyst first confirms that the claimant holds an active Letter of Commitment (LOC); any RR lacking a valid LOC is placed on hold until the claimant provides the documentation. Next, the analyst compares the requested amounts against supporting invoices, checks for chronological consistency (invoices, work, and reports are all from the same period), and screens for duplicate billing entries. The analyst also verifies claimant made all required payments to vendors associated with previous RRs—claimants must pay contractors within 30 days of receiving Fund reimbursement.

The Reimbursement Unit refers some reimbursement requests to the Technical and Settlement Units:

- Technical Unit reviews are performed by engineers and geologists to deal with complex technical issues. These reviews involve RRs exceeding $100,000; RRs where eligibility or cost reasonableness is uncertain, such as those involving sites with above-ground storage tanks, non-petroleum contaminants, and commingled plumes; RRs where GeoTracker data indicates there may be a non-compliance issue with local regulatory agency directives; and RRs where cost allocations between multiple contamination sources are unclear.

- Settlement Unit reviews are primarily to ensure proper claimant identification. These reviews involve RRs where legal or administrative complexities exist, such as those associated with major oil or successor claimants, wills or trusts, Power of Attorney arrangements, or where ownership or signatory authority is unclear.

After RRs are reviewed by program staff, the Fund Manager verifies that the payment amount and signatures are accurate before releasing the RR for administrative processing. The Fund Manager relies exclusively on the analysts to conduct detailed reviews and does not provide any additional evaluation on the substance or appropriateness of the request.

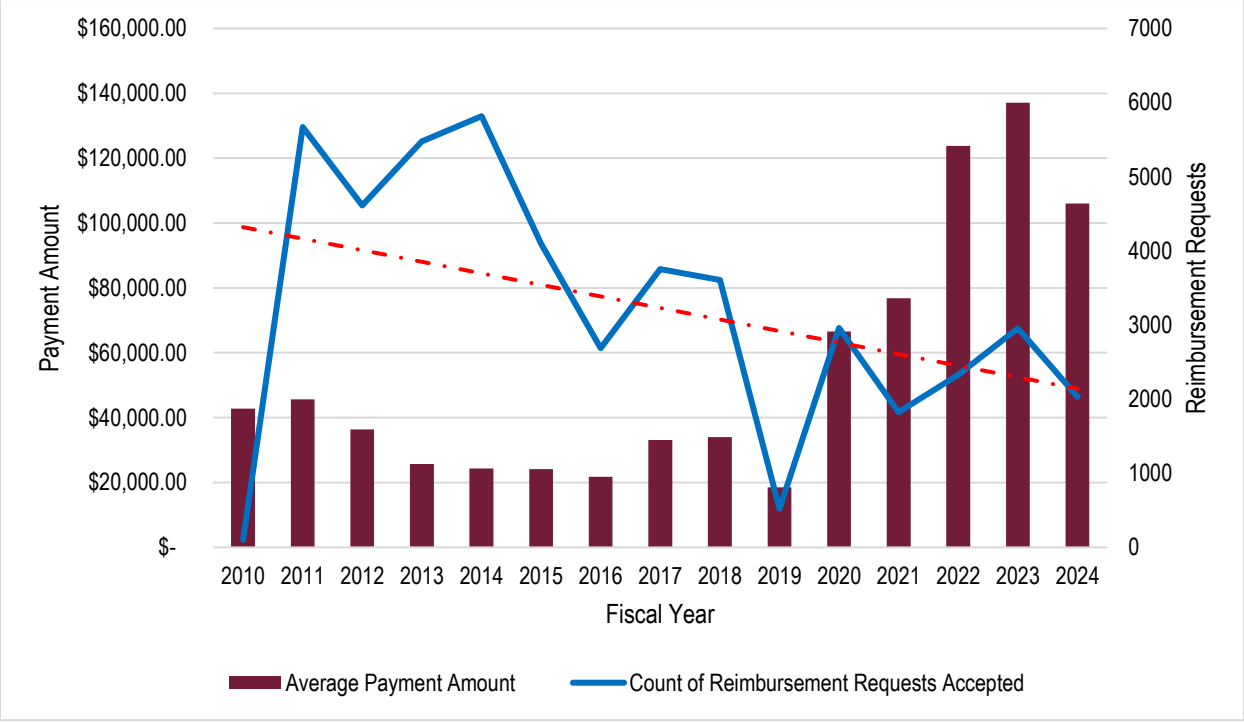
Finally, a Reimbursement Unit analyst routes the reviewed RR package for administrative processing and check issuance (i.e. the Board's Accounting Department and the State Controller's Office (SCO)).

For the various steps in the RR review process, milestones and dates are recorded in SCUFIIS, such as date the initial review was complete, dates sent to technical and settlement units, and date sent for administrative processing.

### In Recent Years, Number of RRs Submitted has Fallen While Average Payments Increased

As shown in Exhibit 40, since FY 2010, reimbursement submission volume has declined while average reimbursement payments have risen, particularly beginning in FY 2019. Although the Fund experienced some annual fluctuation, the general trend between July 2019 and June 2024 reflects that fewer reimbursement requests were processed each year, accompanied by steadily higher average payments.

**EXHIBIT 40. REIMBURSEMENT REQUESTS PAID AND AVERAGE REIMBURSEMENT AMOUNTS PAID FOR FY 2010-FY 2024**

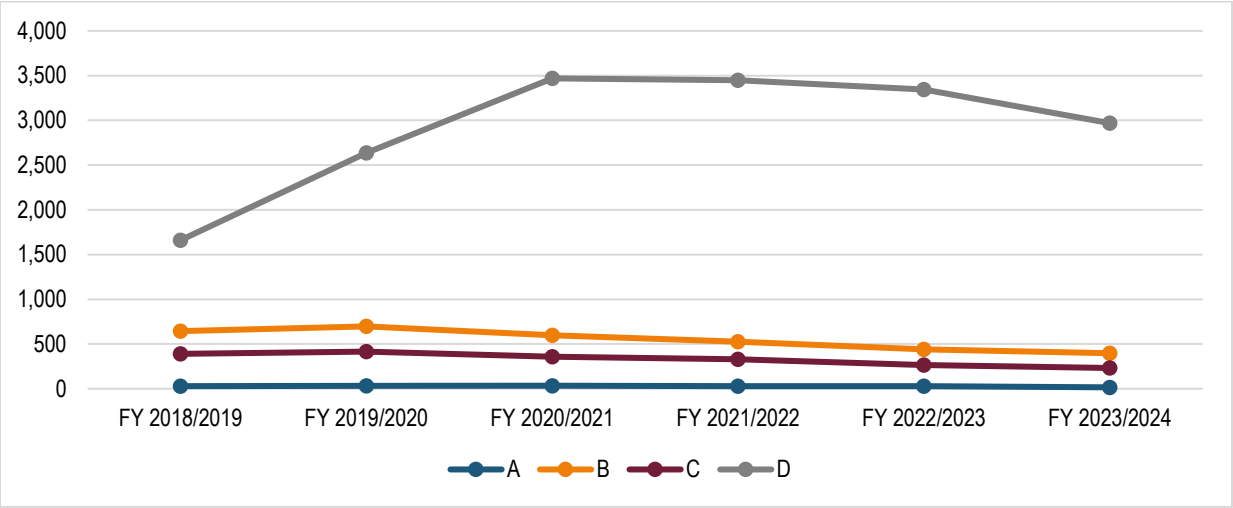



Source: SCUFIIS.

This shift aligns with the fact that priority class D claimants were largely responsible for the increase in the size of the active claimant pool in recent years as the number of active priority class B and C claims decreased significantly and remained low, as shown in Exhibit 41. Priority D claims, which made up about 81 percent of

all claims as of June 30, 2024, typically require more extensive and costly corrective action efforts and result in higher reimbursement payments.

**EXHIBIT 41. ACTIVE CLAIMANT POOL BY PRIORITY CLASS FY2018/2019-FY 2023/2024**




Source: SCUFIIS

### Fund Did Not Comply with Statutory Deadlines for Reimbursement Request Approvals

To evaluate the timeliness of RR processing, we analyzed SCUFIIS data associated with 10,645[3] RRs approved during the audit period and measured the number of days between submission date and payment date.

As shown in Exhibit 42, our review found that 10,224 requests, or 96 percent, exceeded the 60-day processing statutory requirement and only 421 requests, or 4 percent were processed timely. As summarized in Exhibit 42, it took the Fund an average of 243 days from date submitted to date paid to process RR payments, far exceeding the 60-day requirement.

**EXHIBIT 42. AVERAGE PROCESSING TIME FOR PAID RRS BY FISCAL YEAR (IN DAYS)**

| FY 2019/2020 | FY 2020/2021 | FY 2021/2022 | FY 2022/2023 | FY 2023/2024 | 5-YEAR AVERAGE |
|---|---|---|---|---|---|
| 282 | 311 | 259 | 189 | 140 | **243** |

Source: SCUFIIS

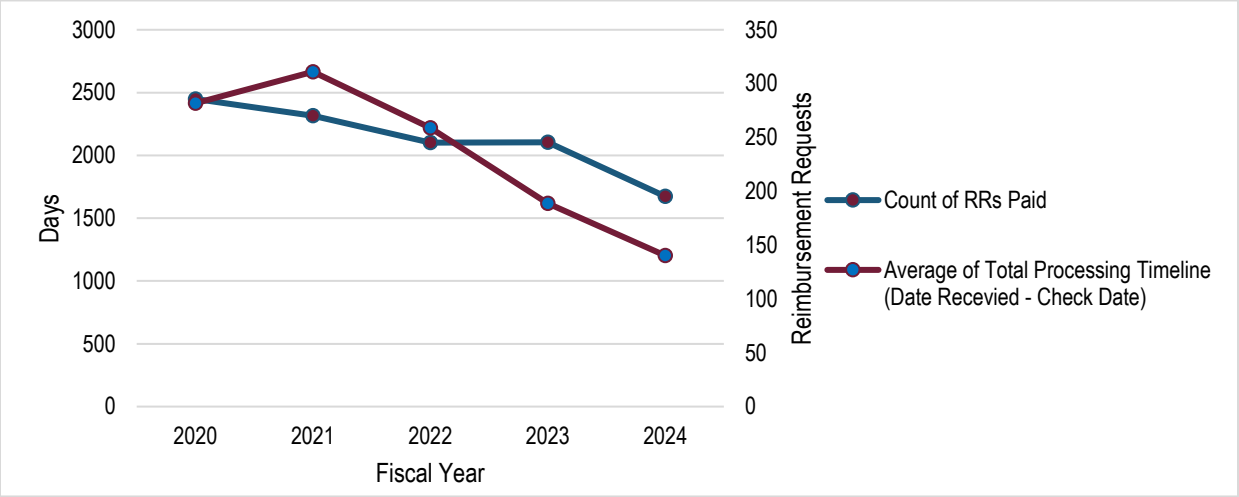
Although the time required to issue payments has exceeded statutory requirements, the number of days needed to process payments has decreased each year since Fiscal Year 2020–21. Because required reviews

[3] 11,219 RRs were approved during the audit period, but 574 RRs included missing or unreliable information, resulting in a population of 10,645 RRs reviewed.

and documentation were not consistently performed, the Fund cannot determine whether shorter processing times reflect improved efficiency or reduced review rigor.

To further expand the analysis, we reviewed the average processing times associated with the 10,645 reimbursement requests compared to the number of RRs paid. As Exhibit 43 illustrates, both the average processing times and number of RRs paid have fallen over recent years.

**EXHIBIT 43. AVERAGE PROCESSING TIME FOR RRS PAID BY FISCAL YEAR (IN DAYS)**




Source: SCUFIIS

Given the complexity and value of many Priority D reimbursement requests, the decline in processing times warrants further review to determine whether it reflects improved efficiency, changes in review practices, or both.

Available evidence indicates that the decline in average processing times may be attributable, in part, to the Fund's decision to scale back certain accountability practices, including documentation and review requirements, in an effort to expedite processing. For example, as discussed in the next section, the Fund could not always demonstrate that required technical reviews on some RRs were performed, which can consume a significant amount of time. Additionally, decisions on eligible costs lacked formal documentation of the review process, and review checklists were no longer completed. These changes may have contributed to shorter processing times by reducing or eliminating certain review steps and documentation practices that were intended to support payment accuracy and accountability.

While payment processing times have exceeded statutory requirements throughout the current audit period, this issue is longstanding. The 2010 audit of the Cleanup Fund found that reimbursement request processing times consistently exceeded the 60-day statutory requirement, averaging between 63 days and 100 days. Similarly, the 2020 audit showed that processing times continued to deteriorate, ranging from roughly 110 to 210 days.

While the data show that the vast majority of claimants did not receive timely reimbursements, mitigating factors may have contributed—such as the time applications remained on hold. However, we were unable to assess the effect of on-hold periods on overall timeliness because data to verify hold dates were unavailable. When a claimant submits an incomplete RR, it is placed on hold and recorded as pending in SCUFIIS, but once the claimant provides the required information, the system overwrites the original hold start and end dates rather than retaining the full hold history. As a result, SCUFIIS does not maintain a complete record of the time reimbursement requests spend on hold, limiting our ability to isolate Fund processing delays from claimant-related pauses or to determine the true duration of staff review activity.

To determine where bottlenecks may be occurring within the review process—and to identify factors contributing to lengthy timeframes associated with the 10,645 RR payments—we attempted to analyze the time required to complete interim steps using SCUFIIS data. These interim steps include the preliminary and final reviews; the dates the reimbursement request was sent to management and administration; the dates it was referred to technical or settlement review (if applicable); and the date it was forwarded to accounting. Although the Fund tracks dates for some administrative steps, Fund Management explained that the dates shown for technical and settlement reviews were system-generated placeholders that were updated only when an RR was actually routed for those reviews. Because we could not distinguish placeholder dates from actual dates, we were unable to use the SCUFIIS dates associated with the technical review step to assess the timeliness of interim steps.

Because we were unable to rely on information in SCUFIIS to comprehensively analyze the length of time taken to process interim steps, we reviewed 50 of the 10,645 RR hard-copy physical files. We were seeking to obtain the needed information to analyze timeliness of the interim steps, including related to technical review dates. However, the hard-copy files also lacked key documentation needed to verify the duration of the technical review process. While the hard-copy files included checklists for review dates, these forms were not completed fully to provide information related to technical review. Thus, it was not possible to calculate how long these RRs remained in technical review or to determine the extent to which that stage contributed to overall processing delays. During auditors on-site observations, we noted the checklist captures only the completion date for each step rather than both start and end dates.

Past audits of the Cleanup Fund similarly found that RR payment timelines consistently exceeded the 60-day requirement. In fact, the most recent audit of the Cleanup Fund Audit dated March 2021 recommended the Fund ensure consistent and complete information is entered and tracked in SCUFIIS and ensure SCUFIIS captures the time RRs spend waiting for additional information. The Fund has not implemented prior recommendations to ensure consistent tracking of review activities and to capture the full duration of applications on hold. Without complete information, the Fund is unable to effectively monitor its compliance with the mandatory 60-day eligibility determination requirement or easily identify where delays in the process may be occurring. These gaps in recordkeeping not only prevent a full understanding of where delays occur but also raise concerns about the completeness and reliability of the Fund's eligibility review records.

The Fund should track reliable data associated with each step of the RR payment process and establish corresponding realistic internal benchmarks. This will help the Fund determine where efficiencies can be gained without compromising review quality. The Fund should also evaluate whether the statutory 60-day

requirement for RR payments is realistic given current processing complexities and adjust internal procedures or resources accordingly.

### The Fund Could Not Demonstrate That Required Technical Reviews Were Completed for More than Half of Reimbursement Requests Reviewed

Per Fund policy and internal procedures, RRs exceeding $100,000 or those containing complex technical components must be referred to the Technical Unit for review and documented approval before payment. Out of 50 RR hard copy files reviewed, we found that 13 RRs met the criteria requiring a technical review, but there was no evidence that a technical review occurred for 7 of the reimbursements. The payments associated with these 7 RRs ranged from about $116,000 to $616,000.

According to Fund management, the lack of evidence for these reviews occurred because analysts did not consistently document their review and approval activities. In addition, the Fund does not have a supervisory review process to ensure that all required reviews are completed before payments are issued. Instead, a single analyst can review and approve reimbursement requests —including high-value or complex requests—without any secondary oversight to verify the review and approval step and without any additional review of the substance or appropriateness of the request. As described earlier, the Fund Manager's signature on the RR documentation only releases the RR for administrative processing.

The Fund's failure to consistently conduct and document required technical reviews increases operational and financial risks. The absence of a supervisory review process and reliance on a single analyst to review and approve even high-value or complex requests further weakens internal controls and reduces assurance that reimbursements are appropriate, compliant, and adequately scrutinized. Strengthening documentation practices and implementing secondary oversight would help the Fund ensure accountability and adherence to its own policies.

## Most Appeals Decisions Exceeded 30-Day Regulatory Requirement

This section evaluates whether the Fund complied with regulatory timelines for appeals and whether it maintained adequate records to demonstrate compliance.

Under the California Code of Regulations[4], claimants who disagree with a decision issued by Fund staff may file an appeal. Appeals may challenge eligibility determinations, reimbursement denials, or other Fund staff decisions. The appeals process has four levels and claimants may appeal decisions at each level except for the final SWRCB Decision:

- Revised Fund Staff Determination
- Fund Manager Decision
- Final Division Decision
- SWRCB Decision (final)

[4] California Code of Regulations Title 23, §2814(c)

If a claimant is unhappy with the SWRCB Decision, the remaining option is to pursue legal action.

At each level, a decision must be issued within 30 days of receiving the appeal. Revised Staff Determinations are handled by technical or reimbursement analysts. Fund management becomes involved only when an appeal escalates beyond the Revised Staff Determination stage, such as at the Fund Manager or Final Division Decision levels.

Between July 1, 2019, and June 30, 2024, SCUFIIS data show that 408 appeals were submitted and resolved and primarily involved disputes related to reimbursement determinations (364) and eligibility decisions (44). Costs associated with the 364 appeals related to reimbursement determinations totaled $15,105,336, of which $13,482,698 (89%) of the costs were ultimately approved through the appeals process.

Of the 408 appeals, 88 percent (359) were not resolved within the required 30-day timeframe. Decision-issuance times ranged from 31 days to 1,732 days for the 408 appeals, most—78 percent (320)—were resolved with a Revised Staff Determination. Of the remaining 88 appeals, 80 were resolved with a Fund Manager Decision and 8 with Final Division Decision.

We reviewed hard-copy files for 19 of the 359 delayed appeals to identify the reasons for the delays but found that none of the files included documentation explaining the cause of the delay. Fund management stated that delays can occur due to late claimant submissions, documentation that generates additional questions, referrals to the Office of Chief Counsel, or workload backlogs. However, these explanations were not documented in the corresponding files.

Additionally, we reviewed the hard-copy files for the 19 appeals to assess how often the initial determination aligned with or differed from the final outcome. Of the 19 appealed cases, 17 involved initially denied reimbursement requests, and two involved initially denied eligibility to participate in the program. Specifically:

- **17 Appeals Related to Denied Reimbursement Requests**—These appeals involved costs initially deemed ineligible by analysts in the Reimbursement or Technical units due to insufficient supporting documentation, the claimant reaching the maximum reimbursement limit, or costs determined to be unreasonable:
  - ✓ *Lack of Support and Unreasonable Cost*—These fifteen appeals involved a combined total of $194,068 in costs initially denied due to insufficient supporting documentation, such as regulatory directives, permits, and cost justifications. For $191,317 of these costs claimants later provided additional documentation deemed sufficient, resulting in approval through fourteen Revised Fund Staff Determinations. The remaining $2,751 cost stemmed from one appeal in which costs were denied because the claimant provided insufficient justification for higher labor rates used, and the cost were deemed unreasonable.
  - ✓ *Maximum Reimbursement Reached*—These two appeals involved a combined total of $50,332 in costs initially denied due to insufficient supporting documentation, such as regulatory directives, permits, and cost justifications. For $8,043 of these costs claimants later provided additional documentation deemed sufficient, resulting in approval through two Revised Fund

Staff Determinations. The remaining $42,289 cost were denied because the claimants had reached the $1 million reimbursement cap. Both appeals had a Revised Staff Determination letter issued upholding the denials.

- **2 Appeals Related to Denied Eligibility**—Two appeals involved claimants deemed ineligible to participate in the Fund due to insufficient supporting documentation. In one case, the claimant later provided the required documentation (permits and valid land title) resulting in eligibility being granted through a Revised Staff Determination. In the other case, the claimant did not submit the necessary documentation, such as permits or a letter from the regulatory agency, and a Revised Staff Determination letter upheld the original ineligibility determination.

Our review of appealed reimbursement determinations indicates that most initial denials were based on insufficient supporting documentation rather than substantive determinations that costs were categorically ineligible or unreasonable. In most instances, claimants subsequently provided additional documentation and the costs were approved. While this pattern suggests that the appeals process often resolves documentation deficiencies, the Fund did not consistently resolve appeals within the required 30-day timeframe and did not document the causes of delay. Without clear documentation of review steps, delay explanations, and decision rationale at each appeal level, the Fund cannot demonstrate consistent, transparent, and timely adjudication of disputes. These weaknesses limit management's ability to monitor workload, assess compliance with regulatory requirements, and ensure equitable treatment of similarly situated claimants.

Overall, the Fund did not consistently meet statutory requirements for timely eligibility determinations, reimbursement payments, or appeals decisions during the audit period. More critically, deficiencies in SCUFIIS data, physical file documentation, and review controls prevented the Fund from reliably tracking processing timelines, distinguishing between time spent under review and time spent on hold, or demonstrating that required technical and settlement reviews were completed before eligibility and payment decisions were finalized. Until these system, documentation, and control deficiencies are addressed, the Fund's ability to demonstrate accountability and consistently apply program requirements will remain limited. As a result, the Board lacks reliable information to assess whether the Fund is meeting statutory requirements, identify systemic risks, or determine whether changes in processing timelines reflect improved performance or weakened controls.

**Recommendations**

To further improve the Fund's ability to demonstrate its ability to meet mandated timelines and increase the efficiency of certain processing functions, the Board should consider directing Fund management to:

11. Ensure eligibility determinations are not finalized and claims are not placed on the eligibility list until all required technical and settlement reviews are completed and documented.

12. Establish supervisory and system-based controls, including SCUFIIS application controls where feasible, to verify that required eligibility, technical, and settlement reviews are completed before eligibility determinations are issued.

13. Develop and implement a corrective action plan to improve compliance with statutory and regulatory processing timelines for eligibility determinations, reimbursement requests, and appeals. At a minimum, the plan should include modifying SCUFIIS and related data-entry protocols to reliably and consistently track the full duration of processing, including time spent under review and time spent on hold; identifying causes of delay; assigning responsibility for corrective actions; and periodically reporting progress to Fund management and the Board.

14. Implement standardized documentation requirements to record the start and end dates of key review steps, including technical and settlement reviews, for eligibility determinations and reimbursement requests.

15. Establish supervisory and system-based controls, including SCUFIIS application controls or checklist controls where feasible, to ensure reimbursement requests requiring technical or settlement review are consistently referred, reviewed, documented, and approved in accordance with Fund policies before payment is issued.

16. Establish internal benchmarks for key processing steps for eligibility determinations, reimbursement requests, and appeals to allow management to monitor timeliness, identify bottlenecks, and evaluate processing efficiency.

17. Enhance documentation of appeals decisions to include the reasons for delays and the basis for final determinations at each appeal level.

18. Implement a mechanism to track appeals processing time by stage to ensure compliance with the 30-day regulatory requirement and support management and Board oversight.

# Chapter 4: Weaknesses in the Control Environment and Monitoring Activities Undermine Effective Oversight

According to the U.S. Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*, internal control is a system of processes designed to provide reasonable assurance that an organization achieves its objectives related to operational effectiveness and efficiency, reliable reporting, and compliance with applicable laws and regulations. Effective internal controls also reduce the risk of errors, inconsistent decisions, noncompliance, and inappropriate use of public funds. GAO's standards further emphasize that the control environment, including management's philosophy, operating style, and tone at the top, establishes the foundation for how internal controls are designed, implemented, and enforced.

The audit found that the Fund's internal control processes provided limited assurance that key program decisions and related oversight activities are consistently reviewed, supported, documented, and monitored. Key control activities intended to promote accuracy, consistency, accountability, and effective oversight have either not been fully implemented or have weakened over time. As a result, the Fund continues to operate with gaps in review, documentation, and monitoring that increase the risk of error, inconsistent decision-making, and noncompliance. Many of these weaknesses have been reported in prior audits and have not been fully addressed.

Fund management indicated that certain control changes were made to improve efficiency. However, management decisions and messaging emphasizing efficiency and funding availability reduced emphasis on established controls. Actions such as eliminating structured review mechanisms, relying on informal rather than documented review practices, and discontinuing previously established controls weakened the overall control environment without adequate compensating safeguards. These weaknesses reflect broader control environment issues, as well as deficiencies in specific control activities, information systems, and monitoring mechanisms.

**Management's Approach Reduced the Effectiveness of Key Controls**

Changes in management practices and control implementation reduced the effectiveness of key cost-containment controls. The Fund has established Cost Guidelines, annual budgets, and procedures such as Budget Change Requests (BCRs) to guide the evaluation and approval of proposed and incurred corrective action costs. These mechanisms are intended to function as cost-containment controls by establishing benchmark labor rates and cost references, setting project-level allotments, and requiring documented justification and review when proposed or incurred costs exceed established limits. Collectively, they provide a structured framework to promote consistency, transparency, accountability and stewardship of public funds in reimbursement decisions. However, the audit found that certain elements of these controls are no longer functioning as originally structured. Interviews and management statements indicate that, because the Fund was not experiencing resource constraints and funding was viewed as sufficient, certain cost-containment controls were not consistently enforced as formal limits or triggers for additional review.

Interviews with Fund staff indicate that budgets were described internally as "allotments" rather than firm spending limits. The prior practice of pausing payments and requiring a Budget Change Request (BCR) when costs exceeded allotted amounts was discontinued and had not been reinstated. Management stated that pausing payments and requiring a BCR was unnecessary given the availability of funding, although the Cost Guidelines indicate that approval should be obtained when allotted amounts are exceeded. This change altered the operation of the Fund's budget oversight controls, as allotments no longer function as enforceable ceilings that trigger additional review when exceeded. Instead, costs above allotted amounts may proceed without a structured pause, documented justification, or formal approval step. Management's stated rationale indicates that because funding was viewed as sufficient, the Fund did not consistently require the additional review and documentation previously triggered when reimbursement requests exceeded allotted amounts.

Fund staff reported that, historically, when reimbursement requests were reduced for exceeding thresholds established in the Cost Guidelines, claimants often appealed and appealed amounts were often approved. This practice may have reduced staff's incentive to apply reductions consistently, particularly in the absence of documented monitoring of appeal outcomes and the reasons appealed costs were approved. As a result, Cost Guideline thresholds may have had limited practical effect as a cost-containment mechanism unless reductions, exceptions, and appeal outcomes were consistently documented and monitored.

Together, management's decisions to eliminate the pause-and-BCR requirement and to approve appealed reductions diminished emphasis on established cost-containment mechanisms. These actions weakened enforcement of BCRs, budget allotments, and Cost Guideline thresholds, resulting in less consistent application of established requirements and reduced assurance that cost-containment controls were operating as designed. In addition, diminished use of documentation requirements such as BCRs and secondary reviews reduced accountability and weakened safeguards intended to protect public resources. As a result, the Fund faces increased risks of control deficiencies, noncompliance with established policies, and variation in how similar claims are evaluated and approved.

## Weaknesses in Control Activities and Oversight

The prior audit identified weaknesses in key control activities and oversight functions, including supervisory review, data reliability, and required annual fiscal audits. The current audit found that many of these weaknesses have not been fully addressed and continue to affect the Fund's control environment. Taken together, these deficiencies reduce management's ability to ensure consistent decision-making, reliable information, and effective monitoring of program operations. Many of the operational and performance effects resulting from these internal control weaknesses are discussed in greater detail throughout Chapter 3.

### Inadequate and Undocumented Secondary Review Controls

A key inadequacy in the Fund's internal control system is the absence of formal, documented secondary review processes across the claims lifecycle, including eligibility determinations, referrals to specialized units, and reimbursement approvals. Secondary review is a fundamental control activity that provides reasonable assurance that decisions are accurate, consistent, supported, and made in accordance with program requirements—particularly in programs involving complex eligibility criteria and significant financial risk. For

example, because eligibility placement is irreversible, the absence of secondary review prior to approval creates heightened program risk.

Determinations and approvals made in the Eligibility and Reimbursement Units frequently rely on a single staff member's judgment. In place of a structured review process, staff may informally consult peers, request ad hoc input from other units, or discuss complex cases during periodic meetings. These practices are discretionary, inconsistently applied, and not documented, and therefore do not function as effective or reliable quality control mechanisms. These conditions reflect a departure from prior practices in which certain eligibility, reimbursement, and documentation reviews were performed more consistently and formally. Despite prior audit recommendations dating back more than a decade, the Fund continues to rely on informal, undocumented review practices rather than formal secondary review controls.

The absence of a required secondary review affects multiple points in the claims process. Without documented secondary review, the Fund cannot demonstrate that required reviews occurred, that eligibility criteria were consistently applied, or that reimbursement decisions—including the rationale supporting approval of eligible costs—were appropriately supported. As a result, claims with similar characteristics may be processed differently, increasing the risk of inconsistent or incorrect determinations and reducing management's ability to monitor quality, ensure compliance, and protect Fund resources.

**Data Integrity and System Control Deficiencies**

The lack of data integrity in the SCUFIIS system further undermines the Fund's internal control environment. Audit testing identified mis-keyed dates, missing entries, duplicate records, and system limitations that prevent accurate tracking of key eligibility and reimbursement milestones. These deficiencies reduce the reliability of data used for internal monitoring, management decision-making, and external reporting.

The system lacks automated validation and application controls to ensure data completeness, accuracy, and consistency. As a result, the Fund relies heavily on manual data entry and informal review processes, increasing the risk of error. These system limitations were previously identified in prior audits, yet were not fully remediated before certain manual tracking and reconciliation practices that supplemented system limitations were reduced or discontinued, thereby leaving gaps in oversight without effective compensating controls. Although management indicated that IT requests have been submitted to address system limitations, documentation supporting these efforts was not provided. In addition, data cleanup and reconciliation efforts are informal, inconsistently performed, and not supported by standardized reports or error logs, limiting their effectiveness as compensating controls.

As a result, the Fund lacks reliable system-based or manual controls to ensure the completeness and accuracy of key data used to monitor eligibility determinations, reimbursement activity, and processing timelines. These limitations also reflect insufficient monitoring controls, as management and the Board lack reliable information needed to distinguish Fund-caused delays from claimant-caused delays and to assess compliance with processing requirements.

### Required Annual Fiscal Audits Were Not Conducted

As part of the Fund's oversight and monitoring framework, Board Resolution 2009-0042 requires the Division of Administrative Services (DAS) to conduct independent program and fiscal audits of the Cleanup Fund. Although the Fund complied with the resolution by contracting for a performance audit in 2009, the required annual fiscal audits have not been conducted since that time. The continued absence of annual fiscal audits represents a persistent weakness in the Fund's monitoring controls and limits the Board's ability to obtain independent assurance over financial activity. In addition, the discontinuation of regular reporting to the Board reduced management's ability to monitor trends, identify emerging risks, and hold program operations accountable over time.

Overall, deficiencies in control activities, information systems, monitoring, and management oversight have weakened the Fund's internal control environment and reduced assurance that eligibility and reimbursement decisions are consistent, reporting is reliable, and statutory requirements are met. Although management cited system limitations, workload pressures, and efficiency considerations as reasons certain controls were not implemented or sustained, the continued presence of these weaknesses indicates that corrective actions have not been effective. Strengthening the control environment will require leadership to reinforce established controls, align practices with written policy or revise policy transparently, and ensure that exceptions are documented, justified, and subject to supervisory oversight.

### Recommendations

To further improve the Fund's internal control system, the Board should consider directing Fund management to:

19. Reinforce and formally communicate leadership expectations that established cost-containment controls, including required BCRs to exceed budget allotments, internal Cost Guideline thresholds, and documentation requirements, are to function as enforceable mechanisms. Where management intends to modify or relax existing controls, such changes should be formally documented, justified, and aligned with written policy.

20. Develop and document a comprehensive internal control framework that clearly defines required control activities, documentation standards, supervisory reviews, and monitoring responsibilities across the lifecycle of a claim, including eligibility determinations, cross-unit technical and settlement reviews, reimbursement processing, and appeals.

21. Implement a periodic internal control assessment process to evaluate whether existing control activities remain appropriate given changes in claim volume, payment amounts, system limitations, and statutory requirements, and to document decisions to modify or discontinue controls.

22. Establish Fund-wide standards for documenting and retaining evidence of key control activities, including reviews, approvals, reconciliations, and supervisory oversight, sufficient to support monitoring and accountability.

23. Develop monitoring controls that provide management and the Board with reliable, summary-level information needed to assess compliance with statutory requirements, identify trends, and detect emerging risks, independent of day-to-day processing activities.

24. Require that when system limitations prevent implementation of automated controls, compensating manual controls are formally defined, consistently applied, and periodically evaluated for effectiveness until system solutions are implemented.

25. Ensure compliance with Board Resolution 2009-0042 by initiating and sustaining independent annual fiscal audits and by using audit results to inform corrective actions and Board oversight.

# Appendix A: Management Response

We provided a draft of this report to Fund Management for review and comment and requested a written response. Fund Management did not provide written or oral comments within the time provided and communicated that they would not be providing a management response letter. Therefore, we are issuing the report without auditee comments.