

California Bureau of Security and Investigative Services

Fee Audit Review --Private Investigator Fees

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SUBMITTED BY:

Craig Limeberry, PMP

Karen Connell

CPS HR Consulting

2450 Del Paseo Rd #220. Sacramento, CA 95834

T: 916 481-4205 F: 916-263-3614

kconnell@cpshr.us

Tax ID: 68-0067209

www.cpshr.us



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Executive Summary

The mission of the California Bureau of Security and Investigative Services (Bureau or BSIS) is to protect and serve the public and consumers through effective regulatory oversight of the professions within its jurisdiction. The Bureau licenses and regulates companies and employees in the private security industry. BSIS is one of 37 regulatory entities within the California Department of Consumer Affairs (DCA).

A specific function of the Bureau is to review/set fees levied on applicants for initial and renewal licensure, registrations, certificates or permits, as well as any modifications. The fees are intended to be sufficient to cover the cost of the Bureau's regulatory services.

In 2017 CPSHR reviewed the licenses and fees supporting the Private Security Services (PSS) Fund. This study will address the Private Investigator licenses and fees and fund condition.

Summary of Findings and Recommendations

Based on the review, CPS HR found the following. The information is covered in detail in the body of the report:

- PI funded positions increased from 3 to 5.5 personnel years (PYs) between FY 14-15 and FY 18-19. The Bureau will over expend the .5 py to 1 py beginning in FY 18-19 to meet operational needs by redirecting operating expense savings.
- PI licensing trends: overall the number of active PI licensees declined by an estimated 11% between FY 13-14 and FY 17-18. Initial PI licenses issued were down over the last five fiscal years. The renewal licensing trend continued down throughout the same period.
- On January 19, 2016, the Bureau implemented DCA's BreEZe online licensing and enforcement system which offers one-stop shopping for BSIS licensees, applicants and consumers. The Bureau incurred significant costs to implement BreEZe.
- PI enforcement trends: Overall, PI licenses (8831) represent only about 2.5% of the total licenses regulated by the Bureau (about 350,000), but represent an increasing percentage of total complaints received. As a percentage of total complaints received in the last three fiscal years, PI complaints have increased from 7.0% and are now 10.8% of the total complaints received.
- Also, PI cases are more complex than the general Enforcement cases. With limited cite and fine authority in the Private Investigator Act, a larger percentage of the PI cases are referred to the Office of the Attorney General (OAG) than their representation in the general licensee population. In the last two years, they increased from 9.9% to 13.1% of all the cases referred to the OAG.

- Fee income has been up and down slightly over the last three Fiscal Years, but overall revenues have not kept up with expenditures since FY 14-15. Moreover, scheduled fees have not been raised for 20 years.
- The current PI fee structure is insufficient to recover actual PI-related costs and will deplete the reserve in FY 19-20 unless action is taken before then to increase fees.
- Between FY 16-17 and FY 18-19, various Budget Change Proposals (BCPS) were approved to reimburse expenditures from the PSS fund to support PI licensing activity, and add staff to cover PI workload. Newly enacted legislation, as well as collective bargaining salary increases totaling 12% over three years will also increase expenditures from the PI fund. By the end of Fiscal Year 19-20, these additional obligations will add an estimated \$414,000 annually to the expenditures from the PI Fund. This is approximately a 39% increase from the FY 16-17 expenditures.

As a result of the above findings, CPS recommends the following:

1. To increase productivity and contain costs, the Bureau should strongly encourage new and renewal customers to take full advantage of BreZE online services.
2. After consultation with DCA and its licensees, BSIS should determine fees for PI licenses and services at rates that will maintain the PI fund with an acceptable reserve. One approach is to consider using a fully absorbed cost rate of \$122 per hour. However, this may result in Initial application and initial license fees that could discourage new applications. The Bureau may want to consider a lower fee for those license types and support the fund through increased renewal fees, which are spread across a larger population and represent about 79% of fee revenue.
3. BSIS management should develop and introduce legislation to revise the fee schedule as soon as possible, and inform current and prospective licensees of the changes.
4. The Bureau should also implement a regular schedule of between 3-5 years to review and revise the annual amount transferred to the PSS fund to support PI activities to recognize cost changes.
5. The Bureau should consider and discuss with the PI community whether it makes sense to combine the PSS and PI funds into one fund. Given the small size of the PI fund, it is not efficient to keep separate records, and track expenditures separately. Also, given the small size of the fund, even a small change in revenue or expenditures can have a disproportionate impact on the solvency of the fund.
6. The Bureau in consultation with its licensees should also consider pursuing a broader cite and fine authority for PI Licensees similar to its authority for other licensees. It would be less time consuming and expensive for both the Bureau and licensees who wish to appeal the Bureau's decisions. As described in the report, the current process requires almost all

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appeals to be heard through the administrative hearing process and requires involvement of the OAG. Broader Cite and Fine authority would allow appeals to be heard by the newly established Private Investigator Disciplinary Review Committee.

Introduction

The mission of the California Bureau of Security and Investigative Services (Bureau or BSIS) is to protect and serve the public and consumers through effective regulatory oversight of the professions within its jurisdiction. The Bureau licenses and regulates companies and employees in the private security industry. The Bureau has jurisdiction over alarm companies and their employees, locksmiths and their employees, repossession companies and their employees, baton and firearm training facilities and their instructors, private investigators, private patrol operators and their security guard employees, and proprietary private security employers and their proprietary private security officer employees. The Board is one of 37 regulatory entities within the California Department of Consumer Affairs (DCA).

Background

In November 2016, the Bureau engaged CPS HR Consulting (CPS) to provide performance auditing and consulting services to review Bureau performance and the structure for the 21 license fees collected only within the Private Security Services (PSS) fund for fiscal years 2012-13 through 2015-16, including accomplishing the following objectives:

- Assess and correlate the workload for approximately 65 Bureau employees to the actual activities performed to determine an hourly or unit cost to support licensing, renewal, enforcement, etc.
- Analyze all fees and other revenues collected by the Bureau within the PSS fund and related expenditures (including DCA overhead pro rata expenses), to determine if fee levels are sufficient for the recovery of the actual cost of conducting its programs.
- Project fees/revenues and related costs for the next three to five fiscal years.
- Determine a cost basis to fairly increase existing fees to: cover all PSS-related costs, ensure a sufficient PSS fund reserve, and assess other services provided by the Bureau when a separate fee is not provided by statute or regulation.

As a result of this study, the Bureau increased fees for most licenses supporting the Private Security Services fund effective July 1, 2018.

In April 2018, the Bureau engaged CPS HR Consulting (CPS HR) to provide performance auditing and consulting services to review Bureau's fee structure for the 2 license types collected within the Private Investigator fund:

- Ensure that the fees are set at an appropriate level to cover the Bureau's costs to support all PI related activities.
- Determine a cost basis to fairly increase existing fees to: cover all PI-related costs, ensure a sufficient PI fund reserve, and assess other services provided by the Bureau when a separate fee is not provided by statute or regulation.

Private Investigator Act

Pursuant to Business and Professions Code (BPC) Section 7521, a private investigator, within the meaning of the Private Investigator Act (Act) is an individual who for any consideration engages in business or accepts employment to make any investigation to obtain information relating to: crimes or wrong doings against the U.S, states or territories; the identity, habits, conduct, business, occupation, honesty, integrity, credibility, knowledge, trustworthiness, efficiency, loyalty, activity, movement, whereabouts, affiliations, associations, transactions, acts, reputation or character of a person; the location, disposition, or recovery of lost or stolen property; the cause or responsibility of fires, libels, losses, accidents, damage, or injury to persons or property; or securing evidence for use in any court, board, officer or investigating committee. Pursuant to BPC Section 7521.5, a private investigator may protect a person only if such services are incidental to an investigation they were previously hired to perform; they may not protect property. As specified in the Private Investigator Act, individuals performing private investigation activities must hold a Bureau private investigator (PI) license unless otherwise exempted pursuant to BPC Section 7522.

Each PI licensee's business must be operated under the active direction, control, or management of the qualified manager (QM), who can be the licensee if they meet the specified requirements or another individual designated by the licensee who meets the specified requirements. The qualified manager must meet the requirements for licensure specified under Section 7526 of the Business and Profession Code (BPC) and pass a PI Licensing exam. The QM does not hold a separate license; they are the qualifier for the PI license. The Act does not regulate employees of private investigator licensees and, accordingly they are not required to register with the Bureau.

The Act authorizes the private investigator licensee and the qualified manager to obtain a Bureau-issued firearm permit under specified conditions. As of June 13, 2018, there were 8,831 BSIS-licensed Private Investigator and 127 BSIS-certified Private Investigator Branch offices. Legislation was enacted in 2014 (AB 1608, Chapter 669) to authorize a PI license to be held by a Limited Liability Company (LLC) from January 1, 2015 through January 1, 2018. Legislation enacted in 2017 (SB 559, Chapter 569) extended the authority to January 1, 2021. In addition, the bill required that effective July 1, 2018, a PI LLC licensee report to the Bureau any pending or paid claim against its liability insurance policy, and the Bureau to specify that a PI licensee is an LLC and to post the PI LLC licensee's claim data on DCA's public License Search website. These new mandates have created additional PI-related workload for the Bureau.

Bureau History, Composition and Governance Structure

Regulatory oversight of the California private security industry began in 1915 with the creation of the Detective Licensing Board. After several name changes, Assembly Bill 936 of the Statutes of 1993 formally renamed the organization as the Bureau of Security and Investigative Services.

The BSIS Bureau Chief reports to the DCA Director and oversees approximately 63 authorized positions. On average, there are about nine temporary positions at any given time. The Bureau has five statutorily-established Disciplinary Review Committees (DRC), including one established in the PI Act. Each DRC is composed of three respective industry and two public members. The DRCs consider appeals of license denials and suspensions as well as assessment of administrative fines. The Bureau also has a voluntary Advisory Committee comprised of seven professional and six public volunteer members. This committee provides policy insight and perspective to the Bureau. The DCA Director appoints the committee members to two-year terms with no salary or benefits.

Private Investigator License/Renewal Fees and Fee Change History

The Bureau's current Private Investigator fee schedule has four (4) separate fees for two (2) license types. In 1994, AB 3291 repealed the then existing Private Investigator Act and reorganized and re-enacted the provisions into two different acts, the Private Investigator Act and the Private Security Services Act. The PI licensing fees have not been increased since 1998. The renewal period for licenses is two years from the date issued.

Bureau Functions and Staffing

From fiscal year (FY) 2012-13 through FY 2015-16, there were three (3) permanent positions wholly dedicated to Private Investigator activities and, accordingly, supported by the PI Fund: two Associate Governmental Program Analysts (AGPAs) in the Enforcement Unit and one Staff Services Analyst in the Disciplinary Review Unit. As a result of an FY 2016-17 Budget Change Proposal (BCP), the number of permanent positions supported by the PI fund increased to four (4) in FY 2017-18 with the addition of a Program Technician II (PT II) in the Licensing Unit. Prior to this BCP, a PT II wholly supported by the Private Security Services Fund processed all initial and renewal PI applications as well as other PI licensing activities (e.g., name changes, address changes, changes of qualified managers, etc.).

As a result of a FY 2017-18 DCA BCP which redirected staff from the Department's Complaint Resolution Program to the various Department Bureaus based on the apportioned number of complaints received for the Bureau, one (1) SSA position was directed to carry out PI complaint-related activities and, accordingly, the position was allocated to the PI Fund. In addition to the five (5) permanent positions, other staff in the Bureau funded by the PSS fund provide support services to the PI program. These activities are funded by an annual payment from the PI fund to the PSS fund of \$269,000.

An FY 2018-19 BCP added a 0.5 PT II to the PI Fund, effective July 1, 2018 to administer the provisions of SB 559. That legislation requires a PI licensee organized as an LLC to report a paid or pending claim against its general liability insurance to the Bureau for posting on the Department of Consumer Affairs (DCA) License Search website. This requires ongoing maintenance of the pending and paid claim to ensure it is accurately being reported on the public website. Because of the overall volume of PI-licensing workload, the Bureau obtained approval to over-expend the 0.5 PT II position to 1.0 PT II position and as of the date of this report, the Bureau is in the process of recruiting for the position.

As a result of the recent BCP, effective July 1, 2018, five and a half (5.5) permanent positions are supported by the PI fund.

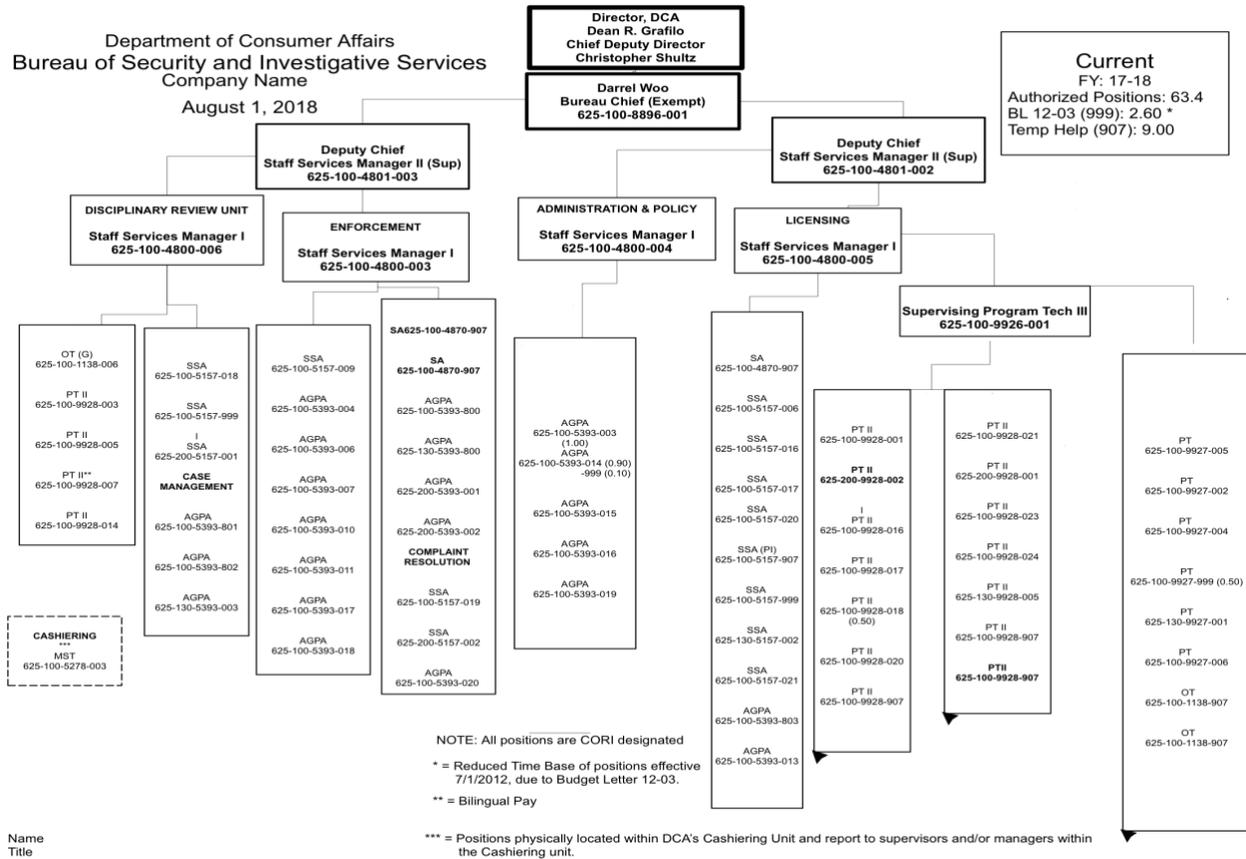
The Bureau Chief is an exempt position and reports to the DCA Director. Two Deputy Chiefs (Staff Services Manager II) report to the Bureau Chief. The Disciplinary Review Unit and Enforcement Unit report to one Deputy Chief, while the Administration & Policy Unit and Licensing Unit report to the other Deputy Chief.

The Bureau's primary civil service classifications include:

- Staff Services Managers (SSM) I and II (Supervisory)
- Associate Governmental Program Analyst (AGPA)
- Staff Services Analyst (SSA)
- Program Technician (PT) and Program Technician II (PT II)
- Office Technician (OT)

The Bureau organization chart (Figure 1) was effective August 1, 2018. During the course of the study, some positions were filled and/or reclassified. The chart also reflects one position in the DCA Cashiering Office that the Bureau directly supports.

Figure 1
Organization Chart
Bureau of Security and Investigative Services as of August 1, 2018



Scope, Objectives and Methodology

The scope of this engagement focused on a review of the Bureau's fee structure and staff workload related solely to the fees of the two (2) license types collected within the Private Investigator (PI) fund, including the following objectives:

- Assess and correlate the workload for approximately six (6) Bureau employees supported by the PI fund to the actual activities performed to determine an hourly or unit cost to support licensing, renewal, enforcement, etc.
- Analyze all fees and other revenues collected by the Bureau within the PI fund and related expenditures (including DCA overhead pro rata expenses), to determine if fee levels are sufficient for the recovery of the actual cost of conducting its programs.

- Determine a cost basis to fairly increase existing fees to: cover all PI-related costs, ensure a sufficient PI fund reserve, and assess other PI funded services provided by the Bureau when a separate fee is not provided by statute or regulation.
- Based on the financial analysis, project fees/revenues and related costs for the next three to five fiscal years.
- Prepare a written report of the findings and recommendations.

The study scope **did not** include auditing the license types and fees collected within the Private Security Services (PSS) fund.

The CPS HR methodology included:

- Conducted an on-site kickoff meeting;
- Conducted off-site document reviews of the PI Practice Act, the Bureau strategic plan, 2014 Sunset Review, fee schedule, online forms, multi-year Bureau financial information covering revenues and expenditures for four fiscal years, FY 2014-15 through FY 2017-18, organization chart and current staff duty statements.
- Reviewed and applied staff workload time assumptions regarding the processing of initial and renewal paper and online licensing applications, automatic renewal coupons, replacement and delinquent licenses.
- Observed and sampled licensing work performed to confirm the completeness and accuracy of Bureau staff duty statements, and staff workload processing time assumptions.
- Analyzed revenues and expenditures for four fiscal years, FYs 2014-15 through FY 2017-18 for various anomalies and trends to serve as the basis for projecting future revenues, expenses and fees required to recover the expenses.
- Prepared draft and final reports with recommendations for improvement.

Constraints and Data Qualifications

CPS relied on information received from Bureau management and staff, the DCA Budget Office and reviews of unaudited data.

Acknowledgment

CPS wishes to thank all participants at the Bureau of Security and Investigative Services and the DCA Budget Office for their significant, invaluable and timely contributions.

Study Results

The following presents information about Bureau PI fund license types, fees and revenue, staff tasks and workload by function, and operational observations, findings and recommendations. This section also analyzes revenue, expenses, and PI fund balance. Finally, this section presents assumptions, hourly rate and license fee revenue projections based on fully absorbed costs to cover future estimated PI-funded expenses.

License Types

Table 1 displays for Fiscal Years (FYs) 2014-15 through 2017-18, the total number of current licenses for the 2 license types that support the PI Fund. These license types are: Private Investigator (PI) license and Private Investigator Branch Office (PIB) certificate. The Private Investigator License is a company application which includes the review of the qualifications for the individual who will serve as the Qualified Manager (QM) as part of the overall application process. Each PI license must be associated with a PI qualified manager, which may be the licensee or person designated by the PI licensee, who is responsible for the active management, direction, and control of the PI-licensed business. A condition for an individual to serve as the QM is passage of the PI licensing exam. The PI QM does not hold a separate license; the QM is a qualifier for the issuance and maintenance of the PI license. Employees of private investigators are not regulated by the PI Act and, accordingly, are not required to register with the Bureau. In addition, there are Private Investigator Branch Certificates. A branch office certificate is required for each additional location, separate from the PI licensee's principal place of business. In general, the overall number of PI licenses decreased by almost 11% percent over the four fiscal-year period, while the number of Branch registrations remained stable.

The Private Investigator licensing process involves two steps, each with a different fee. First, a PI applicant files a license application/examination (\$50 fee). At this point, the application process will determine whether the applicant, either personally or the person designated by the licensee to serve as the Qualified Manager on the license meets the age, education/experience, and criminal history background requirements to be eligible to sit for the PI licensing examination. The Qualified Manager may be an owner, partner, corporate officer, managing member, or any other person designated by the PI license applicant who meets the requirements for Qualified Manager.

Once the Private investigator or Qualified Manager is determined to meet the requirements and passes the examination, the Private Investigator Company license fee (\$175) is paid. The next phase of the application process involves ensuring all individuals who will be active in the PI business have completed a Personal Identification Form and satisfied the criminal history background requirement, as well as determining the type of company and whether there is

appropriate documentation for the type of company, i.e. sole proprietor, partnership, Corporation, or Limited Liability Corporation (LLC). The type of company influences the complexity of the company license application. Some business types like LLCs or partnerships comprised of legal entities instead of persons are much more complex than other business types.

Initial and renewal licenses are good for two years. Biennial renewals occur at the end of the month of the license issuance anniversary date, which is typical of most DCA Boards, Bureaus and Commissions.

**Table 1
BSIS Private Investigator Fund Licenses Type 4 Year Activity**

Private Investigator licenses						
License Type		FY 14-15	FY 15-16	FY 16-17	FY 17-18	4 Yr Avg
Private Investigator (PI)	Total Licenses	9755	9273	9090	8831	9237
	Initial Applications	388	346	413	408	389
	Renewals	4530	4652	4188	4217	4397
	Licenses Issued	295	204	279	278	264
Private Investigator Branch Office	Total Licenses	133	137	138	127	134
	Initial Applications	19	19	20	36	24
	Renewals	47	55	47	37	47
	Licenses Issued	14	24	17	34	22

Source: BSIS

For the four-year period reviewed, Table 1 shows initial PI licenses issued and indicates an overall decreasing trend of 6%. Total active PI licenses shows a decline of 9% over the four-year period. PI license renewals have fluctuated, but on the whole, show a downward trend of -7% from the FY 14-15 renewals. The number of PI Branch offices remained relatively stable over the 4-year period, in spite of declining numbers PI licenses, but showed a drop of almost 5% in FY 17-18.

License Fees and Revenues

The PI fund receives fees from 2 license types, an initial application fee, and a renewal fee. There are two fees associated with an initial PI license, the application/examination fee and the license

fee. The renewal period for the PI licenses is two years. As stated above, PI Qualified Managers do not hold a separate license, they are a conditional requirement for a PI license and accordingly, are not subject to renewal.

Table 2 below shows the current fees for PI licenses and the statutory maximum limits. As previously noted, the PI licensing fees have not been increased since 1998, twenty years.

Table 2
Current Private Investigator Fee Schedule

	Current Fee
Private Investigator (Initial Application and Exam Fee)	\$50.00
Private Investigator Initial License Fee	\$175.00
Private Investigator - Branch -(PIB)	\$30.00
Private Investigator Biennial Renewal	\$125.00
Private Investigator Branch Renewal	\$30.00

NOTE: Under current law, the BSIS Firearms Permit initial and renewal fees for a PI licensee and a PI Qualified Manager are set by cross reference to the Private Security Services (PSS) Act. Since BSIS Firearms Permit fees were already addressed as part of BSIS 2017 efforts to increase license fees that support the PSS Fund, firearms permit fees are not be considered in this audit.

Staff Tasks and Workload Breakdown

As the organization chart displays, Bureau staff tasks and workload are broken down into leadership and four functional operations units: Licensing, Disciplinary Review, Enforcement, and Administration & Policy. CPS HR validated workload tasks and processing assumptions through observation and interviews.

CPS HR found BSIS staff in each functional unit have current written standard operating procedures and guides. In addition, applicants have access to a variety of guides, reference documents and instructions provided on the Bureau’s website (www.bsis.ca.gov).

In general, Bureau management claims all critical and essential function tasks are being performed in a relatively timely manner. They acknowledge the DCA’s BreEZe system has increased processing times but believe the benefits of utilizing relational licensing and enforcement systems outweigh the productivity loss. Staff report BreEZe is more comprehensive but contains more data entry steps and operates slower than prior DCA systems.

Following are discussions about each functional operations unit and the most significant processes. In general, the duties are not specifically broken out by license type. All employees handle all license types within their functional area. There is one Program Technician II and one Staff Services Analyst in Licensing who specialize in Private Investigator QM and Initial

applications, but they also perform duties for other license types on the phone or as needed. In addition, the Bureau is in the process of filling the PT II position created by the SB 559 BCP.

Bureau Leadership Tasks and Responsibilities

Bureau Chief

The Bureau Chief's primary duties entail performing managerial oversight of the BSIS functions; setting policy and operational priorities; maintaining relationships with consumer groups, licensees and industry associations; proposing legislative and regulatory changes; budget/fiscal control, administration, legislation and regulations, and working with DCA Public Affairs to educate consumers, the industry and the general public.

Bureau Deputy Chiefs

There are two Bureau Deputy Chiefs. One Deputy Chief (DC) oversees the Licensing Unit and the Administration & Policy Unit. The incumbent's primary duties include supervising staff, and consulting and advising management, legislative staff and industry groups on key Bureau licensing-related issues.

The other DC oversees the Enforcement Unit and Disciplinary Review Unit (DRU). The incumbent's primary duties entail supervising staff, consulting and advising management and industry groups on key Bureau enforcement-related issues and ensuring compliance with BSIS requirements, goals and objectives relating to enforcement and disciplinary activities.

Licensing Activities

The Bureau's Licensing staff performs licensing activities for all licenses, registrations, permits, and certificates issued by the Bureau. Licensing duties include receipt and processing of initial paper applications and online applications via BreEZe, and paper and online renewals and automatic renewal coupons. In addition, the Bureau receives and processes applications for company change of name, duplicate/replacement licenses, license reinstatements, and delinquent renewals. Duties related to receipt and processing of fee payments for initial and renewal paper applications and automated coupons are performed by the DCA Cashiering Office and paid from the Bureau's pro rata costs to DCA. However, Bureau license analysts perform cashiering duties related to processing refunds, duplicate payments, misapplied payments and credit card chargebacks.

The licensing staff's targeted processing time for clean (i.e. non-deficient) initial PI company paper and BreEZe applications is 120 days. The targeted processing time does not account for the time it takes for the QM to take and pass the exam and the time for the applicant to remedy any deficiencies.

Licensing Workload Assumptions and Task Time Estimates

Based on staff interviews, observation and the development of workload assumptions (Appendix 1) for general licensing tasks, the following briefly describes initial and renewal application/coupon and miscellaneous license processing tasks the Licensing Unit performs, and that are built into the costing model.

Initial Application Processing

The Bureau receives Private Investigator License applications either by paper in the mail or online through BreEZe. Mailed paper applications are first routed through the DCA Cashiering Office where cursory information is entered into BreEZe to establish a BreEZe account for the applicant and fee payments are processed. Next, the applications are routed through inter-office mail to the Bureau where staff enter all other application information, including criminal history responses into BreEZe, and review the applications for completeness. Applications submitted via BreEZe may be paid by credit card, (only the \$50 application fee is accepted online) and require the application documents to be scanned and uploaded to submit via BreEZe.

Due to the complexity of company applications, they undergo additional levels of review by a Licensing Analyst, and in some cases, by the Licensing Manager (5-15% review) with a small number of the more complex cases also being reviewed by the Licensing Deputy Chief or Bureau Chief.

A PI license may be held by a sole proprietor, partnership, corporation, or LLC. There are different documentation requirements for each of the different company types, but in all cases a PI license must be associated with a PI Qualified Manager, who has passed the required examination. Each principal who will be active in the PI licensed business (owner, partners, officers in a corporation, or officer, manager or member of an LLC) as well as the Private Investigator Qualified Manager must complete a personal identification form and undergo a criminal history background check to be associated with the PI license.

If the person who will serve as the Qualified Manager is deemed to meet the age and education/experience requirements and has no convictions that would preclude licensure, the person is advised to contact the third-party vendor to schedule an appointment to complete the PI Qualified Manager Examination. If the application documents for the person who will serve as the Qualified Manager are deficient, Bureau staff generate and mail a deficiency letter to the applicant. Upon receipt of the deficient information, Bureau staff determine if the deficiencies are satisfied. If the deficiencies are satisfied, Bureau staff will advise the person to schedule an appointment to complete the examination. If the newly submitted documentation does not satisfy the deficiency/deficiencies, Bureau staff will either issue another deficiency letter or issue a denial notice advising the applicant that the person designated to serve as the Qualified

Manager does not meet the statutory requirements to sit for the qualifying exam, depending on the nature of the deficiency.

If the person who will serve as the Qualified Manager fails the exam, they may request to sit for it again with a re-examination fee. The person has up to one year from the date Bureau staff deemed them eligible to sit for the exam to pass it. If the person does not pass the examination after one year has lapsed, the application is deemed abandoned. After Bureau staff are notified that the applicant or the person designated by the applicant to serve as the Qualified Manager passes the exam, they issue the applicant a letter notifying them that they must pay the \$175.00 initial license fee and indicating if there are any remaining deficiencies or issues needed to complete the application. For complex applications (e.g., partnerships involving legal entities instead of persons or corporations/LLCs that may be part of a holding company system), there is a second level review by a Licensing Analyst and potentially the Licensing Deputy Chief or Bureau Chief.

CPS HR was advised that a large number of initial applications (70%), whether submitted by mail or BreEZe are deficient in some way. The most common causes of deficiencies are incomplete or inaccurate information, or the documents for the person who will serve as the Qualified Manager inadequately detailing how the person meets the education and/or experience qualifications. Applications received without payment are returned and not processed.

Deficient applications incur more processing time because of the preparation and mailing of one or more deficiency letters, receipt of the corrected application and/or related documents needed to remedy any deficiency through the mail, and subsequent staff review until the application is complete. Each time an application is deficient, it takes approximately 80 to 90 minutes of additional processing time. However, since some company/QM deficiencies require two levels of review, these deficient applications can take an additional 90 to 180 minutes to process.

The \$175 license fee is paid after the qualified manager passes the PI qualifying exam and payment must be submitted through the DCA Cashiering Office.

Initial Branch applications are much smaller in number, only 20 in FY 16-17 and 36 in FY 17-18. A review of the records shows that approximately 25% of the initial branch applications were submitted through BreEze in FY17-18. They are much simpler and are 90% clean. Clean applications take about 30 minutes to review and process.

Renewal Paper Application Processing

Due to the Bureau's renewal application processing times, licensees are advised to submit their renewal application and fee payments to the Bureau at least 60 days, but not more than 90 days, before their license expiration date to help ensure that the renewed license is issued before the current one expires.

The Bureau reports that the processing of renewal paper applications is faster due to fewer deficiencies than initial applications. Clean applications take about 30 minutes to process and approve. Deficiencies are dramatically lower with 10% for PI Licenses and 2% for PI Branch renewals.

Deficiencies can increase processing time by 80 minutes for each subsequent deficient application. One common renewal deficiency involves PI licensees organized as an LLC and relates to their failing to provide proof of maintaining the required general liability insurance. Another frequent deficiency involves staff having to change the address associated with the licensee.

Online Renewal Application Processing

A review of the information since the Bureau began using BreEZe in January 2106 through June 2018, indicates that most renewal applications are submitted via the automatic renewal coupon. In FY 17-18, the Bureau received 25% of PI Licenses and 35% of PI Branch renewal applications through BreEZe. In general, processing online renewals and payments through BreEZe is an automatic process. It does not require Bureau staff to review documents and there are no deficiencies.

Automatic Renewal Coupon Processing

The Bureau reports automatic renewal coupons take a similar amount of time to process as renewal paper applications, and the percentage of deficiencies are the same with the most frequent deficiencies involving address changes and PI licenses held by an LLC failing to provide proof of maintaining the required general liability insurance.

A review covering FY 16-17 and FY 17-18 revealed that the Bureau received an average of 67% of renewal applications by Automated Renewal Coupons.

Miscellaneous Licensing Task Processing

Miscellaneous Licensing tasks that generate fees include change of name, duplicate/replacement license, license reassignments and re-examination requests. Change of Name and Duplicate/Replacement applications have fewer deficiencies (90-98% clean) and can be processed in 30 minutes for clean applications. It takes 80 minutes for applications with initial deficiencies, plus another 80 minutes for applications with secondary deficiencies. However, the volume of such items for PIs is relatively small. The processing times and deficiency rates for an Application to Reassign the License run comparable to applications for initial licensure. Re-examination for Qualified Managers for clean applications (95%), includes cashiering, mail handling, data entry into BreEZe, and approval in 30 minutes. Applications with initial deficiencies (5%) complete the cashiering, mail handling, data entry, preparing/sending a deficiency letter, return processing and approval steps in 80 minutes. Processing time can range from 30 minutes for a clean application with an additional 80 minutes for each deficient submission.

Licensing Staff Tasks and Workload Breakdown

The Licensing function contains the following classifications: Staff Services Manager I, Supervising Program Technician III, Associate Governmental Program Analyst, Staff Services Analyst, Program Technician, Program Technician II, and Student Assistant. As previously noted, the Bureau supports one Management Services Technician position in the DCA Cashiering Office. A portion of the Bureau's DCA pro rata costs support these cashiering services provided to the Bureau.

PI licensing tasks are handled by 1.0 PT II and 1.0 SSA. However, as previously noted, 1.0 PTII will be hired shortly (SB 559 BCP) and application review and troubleshooting, as well as miscellaneous PI licensing tasks are spread across all of the licensing staff along with all other licensing activity.

Staff Services Manager I and Supervising Program Technician III

The Licensing Manager's primary duties include developing policies and procedures and implementing effective program management strategies to support timely licensing activities according to statutory mandates and in alignment with Bureau priorities; conducting complex licensing-related research and analysis; overseeing various statistical reports to monitor production activities and for reporting purposes; and general management activities. The Licensing Manager has direct oversight of all licensing analysts.

The Supervising Program Technician III trains, schedules, supervises and oversees workload and distribution, and evaluates Program Technician and Program Technician II performance. Other duties performed include responding to sensitive inquiries and developing monthly workload activity schedules.

Associate Governmental Program Analysts (AGPA)

The AGPAs' activities include approving Power to Arrest Trainers, overseeing license data report activities (monthly and ad hoc), working with Department family support staff relating to impacted Bureau licensees, research and responding to sensitive escalated issues, and providing overall high-level analytical support.

Staff Services Analysts (SSA)

The SSAs primarily focus on resolving cashiering problems, running on-demand license application exception reports, assisting licensing technicians to identify and report application deficiencies, providing second-level reviews of company and qualified manager applications, approving badge and emblem applications, and reviewing, analyzing and solving application processing problems that result in backlogs. The SSAs review and verify experience for qualified manager and license applications. They also provide support and assistance to license applicants in building required organization documentation. In addition, they serve as liaisons between DCA Cashiering and Accounting Offices.

Program Technician IIs/Program Technicians

The PT II's are the first point of contact for the application documents, conduct reviews for completeness and issue standardized deficiency letters, as warranted. They also serve as the primary point of contact with company applicants and respond to technical application-related questions by phone or email. They enter information into BreEZe, and process fingerprint rejection notifications. PI application and other license document processing activities are carried out by the 1.0 Program Technician II (PT II) supported by the PI Fund. Historically, when this person is out, other PT IIs supported by the Private Security Services (PSS) Fund must provide backup support. Recently, the PT II supported by the PI Fund was out several months, which resulted in the other licensing staff carrying out all PI application/form processing activities during this time. As previously noted, 10 PT II (SB 559) will be hired shortly to assist with PI licensing activities.

PT IIs also process firearm initial and renewal applications. BSIS Firearms Permit renewal applications from PI licensees and PI qualified managers are processed by PT II staff supported by the PSS Fund.

The PTs process employee applications in BreEZe, answer phones, and process fingerprint rejections.

Office Technicians

The Office Technicians process, sort and distribute paper applications and other mail. They also perform various filing and application distribution activities. As needed, they assist with processing applications and answering phones.

Cashiering Management Services Technician (MST)

The Cashiering MST handles Bureau cashiering activities. The incumbent is an employee of the DCA Central Cashiering Unit and reports to the DCA Fiscal Operations Accounting Administrator. In addition, DCA Cashiering staff also perform other Bureau cashiering activities covered by DCA pro rata costs.

Enforcement Activities

The Bureau's Enforcement function consists of complaint resolutions and investigations. The Complaint Resolution Program operates within the Enforcement Unit (EU).

The EU Complaint Resolution staff receive and attempt to resolve complaints involving Bureau licensees through alternative settlement action. The EU staff receive and investigate complaints from consumers, licensees, law enforcement and other government agencies, and conduct compliance inspections of company licensees which may result in full investigations. EU staff

also recommend and issue citations and fines, and recommend disciplinary actions through the California Department of Justice’s (DOJ) Office of Attorney General (OAG).

Table 3 shows that the percentage of PI complaints represent an average of 9% of total consumer complaints received by the Bureau. Of the total complaints referred for investigation, PI investigations represent an average of 7.6% of total Bureau investigations. Table 3 also shows that the percentage of PI related complaints and investigations has been increasing in spite of the overall trend of a decreasing licensee population. Overall, PI licenses (8,831) represent only about 2.5% of the total licenses regulated by the Bureau (about 350,000), but in FY 17-18 PIs accounted for 10.8% of the total complaints received and 9.5% of total investigations completed.

**Table 3
BSIS Consumer Complaints and Investigations**

	FY 14-15	FY 15-16	FY 16-17	FY 17-18	4 YR Avg
Total Complaints Received	2546	1536	1587	1779	1862
Total PI Complaints Received	177	135	164	193	167
Total Investigations Opened	2,900	1,042	1,159	1127	1557
Total PI Investigations Opened	150	117	100	107	119
PI Percent Received	7.0%	8.8%	10.3%	10.8%	9.0%
PI Percent Investigations	5.0%	11.0%	8.6%	9.5%	7.6%

* Prior to the Bureau transitioning to the BreEZe system, criminal conviction information was captured as complaint information which made the total number of complaints received higher than actual. This practice was ended in FY 15-16, resulting in more accurate complaints received data.

Enforcement Workload Assumptions and Task Time Estimates

Due to the repetitive, indefinite nature of handling consumer complaints, inspections, investigations, and issuing citations and fines, there are no specific Enforcement workload assumptions for these addressing the following activities and assigning them to specific license types. There are performance measures for some of these activities. For example, the performance measures for assigning a complaint to an investigator is 10 days and 120 days from complaint receipt to closure. The formal discipline performance measure for completing the entire enforcement process, including Bureau intake, investigation and OAG prosecution is 540 days.

Because of the nature of Private Investigator business and the limited types of enforcement options the PI Act affords the Bureau, almost all PI complaints that are referred for investigation where egregious violations are substantiated, are referred to the OAG for administrative action. The PI Act has limited cite and fine authority; for example, the Bureau only has the ability to issue a citation and fine if a PI fails to notify the Bureau of a change of address within the numbers of day specified in the Act. Other PI violations require more investigation, analysis and management review in order to establish sufficient evidence to issue a civil penalty or submit the case to the OAG to prepare an accusation for revocation of licensure. Formal actions filed include Statement of Issues (SOI) and Accusations. A SOI is a legal document formally denying an application for licensure for criminal convictions or conduct constituting grounds for denial in accordance with the practice act. An Accusation is a document formally charging a licensee with violation(s) of the practice act, and notifying the public that the Bureau is attempting to revoke the license.

Enforcement cases referred to the OAG for formal discipline are much higher in cost overall and require not only additional staff time to review, prepare and testify at administrative hearings, but the Bureau must pay costs associated with being represented by the OAG. As previously noted, because the PI Act does not authorize the Bureau to pursue other disciplinary actions (e.g. citation and fine), the only remedy for licensees who violate the PI Act is through the administrative hearing process. PIs represent up to almost 13% of the total disciplinary cases referred to the OAG for formal administrative action. See Table 4 below.

**Table 4
Private Investigator Enforcement Actions Referred to OAG
FY14-15 to FY17/18**

	FY 14-15	FY 15-16	FY16-17	FY 17-18*	Avg
Total PI Cases Referred to OAG	6	9	11	4	8
Total Cases Referred to OAG (all licenses)	55	91	86	179	101
Percent	11%	9.9%	12.8%	2.2%	7.8%

BSIS Enforcement

*In FY 17-18, the decrease in PI cases referred to the OAG is attributable to transitioning to a new enforcement Manager. Due to the complexity of PI investigations, these cases took the new manager longer to carry out the required review to determine if the Bureau met the required burden of proof. During this same fiscal year, the number or overall cases referred to the OAG increased due to the Bureau’s efforts to clear out a backlog and to initiate more PC 23 holds.

Because formal discipline is essentially the only enforcement option available to the Bureau, the percent of Accusations filed with the OAG are disproportionately high for the percent of PI licensees in the total licensee population. Accusations are the most labor-intensive action the Bureau can take on a licensee because the need to demonstrate that the licensee’s actions and violation(s) merit revocation of licensure is significantly higher than the need to demonstrate a simple violation of the practice act. While Private Investigators represent only 2.5% of the

Bureau’s licensee population, they represent an average of 19.3% of all Accusations filed by the Bureau. (See Table 5)

**Table 5
PI Accusations Filed with OAG**

Type of Action	FY 14-15	FY 15-16	FY 16-17	FY 17-18	Avg
PI Accusations	5	7	8	*3	6
Total Accusations	24	40	26	40	33
Percent of Total	21%	17.5%	31%	7.5%	19.3%

*In FY 17-18, the Bureau’s Enforcement Manager accepted a position with DOJ. Because the Bureau had to recruit and train a new manager, there was a delay in management review of PI investigations and disciplinary actions. This resulted in fewer PI cases moving forward to the OAG in the latter half of FY 17-18.

Enforcement Staff Tasks and Workload Breakdown

The Enforcement Unit contains the following classifications: Staff Services Manager I, Associate Governmental Program Analyst, and Staff Services Analyst.

Enforcement Staff Services Manager I

The Enforcement Manager’s primary duties entail developing policies and procedures and implementing effective program management strategies to support enforcement activities in accordance with statutory mandates, timely and in alignment with Bureau priorities; reviewing staff’s complaint resolutions, compliance inspections and investigation reports, performing more complex enforcement-related research and analysis; overseeing statistical reports to monitor production activities and for report purposes; and performing general management activities. The incumbent also oversees the complaint, investigation, and citation and fine programs.

Associate Governmental Program Analysts (AGPA)

The EU AGPAs investigate complaints, conduct compliance inspections, and prepare correspondence and reports.

Complaint Resolution Program (CRP) AGPA and Staff Services Analysts

The CRP staff are responsible for complaint intake and resolution, statistical reporting, telephone support, quality control and special projects.

Staff Services Analyst (SSA)

The SSAs are responsible for complaint intake and distribution, managing issued citations, tracking inspection assignments, and serving as point of contact for Violent Incident Reports.

Disciplinary Review Unit Activities

The Bureau’s Disciplinary Review Unit (DRU) performs the following activities: reviews criminal offender record information (CORI), also known as rap sheets, on applicants; issues denials of license applications; reviews subsequent arrest and conviction information on licensees;

automatically suspends licenses due to criminal convictions; and coordinates with the Office of the Attorney General (OAG) to take disciplinary actions against licensees. CORI records contain all criminal court appearances in California for a particular individual, including arrests, convictions, dismissals and serious violations. Information about non-California convictions is also received from the FBI via DOJ.

DRU staff also review and prepare case files and correspondence for appeal hearings for applicants whose license has been denied because of criminal records, or for licensees whose licenses have been automatically suspended due to a subsequent conviction or issued a citation and fine. These appeals may go through the formal administrative hearing process or through various BSIS Disciplinary Review Committees. DRU Case Management staff also liaise with the OAG on disciplinary cases, and monitor and refer non-compliant probationary licensees to the OAG.

DRU Workload Assumptions and Task Time Estimates

AB 921, (Chapter 635, Statutes of 2016), added Sections 7519.1 through 7519.4 to the Business and Professions Code and established the Private Investigator Disciplinary Review Committee(DRC) effective July 1, 2017. A DRC provides an alternative option to the administrative hearing process for applicants and licensees to file appeals. As of the end of June, 2018, the newly established DRC has not yet met due to no appeals being filed. PI licensees may appeal administrative fines and civil penalties the Bureau assess them and applicants for a PI license may appeal the Bureau's denial of a license application or, the suspension or revocation of a license through the PI DRC except for those actions arising from orders carried out in accordance with Sections 11500-11529 of the Government Code. Typical DRC appeals on an application would involve the denial of an applicant's experience to qualify to take the PI Qualified Manager examination. There are few PIs application denials based on criminal convictions.

Disciplinary Review Unit Staff Tasks and Workload Breakdown

The Disciplinary Review Unit (DRU) contains the following classifications: Staff Services Manager I, Associate Governmental Program Analyst, Staff Services Analyst, Office Technician and Program Technician II.

DRU Staff Services Manager I

The DRU Manager's primary duties include developing policies and procedures and implementing effective program management strategies to support disciplinary activities performed in accordance with statutory mandates, timely and in alignment with Bureau priorities; performing more complex disciplinary-related research and analysis; overseeing various disciplinary statistical reports to monitor production activities and for reporting purposes; attending Committee meetings; and general management activities.

Case Management Associate Governmental Program Analysts (AGPA)

The three CMU AGPAs work with the OAG on disciplinary and probationary license cases. These individuals also perform the rap sheet reviews of license applicants.

Staff Services Analysts (SSA)

The three SSAs prepare case files for DRC appeal hearings, respond to written inquiries, collect and analyze statistical appeals data, review DOJ subsequent arrest and convictions reports, and perform the license auto-suspension process, primarily for security guards.

Program Technicians (PT) and Office Technicians (OT)

One OT and four PT IIs prepare denial correspondence, key information into BreEZe, provide telephone assistance, and perform general office duties.

Administration & Policy Activities

The Administration & Policy Unit provides administrative and policy support to all bureau functions and staff. Support functions include, but are not limited to: human resources activities, budgeting, purchasing/contracts, legislation and regulation development, public relations, information technology and telecommunications, web development, public records requests/subpoenas, examination updating, and special projects.

Administration & Policy Workload Assumptions and Task Time Estimates

The Administration & Policy Unit provides all Bureau functions and staff with mission-critical business support that is repetitive and ongoing. As such, there are no specific unit workload assumptions for addressing the following tasks and workload or assigning them to specific license types. Due to the lack of time and cost accounting records to allocate these costs to specific license types, the CPS cost model spreads these costs based on the number of Unit staff and paid annual hours.

Administration & Policy Staff Tasks and Workload

The Administration & Policy function contains the following classifications: Staff Services Manager I, Associate Governmental Program Analyst, and Staff Services Analyst.

Staff Services Manager I

The Admin/Policy Manager's primary duties include monitoring the Bureau's budget, human resources, purchasing/contracting, legislative/regulatory development, equipment and telecommunications activities; performing more complex analytical duties relating to legislation, the Bureau's laws and rulemaking; and representing the Bureau at meetings.

Associate Governmental Program Analysts (AGPA)

The five AGPAs perform a wide variety of administrative support duties, including but not limited to: human resources (recruitment, classification, compensation, benefits, health and safety issues, etc.), budgeting, purchasing/contracts, legislation and regulation development, ombudsman, public relations, information technology and telecommunications, web development, examination updating, research and analysis, and special projects.

Staff Services Analyst (SSA)

The SSA is the Bureau's Custodian of Records and is responsible for handling all public record act requests and subpoenas received by the Bureau. The SSA also coordinates workshops for the development of the qualifying exams for the PI license, as well as three other licenses supported by the PSS fund and undertakes special projects.

Financial Analysis

Based on historical CalStars Financial Month (FM) 13 information for FY 14-15 through FY 16-17 and estimated FY 17-18 based on FI\$Cal FM 11 Reports, the following presents the Bureau's existing fee schedule; analyses of historical revenues, expenses, PI fund balance, and projections of future revenue/expense requirements and fee projections.

Typically, the analysis of historical financial information, and the resulting averages less anomalies and discontinued practices, are used to project future revenue and expense requirements and fee projections. However, there are three factors affecting the PI fund that complicate using the Bureau's historical averages. (1) there has been no increase in fees since 1998 (20 years); (2) the PSS fund had been inadvertently subsidizing PI-related expenditures for several years; and (3) for the past five years, the PI applicant and licensee population has been decreasing. Consideration must be given to the significant one-time expenditure adjustment needed to bring the PI fund back to the point of fully funding PI-related expenditures without relying on support from the PSS fund, and the fact that there is a decreasing number of PI licensees and, accordingly, an attendant decrease in PI revenues.

Table 6 shows the Bureau's existing schedule of PI licensing-related fees. As previously indicated, there have been no fee increases for PI fees since 1998. As a result, the fees on the schedule do not reflect many years of inflation and cost of living increases that directly impact the cost of the services provided.

Table 6
Private Investigator Fee Schedule

	Current Fee	Statutory limit
Private Investigator (Application Fee)	\$50.00	\$50.00
Private Investigator Initial License Fee	\$175.00	\$175.00
Private Investigator - Branch -(PIB)	\$30.00	\$30.00
Private Investigator Biennial Renewal	\$125.00	\$125.00
Private Investigator Delinquent Renewal	\$62.50	\$62.50
Private Investigator-Branch-Delinquent Renewal	\$15.00	\$15.00
Private Investigator Re-Instatement Fee	\$187.50	\$187.50
Private Investigator -Branch Reinstatement	\$45.00	\$45.00

Source: BSIS website

Historical Revenue Analysis

Table 7 shows the Bureau’s PI Fund revenue for the last four fiscal years. Fee income represents approximately 97.8% of all income. This table does not include a repayment of \$750,000 received in FY 16-17 for repayment of loans made to the State’s General Fund in prior fiscal years. A final repayment of \$750,000 is scheduled for FY 18-19, as well as payment of accrued interest associated with the loan; the actual amount will be calculated at the time of the repayment. These repayments are not being considered revenue for the purposes of setting appropriate fee amounts since they do not constitute a regular, ongoing funding stream. However, they are being considered in relation to the overall projected solvency of the PI Fund (see Table 10).

Table 7
PI Fund Revenues
FY 14-15 through FY 17-18

	FY14-15	FY 15-16	FY 16-17	FY 17-18*	4 yr avg
Total License Revenue	\$621,000	\$676,000	\$649,000	\$644,000	\$647,500
Other Revenue	\$0	\$31,000	\$22,000	\$33,000	\$21,500
Total Revenue	\$621,000	\$697,000	\$671,000	\$677,000	\$666,500
Percent	100.0%	97.0%	96.7%	95.1%	97.1%

Source Calstars FM 13 reports FY 14-15 through FY 16-17.

*Estimated using Fi\$Cal FM 11 report for FY 17-18

Table 8 summarizes the Bureau’s PI Fund Fee Revenue by fee type for FY 14-15 through FY 17-18. At 79.3% of the total, license renewal fees have consistently been the Bureau’s primary revenue driver. Historically, the Private Investigator Application and License Fees have together generated only 10.3% of the License Fee revenues. Delinquent License Renewals have brought in

about 3.1% of the total fees. The PI Branch Initial Applications and Renewals provide a negligible amount of income (.3%).

Table 8
Private Investigator Fund License Revenues
FY 14-15 through FY 17-18

License Revenue Source	FY 14-15	FY 15-16	FY 16-17	FY 17-18*	4 year avg	% of Total Licensing Revenue
Private Investigator (Application Fee)	\$25,000	\$25,000	\$23,000	\$20,400	\$17,106	2.6%
Private Investigator (License Fee)	\$62,000	\$47,000	\$48,000	\$48,000	\$51,250	7.7%
Private Investigator Branch	\$1,000	<\$500	\$1,000	\$1,000	\$750	0.1%
Private Investigator-Biennial Renewal	\$500,000	\$566,000	\$523,000	\$527,000	\$529,000	79.3%
Private Investigator Branch-Biennial Renewal	\$1,000	\$1,000	\$2,000	\$1,000	\$1,250	0.2%
Private Investigator Delinquent Renewals	\$23,000	\$17,000	\$23,000	\$20,000	\$20,750	3.1%

Calstars FM 13 Reports FY 14-15 through FY 16-17

*Estimated using Fi\$Cal FM 11 Report FY 17-18

Revenue, Expense and Fund Balance Projections

The Private Investigator Fund is experiencing an ongoing and increasing structural shortfall between revenues and expenditures that will result in the fund depleting its reserves by the end of FY 19-20 unless License fee revenues increase. Table 9 uses historical data for FY 14-15 through FY 17-18 and the DCA Budget Office’s estimated revenue and expenses through FY 22-23, to demonstrate this structural problem. As previously noted, the two loan repayments from the General Fund of \$750,000 scheduled in FY 16-17 and in FY 18-19, as well as the related interest payment, are not being included because they do not constitute a regular, ongoing funding stream. However, they are being considered in the overall projected solvency of the PI fund. (See Table 10).

In 1994, AB 3291 repealed the existing Private Investigator Act and reorganized and re-enacted the provisions into two different acts, the Private Investigator Act and The Private Security Services Act. The PI licensing fees have not been increased since 1998, while expenditures have increased significantly. Table 9 shows that the Bureau is not recovering its costs using the current fee structure.

TABLE 9
Private Investigator Fund
Annual Structural Shortfall
FY 14-15 Through FY 22-23
(Dollars in Thousands)

	FY 14-15	Fy 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
	Actual	Actual	Actual	Est	Est	Est	Est	Est	EST
Revenues *	\$621	\$697	\$671	\$677	\$688	\$683	\$683	\$683	\$683
Expenditures	\$707	\$849	\$1,055	\$1,144	\$1,258	\$1,282	\$1,306	\$1,330	\$1,355
Shortfall/Surplus	(\$86)	(\$152)	(\$384)	(\$467)	(\$570)	(\$599)	(\$623)	(\$647)	(\$672)

* Does not include Loan repayments of \$750,000 from the General Fund in FY 2016-17 and Fy 2018-2019 CalStars for FY 14-15 through FY 16-17; FI\$Cal for FY 17-18; DCA Budget Office PI Fund Condition for FY 18-19 through FY 22-23

Several factors in recent years have contributed to the increase in the structural shortfall and corresponding depletion of the PI fund reserves. In FY 14-15, the fund experienced a significant drop in revenue from former years and while increasing slightly since, the revenues have remained below historical levels. This overall decline in revenue reflects the ongoing decrease in the number of PI applicants and licensees.

When the two programs were separated in 1994, an annual \$104,000 payment amount from the PI fund to the PSS fund was established to reimburse the PSS fund for services provided by staff carrying out PI activities but supported by the PSS fund because it was not logistically feasible to allocate Bureau staff providing global type services (e.g. the Licensing Manager oversees both PI and PSS licensing activities) to one or the other fund. This payment amount remained unchanged for over 24 years. By 2015 the Bureau determined that the reimbursement was not covering the costs of the services provided by PSS funded staff to PI activities which was resulting in the Private Security Services fund subsidizing the Private Investigator program. To address this imbalance, two Budget Change Proposals (BCP) were adopted in FY 16-17. One BCP aligned the reimbursement amount with the actual cost of the services provided by staff supported by the PSS fund. The annual reimbursement was increased by \$189,000 for a total transfer of \$293,000 a year, beginning July 1, 2016.

The second BCP established a Program Technician II (PT II) position in the PI fund, to process PI applications and other PI licensing documents. Prior to this BCP, all PI initial and renewal application processing activities and other general licensing-related PI program support activities were carried out by a PT II supported by the PSS Fund. The fiscal impact to the PI fund of this additional position was \$79,000 beginning in FY 2016-17 and continuing. The total impact to the PI fund of these two BCPs beginning in July 2016 was \$268,000 a year.

A FY 17-18 BCP redirected Department Complaint Resolution Program staff, based on the number of complaints they handled for the entities they supported. Based on the complaint breakdown, the Bureau received four positions. Given the number of PI-related complaints, a staff services analyst position was allocated to the PI Fund. However, since the Bureau had already been paying for the position through DCA pro-rata charges, this redirection did not have additional impact on the PI fund.

As a result of legislation enacted in 2017 (SB 559, Chapter 569) that increased PI licensing workload due to a new reporting requirement for all PI licensees organized as an LLC, an FY 18-19 BCP was adopted to establish 0.5 Program Technician II in the PI Fund effective July 1, 2018. The additional fiscal impact to the PI Fund will be \$43,000 in FY 18-19 and \$35,000 ongoing. Due to operational needs, the Bureau is over expending the .5 position to a 1.0 Program Technician II position with funding supported through redirection of operating expenses.

In addition, state employee collective bargaining agreements increased BSIS staff salaries by 4% beginning July 1, 2017, with another 4% effective July 1, 2018 and 3.5% beginning July 1, 2019, for a total increase of 12% over the three-year period. These salary increases are estimated to increase PI fund expenditures by \$40,400 by FY19-20. These salary increases will also increase operating expenses because they will increase both the statewide general administrative pro-rata fees and DCA pro-rata charges for departmental expenses to provide the Bureau with services such as human resources, legal, information technology, call center, cashiering, accounting, budgets, public affairs and the correspondence unit. It will also impact the OAG attorney and hearing office fees charged the Bureau for Enforcement activities. CPS HR estimates that they will result in an additional \$71,000 in charges to the PI Fund by FY 19-20.

By the end of Fiscal Year 19-20, these additional obligations will add an estimated \$414,400 annually to the expenditures from the PI Fund.

Bureau Private Investigator Fund Balance

The California Business and Professions Code (BPC) requires DCA to maintain a separate Private Investigator Fund with a discrete budget and distinct expenditure and revenue statements to account for all money derived from and spent for licensing and regulating private investigators. If, at the end of any fiscal year, the amount in the fund equals or is greater than two years of reserves, license fees or other fees shall be reduced during the following fiscal year. However, this condition has never been present. There is no mandated minimum reserve amount, but DCA and Bureau management agree that a three to six-month reserve is the desired range.

Fund Balance Projection

Table 10 below shows there is a significant fund solvency problem. The table demonstrates that months in reserve are projected to decline rapidly from 8.8 months in FY 16-17 to a negative condition (insolvent) in FY 19-20 and continue in a negative condition through FY 22-23 if nothing is done to increase revenues.

Table 10
Current Projected PI Fund Condition
FY 2016-17 Through FY 22-23

	Actual FY 2016-17	Est. FY 2017-18	Est. FY 2018-19	Est. FY 2019-20	Est FY 2020-21	Est FY 2021-22	Est FY 2022-23
Beginning Fund Balance	\$469	\$840	\$373	\$553	-\$46	-\$669	-\$1,316
Prior Year Adjustment	\$5	\$0	\$0	\$0	\$0	\$0	\$0
Adjusted Beginning Balance	\$474	\$840	\$373	\$553	-\$46	-\$669	-\$1,316
Revenues and Transfers							
Total Revenues	\$671	\$677	\$688	\$683	\$683	\$683	\$683
Total Transfers *	\$750	\$0	\$750	\$0	\$0	\$0	\$0
Total Revenues and Transfers	\$1,421	\$677	\$1,438	\$683	\$683	\$683	\$683
Total Resources	\$1,895	\$1,517	\$1,811	\$1,236	\$637	\$14	-\$633
Expenditures							
Total Expenditures	\$1,055	\$1,144	\$1,258	\$1,282	\$1,306	\$1,330	\$1,355
Ending Fund Balance	\$840	\$373	\$553	(\$46)	(\$669)	(\$1,316)	(\$1,988)
<i>Months in Reserve</i>	<i>8.8</i>	<i>3.6</i>	<i>5.2</i>	<i>(0.4)</i>	<i>(6.0)</i>	<i>(11.7)</i>	<i>(17.3)</i>

DCA Budget Office

Based on its analysis, CPS HR has determined the current PI fee structure is insufficient to recover actual PI-related costs and will soon reduce the fund reserve to an unacceptable level unless action is taken now. In general, PI licensing revenue is supposed to cover all PI funded costs, including licensing, enforcement, disciplinary review, administration and Bureau overhead, however at current fee levels as shown in table 9, the revenue generated by the current fee structure is not covering ongoing expenditures. Given that staffing levels, workload and other expenditures are expected to grow, the Bureau must either decrease expenses, increase revenue or achieve a combination of both to ensure the PI fund is solvent with a sufficient reserve. As stated above, the PI licensing fees have not been increased since 1998 in spite of staff cost of living increases, additional workload and other changes over the 20-year period. In order to restore the PI fund to financial health, fee increases must be considered as part of the solution. Any fee increases considered for the PI fund should result in revenues that will at least cover annual expenditures with a small additional amount to build and maintain a prudent reserve. CPS HR recommends that the Bureau develop a fee structure that will bring in at least \$1.42 million in

revenue by FY 22-23. This would provide for a 5.2 month reserve by the end of the 2022-23 Fiscal year.

Hourly Rate and Fee Projections

One study objective is to establish a cost basis to fairly assess services the Bureau provides for a scheduled fee and for services that lack statutory scheduled fees. Without an accurate cost accounting system, the most convenient and fairest way to charge for services is to determine an hourly charge based on full absorption costing that accounts for all Bureau PI funded staff, operating and overhead costs. By dividing the Bureau’s PI fund expenditures by total staff paid hours, a fully absorbed hourly (and minute) cost rate can be derived to cover the cost of current scheduled fee and non-fee schedule tasks/services not covered by statute.

Table 11 shows the DCA Budget Office’s annual estimated expenditures gradually increase through FY 22-23. The number of authorized budgeted positions (PYs – personnel years) will increase in FY 18-19 by .5 PY for SB 559 to 5.5 PYs. The Bureau intends to increase that to 1 PY by redirecting operating expense savings, bringing total PI funded staffing to 6 positions in FY 18-19. Fully absorbed hourly cost is the result of dividing total net expenditures by the annual paid PY hours per fiscal year. Cost per minute is the result of dividing the hourly cost by 60. The cost per minute is applied to Bureau workload assumptions to determine the fully absorbed cost for a scheduled fee task or non-fee scheduled task. The DCA Budget Office uses an average of 1,776 available hours per PY for fiscal year workload budgetary projections. Employees are paid for 2,080 hours each fiscal year.

For cost projection purposes, CPS recommends using a 4-year average of \$122 per hour (or \$2.03/minute) to provide for adequate cash flow and fund reserves.

**Table 11
Fully Absorbed Cost using DCA Budget Office Expenditures
FY’s 14-15 through FY 17-18**

Cost Allocation	FY 14-15	FY 15-16	FY 16-17	FY 17-18	4 year AVG
Expenditures	\$706,000	\$834,000	\$1,055,000	\$1,144,000	\$934,750
Filled Positions	3	3	3.9	5	4
Hours per year	2080	2080	2080	2080	2,080
Total hours	6240	6240	8112	10400	7,748
Cost/hour	\$113	\$134	\$130	\$110	\$122
Cost/minute	\$1.89	\$2.23	\$2.17	\$1.83	\$2.03

Sources: DCA Budget Office

Table 12 compares the financial impact of the current and proposed initial and renewal license fees using FY 17-18 volumes. FY 17-18 was used instead of a 4-year average because of the

declining number of licenses so that the revenue impact would not be overstated by using the higher 4-year average volume. Table 12 compares the estimated revenue from current fees with revenue from fees at \$122 per hour (\$2.03/minute), except for the Biennial PI renewal fees. The PI renewal fees are recommended to be set at a level that would ensure that the total revenue from the fees fully covers the costs of the PI licensing program, including all non-fee structure activities, such as administration, enforcement and discipline.

**Table 12
Current and Proposed Fees Estimated Revenue**

License	Current Fee	FY 17-18 Volumes	Est Fee Revenue Current Fees	Proposed fee	Est Revenue Proposed Fee
Private Investigator (Application/Examination Fee)	\$50	408	\$20,400	\$340	\$138,720
Private Investigator Initial License Fee	\$175	408	\$71,400	\$385	\$157,080
Private Investigator - Branch -(PIB)	\$30	36	\$1,080	\$90	\$3,240
Private Investigator Biennial Renewal	\$125	4,217	\$527,125	\$265	\$1,117,505
Private Investigator Biennial Branch Renewal	\$30	37	\$1,110	\$65	\$2,405
Total Projected Revenue			\$621,115		\$1,418,950

Source: BSIS FY 17-18 volumes

Closing the Gap

Table 13 demonstrates that an overall increase in revenue from PI licensing fees is required to close the revenue gap and build a satisfactory reserve by meeting or exceeding total expenditures through FY 22-23. This assumes that, except for the fee increases, the Bureau retains the current initial and renewal license fee structure, maintains costs within its control, and does not incur significant increases in costs beyond its control, such as Departmental, inter-service agency and pro rata costs.

In raising fees, the Bureau must also consider the impact on: licensees and the PI fund balance. The Bureau needs to set fees at a level that ensures an adequate reserve, but avoids triggering

the BPC provision that requires lowering fees when the PI fund has 24 months in reserve. How much the Bureau actually increases the PI license fees should be based on consultation with the DCA Budget Office and the Bureau’s licensee base.

Table 13 shows that beginning in January 2020 the proposed increased fees generate approximately \$1.42 million a year and will ensure an adequate fund reserve through FY 22-23. Assuming non-urgency legislation was enacted in 2019, the revised fees would go into effect on January 1, 2020. Given the urgency of the fund condition, CPS HR recommends that the Bureau implement increased fees as soon as possible.

Table 13
Financial Impact of Selected License Fee Increases
on the PI Fund Condition
Fee increase Effective January 1, 2020

	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
Beginning Fund Balance	\$469	\$840	\$373	\$553	\$332	\$444	\$532
Prior Year Adjustment	\$5	\$0	\$0	\$0	\$0	\$0	\$0
Adjusted Beginning Balance	\$474	\$840	\$373	\$553	\$332	\$444	\$532
Revenues and Transfers							
Total Revenues	\$671	\$677	\$688	\$1,050	\$1,418	\$1,418	\$1,418
Total Transfers *	\$750	\$0	\$750	\$0	\$0	\$0	\$0
Total Revenues and Transfers	\$1,421	\$677	\$1,438	\$1,050	\$1,418	\$1,418	\$1,418
Total Resources	\$1,895	\$1,517	\$1,811	\$1,603	\$1,750	\$1,862	\$1,950
Expenditures							
Total Expenditures	\$1,055	\$1,144	\$1,258	\$1,282	\$1,306	\$1,330	\$1,355
Ending Fund Balance	\$840	\$373	\$553	\$321	\$444	\$532	\$595
Months in Reserve	8.8	3.6	5.2	2.9	4.0	4.7	5.3

*Loan Repayment from General Fund
per Budget Act 2011

Administrative Relief

If appropriate and applicable, the Bureau may wish to consider implementing an administrative relief strategy with this fee increase. In lieu of a lengthy legislative process to change future license fees, CPS HR recommends that the Bureau, in obtaining legislative approval for fee increases also set a statutory maximum higher than the fees currently needed to restore the PI Fund to a satisfactory reserve. By enabling this administrative strategy now, the Bureau would have flexibility in setting fees in the future to ensure adequate fund reserves as revenues decline or expenses increase.

Recommendations

1. After consultation with the DCA Budget Office and its licensees, BSIS should charge for select scheduled and unscheduled services based on a fully absorbed cost rate of \$122 per hour. Where possible, services should be charged based on the actual time the Bureau consumes to provide the service. However, the fees need to be balanced based on cost and impact to the PI community. Some fees, such as application and initial license fees may need to be set lower so as not to unduly discourage new licensing activity. While others, such as renewals, may need to be set higher than the fully absorbed cost to absorb the difference and ensure that all non-fee schedule functions and expenses, such as administrative, enforcement and disciplinary activities are covered.
2. BSIS management should develop a proposal and introduce legislation to revise the fee schedule as soon as possible, and inform current and prospective licensees of the changes.
3. If appropriate and applicable, the Bureau should consider implementing a way to obtain administrative relief in the future in lieu of the lengthy legislative change process.
4. The Bureau should also implement an ongoing schedule to review and revise the annual amount transferred to the PSS fund to recognize increased costs. A three to five-year review cycle will allow for trends to become clear and increases to be more easily absorbed by the Licensees. For example, since the transfer amount was adjusted in FY 16-17, the collective bargaining agreement for BSIS staff established a 12% increase of in salaries and wages between FY 17-18 and FY 19-20. There will also be attendant benefits and department and statewide pro rata cost increases. This general salary increase may well result in significant changes to other expenditure categories. If not accommodated in the annual fund transfer, the PSS Fund will soon be subsidizing the PI fund again. A regular schedule to review and adjust the annual transfer amount will: ensure that the PI fund fully pays for its costs; better maintain fund health for both the PI and PSS funds; and will allow for more gradual changes to the fee structure which could be more easily absorbed by the PI community.
5. The Bureau should consider and discuss with the PI community whether it makes sense to combine the PSS and PI funds into one fund. Given the small size of the PI fund, it is not efficient to keep separate records, and tracking expenditures separately increases costs. Also, given the small size of the fund, even a small change in revenue or expenditures can have a disproportionate impact on the solvency of the fund. Combining the two funds would allow the Bureau flexibility in responding to unexpected changes in revenue or expenses for either fund.
6. The Bureau in consultation with its licensees should also consider pursuing a broader cite and fine authority for PI Licensees in line with its authority for other licensees. It would

be less time consuming and expensive for both the Bureau and licensees who wish to appeal the Bureau's decisions. As described in the report, the current process requires essentially all disciplinary actions to be addressed through the administrative hearing process and requires involvement of the OAG. Broader Cite and Fine authority would allow the Bureau to address violations of the Act to promote compliance in a reasonable manner and provide for licensees to appeal the Bureau's issuance of them to the newly established PI DRC.

Appendix: BSIS Private Investigator Licensing Workload Assumptions

Initial Paper Applications

Private Investigator Qualified Manager (PIM)	Class	% Def	Time (Min)	Task Description & Assumptions
Clean Apps (30%)	PT II	0.0%	40	Cashiering, mail, data entry, approval
Analyst Review	SSA	0.0%	60	Review and Approval
			100	Total for Initial Clean App
Management Review (15%)	SSM I	15.0%	30	Review
			130	Total for initial applications requiring management review
Initial deficiency/Information Clarification Efforts	PT II	70.0%	40	Cashiering, mail, data entry
			15	Prepare and send 1st deficiency letter
			45	Return processing
Analyst Review	SSA		30	Review
			130	Total for initial deficiency
Management Review (5%)	SSM I	5%	60	Review
			190	Total for initial deficiency requiring management review
Second deficiency/Information Clarification Efforts	PT II	40.0%	40	Cashiering, mail, data entry
			15	Prepare and send 2nd deficiency letter/email
			60	Return processing/Follow-up assistance
Analyst Review	SSA		30	Review
			145	Total for secondary deficiency
Management Review (5%)	SSM I	5%	60	Review
			205	Total for initial deficiency requiring management review

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Initial Paper Applications

Private Investigator License (PIL)	Class	% Def	Time (Min)	Task Description & Assumptions
Clean app (10%)	PT II		50	Cashiering, mail, data entry, approval
Analyst Management Review (15%)	SSA		30	Review
	SSM I		60	Review
			140	Total for initial applications requiring management review
Initial deficiency/Information Clarification Efforts	PT II	90.0%	50	Cashiering, mail, data entry
			15	Prepare and send 1st deficiency letter
			60	Return processing/Follow-up assistance
Analyst Review	SSA		20	Review
			145	Total for initial deficiency
Management Review (5%)	SSM I	5%	60	Review
			205	Total for initial deficiency requiring management review
Second deficiency	PT II	45.0%	50	Cashiering, mail, data entry
			15	Prepare and send 2nd deficiency letter
			60	Return processing/Follow-up assistance
Analyst Review	SSM I		20	Review
			145	Total for second deficiency
Management Review (5%)		5%	60	Review, approval
			205	Total for Return processing/Follow-p assistance requiring management review

Initial Paper Applications

Private Investigator Branch (PIB)	Class	% Def	Time (Min)	Task Description & Assumptions
Clean app (90%)	PT II		30	Review, data entry, approval
Initial deficiency	PT II	10.0%	30	Cashiering, mail, data entry
			15	Prepare and send 1st deficiency letter
			35	Return processing
Analyst Review	SSA		10	Review
			90	Total for initial deficiency

Initial Online Applications

Private Investigator License (PIL)	Class	% Def	Time (Min)	Task Description & Assumptions
Clean app (30%)	PT II		30	Review, data entry, approval
Analyst Review	SSA		30	Review
			60	Total Review
Management Review (5%)	SSM I	5.0%	60	Review
			120	Total for initial applications requiring management review
Initial deficiency/Information Clarification Efforts	PT II	70.0%	30	Cashiering, mail, data entry
	SSA		15	Prepare and send 1st deficiency letter
			60	Return processing/Follow-up assistance
Analyst Review			20	Review
			125	Total for initial deficiency
Management Review (5%)	SSM I	5%	60	Review
			185	Total for initial deficiency requiring management review
Second deficiency	PT II	30.0%	30	Cashiering, mail, data entry
	SSA		15	Prepare and send 2nd deficiency letter
			60	Return processing/Follow-up assistance
Analyst Review			20	Review
			125	Total for second deficiency
Management Review (5%)		5%	60	Review
			185	Total for Return processing/Follow-p assistance requiring management review

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Private Investigator Branch (PIB)	Class	% Def	Time (Min)	Task Description & Assumptions
Clean app (90%)	PT II		30	Data entry, approval
Analyst Review	SSA		10	Review
Initial deficiency	PT II	10.0%	30	Data entry
			15	Prepare and send 1st deficiency letter
			35	Return processing
Analyst Review	SSA		10	Review
			90	Total for initial deficiency

Renewal Paper Application Processing

(same process as coupons)

Private Investigator	Class	% Def	Time (Min)	Task Description & Assumptions
Clean app (90%)	PT		30	Cashiering, mail, data entry, approval
Initial deficiency	PT	10.0%	30	Cashiering, mail, data entry, approval
			15	Prepare and send 1st deficiency letter
			35	Return processing
			80	Total for initial deficiency

Private Investigator Branch (PIB)	Class	% Def	Time (Min)	Task Description & Assumptions
Clean app (98%)	PT		30	Cashiering, mail, data entry, approval
Initial deficiency	PT	2.0%	30	Cashiering, mail, data entry, approval
			15	Prepare and send 1st deficiency letter
			35	Return processing
			80	Total for initial deficiency

ARP Renewal application processing

Private Investigator License (PIL)	Class	% Def	Time (Min)	Task Description & Assumptions
Clean app (70%)	PT		30	Cashiering, mail, data entry, approval
Initial deficiency	PT	30.0%	30	Cashiering, mail, data entry, approval
			15	Prepare and send 1st deficiency letter
			35	Return processing
			80	Total for initial deficiency

Private Investigator Branch (PIB)	Class	% Def	Time (Min)	Task Description & Assumptions
Clean app (95%)	PT		30	Cashiering, mail, data entry, approval
Initial deficiency	PT	5.0%	30	Cashiering, mail, data entry, approval
			15	Prepare and send 1st deficiency letter
			35	Return processing
			80	Total for initial deficiency