

Audit reveals profound corruption – both personal and political – in California’s labor department and political class

April 4, 2019

I was outside the country when the California State Auditor finally released on March 26th a report held for a year documenting “gross misconduct” conducted by Christine Baker, formerly Director of the Department of Industrial Relations (DIR), and “violations of state law” by David Lanier, former Labor Secretary and confidante of former Governor Jerry Brown.

The 39-page audit, based on interviews with 40 state employees and a review of 1 million emails, provides graphic details of Baker’s nepotism with her daughter’s hiring and promotions at DIR, and Lanier’s illegal passing on audit information to Baker, who then launched a campaign to retaliate against suspected whistleblowers within DIR. Baker abruptly retired in March 2018, after the Governor’s office received the auditor’s draft report, after 34 years with the state.

But the corruption and lawlessness does not stop with Baker and Lanier. Governor Brown, who received the report in March 2018, inexplicably appointed Baker to the California Fraud Commission in January 2019, and appointed Lanier to the Board of the State Compensation Insurance Fund (SCIF) in the same month. Key California legislators and state personnel agencies also received non-public copies of the audit in May 2018, but did nothing to prevent Baker’s and Lanier’s 2019 appointments, or follow the auditor’s recommendation that California “claw back” more than \$129,000 in pay based on fraudulent time sheets submitted by Baker’s daughter while at DIR.

Current Governor Gavin Newsom, inaugurated in January 2019, has declined to say whether Baker’s and Lanier’s appointments will be revoked, whether return of the fraudulent pay will be sought, and whether the state’s Attorney General will continue to defend Baker and Lanier against a current lawsuit filed by a whistleblower who cooperated with the auditors and who was reportedly fired in retaliation.

Here are the key documents from what has been called “a sordid tale” of corruption and retaliation:

- California State Auditor, “Investigation of improper activities by a state agency and its employees,” March 26, 2019: <http://bsa.ca.gov/pdfs/reports/l2019-1.pdf>
- Sacramento Bee, “Nepotism investigation finds state executive got her daughter a job, undermined audit,” March 26, 2019: <https://www.sacbee.com/news/politics-government/the-state-worker/article228428574.html>
- San Francisco Chronicle, “Major California labor official accused of ‘gross misconduct’ in nepotism probe,” March 30, 2019:

<https://www.sfchronicle.com/business/networth/article/Major-California-labor-official-accused-of-13728257.php>

- WorkComp Zone/Julius Young, “A sordid tale,” March 28, 2019: <http://www.workerscompzone.com/2019/03/27/a-sordid-tale/>
- Worksafe, “Why integrity matters,” March 29, 2019: <https://t.e2ma.net/webview/sred8/ed712e4fd3de84208972565f13b5768b>
- Los Angeles Times, “Gov. Newsom and others question continued state post for ex-administrator accused of nepotism,” March 29, 2019: <https://www.latimes.com/politics/la-pol-ca-fraud-commissioner-nepotism-20190329-story.html>
- Workers’ Comp Executive, “Auditor’s findings in DIR audit challenged,” April 3, 2019: <https://www.wcexec.com/article/auditors-findings-in-dir-audit-challenged/>
- Sacramento Bee editorial, “Auditor’s investigation exposed nepotism at DIR. Why did she try to hide it?” March 27, 2019: <https://www.sacbee.com/opinion/editorials/article228455704.html>
- Christine Baker’s statements in her own defense, March 26, 2019: <https://www.wcexec.com/wp-content/uploads/2019/04/Baker-Rebuttal.pdf> and <https://www.wcexec.com/wp-content/uploads/2019/04/Baker-Friends-Letter.pdf>

The highlights of the reports indicate an amazing array of state officials involving in self-serving personal and political corruption:

- **Former DIR Director Christine Baker**
 - Conducted “a pattern of gross misconduct” in “improper governmental activities spanning 2011 through 2018”
 - “influenced a significant number of improper personnel transactions to benefit her daughter and another employee”
 - “repeatedly violated merit-based employment principles and engaged in nepotism, bad faith hires, improper promotions and transfers, attempted retaliation and other misconduct”
 - “fostered a culture of fear” where “20 of the individuals interviewed told us they feared possible retaliation from the director”
- **Baker’s daughter Julianna Baker**
 - “from August 2015 through April 2017, [Julianna Baker] failed to substantially engage in or complete” assigned duties
 - “from May 2017 to early August 2017...she continued to claim full-time hours on timesheets and she continued to produce no substantial work”
 - “she submitted fraudulent timesheets...for which the State paid per more than \$102,000 in salary” and later an additional \$27,000, for a total of more than \$129,329 in unearned salary
- **Former Labor Secretary David Lanier**

- “directly violated the law by sharing with [Baker] information of the impending investigation”
- “in addition to [Lanier’s] clear disregard for confidentiality requirements, the [Labor Secretary’s office] failed to provide its final investigative report to us until a full year after the 60-day deadline [June 2015] required by law”
- Lanier’s “response to the investigative request was insufficient to fully address the allegations” and protect whistleblowers against retaliation
- “[Lanier] has not fully implemented any of the recommendations we made in the report”
- **Former Governor Jerry Brown**
 - Continued the practice of rewarding supporters and political operatives with appointments to state commissions and boards as a political payoff, despite having the auditor’s report in March 2018
 - Appointed Lanier in January 2019 to a position on the SCIF Board, which pays \$58,000 a year for four board and four committee meetings during the year
 - Appointed Baker in January 2019 to the California Fraud Commission, at least an area where Baker has extensive personal experience, for a fee of \$100 a meeting
- **The California State Auditor**
 - Refused to acknowledge in April 2018 (when Baker had already left state service) that it had conducted an investigation of nepotism and retaliation, and found significant violations of state laws
 - Refused to release to the public a copy of the report for a year, and did so in March 2019 only when faced with Public Record Act requests and a pending subpoena from the whistleblower lawsuit
- **Key legislative and state personnel officials**
 - Did nothing to investigate or block the appointment of Baker and Lanier in January 2019 to their Commission and Board despite having received a full copy of the audit report in May 2018
- **Current Governor Gavin Newsom**
 - Declined so far to remove Baker and Lanier from the positions appointed by his predecessor
 - Declined so far to seek repayment of Julianna Baker’s pay based on fraudulent timesheets
 - Declined so far to settle the current whistleblower retaliation lawsuit that is being defended by State Attorney General Xavier Becerra

So far the only official who has risen to the challenge is the new Labor Secretary Julie Su, who issued a statement stating “this report raised serious concerns. Among the many important roles that the Labor Agency plays in securing just working conditions for Californians, our job is to prevent retaliation against employees who exercise their rights in the workplace, which makes any retaliatory conduct within the agency all the more unacceptable.” Su also noted that the report “exposed a systematic breakdown” at DIR and the Labor Agency.

One other community has yet to be heard from about the scandal – the state’s employers. Baker worked assiduously to protect business interests during her time in state government, and was the chief architect of a 2012 reform of California’s workers compensation system that has generated massive reductions in employer insurance premiums since then. As a result, Baker has been lionized by business over the years.

Now we will see how their much-repeated commitment to “good government,” that is opposition to nepotism, retaliation, lying and political payoffs, stacks up against increased profits from workers comp reform. A foreshadowing of the business community’s posture can be seen in the *Workers’ Comp Executive* newsletter (see above), which is backing Baker’s efforts to cast doubt on the audit report’s findings.

Baker herself has issued the statements above denying everything (see above) and claiming she is a victim of a “band of people that organized to take me down.” The audit report quotes Baker as saying that this “cabal of people” is “all part of the Filipino network.”

The audit report may crimp Baker’s plans for adding additional income to her already substantial state pension. Earlier this year, prior to the end of the one-year period in which she was prohibited from lobbying DIR as a former agency executive, Baker formed a consulting company (Baker & Welsh, LLC) with former California OSHA chief Len Welsh to peddle influence among lawmakers and regulators in Sacramento.

Another notable aspect of the scandal is that Baker’s administrative sins – rather than her years-long efforts to understaff and under-resource Cal/OSHA’s enforcement capability and her efforts to undermine new worker-protective standards – that was her undoing.

The entire “Christine Baker Affair” illustrates a profound corruption in state government where personal interests and political payoffs take precedence over protecting the health, safety and legal rights of California’s 19 million workers.