

**REPORT BY THE
AUDITOR GENERAL
OF CALIFORNIA**

**STATUS OF COSTS IDENTIFIED AND REIMBURSED FOR THE
STATE LEGALIZATION IMPACT ASSISTANCE GRANTS**

**Status of Costs Identified and Reimbursed for the
State Legalization Impact Assistance Grants**

F-132, October 1991

**Office of the Auditor General
California**



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October 23, 1991

F-132

Honorable Robert J. Campbell, Chairman
Members, Joint Legislative Audit Committee
State Capitol, Room 2163
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its report concerning the status of costs identified and reimbursed for the State Legalization Impact Assistance Grants (SLIAG). The report indicates that, as of June 30, 1991, the State has identified, paid, and been reimbursed for approximately \$1.5 billion. We anticipate that by the end of federal fiscal year 1991, the State will have exhausted its federal SLIAG allocations to date. The State has improved its ability to identify and claim costs under the SLIAG program. Contributing to the original delays in identifying and claiming costs were many factors at the federal, state, and local levels.

Respectfully submitted,

A handwritten signature in cursive script that reads "Kurt R. Sjoberg".

KURT R. SJOBERG
Auditor General (Acting)

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Summary

Results in Brief As of June 30, 1991, the State had identified and paid almost \$1.15 billion in costs for the State Legalization Impact Assistance Grants (SLIAG) program and received reimbursements from the federal government for approximately the same amount. As of the same date, almost \$310 million remained from the federal grant allocations through federal fiscal year 1991. The State is currently identifying and claiming additional costs incurred as of June 30, 1991, that were unclaimed at that date. We estimate that, by the end of federal fiscal year 1991, the State will have exhausted the \$310 million that remained in the federal allocation as of June 30, 1991.

The State has improved its ability to identify and claim costs under the SLIAG program. For example, during fiscal year 1987-88, the State identified only .2 percent of costs charged to that year whereas, during fiscal year 1990-91, the State identified and claimed reimbursement for 68 percent of anticipated costs for the year. Many factors contributed to delays in identifying and claiming costs reimbursable under the SLIAG program. The complexity of the program itself rendered prompt implementation of the program difficult and was a cause of many other problems that delayed identification of costs. Such problems existed with the federal, state, and local administration of the program. In addition, for most programs, aliens have had little incentive to identify themselves as eligible to have costs of services reimbursed under the SLIAG program, and for some programs, federal regulations create a disincentive for aliens to identify themselves. As a result, the State and its subrecipients must find other means, when possible, for documenting the aliens' status.

Background The federal Immigration Reform and Control Act of 1986 allowed certain people residing illegally in the United States to apply for legal residency by November 30, 1988. More than 1.6 million people in California have applied for legal residency under the federal legislation. As of the middle of July 1991, approximately 180,000 of these aliens were awaiting a decision from the federal Immigration and Naturalization Service on their applications for temporary residency status. The federal government established the SLIAG program as temporary financial assistance to states and subrecipients for providing public health, public assistance, and educational services to eligible aliens. We anticipate that if the federal government allocates all the SLIAG funds it originally planned to allocate, California's allocation should be at least \$2.135 billion through September 30, 1994.

Status of Costs In addition to the \$1.15 billion in costs that the State identified and received reimbursement for as of June 30, 1991, the State had \$122 million in actual claims from subrecipients and in documented state costs for major participating programs for which the State either claimed and received reimbursement after June 30, 1991, or for which the State had not yet claimed or received reimbursement as of the end of our field work in September 1991. In addition, state administrators of SLIAG programs provided verifiable estimates of approximately \$140 million in claims to be received from subrecipients and in state costs for major participating programs. Therefore, approximately \$262 million in costs incurred as of June 30, 1991, were not yet claimed as of that date. Further, state administrators believe more costs incurred for services rendered before June 30, 1991, will eventually be identified, but the administrators were unable to provide verifiable estimates of these costs as of the end of our field work. We estimate that, by the end of federal fiscal year 1991, the State will have exhausted the \$310 million remaining in the federal allocation as of June 30, 1991.

**Delays in
Identifying and
Reimbursing
Costs**

The State has improved its ability to identify and claim costs reimbursable under the SLIAG program. For example, during fiscal year 1987-88, the State identified only .2 percent of costs charged to that year whereas during fiscal year 1990-91, the State identified and claimed reimbursement for 68 percent of anticipated costs for the year.

Many factors contributed to initial delays in identifying and claiming costs that programs have incurred to render services to eligible aliens and in receiving reimbursement for these costs from the federal government. We noted the following factors:

- The complexity of the grant program itself rendered prompt implementation of the program difficult and was a cause of many other problems that delayed identification of costs;
- The federal government contributed to the delays by failing to provide essential information or services promptly. For example, it was slow to establish the federal Cost Documentation System for claiming SLIAG costs, to issue regulations for claiming costs, and to process aliens' applications for temporary residency status;
- Certain state decisions about budgeting and approving costs to charge to the grant have contributed to delays;
- Counties' lack of information about requirements for claiming costs or failure to act on available information also contributed to delays; and

- For most programs, aliens have had little or no incentive to identify themselves as eligible to have the costs of services reimbursed under the SLIAG program because no additional benefits accrue to them for doing so. For certain programs, federal regulations actually create a disincentive for aliens to identify themselves because participation in these programs may be a basis for denying the aliens legal residency. As a result, the State and counties must find other means, when possible, for documenting the aliens' status.

Agency Comments In general, the Health and Welfare Agency, the California Department of Education, and the State and Consumer Services Agency concur with the information in our report.

Introduction

The federal Immigration Reform and Control Act of 1986 allowed certain people residing illegally in the United States to apply for legal residency if they qualified under regulations of the Immigration and Naturalization Service. The deadline for applying for legal residency was November 30, 1988. More than 1.6 million people in California, approximately 5 percent of the total state population in 1988, applied for legal residency under the Immigration Reform and Control Act. As of the middle of July 1991, approximately 180,000 of these aliens were awaiting a decision from the federal Immigration and Naturalization Service on their applications for temporary residency status.

To assist states and participating subrecipients in providing public health, public assistance, and educational services to persons eligible for legal residency under the Immigration Reform and Control Act, the federal government established and funded the State Legalization Impact Assistance Grants (SLIAG). Through federal fiscal year 1991, California's allocation was 61 percent of the total federal allocation of SLIAG moneys. (The federal fiscal year runs from October through September.) We estimate that, if the federal government allocates all the SLIAG funds it originally planned to allocate, California's allocation will be at least \$2.135 billion through federal fiscal year 1994.

The Health and Welfare Agency is responsible for coordinating the State's implementation of the Immigration Reform and Control Act at the participating state departments. State departments that have administered the SLIAG program are the California Department of Education, the Department of Health Services, the

Department of Social Services, the Department of Mental Health, the Department of Housing and Community Development, the Employment Development Department, and the Department of Fair Employment and Housing. Within these departments, 22 separate programs have provided services reimbursed under the SLIAG program. Our report, *A Review of the State's Administration of the State Legalization Impact Assistance Grants (F-944)*, issued in May 1990, describes most of the programs currently providing services, including all the major programs. The report also discusses the results of data collection, claims review, and audit activities for the programs.

To participate in the SLIAG program in any fiscal year, the State must submit an application for approval to the federal Department of Health and Human Services. The application identifies the programs and activities for which the State and participating subrecipients within the State have incurred or expect to incur costs potentially reimbursable under the grant. The grant cannot be charged for services not included in the State's approved application.

The SLIAG program is very complex. Its broad coverage of reimbursable services, the involvement of many state and local agencies and nonprofit organizations, the combination of reimbursement of costs for existing programs and programs created specifically for the SLIAG program, the independence of each program in establishing its own policies for determining costs, and the simultaneous presence of grant awards from several fiscal years all contribute to the complexity of the program.

**Scope and
Methodology**

The purpose of this audit was to report the status of costs identified and claimed for reimbursement under the SLIAG program as of June 30, 1991, and to identify reasons for any delays in the claiming of costs.

To determine the status of costs identified and claimed for reimbursement as of June 30, 1991, we identified the federal requirements for the documentation of costs charged to the SLIAG program by reviewing pertinent federal laws, regulations, and guidelines; assessed the adequacy of policies and procedures for reviewing and paying claims for each of the participating programs in the state departments that administer the SLIAG program; and reviewed claims from the State and subrecipients for the reasonableness and allowability of costs claimed and the proper recording of the transactions in the accounting records. In addition, we compiled expenditure and reimbursement data from the accounting records as of June 30, 1991, and reconciled these data to records maintained at the State Controller's Office, which maintains centralized records of state expenditures and reimbursements.

To determine the magnitude of additional amounts not recorded or claimed as of June 30, 1991, we reviewed financial records and invoices on hand for major programs as of the end of field work at each administering state department. In addition, we interviewed department personnel to obtain estimates of costs for which invoices had not been received and evaluated the reasonableness of the estimates. We also examined the state applications for the SLIAG program to identify programs for which the State anticipated reimbursements but had not received any and determined the reasons why the State had not claimed reimbursements for these programs. Further, to identify programs that appeared to have under-identified costs, we compared actual amounts claimed with anticipated reimbursable amounts from the state applications. Moreover, we compared costs claimed from ten counties for three social service programs to assess the reasonableness of costs claimed. This comparative analysis, included as Appendix A, revealed little correlation between claimed costs and size of the SLIAG population. For example, Los Angeles County, with a population of approved eligible aliens of almost 700,000, has claimed no costs for the Aid to Families With Dependent Children—Family Group/Unemployed (AFDC-FG/U, State only) program, whereas Ventura County, with an eligible population of less than 4 percent of Los Angeles County's, has claimed more than \$170,000 for the three years it has claimed costs.

To further assess the potential for unclaimed costs, we requested from the Cost Documentation System, which we discuss in greater detail in Appendix B of this report, a computerized match of identification numbers of eligible aliens in a federal databank with information in the databank of the State's Department of Health Services. This match was for all participants in the AFDC-FG/U (State only) program in Los Angeles County for March 1991. The database at the Department of Health Services maintains monthly information on the eligible participants in major health and welfare programs, and the Department of Social Services uses this database to select samples for its quality control testing of the eligibility of participants in AFDC programs. However, we were not able to rely on the results of this computerized match because the data on program participants in the databank at the Department of Health Services did not reconcile with the data supporting the actual program claim for March 1991. Specifically, the claim included costs for persons not listed as eligible in the Department of Health Services database, and the database listed persons for whom costs were not included on the claim. We believe this lack of reconciliation warrants further audit inquiry. However, such work is beyond the scope of this audit.

Finally, because we found some delays in identifying and claiming costs, we attempted to determine the reasons for the delays by interviewing department personnel, examining documentation of departments' reviews of costs claimed by subrecipients for certain programs, and reviewing federal regulations and state budgets to identify any provisions that might contribute to delays in identifying costs. In addition, we surveyed the social service and health service departments for the ten counties with the highest SLIAG populations to solicit county perspective on the effectiveness of the systems for the identification of costs. Moreover, because costs for certain programs reimbursed under the SLIAG program cannot be claimed until the federal Immigration and Naturalization Service (INS) grants temporary legalized status to the aliens served, we requested data from the INS about the status of its processing of applications for temporary legalized status.

**Chapter Status of Costs Identified and Reimbursed for the
State Legalization Impact Assistance Grants**

**Chapter
Summary** As of June 30, 1991, the State had identified \$1.15 billion in costs for the State Legalization Impact Assistance Grants (SLIAG) program and received reimbursement from the federal government for approximately the same amount. As of the same date, almost \$310 million remained from the \$1.46 billion federal allocations for federal fiscal years through 1991. The State had an additional \$122 million in actual claims from subrecipients and in documented state costs for major participating programs for which the State either received reimbursement after June 30, 1991, or for which the State had not yet claimed or received reimbursement as of the end of audit field work in September 1991. In addition, state administrators of SLIAG programs provided verifiable estimates of \$140 million in claims to be received from subrecipients and in state costs for major participating programs. State administrators of the SLIAG program believe more costs incurred for services rendered before June 30, 1991, will eventually be identified, but the administrators were unable to provide verifiable estimates of these costs by the end of our field work. We estimate that by the end of federal fiscal year 1991, the State will have exhausted the \$310 million remaining in the federal allocation as of June 30, 1991.

The State has improved its ability to identify and claim costs reimbursable under the SLIAG program. For example, during fiscal year 1987-88, the State identified only .2 percent of costs charged to that year whereas, during fiscal year 1990-91, the State identified and claimed reimbursement for 68 percent of anticipated costs for the year. Many factors have contributed to initial delays in identifying and claiming these costs. The complexity of the SLIAG

program itself rendered prompt implementation of the program difficult and was a cause of many other problems that delayed identification of costs. The federal government contributed to the delays by failing to provide essential information or services promptly. For example, the federal government was slow to establish the federal Cost Documentation System for claiming SLIAG costs, to issue regulations for claiming costs, and to process aliens' applications for temporary residency status. Certain state decisions about budgeting and approving costs to charge to the SLIAG program also have contributed to delays. In addition, counties' lack of information about requirements for claiming costs or failure to act on available information contributed to delays. Finally, for most programs, aliens have had little or no incentive to identify themselves as eligible to have the costs of services reimbursed under the SLIAG program, and for other programs, federal regulations create a disincentive for aliens to identify themselves. As a result, the State and subrecipients must find other means, when possible, for documenting the aliens' status.

Background Since the inception of the SLIAG program, state budgeting and federal funding for the grant have been difficult and uncertain. For example, the annual applications for federal funding under the grant require the State to estimate the reimbursable costs for each of the programs identified in the application. However, for the applications for federal fiscal years 1988, 1989, and 1990, the State had very limited information about the SLIAG population and about the extent of the SLIAG population's participation in reimbursable programs. The Legislative Analyst's *Perspectives and Issues* report for the State's 1987-88 budget provided estimates of undocumented immigrants then residing in California, ranging from 1.6 million to 2.6 million. Estimates of program usage were further complicated because the State could not estimate with any precision how many undocumented immigrants would be eligible for legalization under the Immigration Reform and Control Act of 1986, how many would apply for legal residency, and how many of those applications would be approved. This limited information contributed to estimates of annual reimbursable costs for certain programs that varied substantially between the state applications

for different fiscal years. For example, the application for federal fiscal year 1988 anticipated approximately \$58 million in expenditures for the Medically Indigent Services—Legalized Indigent Medical Assistance program whereas the application for federal fiscal year 1989 estimated more than \$239 million for the same program.

Federal allocations to states also appear to have been based on questionable assumptions. The federal government allocates 50 percent of available funds to a state based on the state's eligible legalized alien population and the remaining 50 percent based on the ratio of SLIAG-related costs in the State to the total of all such costs for all states. According to a report issued by the United States General Accounting Office in May 1991, *Funding for State Legalization Impact Assistance Grants Program (HRD-91-109)*, this formula has resulted in allocations to some states that exceed their estimated costs whereas allocations to other states, including California, do not appear to be sufficient to fund the expenditures intended for the SLIAG program.

In addition, federal budgets for the SLIAG program have not been dependable or consistent. Originally, the SLIAG program had a four-year allocation period, ending in federal fiscal year 1991. The State was allocated \$570.4 million for federal fiscal year 1988, \$522.5 million for 1989, and expected to be allocated the remaining grant amounts in federal fiscal years 1990 and 1991. Subsequently, the federal government deferred to the 1992 federal fiscal year a portion of the anticipated appropriations for the grant for federal fiscal years 1990 and 1991.

As of September 16, 1991, the United States Congress was considering legislation to defer the entire SLIAG appropriation for federal fiscal year 1992 to the 1993 federal budget. As the following data show, California has already claimed approximately \$1.15 billion and expects to claim at least another \$262 million for the period ended June 30, 1991. California, therefore, has an expected carryover of only \$47 million from the SLIAG program to fund additional SLIAG-reimbursable costs in state fiscal year 1992, and the deferral of the federal 1992 SLIAG appropriation to the 1993 budget apparently will cause California to experience

major delays in receiving its share of federal reimbursements. For fiscal year 1992, the federal administration proposed eliminating the entire remaining allocation for the SLIAG program. Therefore, California's ability to collect the entire amount remaining in the State's anticipated allocation for the SLIAG program, approximately \$674 million after September 1991, is uncertain.

**Status as of
June 30, 1991**

As of June 30, 1991, the State had received approximately \$1.15 billion of its \$1.46 billion federal allocation for the SLIAG program; almost \$310 million remained in its federal grant allocations for federal fiscal years through 1991. As of the same date, the State had identified and paid costs approximately equal to the amount received from the federal government. (See Appendix C for more detailed information about expenditures for each program.)

Although almost \$310 million remained in the federal allocation as of June 30, 1991, additional costs that had been incurred but not claimed for reimbursement as of that date will further reduce the available federal funds. Table 1 depicts these additional costs. As the table indicates, the State had \$122 million in actual unpaid invoices from subrecipients and in documented state costs for major participating programs for which the State either claimed and received reimbursement after June 30, 1991, or for which the State had not yet claimed or received reimbursement as of the end of audit field work in September 1991. State administrators of SLIAG programs also provided verifiable estimates of \$140 million in claims to be received from subrecipients and in state costs for major participating programs. We estimate that, by the end of federal fiscal year 1991, the State will have exhausted the \$310 million remaining in the federal allocation as of June 30, 1991.

Table 1 **Costs Incurred but Not Claimed
for Federal Reimbursement
June 30, 1991**

Department and Program	Amount of Actual Unpaid Invoices	Estimated Unpaid Amounts
California Department of Education Adult Education	\$ 15,807,609	\$ 45,459,227
Department of Health Services Immigration Reform and Control Act Subvention Medically Indigent Services— Legalized Indigent Medical Assistance	16,485,165 49,973,993	0 74,788,446
Primary Care Clinics Medi-Cal	4,123,886 9,160,892	0 10,709,808
Department of Social Services State Supplementary Program Food Stamps for Special Agricultural Workers	19,935,679 929,164	6,244,073 0
Aid to Families With Dependent Children— Foster Care and Family Group/ Unemployed General Assistance	1,957,960 851,170	103,018 0
Department of Mental Health	2,521,639	3,027,282
Total	\$121,747,157	\$140,331,854

Amounts reported in Table 1 are for costs incurred but not yet claimed for major programs as of June 30, 1991. State administrators believe more costs for services rendered before June 30, 1991, will eventually be identified, but the administrators were unable to provide defensible estimates of these costs as of the end of our field work.

The financial information reported above is subject to certain important limitations. For example, all charges to the SLIAG program are subject to audit, which may result in more or fewer allowable charges to the grant. In addition, some of the estimates in the data in Table 1 are based, in part, on historical trends, which may not accurately reflect future claims.

**Delays in
Identifying
and Claiming
SLIAG Costs**

Although we estimate that, by the end of federal fiscal year 1991, the State will have exhausted its federal allocation, the State was initially slow to identify and claim reimbursement for SLIAG costs. Table 2 illustrates the delays by showing the years in which the \$1.15 billion in SLIAG expenditures were identified and the years in which the expenditures were charged. For example, of the \$105.2 million in costs charged for fiscal year 1987-88, only \$191,000, .2 percent, was identified in that year. However, in 1990-91 not only did the State identify and claim reimbursement for more costs than it had in the previous three years combined, it also identified and claimed reimbursement for approximately \$371 million, 68 percent, of the \$546 million expected to be charged to that year. Except for the Medi-Cal program, expenditures are charged to the year in which they were incurred. For the Medi-Cal program, expenditures are, by law, charged to the year in which they were paid. The process of identifying these costs includes the State's review and approval of the costs. Generally, once costs have been identified as being SLIAG-reimbursable, the State claims and receives reimbursement promptly.

**Table 2 SLIAG Expenditures by State Fiscal Year
June 30, 1991**

Year Expenditure Identified	Year Expenditure Charged				Total by Year Identified
	1987-88	1988-89	1989-90	1990-91	
1987-88	\$ 191,282	\$ 0	\$ 0	\$ 0	191,282
1988-89	55,530,010	90,787,599	0	0	146,317,609
1989-90	39,025,803	126,647,757	167,966,577	0	333,640,137
1990-91	10,474,963	101,366,108	188,657,708	370,952,277	671,451,056
Total by Year Charged	\$105,222,058	\$318,801,464	\$356,624,285	\$370,952,277	\$1,151,600,084

The delays in identifying costs and claiming reimbursement from the SLIAG program resulted in two potentially major negative consequences for the State and subrecipients. First, the State and subrecipients did not have the use of the allocated funds as early as possible and, therefore, lost potential interest earnings on unclaimed amounts. In addition, the lack of evidence of current need for SLIAG moneys influenced the federal government's decisions to defer appropriations and to consider eliminating appropriations for the SLIAG program.

Reasons for Delays

Many factors have contributed to delays in identifying and claiming costs. The complexity of the SLIAG program itself, over which the State had limited control, contributed directly to delays in the identifying and claiming of costs. The complexity of the program resides in the federal requirements for establishing legal residency, in the regulations of the federal Department of Health and Human Services, in the number of state and local programs that have reimbursable costs under the grant, and in the number and nature of grant recipients and subrecipients. This complexity makes prompt implementation of the program difficult at all levels, federal, state, and local. Establishing and communicating the regulations to all program participants, establishing systems for claiming costs under the grant, and identifying and correcting problems that arise in the early administration of such a complex program all require considerable time under optimal circumstances. Nevertheless, the federal legislation establishing the SLIAG program limited the term of the program to September 30, 1994. Thus, the State and its subrecipients have begun identifying the most significant amounts of SLIAG costs just as the grant term is coming to a close.

Federal Factors in the Delayed Identification of Costs: The federal government contributed to delays in identifying and reimbursing costs for the SLIAG program by being slow to establish the federal Cost Documentation System for SLIAG uses, to issue essential regulations for claiming costs, and to process

aliens' applications for temporary residency status. For example, the federal government did not make the Cost Documentation System available to states until June 1989, approximately 21 months after program costs could be claimed for the program. The Cost Documentation System has enabled the State to identify and claim at least \$126 million in reimbursable costs not identified using other procedures.

In addition, the federal Department of Health and Human Services did not prepare its regulations for identifying and claiming costs for the SLIAG program until March 1988, more than five months after the first costs could be claimed under the grant. To determine the effect at the local level of delays in receiving regulations, we surveyed ten counties. Five of the ten counties responding to our survey indicated that delays in receiving regulations, from either the federal government or the state government, contributed to problems with identifying costs. Without such regulations, providers of services may not have appropriately documented the costs at the time they rendered the services, making subsequent claiming of costs difficult or impossible.

The backlog in federal processing of aliens' applications for legal residency has also contributed to delays in claiming costs under the SLIAG program. As of December 1989, the Immigration and Naturalization Service had a backlog of approximately 415,000 applications in California for temporary residency status. As of the middle of July 1991, the remaining backlog was approximately 180,000. Under public assistance and education programs, subrecipients can render services but cannot claim full reimbursement of costs until the aliens served are granted legalized status. Only once the aliens are granted legalized status, can the remaining costs be claimed for reimbursement.

State Factors in the Delayed Identification of Costs: The State established certain policies that either intentionally delayed the claiming of costs under the SLIAG program or delayed costs as a secondary effect. Although the grant allocations originally were for four federal fiscal years, 1987-88 through 1990-1991, the State opted to budget these moneys over five state fiscal years, from fiscal year 1987-88 through fiscal year 1991-92. In addition, the State opted to direct the use of SLIAG dollars by budgeting certain costs and reimbursements to specific programs for each state fiscal year rather than reimbursing any costs as soon as they were identified. Also, the state budget act forbids expenditures that exceed budgeted amounts without the appropriate authorization and certification that the expenditures are unavoidably necessary. Because of these budgetary constraints, the receipt of federal moneys was delayed. For example, as of June 30, 1991, the Immigration Reform and Control Act (IRCA) Subvention program, one of the public health programs with reimbursable costs under the SLIAG program at the Department of Health Services, had not reviewed and claimed reimbursement for more than \$8.6 million in claims on hand from subrecipients because the program lacked the budget authority to pay the claims. Also, according to the chief of the Expenditure Control Section at the Department of Social Services, because of uncertainty over its final budget authority for state fiscal year 1990-91, the Department of Social Services did not claim more than \$18 million in SLIAG costs identified as of June 30, 1991. In addition, the Department of Mental Health withheld full payment of certain claims because it lacked the budget authority.

Nevertheless, each decision was intended to have benefits to the State. For example, the purpose of the decision to budget over five years was to make a less abrupt transition to the time when the State would have to carry all costs of the SLIAG population. The purpose of the program-specific budgeting decision was to ensure that moneys would be available for the programs that the State wanted to receive funding for under the SLIAG program, assuming the programs were able to justify the charges.

Finally, the State generally took a cautious approach toward approving costs for reimbursement under the SLIAG program. For example, the State took approximately 2.5 years to approve the statistical sampling methodologies for Los Angeles County for the Medically Indigent Services—Legalized Indigent Medical Assistance program and approximately 19 months for the claims from Los Angeles County for the mental health programs. The State solicited federal responses to the methodologies to ensure the allowability of the sampling plans. Until the plans were approved, the State did not allow subrecipients to claim full costs. In addition, for the IRCA Subvention program, the Department of Health Services requested federal reimbursement for only half of the costs claimed by subrecipients during interim periods, pending receipt of final cost reports from the subrecipients. The purpose of this cautious approach was to ensure that the State avoided overpayments that would have to be recovered from subrecipients later. Although logical reasons existed for each of these decisions, one effect of the decisions was to delay the identification and claiming of costs.

County Factors in the Delayed Identification of Costs:

Several causes for problems in identifying and claiming SLIAG costs apparently exist at the county level. For example, counties' lack of understanding about requirements for claiming costs or failure to act on available information contributed to delays. Specifically, reviews that the Department of Mental Health and the Department of Social Services performed at selected participating counties revealed allowable costs that certain counties had failed to identify and claim. For one review, the Department of Social Services noted that the county Office of Public Welfare had received the necessary SLIAG regulations but had not disseminated the information to the staff responsible for implementing the regulations. In addition, six of the ten responses to our survey of county health departments and two of the ten responses to our survey of county social service departments indicated problems with identifying and claiming costs because of unclear regulations. For example, the Riverside County Medically Indigent Services—Legalized Indigent Medical Assistance program indicated that the county was extremely reluctant to claim reimbursement for costs incurred until it received a clear understanding of program criteria.

In other responses to our surveys, counties described additional problems in identifying and claiming SLIAG costs. Specifically, eight of ten county health departments and six of ten county social service departments reported that changes in administration required for the SLIAG program caused problems in claiming costs. For example, Orange County responded that county health care, social services, and contract staff spent extensive time revising computer programs for the Medically Indigent Services—Legalized Indigent Medical Assistance program. County training for the staff of private medical providers was also necessary. The San Diego County Department of Health Services reported similar problems, noting that it had to design and revise documentation procedures whenever guidelines changed and that workload increased, especially in clinics that served many immigrants. In addition, two county health departments indicated that a conflict existed between their desire to maintain confidentiality for persons receiving services under the SLIAG program and the requirements for identifying costs under the program.

Aliens and the Public Charge Issue in the Delayed Identification of Costs: To claim costs for most programs, the State or subrecipient must be able to demonstrate the costs were incurred for services provided to eligible aliens. However, for most programs, aliens have had little incentive to identify themselves as eligible because no additional benefits accrue to them for doing so. For some programs, federal regulations actually create a disincentive for aliens to identify themselves. As a result, the State and counties must find other means, when possible, to identify the aliens' status.

The disincentive is established by Section 201(a) of the Immigration Reform and Control Act of 1986 (Public Law 99-603), which imposed a five-year disqualification on legalized aliens from receiving benefits under certain programs of cash assistance, such as the federal Aid to Families With Dependent Children program, awarded on the basis of financial need. Although this section also authorizes states and their political

subdivisions, such as counties, to impose similar restrictions on cash assistance, the State does make cash assistance programs available to eligible aliens. Receipt of such benefits is potentially evidence that the alien is a public charge, which is one basis for denying the alien legal residency.

The public charge issue is complicated and unclear. Confusion exists, for example, about the particular programs and the extent of recipients' use of those programs that would constitute evidence that the recipients are public charges. Although participation in social service programs that provide cash benefits is apparently prohibited, the extent of participation that would result in denial of legal residency is unclear. For example, the Code of Federal Regulations, Title 8, Section 245a.2(k)(4), states that the "weight given in considering applicability of the public charge provisions will depend on many factors, but the length of time an applicant has received public cash assistance will constitute a significant factor." According to the acting regional administrator of the western regional office of the Office of Regional Commissioner of the Immigration and Naturalization Service, which adjudicates residency status, the public charge issue must be decided case by case, and any applicant determined to be "likely to become a public charge" may request a waiver to overcome this basis for denying legal residency. The administrator further stated that the few applications for legal residency under the Immigration Reform and Control Act that were adjudicated by the western regional office and that have been denied solely on the likelihood that the applicant would become a public charge have resulted from the applicant's failure to request the waiver.


Nevertheless, the confusion about what constitutes public charge and concern about denial of residency may discourage aliens from seeking benefits under SLIAG-reimbursable programs or from identifying themselves if they receive benefits from such programs. Evidence from county surveys and from data on costs claimed suggests that aliens are reluctant to identify themselves. Specifically, 10 of the 20 county health and social service departments responding to our survey noted problems with getting these aliens to identify themselves. In addition, the Cost Documentation System, which is a method of claiming

SLIAG-reimbursable costs that does not require aliens to identify themselves, has identified additional costs after other methods, requiring specific identification, have not.

Because of the many factors that affect the claiming of costs under the SLIAG program, we are not able to quantify the effect on program costs of the aliens' reluctance to identify themselves.

We conducted this review under the authority vested in the auditor general by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,


KURT R. SJOBERG
Auditor General (acting)

Date: October 21, 1991

Staff: Sylvia Hensley, CPA, Audit Manager
Lois Benson, CPA
M. Michelle Krueger, CPA
Alison A. Turner, CPA
Willie Benson, Jr.
David Biggs

Appendix A

Costs Claimed for Three Social Services Programs In Ten Counties

County	Approved Alien Population	AFDC— Family Group/ Unemployed ^a (State Only)			AFDC— Foster Care ^b			General Assistance		
		1988-89 Claims	1989-90 Claims	1990-91 Claims	1988-89 Claims	1989-90 Claims	1990-91 Claims	1988-89 Claims	1989-90 Claims	1990-91 Claims
Los Angeles	694,539	\$ 0	\$ 0	\$ 0	\$660,373	\$574,461	\$537,750	\$146,009	\$ 18,041	\$317,791
Orange	116,349	453	26,993	312,470	0	974	278,932	137,029	911,132	257,616
San Diego	78,664	0	0	0	0	0	0	0	210,616	57,185
Riverside	47,609	944	0	0	0	0	0	0	54,846	3,365
San Bernardino	39,976	0	1,570	38,077	0	0	0	0	0	0
Fresno	39,849	0	0	12,082	0	0	2,686	0	0	0
Santa Clara	34,821	0	12,591	124,491	0	102,028	65,546	1,135	80,596	28,162
Ventura	25,082	8	44,227	126,299	0	0	0	20,382	43,309	2,169
Kern	23,503	1,381	7,648	8,035	26,818	15,337	7,259	0	0	0
Tulare	23,159	0	3,340	19,690	0	0	0	116	725	0

^aAid to Families with Dependent Children—Family Group/Unemployed

^bAid to Families with Dependent Children—Foster Care

Appendix B Nature and Use of the Cost Documentation System

In May 1990, we issued our report entitled, *A Review of the State's Administration of the State Legalization Impact Assistance Grants (F-944)*, which discussed methods for identifying and claiming costs reimbursable under the State Legalization Impact Assistance Grants (SLIAG). Since we completed our field work for that report, the State and certain subrecipients have begun using another method, the federal Cost Documentation System (CDS), which has contributed to the rapid increase in the identification and claiming of costs reimbursable under the SLIAG program. This appendix describes the nature of the CDS and lists the programs and counties using it.

Nature of the Cost Documentation System

The CDS, established under a federal contract with an independent processor, consists of a computerized match of the social security or alien identification numbers of participants in programs with similar information in the federal databank that maintains records of eligible persons under the SLIAG program. The system identifies the number of SLIAG eligibles using the program services; reports the adjusted costs associated with these services, based on cost data the State submits; and provides the basis for reimbursing costs.

In California, the Department of Health Services acts as the liaison between the federal contractor and the State and its subrecipients. The department helps prepare information for processing through the CDS, transmits the information to the federal contractor, receives and summarizes the results from the contractor, and returns the results to the originating state program or subrecipient. Costs for processing data in the CDS are

reimbursable under the SLIAG program, provided the sole purpose of processing data is to document SLIAG costs for reimbursement.

The CDS can offer advantages over other methods for identifying and claiming costs under the SLIAG program. For example, to identify costs, the CDS does not require initial identification of aliens eligible under the SLIAG program. When programs have not identified eligible aliens but do have social security numbers for program participants, the CDS may be able to identify additional costs that would remain unclaimed without extensive work on a case-by-case basis.

Examples of programs that have benefited from the CDS are the Medically Indigent Services—Legalized Indigent Medical Assistance (MIS—LIMA) program, the Medi-Cal program, and the Mental Health Treatment program. The Department of Health Services has used the CDS as the basis for claiming approximately \$103 million in costs for the Medi-Cal program. These costs were not identified under other procedures. Most counties using the CDS and participating in the MIS—LIMA and Mental Health Treatment programs have similarly benefited from the use of the CDS. In particular, 11 of 14 counties that revised claims using the CDS have had additional claims totaling more than \$23 million for the MIS—LIMA program. For the Mental Health Treatment program, the CDS identified more than \$700,000 in additional reimbursable costs for 5 counties.

However, the CDS may not be the easiest method to apply for identifying and claiming SLIAG-reimbursable costs for any given program. For example, costs for public health programs, such as the Immigration Reform and Control Act Subvention and the Mental Health Outreach Services programs are claimable under the population ratio method, which consists of a relatively simple calculation based on data from the federal Department of Health and Human Services about the program-specific population and data from the State's Department of Finance about the population of California as a whole.

Moreover, in certain circumstances, the CDS may identify lower reimbursable costs than another method does. For example, for three counties claiming costs for the MIS—LIMA program, the CDS identified approximately \$1.9 million less in SLIAG-reimbursable costs.

Another county expressed concern about subsequent audits of costs claimed through the CDS. The county was particularly concerned about who would assume fiscal responsibility for costs disallowed through audits. In fact, the State and subrecipients have not had thorough guidelines about the monitoring of CDS processing until recently. In July 1991, the federal Department of Health and Human Services issued its specific instructions for monitoring the processing, two years after the CDS was available for use.

State Programs and Subrecipients Using the Cost Documentation System

The following list shows the state programs and counties that have used the CDS to identify and claim at least a portion of their costs. The counties have used the CDS for one or more of the programs listed below.

<u>Counties</u>	<u>State Programs</u>
Alameda	County Medical Services Program
Contra Costa	Medically Indigent Services—Legalized
Fresno	Indigent Medical Assistance
Imperial	Medi-Cal
Kern	Primary Care Clinics
Lake	Mental Health Outreach
Mendocino	Mental Health Treatment
Merced	Adult Education
Orange	Office of Migrant Services
Riverside	
Sacramento	
San Benito	
San Bernardino	
San Diego	
San Francisco	
San Joaquin	
San Luis Obispo	
San Mateo	
Santa Barbara	
Santa Clara	
Sonoma	
Sutter	
Tulare	
Ventura	
Yolo	

The Department of Health Services provided us with the information presented in the list, which indicates a limited use of the CDS. For example, no programs administered by the Department of Social Services use the CDS to identify costs.

Several factors have contributed to a limited use of the CDS. First, the CDS was not available from the federal government until June 1989, and, according to the manager of the Medi-Cal Processing Unit, the State did not begin using the system until the spring of 1990. Providing all the necessary data in the appropriate form for the CDS may also be difficult for some subrecipients.

Also, some subrecipients were either not aware of the existence of the CDS or were told that they could not claim costs using the CDS. Although all ten county health service departments in our survey were aware of the CDS, social service departments in most counties in our survey lacked information about the system. Nine of the ten county social service departments that responded to our survey indicated that they had not heard of the CDS. Another, the Los Angeles County Department of Public Social Services, knew about the CDS and indicated that it had met with state officials to discuss the possibility of using it. However, it was unable to use the CDS because of additional reporting requirements that the State's Department of Social Services imposed. The Los Angeles County Department of Public Social Services indicated that it would use the CDS if the State's Department of Social Services' reporting requirements were different.

The chief of the Refugee and Immigration Programs Branch of the State's Department of Social Services stated that the department considers the CDS to be "inconsistent with the current claiming procedures by the major public assistance programs" administered by the Department of Social Services. However, the federal Department of Health and Human Services has established rules for claiming costs under the SLIAG program. These federal rules explicitly allow the use of the CDS for claiming costs under all SLIAG-reimbursable programs. Although the State has established additional conditions for claiming costs, it is not required to impose such restrictions and can remove those restrictions at any time.

The chief of the Refugee and Immigration Programs Branch also explained why the Department of Social Services does not believe the CDS would be useful in identifying and claiming costs for social service programs. Specifically, he said that the CDS duplicates systems currently in place, which have already claimed actual costs based on documentation of the eligibility status of aliens participating in SLIAG-reimbursable programs. In addition, the department believes the CDS would require extensive work to implement and would produce minimal benefits. Because no social service programs have used the CDS for identifying and claiming costs, we have no data to evaluate the cost-effectiveness of the CDS for such programs.

Appendix C

**SLIAG Expenditures by Program
As of June 30, 1991**

Department and Program	1987-88 Expenditures	1988-89 Expenditures	1989-90 Expenditures	1990-91 Expenditures	Total Expenditures
State Department of Education					
Adult Education/School Age Youth Program K-12 (E)	\$ 9,043,018	\$ 113,656,522	\$ 104,413,765	\$ 64,446,036	\$ 291,559,341
Department of Health Services					
Family Planning (PH)	0	1,043,985	0	13,713	1,057,698
Perinatal Services (PH)	0	0	61,301	0	61,301
Adolescent Family Life (PH)	0	0	21,357	13,912	35,269
IRCA Subvention (PH)	9,494,310	17,757,000	16,855,376	7,735,828	51,842,514
Sexually Transmitted Disease					
Control Program (PH)	2,203,130	403,084	1,007,445	117,767	3,731,426
Immunization Program (PH)	23,972	45,846	336,148	241,879	647,845
Tuberculosis/Leprosy Control (PH)	1,476,661	1,533,435	530,329	248,955	3,789,380
County Medical Services Program (PA)	219,250	1,353,810	2,405,186	3,799,682	7,777,928
Medically Indigent Services—Legalized					
Indigent Medical Assistance (PA)	72,983,204	148,900,169	164,256,502	106,298,867	492,438,742
Primary Care Clinics (PA)	8,691,506	8,614,077	9,244,635	9,273,270	35,823,488
California Children Services (PA)	306,458	50,598	20,029	1,097	378,182
Medi-Cal (PA)	0	7,958,543	35,656,164	164,977,424	208,592,131
Department of Social Services					
State Supplementary Program (PA)	0	1,479,000	4,523,000	0	6,002,000
Food Stamps for Special Agricultural Workers (PA)	17,457	129,426	290,582	127,052	564,517
Aid to Families With Dependent Children—Foster Care (PA)	0	793,140	959,857	756,607	2,509,604
General Assistance (PA)	10,880	448,109	1,875,060	240,246	2,574,295
Aid to Families With Dependent Children—Family Group/Unemployed (PA)	10,827	120,464	290,188	321,299	742,778
Department of Mental Health					
Mental Health Outreach (PH)	0	2,390,705	2,176,154	897,320	5,464,179
Mental Health Treatment (PA)	0	6,279,172	4,246,805	3,637,745	14,163,722
Department of Housing and Community Development					
Office of Migrant Services (PA)	0	163,378	0	0	163,378
Administration/SLIAG Education and Outreach					
	741,385	5,681,001	7,454,402	7,803,578	21,680,366
Totals	\$105,222,058	\$318,801,464	\$356,624,285	\$370,952,277	\$1,151,600,084

Note: Unlike other programs, Medi-Cal expenditures are by law recorded in the year they are paid, not in the year they are incurred. The amount reported for Medi-Cal for 1990-91 includes \$20.2 million of incurred expenditures for which the State had received federal reimbursement as of June 30, 1991. However, the amount had not been recorded as a SLIAG expenditure because the budget revision required to process the expenditure was pending at that date.

E - Education program
PH - Public health program
PA - Public assistance program

**HEALTH and WELFARE AGENCY**

OFFICE OF THE SECRETARY
1600 NINTH STREET, ROOM 460
Sacramento, California 95814
(916) 654-3454

October 18, 1991

Kurt R. Sjoberg
Auditor General (Acting)
Office of the Auditor General
660 J Street, Suite 300
Sacramento, CA 95814

Dear Mr. Sjoberg:

We have reviewed the draft audit report from the Office of the Auditor General entitled "Status of Costs Identified and Reimbursed for the State Legalization Impact Assistance Grant" (SLIAG). We generally concur with the facts presented and offer the following comments which may assist readers to interpret the significance of several report observations concerning the funding and claiming of SLIAG costs.

California is recognized by federal Department of Health and Human Services (DHHS) staff who administer the SLIAG program, and by officials of various states which participate in the SLIAG program, as a leader in establishing protocols and rigorous methods to demonstrate the SLIAG reimbursable costs associated with this complex program. While California has received 61 percent of all SLIAG funds allocated to date, it has significantly increased its share to 68 percent of the most recent federal allocations. Additionally, this figure does not reflect the full effect of achievements realized this year which will improve California's ability to document the appropriate SLIAG reimbursable costs of a number of programs. Consequently, we expect that California's resourcefulness and persistence in documenting SLIAG costs will result in an increased share of any future federal SLIAG allocations.

We recognize there were various delays encountered in initially identifying costs associated with the SLIAG program. These start-up delays are not atypical or unexpected for a federal government program of this size, nature, and complexity. Delays in the development and availability to states of both federal regulations and the cost documentation system significantly contributed to delays in identifying costs. Once the tools to accumulate and claim costs were available, the state proceeded expeditiously. Further, it should be noted that initial cost documentation responsibility rests at the provider level before a claim may be

made to the program in question. In none of the health or education programs were the number of providers less than 20 to 30 counties, and in others there were as many as 80 or more private providers.

We further recognize that the state took a cautious approach toward the approval of reimbursable costs under the SLIAG program. Your report cites the case of Los Angeles County, which bases its costs on a sampling plan. It should be noted, however, that the Legislature included control language in each state fiscal year budget that requires that the approval of statistically valid sampling plans include the review and comment of the federal agency responsible for the program (DHHS), and that the state's approval is contingent upon the incorporation of federal comments into the approved methodology. Further, approval of Los Angeles County's SLIAG reimbursable costs required several iterations to devise a fully acceptable sampling plan which addresses the issues raised by all federal, state and local participants in the formulation and review process.

In addition, interim payments for some incomplete claims, including those under the IRCA Subvention program (page 14), actually represent expedited payments in comparison with the alternative of withholding all payments pending the receipt of required final documentation. In our view, it would be a violation of applicable federal cost principles to establish a procedure of routinely making full payments for any claims which were not yet completely documented.

Finally, we take exception to the draft report's suggestion that the federal government's decision to defer SLIAG appropriations was a result of delays in identifying costs and claiming reimbursement from SLIAG funds. Rather, we would submit that other budgetary pressures and priorities resulted in the federal government's decision to defer some SLIAG funds from FFY 1990 and 1991 to FFY 1992 or 1993 -- not due to the state's alleged slow drawdown of SLIAG funds. Indeed, California's testimony to Congress, subsequent reports by the United States General Accounting Office and DHHS Office of the Inspector General, your draft report, and current experience confirm that California's accrued costs will shortly exhaust its remaining SLIAG funding balance. *


Since the report is of a factual nature indicating the status of the program through June 30, 1991 and there are no specific findings and recommendations, we have no further comments.

*The Office of the Auditor General's comment on this response begins on page 33.

Mr. Kurt R. Sjoberg
Page 3

We appreciate the opportunity to respond to the draft report. If you have any questions, please contact me at (916) 654-3454 or have your staff contact Mr. Richard Epstein, Special Assistant, at (916) 654-2829.

Sincerely,



RUSSELL S. GOULD
Secretary

cc: Molly Joel Coye, M.D., M.P.H., Director
Department of Health Services

Lonnie Carlson, Interim Director
Department of Social Services

William Mayer, M.D., Director
Department of Mental Health

Thomas Nagle, Director
Employment Development Department

**Comments Office of the Auditor General's Comments
on the Response From the
Health and Welfare Agency**

The secretary of the Health and Welfare Agency has misinterpreted our statement. Referring to the delays in identifying costs and claiming reimbursements, on page 11, we specifically state that “the lack of evidence of current need for SLIAG moneys influenced the federal government’s decisions to defer appropriations and to consider eliminating appropriations for the SLIAG program.” We did not state or imply that the State’s failure to promptly claim costs was the sole reason for the federal decision to defer appropriations or to consider eliminating appropriations for the SLIAG program. However, the delays clearly influenced the federal budget considerations. This assertion is supported by the explicit statement in the president’s budget proposal for federal fiscal year 1992: “Actual costs have been much lower than expected. As a result, this program has effectively become a fiscal subsidy for general governmental costs in a few States. The budget proposes to rescind \$1.1 billion of the funding already made available for 1992.” In addition, the U.S. General Accounting Office drew a similar conclusion about the federal motivation for its budgetary actions. Specifically, in its report, *Funding for State Legalization Impact Assistance Grants Program* (HRD-91-109), issued in May 1991, the General Accounting Office states: “The Congress acted in 1989 and again in 1990 to reduce by about \$1.1 billion the annual appropriations for fiscal years 1990 and 1991. As a result, \$1.1 billion was to be available in fiscal year 1992. These actions were taken because the states were not expected to draw down all the appropriated funds through the end of fiscal year 1991.”



CALIFORNIA STATE DEPARTMENT OF EDUCATION

721 Capitol Mall; P.O. Box 944272

Sacramento, CA 94244-2720

Bill Honig

Superintendent

of Public Instruction

October 10, 1991

Kurt R. Sjoberg, Auditor General (acting)
Office of the Auditor General
660 J Street, Suite 300
Sacramento, CA 95814

F-132

Dear Mr. Sjoberg:

Thank you for the opportunity to review the draft report titled "Status of Costs Identified and Reimbursed for the State Legalization Impact Assistance Grants." We appreciate the work your staff performed in reviewing the State Legalization Impact Assistance Grants (SLIAG) costs of providing educational services to eligible aliens. Your report provides valuable information about the complexities and difficulties involved in implementing the SLIAG program.

Sincerely,

A handwritten signature in cursive script, appearing to read "William D. Dawson".

William D. Dawson
Executive Deputy Superintendent



State and
Consumer Services Agency

OFFICE OF THE SECRETARY

915 CAPITOL MALL, SUITE 200
SACRAMENTO, CA 95814

Building Standards Commission
Consumer Affairs
Fair Employment & Housing
Fire Marshal
Franchise Tax Board
General Services
Museum of Science & Industry
Personnel Board
Public Employees' Retirement System
Teachers' Retirement System
Veterans Affairs

October 11, 1991

Kurt R. Sjoberg
Acting Auditor General
Office of the Auditor General
660 J Street, Suite 300
Sacramento, Ca 95814

RE: Auditor General Report F-132

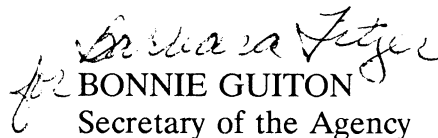
Dear Mr. Sjoberg:

Thank you for the opportunity to review and comment on your draft report entitled "Status of Costs Identified and Reimbursed for the State Legalization Impact Assistance Grants."

We have reviewed your report. Although there are no specific findings related to the Department of Fair Employment and Housing, we agree with your general conclusions that the complexity of the SLIAG program itself rendered prompt implementation of the program difficult.

Again, thank you for the opportunity to comment on your draft report. If you have any questions, please contact Bonnie Parks, Chief Deputy Director, Department of Fair Employment and Housing at 739-4616.

Best regards,


for BONNIE GUITON
Secretary of the Agency

BG:mb

cc: Bonnie Parks, Chief Deputy Director
Department of Fair Employment and Housing

**cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps**