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SENIOR CONSULTANT
GWEN YOUNKER
COMMITTEE SECRETARY

925 L STREET, SUITE 750
SACRAMENTO, CALIFORNIA 95814
(916) 445-0371

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July 23, 1981

014.4

The Honorable President pro Tempore of the Senate
The Honorable Speaker of the Assembly
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits the Auditor General's letter report which analyzes the California Department of Aging's 60-day response to our April 1981 report entitled, "Improvements Warranted in the California Department of Aging's Administration of Programs for the Elderly."

Respectfully submitted,

A handwritten signature in black ink that reads "Walter M. Ingalls".

WALTER M. INGALLS
Chairman, Joint Legislative
Audit Committee



Telephone:
(916) 445-0255

Thomas W. Hayes
Auditor General

STATE OF CALIFORNIA
Office of the Auditor General
660 J STREET, SUITE 300
SACRAMENTO, CALIFORNIA 95814

July 20, 1981

Letter Report 014.4

Honorable Walter M. Ingalls, Chairman
and Members of the Joint Legislative
Audit Committee
925 L Street, Suite 750
Sacramento, California 95814

Dear Mr. Chairman and Members:

In response to your request, we have reviewed the California Department of Aging's 60-day response to our April 1981 report entitled, "Improvements Warranted in the California Department of Aging's Administration of Programs for the Elderly" (Report No. P-014.2). This review was conducted under the authority vested in the Auditor General under Sections 10527 and 10528 of the Government Code.

AUDIT SCOPE

We reviewed the department's responses in terms of the following criteria:

- Accuracy;
- Completeness;
- Relevance; and
- Reasonableness.

In conducting this review, we interviewed key department personnel. We also examined contract and accounting records and policies and procedures for administering programs for the elderly. However, we do not make any conclusion on improvements the department indicates will be completed in the future.

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We were unable to discuss the California Department of Aging's administrative costs due to the time limitations for this review.

ANALYSIS OF THE CALIFORNIA
DEPARTMENT OF AGING'S 60-DAY RESPONSE
TO AUDITOR GENERAL REPORT NO. P-014.2

Redirect Unexpended Federal Funds Since 1973-1974 to Local
Agencies

The Auditor General recommended that the department implement procedures to identify and redirect Older Americans Act funds not used since fiscal year 1973-74.

The department's response detailed funding sources for fiscal year 1981-82 resulting in a projected funding surplus. Also, the department stated that all unexpended federal funds from prior years were allocated to area agencies in a revised allocation plan on June 4, 1981.

The department has failed to respond specifically to the Auditor General's recommendation. The department did not address how it would implement procedures to identify and redirect funds not used since fiscal year 1973-74. In fact, the department has neither established nor implemented procedures to identify and redirect Older Americans Act funds not used since fiscal year 1973-74. However, department officials have indicated that they are developing procedures to comply with the budget control language which must be completed by December 31, 1981.

In its response, the department presented a table that identifies sources and uses of funds for fiscal year 1981-82. The department's figures are not current, nor supported by adequate documentation. The following analysis compares the department's data with information obtained by the Auditor General based upon the best available documentation within the department, and presents the reasons for the differences.

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	<u>California Department of Aging</u>	<u>Auditor General</u>
1. Budget year equivalent of current allocation.	\$61,516,848	\$64,820,419
<p>Our calculation is based upon the department's June 4, 1981 plan to allocate funds to the local agencies for fiscal year 1981-82. This amount is the department's latest estimate of funding needs, and has been allocated to the area agencies.</p>		
2. Projected federal and state allocation for fiscal year 1981-82.	\$57,572,309	\$57,572,309
<p>We agree with the department's estimate. This figure is based upon the amount of federal and state funds received by the department during fiscal year 1980-81. Until Congress passes a budget or authorizes a continuing resolution, the actual amount of the Federal allocation for fiscal year 1981-82 will not be known.</p>		
3. Remaining unexpended prior years' balances (1973-74 through 1979-80).	\$ 2,098,895	\$ 3,824,395
<p>The department's figure is an estimate made in March 1981; however, the department could not support its figure. We calculated the remaining unexpended prior years' balance by adding the \$3,577,753 in unexpended prior years' funds (as of February 13, 1981) identified in our April report to the \$246,642 identified by the department from contract closeouts since February 13, 1981. The department concurs with our figure.</p>		

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	<u>California Department of Aging</u>	<u>Auditor General</u>
4. Projected current year underexpenditure as of June 30, 1981.	\$ 2,165,490	up to \$5,600,000

This amount will not be known until local agency contracts ending on June 30, 1981 are closed. Department officials estimate that these contracts will be closed by December 31, 1981. Therefore, an estimate of projected carryover amounts must be made. In their 1981-82 budgets, the local agencies estimated that they will have approximately \$5.6 million in unused fiscal year 1980-81 funds. The Chief Deputy Director of the department states that the local agencies may have overstated their estimated carryover. This estimate may include an additional \$1.1 million allocated to the agencies but not awarded by contract by June 30, 1981.

5. Other sources of funds.	\$ 0	\$2,262,537
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As of June 19, 1981, the department's accounting records showed \$2,262,537 in fiscal year 1980-81 funds which had not been awarded by contract to the local agencies.

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Closeout All Prior Year Contracts and Post Balances to
Accounting Records

The Auditor General recommended that the department deploy sufficient staff to more promptly close contracts and record adjustments to the accounting records. Further, the department should assign a high priority to expediting contract closures.

The department responded that it has reassigned some of its own staff, obtained staff from another agency, and made some progress in eliminating the backlog of contract closeouts. The department's response indicates all prior years' closeouts will be completed by October 31, 1981, and these closeouts will be posted to the accounting records by November 30, 1981. In addition, current year closeouts will be completed by December 31, 1981, and posted to the accounting records within 30 days.

We found that the department's response is basically accurate, except that contract closeouts have not been assigned highest priority. Further, the department is not currently posting adjustments to its accounting records when a closeout is completed. Therefore, the department's accounting records are not current. Department management said they are correcting errors in the prior year's accounting records before posting contract closeout adjustments.

Improve Accounting Records

The Auditor General recommended that the department:
(1) identify funds to be returned to Federal Government; and
(2) invoice and collect accounts receivable, and record funds promised to local agencies but not yet contracted.

The department's response and our analysis follow:

- Department officials responded that the Administration on Aging has been contacted in an effort to determine the amount of funds which may have to be returned to the Federal Government. We found the department's response to be accurate.

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- Department officials also responded that as of July 1, 1981, all funds due the department will be established as accounts receivable and that special ledger cards will be used to monitor funds promised but not yet obligated to the local agencies.

We found that as of July 10, 1981 the department had not issued invoices or established accounts receivable for funds due the department as a result of closeouts or audit assessments. The department has developed a management report which will show the differences between the total sources of funds and the total funds promised (allocated) to local agencies but not yet contracted. Department officials say that their first management reports will be issued by August 1, 1981.

Minimize Staffing Problems in the Accounting Section

The Auditor General recommended that the department minimize staffing problems in the Accounting Section by: (1) reviewing and analyzing the skills, knowledge, and abilities required for departmental job assignments and staff functions; (2) ensuring that supervisory staff have accounting expertise; and (3) ensuring that accounting staff be adequately trained and supervised.

The department's response and our analysis follow:

- The department did not address part (1) of our recommendation. During our review of the department's 60-day response we learned from the Manager of the Fiscal Branch that an analysis of accounting staff functions has not been performed. However, department management told us that such analysis will be performed in the future.
- The department responded to part (2) that its newly hired accounting staff have substantial and appropriate expertise in the field of accounting. We agree with the department's response.
- The department responded to part (3) that accounting personnel were trained in April and May of 1981 in the state accounting system, and that the Fiscal Officer provides back-up training as needed in accounting and budgeting.

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Our review disclosed that the department is training staff when new procedures are implemented but only two of the seven staff assigned to the Accounting Section have been sent to classes concerning the state accounting system. However, the Fiscal Officer provides weekly training in this area. Further, the department has not yet established procedures to assure that the accounting staff is adequately supervised because the accounting officer is presently devoting full time to closing the department's fiscal year 1980-81 accounting records.

Establish Effective Monitoring and Control of Federal Funds

The Auditor General recommended that the department establish effective monitoring and control of federal funds.

The department responded that as of July 1, 1981, an accounting system had been established which will compare budgets with payments and expenditures for the area agencies.

We learned that the accounting system was not operational as of July 10, 1981. Department management says that its system is being implemented, and its first management report showing the recommended comparisons of budgeted and actual expenditures will be issued by August 1, 1981.

Assign Responsibility and Priority to Promptly Process Requests for Funds

The Auditor General recommended that priority be assigned to tasks which expedite the processing of requests for funds, and that deadlines for submitting such requests to the Controller be established.

The department responded that new procedures for processing requests for funds were in effect July 1, 1981, and that claims for funds must be scheduled and sent to the Controller within six working days.

Our analysis showed that the department's response is accurate. However, procedures for processing requests for funds have not been implemented long enough to allow us to review and comment on their effectiveness.

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Complete a Manual for Local Agency and Department Staff Use

The Auditor General recommended that a manual be completed for use by both the department and the local agencies.

The department responded that the manual was completed May 1, 1981 and has been distributed to area agencies and department staff. A manual addressing internal procedures will be completed by September 30, 1981.

We learned that a program manual has been completed and has been distributed to the Area Agencies on Aging and department staff. Due to time limitations, we are unable to comment on the content of the manual.

Clarify the Roles and Responsibilities of the Staff Providing Technical Assistance to the Local Agencies

The Auditor General recommended that the roles and responsibilities of the staff providing technical assistance be clarified.

The department responded that such clarification of responsibilities has been completed through the management by objective process.

In our opinion, the department's response does not address our recommendation. The management by objective process is not yet a functional process because action steps were still being developed as of May 28, 1981. We therefore question how this process has clarified the responsibilities of the analysts charged with providing technical assistance to the local agencies.

The department has, however, issued guidelines for the development and use of the technical assistance plan and has completed a program manual. Department officials said use of the technical assistance plan and the program manual have helped to clarify the analysts' responsibilities. If a program analyst encounters a problem involving nutrition or fiscal matters, he or she will refer the problem to the nutrition or fiscal analyst assigned to that specific area. Also, the program manual is the basic tool for providing technical

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assistance. It is used by both local agency and department personnel as the common reference for answering questions. These actions indicate the department is addressing our recommendation.

Develop a Needs Assessment Policy for the 1982-83 Planning Cycle

The Auditor General recommended that the department develop and implement a needs assessment policy.

The department responded that the federal Administration on Aging, in a recent baseline assessment report, stated that the department has implemented a workable system for determining the needs of California's older persons. Department officials further indicated that a discussion paper on needs assessment would be distributed to department and area agency staff before June 30, 1981 to solicit input to further refine the assessment process.

Our analysis disclosed that the department had not yet developed a needs assessment policy as of July 10, 1981. Although the federal Administration on Aging indicates that the department has implemented a workable system for determining the needs of the elderly, its assessment report also notes that the department does not have a reliable mechanism in place for the ongoing determination and analysis of existing resources available in the state to meet the needs of the elderly.

On June 22, 1981, the department issued a discussion paper setting forth a framework for improving the ability of the department and area agencies to make more effective resource allocation decisions. The department's schedule for completion of major mileposts follows:

	<u>Completion Date</u>
- Data collection	09-15-81
- Data analysis	12-31-81
- Development of policy memorandum	05-31-82
- Dissemination to aging network	06-30-82

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Perform Assessments on the 33 Area Agencies On Aging

The Auditor General recommended that the department perform annual assessments of the Area Agencies on Aging and report the results on a timely basis. Such assessments include a review of the local agencies' current operations.

The department responded that all assessments had not been completed by June 30, 1981 as indicated in the department's initial response to the Auditor General's audit. However, the department had completed 23 area agency assessments by June 3, 1981. Department officials further indicated that all area agencies will be assessed during fiscal year 1981-82.

Our analysis disclosed that the department's response is accurate. As of July 10, 1981, fiscal and program assessments have been completed for 25 of the 33 Area Agencies on Aging; the remaining 8 area agencies are scheduled for assessment.

Develop and Institute an Audit Program

The Auditor General recommended that the department develop and institute an audit program designed to review all aspects of local agency operations, and establish appropriate audit resolution procedures.

The department responded that a schedule has been developed to audit all 33 area agencies by September of 1982. Each area agency will be audited every two years for compliance, financial accountability, and economy and efficiency using Standards for Government Auditing. In addition, department management and audit staff held a meeting on July 1, 1981 to develop an audit resolution process. Department management states that such procedures will be finalized by October 1, 1981 and will be included in its Administrative Manual.

We found that the department's revised schedule for auditing all 33 Area Agencies on Aging indicates that such audits commenced July 1, 1981, and will continue during 1982. We reviewed the department's audit programs. Time did not permit us to perform a detailed analysis of these programs to determine their adequacy or sufficiency; however, we noted that the department's audit programs include compliance, financial accountability, and economy and efficiency segments.

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Ensure That All Sanctions are Adequately Reviewed

The Auditor General recommended that the department ensure that all sanctions are adequately reviewed before issuance.

The department responded that the draft revision of the sanction procedures was completed on June 3, 1981. The sanction log has been revised to include all steps in the process, and requires contact with the appropriate service provider prior to initiating a sanction.

Our analysis indicates that the department's response is accurate. Since the revised procedure is newly established, we cannot determine whether such procedure is being followed. The director presently signs all sanctions.

Respectfully submitted,



THOMAS W. HAYES
Auditor General

Staff: Robert E. Christophel, Audit Manager
Georgene Bailey
Sandra Bevers, CPA
Geraldine Parks, CPA