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December 3, 1982

Letter Report 231

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 progress of the Department of Aging (department) in implementing the recommendations contained in our April 1981 report entitled, "Improvements Warranted in the California Department of Aging's Administration of Programs for the Elderly" (P-014.2). We have also reviewed the department's allocation of funds to local agencies under the Federal Older Americans Act of 1965, as amended. Finally, we have evaluated the department's efforts to recruit and employ citizens 60 years of age and older. We conducted this review under the authority vested in the Auditor General by Section 10500 et seq. of the Government Code. Further, we conducted our review in accordance with generally accepted governmental auditing standards necessary to accomplish the work requested by the Legislature.

The department has made significant improvements in its procedures to identify and redirect unused federal funds. For example, it has revised procedures for processing reports submitted by local agencies at the end of their contracts, and it has established new procedures to improve accounting records. However, the department needs to ensure that entries made to adjust the accounting records are sufficiently detailed and are properly reviewed and approved. The department has also improved its procedures to assist local agencies and to control these agencies' operations effectively. Furthermore, in fiscal year 1980-81, the department developed a new formula for allocating funds to local agencies under the Older Americans Act of 1965, as amended. However, the department did not precisely adhere to this formula in determining the grants for all local agencies for fiscal year 1982-83.

The department has also developed an employment policy to ensure that workers aged 60 years and over receive preference in hiring. Although the department has not followed all aspects of this employment program, it has coordinated some of its efforts with the State Personnel Board to focus on recruiting older workers. In spite of these efforts, however, the department is limited in what it can accomplish in hiring older workers because only a limited number of job vacancies occur each year.

BACKGROUND

Section 9300 et seq. of the Welfare and Institutions Code designates the California Department of Aging as the single state agency to administer funds allocated to the State under the Federal Older Americans Act of 1965, as amended. As the state unit on aging, the department is responsible for planning, coordinating, and monitoring programs to develop a statewide network of comprehensive services for persons 60 years of age and older.

In our April 1981 report, we stated that the department's inefficient management of federal funds had resulted from weaknesses in its administration of programs for the elderly. The report also indicated that the department had not adequately assisted local agencies or effectively controlled their operations. Consequently, the department could not assure the Legislature or the Federal Government that the State's programs for the elderly were efficiently operated and controlled or that the elderly were being effectively served.

SCOPE AND METHODOLOGY

We reviewed the department's progress in implementing our recommendations by interviewing key personnel in both the department and the Federal Administration on Aging. We also examined the department's contract and accounting records, its formula for allocating funds to local agencies under the Older Americans Act of 1965, as amended, and its procedures for administering programs for the elderly. Finally, we reviewed with the State Personnel Board the department's program for recruiting and employing older citizens.

AUDIT RESULTS

In this section, we present the results of our review. We first describe the Department of Aging's progress in implementing the recommendations contained in the Auditor General's April 1981 report. We then discuss the department's allocation of Older Americans Act funds to local agencies. Finally, we address the department's efforts to recruit and employ citizens 60 years of age and older.

The Department of Aging's Progress in Implementing the Auditor General's Recommendations

In our report dated April 1981, we recommended that the department adopt certain measures to ensure that it uses all federal funds. Specifically, we recommended that the department implement procedures to identify and redirect to local agencies all Older Americans Act funds not used since fiscal year 1973-74. To identify all federal funds, the department had to close out all contracts from previous years and record any adjustments to its accounting records. The department also had to identify all funds to be returned to the federal government.

We found that the department has made significant improvements in its procedures to identify and redirect all unused federal funds. It has developed procedures for identifying unused funds prior to fiscal year 1980-81 as well as new procedures for administering and recording funds for fiscal year 1981-82 and subsequent years. As a result, the department now has effective procedures that will allow it to determine the amount of funds available for programs for the elderly.

Procedures for Identifying Funds Prior to Fiscal Year 1980-81

To determine accurately the unused funds from previous years, the department verified local agency expenditures for the period from fiscal year 1973-74 through fiscal year 1980-81. Since local agencies reported their expenditures during this period only in contract close-out reports, the department's Fiscal Management Branch (Internal) obtained and reviewed all

of these reports to verify the actual expenditures against the amounts authorized by the contracts.* The department identified unused funds from local agencies no longer under contract with the department and, since these monies had to be refunded to the federal government, deducted these funds from the department's federal grant. Finally, to determine the total unused federal funds since fiscal year 1973-74, the department calculated and accumulated the amount of funds remaining from contracts for previous fiscal years.

The department also determined the amount of money that had been advanced to each local agency in previous years. The difference between the amount of funds advanced to the local agencies and the amount of funds the local agencies had reported as expenditures on their close-out reports represented unearned funds, that is, money the local agencies had received from the department but had not spent for program services and thus had not earned. The department treats unearned funds for each year as advances against a local agency's contract for the following year. The cumulative effect of this process has been that most local agencies have, over the years, received funds in excess of the amount of services they have provided.

Currently, the department is advising each local agency of the amount of unearned funds that the agency has accumulated since fiscal year 1973-74 and is requiring these agencies to apply the excess unearned funds to their current expenditures. The department has also asked local agencies to submit to the department any information that indicates there may be some differences in these accumulated totals. In this way, the department can ensure that its records are complete and accurate. These new procedures not only aid the department in determining the amount of previously unused federal funds but also in identifying precisely where such funds are located. Once this process is completed, the department will have identified the amount of previously unused federal funds and will have ensured that such funds are used by local agencies to provide appropriate services for the elderly.

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* Contract close-out reports are prepared by the local agencies when their contracts with the department expire. These reports detail the local agencies' assets, liabilities, income, and expenditures.

Procedures for Closing Contracts

In our April 1981 report, we recommended that the department promptly close contracts and record adjustments to its accounting records. As of August 31, 1982, the department had closed all outstanding open contracts. Presently, all local agency contracts end on June 30, and the subsequent close-out reports are not due from the local agencies until August 31; therefore, the only close-out reports that the department has had to process in the last six months have been revised contract close-out reports.*

The department has changed its procedures for closing contracts. Previously, a contract close-out report could be revised as many times as a local agency director wanted to revise it. The new procedures eliminate this practice. When the contract ends, the local agency has 60 days to submit its close-out report to the department. Once the department processes the close-out report, the local agency cannot revise the report further. After it has submitted its report, a local agency can only make changes resulting from subsequent audit findings.

These revised procedures should greatly improve the department's administration of federal funds. According to the Manager of the Fiscal Management Branch (Internal), when a local agency previously revised a close-out report, the revision often entailed an increase in that agency's reported expenditures for program services. Such increased expenditures resulted in decreased funds remaining at the end of both that particular fiscal year and subsequent fiscal years. The revised close-out procedures will prevent this situation from

* According to the Manager of the Fiscal Management Branch (Internal), when the department advised local agencies that they had accumulated unearned funds, many agencies submitted revised close-out reports to the department, increasing their expenditures under a prior year contract. The department is planning to audit the newly reported expenditures of these agencies.

occurring and will also enable the department to determine the amount of funds remaining at local agencies when close-out reports are completed at the end of the contract year. The department can therefore ensure the maximum use of federal funds for programs for the elderly.

Weaknesses in Accounting Records and Supervision

In April 1981, we also reported that the department's accounting records lacked sufficient detail to enable management personnel to make decisions. This weakness was the result of staffing problems in the accounting section. We recommended that the department ensure that accounting staff are adequately trained and supervised. Again, the department has made considerable improvements in its Fiscal Management Branch (Internal). Two weaknesses still exist, however. Adjustments to prior years' accounting records did not include an adequate audit trail so that we could determine all the accounts affected by such an adjustment. In addition, the staff in the Fiscal Management Branch are not consistently following the department's new procedures for reviewing and approving adjustments to the accounting records.

As we discussed earlier, Fiscal Management Branch personnel have verified local agencies' expenditures and advances against prior year contracts. In some cases, when the accounting records were adjusted, the adjustments affected more than one account. Although the adjustments appear to be correctly made and adequately documented, there is no entry or record that indicates all the accounts affected by each adjustment.

During our analysis, in January 1982, of the department's six-month response to our report, we noted that responsible accounting personnel were not approving adjustments made to the department's accounting records. Since then, the department has amended its procedures. An accounting technician now prepares the entries to adjust the accounting records, and the senior accounting officer is required to review and approve all such entries. However, we found that these procedures are not being followed consistently. For example, the senior accounting officer had not approved some entries adjusting prior years' accounting records and could not explain the significance of these adjustments.

According to department officials, the department has had difficulty in implementing these accounting procedures for three reasons. First, the department was required to revise all of its federal reports from fiscal year 1973-74 through fiscal year 1980-81 to comply with state budget control language. Making these revisions forced the department to use accounting staff who otherwise would have been available to implement its accounting procedures. Second, beginning July 1, 1982, the department was scheduled to enter its accounting records on CALSTARS, the State's new automated accounting system. The transition to CALSTARS also used accounting staff who otherwise would have been available to implement the new accounting procedures. Finally, the senior accountant retired, and the new staff person had less than three days to learn the procedures from the outgoing staff person. Because of these factors, the department reordered its procedural priorities, and some of the department's new accounting procedures were not followed.

Procedures to Assist Local Agencies
and to Control Their Operations

We also made recommendations to the department for improving its assistance to local agencies and for enhancing its control over the operations of local agencies. The department has made satisfactory progress in implementing our recommendations. Specifically, the department has taken the following actions:

Completing and Updating Manuals - The department has completed both a program manual and an administrative manual. The program manual was completed and distributed to local agencies in May 1981, and the department is currently developing improved procedures for routinely updating this manual. The department's official policies and procedures are contained in the administrative manual, which was distributed to department staff in September 1981. These policies and procedures are supplemented by functional handbooks, that is, desk manuals outlining specific instructions for each function addressed in the administrative manual. According to department officials, these desk manuals will be distributed to department staff by December 1982.

Clarifying Roles of Staff Providing Technical Assistance - The department has improved its technical assistance by providing the local agencies with complete, current program and financial operations manuals and by restructuring its staff to provide needed technical assistance. In addition, training sessions have enhanced the department's efforts to provide technical assistance. In July 1982, for example, the department conducted extensive training sessions on its new contract close-out procedures. The department also assisted the local agencies in upgrading their records to meet required federal reporting standards.

Developing A Needs-Assessment Policy - The department has developed and implemented a needs-assessment policy for the fiscal year 1982-83 planning cycle. The department has also explained the process for developing and using needs-assessment data for planning and for allocating resources by both the State and the local agencies.

Performing Annual Assessments of Local Agencies - The department has completed assessments of program operations for all 33 local agencies, and it has reported the results of these assessments to the local agencies. Furthermore, the department has established quality assurance teams to review the operations of local agencies to ensure that they have installed appropriate fiscal systems and that these systems comply with federal requirements.

Developing an Audit Program and Audit Resolution Processes - In the April 1981 report, we recommended that the department develop and institute an audit program to review all aspects of local agency operations and that it establish appropriate procedures for resolving audit findings. The department is making satisfactory progress in its continuing audits of the local agencies, and it has completed an audit resolution process. To resolve audit findings, the department requires an agency to provide either documentation to resolve the audit finding or a plan of corrective action. In cases involving disallowed costs, the agency must prepare a repayment plan.

The Department's Formula
for Funding Local Agencies

In fiscal year 1980-81, the department developed a funding formula based upon the participation of the 33 local agencies and the information obtained at hearings held throughout the State; this funding formula was designed to comply with federal regulations. However, the department did not follow this funding formula precisely in determining the fiscal year 1982-83 allocations to the local agencies.

The federal regulations require state agencies to develop a funding formula that includes an equal base amount for each local agency. The formula must also consider the number of persons 60 years of age and older within each local agency's jurisdiction. And finally, the formula must consider the number of persons 60 years of age and older having the greatest social or economic need within the local agency's jurisdiction.

To meet these federal requirements, the department developed an Intrastate Funding Formula. To provide continuity with previous funding levels, the department developed a minimum level of funding for each local agency. This minimum level is called the "hold harmless" level. The department guarantees that each local agency will receive at least its "hold harmless" amount if sufficient federal funds are available. Therefore, to the extent that federal funds are available to cover the total allocation, the allocation to each local agency may be either its "hold harmless" amount or the amount determined by the formula, whichever is greater. When federal funds are insufficient to cover the total allocation according to the funding formula, the department distributes the funds that exceed the "hold harmless" allocation equitably among those local agencies whose funding formula amounts exceed their "hold harmless" amounts.

The department has published these procedures in its program manual, which is distributed to the local agencies. The department has also conducted training sessions so that local agency personnel can better understand how the federal funds are allocated.

Our review of the formula for funding local agencies disclosed that, in determining its fiscal year 1982-83 estimated allocation, the department did not follow its established procedures precisely. Department officials had decided that each local agency would receive the same baseline amount in fiscal year 1982-83 that it received in fiscal year 1981-82. (The 1981-82 allocations were determined by the funding formula.) Then, the department made the following three adjustments to these amounts. The department increased one local agency's allocation by $150,000. According to the chief deputy director, this agency convinced the department that its "hold harmless" funding was underestimated. Thus, the department added the $150,000 to the local agency's nutrition program allocation. In another instance, the department increased a local agency's nutrition program allocation by $26,387 because, according to the department's chief deputy director, the funding for one of the agency's nutrition sites was omitted from previous allocations. Finally, the allocation to the Native American nutrition programs was increased by $140,000. The allocations noted in these three instances totaled $316,387, which represents approximately one-half of 1 percent of the total federal funds for social services and nutrition estimated for California.

The Department's Efforts To
Recruit and Employ Older Citizens

The federal law provides that, subject to the requirements of the merit employment system of the State, the California Department of Aging shall give hiring perference for any staff positions to persons 60 years of age or older. Furthermore, in September 1981, the State Personnel Board issued a memorandum reminding all agency secretaries and department directors to take the action necessary to prevent or prohibit discrimination for any reason, including age. This memorandum states that "special attention should be directed to those persons 60 years of age and older."

To comply with federal and state requirements, the department set forth its hiring policy in its Equal Employment Opportunity Program of 1981 (program), which prohibits discrimination based on age. Departmental policy also provides for preference in hiring older workers. Although the department's program

contains the written policy for recruiting and hiring older persons, the department has not implemented the specific recruitment objective contained in this program.

The department's program specifies that the affirmative action officer is to evaluate the effectiveness and efficiency of the program and to submit recommendations for improvements and corrections where necessary. According to the department's personnel officer, these tasks have not yet been completed. The program further states that the department will establish a recruitment effort focused on hiring the elderly. Again, according to the personnel officer, the department has not prepared a formal program for recruiting older persons.

The department has, however, taken some action to recruit older persons. For example, during fiscal year 1981-82 and in conjunction with the State Personnel Board, the department focused its recruitment efforts on older persons. The department sent notices of vacant Aging Programs Analyst positions to senior citizens organizations and provided a recruiter to speak to those organizations. This recruiter provided information about the position, the department, the examination, and the State's personnel system. In addition, department staff sat on the State Personnel Board's qualifications appraisal panel for the Aging Programs Analyst positions.

In spite of these efforts, the department is limited in what it can accomplish in recruiting and hiring persons 60 years of age and older. For example, in the focused recruitment effort mentioned above, the department placed some 265 persons on an eligibility list; 37 of these 265 (14 percent) are 60 years of age or older. However, the department can hire only a few of these persons because, according to the department's personnel officer, an average of only eight to ten vacancies occur in the Aging Programs Analyst classification within the department each year. Thus, over the two-year life of this eligibility list, the department could employ only about 20 persons. As of September 30, 1982, two positions were vacant; however, because of the hiring freeze, the department cannot fill these two positions.

CONCLUSION

The Department of Aging has made significant improvements in its procedures to identify and redirect unused federal funds. For example, it has revised procedures for processing contract close-out reports, and it has established new procedures to improve accounting records. However, the department needs to ensure that adjustments to the accounting records are sufficiently detailed and properly reviewed and approved. The department has also improved its procedures to assist local agencies and to control the agencies' operations effectively.

Furthermore, in fiscal year 1980-81, the department developed a new formula for allocating funds to local agencies under the Older Americans Act of 1965, as amended. However, the department did not precisely follow its formula in determining the grants for all local agencies for fiscal year 1982-83.

Finally, the department has established a policy to give hiring preference to persons 60 years of age or older. Although the department has not implemented all of the aspects of this policy, it has taken positive steps to address this issue.

Respectfully submitted,

for THOMAS W. HAYES
Auditor General

Staff: Robert E. Christophel, Audit Manager
Georgene L. Bailey
Hermelinda Rendon
Anthony F. Majewski

Attachment: Response to the Auditor General's Report
Department of Aging

DEPARTMENT OF AGING
1020 19th STREET
SACRAMENTO, CALIFORNIA 95814
(916) 322-5290
TDD 445-1788

November 15, 1982

Honorable Thomas W. Hayes
Auditor General
660 J Street, Suite 300
Sacramento, CA 95814

Dear Mr. Hayes:

This letter responds to your November 12, 1982 draft copy of your letter report concerning the progress of the California Department of Aging in implementing recommendations made in your April 1981 Audit Report.

We are pleased with the overall report and extend our appreciation to your staff for their excellent and in-depth understanding and reporting of the progress that the Department has made.

We would like, however, to address two areas we feel require a response to bring the Department to its current state of progress. They are as follows:

1. Page 6 - Weaknesses in Accounting Records and Supervision

   The two weaknesses noted here concern adjustments made to prior year's accounting records without adequate audit trail and staff not consistently reviewing and approving adjustment to the accounting records.

   These weaknesses were made evident at the time your staff conducted their informal exit interview. The Department at that time shared with your staff a copy of a memorandum that had been prepared instructing the new accounting officer to approve all Journal Entry adjustments and copies of the Department's new forms were made available which clearly identify adjustments to accounting records (see attached).

2. Page 11 - The Department's Efforts to Recruit and Employ Older Citizens

   The area we wish to address is that according to the Personnel Officer, the Department had not prepared a formalized program for recruiting older persons.

   At the time of your review, the Department was awaiting the outcome of ACR 89 concerning the hiring requirements of individuals age 60 and older, prior to preparing a written departmental work plan. The requirements of ACR 89 have since been determined and we are enclosing a copy of the Plan for your information.

Again, we are very pleased with your letter report, but felt this most recent update would be informative.

Most sincerely,

JANET J. LEVY
Director

Attachments*

cc: William J. Kurtz, Chief Deputy Director, Department of Aging
James C. Harrell, Deputy Director, Administration and Finance Division
Barbara M. Fagernas, Assistant Deputy Director, Fiscal Operations

* Auditor General's Note: We have not included these attachments in our report. Copies can be obtained from the Auditor General's Office.