

# California State Auditor

B U R E A U O F S T A T E A U D I T S

## **State of California:**

*Internal Control and State and Federal  
Compliance Audit Report for the Fiscal  
Year Ended June 30, 2004*



March 2005  
2004-002

The first five copies of each California State Auditor report are free. Additional copies are \$3 per copy, payable by check or money order.

You can obtain reports by contacting the Bureau of State Audits at the following address:

**California State Auditor  
Bureau of State Audits  
555 Capitol Mall, Suite 300  
Sacramento, California 95814  
(916) 445-0255 or TTY (916) 445-0033**

**OR**

**This report is also available  
on the World Wide Web**

<http://www.bsa.ca.gov/bsa>

The California State Auditor is pleased to announce the availability of an on-line subscription service.

For information on how to subscribe, please contact the Information Technology Unit at (916) 445-0255, ext. 456 or visit our Web site at <http://www.bsa.ca.gov>

You can obtain a copy of the State's Single Audit Report, which includes this report, the State's audited financial statements, and an overview of the State's economy, from the Web site of the Department of Finance:

<http://www.dof.ca.gov>

**Alternate format reports available upon request.**

Permission is granted to reproduce reports.



# CALIFORNIA STATE AUDITOR

---

ELAINE M. HOWLE  
STATE AUDITOR

STEVEN M. HENDRICKSON  
CHIEF DEPUTY STATE AUDITOR

March 23, 2005

2004-002

The Governor of California  
President pro Tempore of the Senate  
Speaker of the Assembly  
State Capitol  
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As required by California Government Code, Section 8542 et seq., the Bureau of State Audits presents its audit report concerning our review of the State of California's internal controls and compliance with state and federal laws and regulations for the year ended June 30, 2004.

This report concludes that the State continues to experience certain problems in accounting and administrative practices that affect its internal controls over financial reporting and over compliance with federal requirements. Due to inadequacies in the accounting records for the Crime Victim Assistance program, we were unable to obtain sufficient documentation to determine whether the State adequately complied with the relevant federal requirements. For the remaining programs we reviewed, we found that although the State has not always complied with some state and federal regulations, none of the problems we noted in these other programs are significant to the State's financial statements or the federal programs it administers. Nonetheless, weaknesses in the State's internal control system could adversely affect its ability to provide accurate financial information and to administer federal programs in compliance with applicable requirements.

Respectfully submitted,

ELAINE M. HOWLE  
State Auditor

# TABLE OF CONTENTS

---

<b>AUDITOR'S SECTION</b>	1
Independent Auditor's Reports on Internal Control and on Compliance and Other Matters	3
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards	5
Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	9
Schedule of Findings and Questioned Costs	15
Internal Control Compliance and Issues Applicable to the Financial Statements and State Requirements	19
Compliance Issue Related to All Federal Grants	29
Compliance and Internal Control Issues Related to Specific Grants Administered by Federal Departments	33
U.S. Department of Agriculture	35
U.S. Department of Housing and Urban Development	44
U.S. Department of Justice	46
U.S. Department of Justice, U.S. Department of Homeland Security	48
U.S. Department of Labor	51
U.S. Department of Transportation	57
U.S. Election Assistance Commission	60
U.S. Department of Education	68
U.S. Department of Health and Human Services	107
U.S. Department of Homeland Security	139
<b>AUDITEE'S SECTION</b>	145
Schedule of Federal Assistance	147
Summary Schedule of Prior Audit Findings	169
Response to the Audit—Department of Finance	205

# **AUDITOR'S SECTION**

Blank page inserted for reproduction purposes only.

# **Independant Auditor's Reports on Internal Control and on Compliance and Other Matters**

Blank page inserted for reproduction purposes only.



# CALIFORNIA STATE AUDITOR

---

ELAINE M. HOWLE  
STATE AUDITOR

STEVEN M. HENDRICKSON  
CHIEF DEPUTY STATE AUDITOR

**Independent Auditor's Report on Internal Control  
Over Financial Reporting and on Compliance and Other  
Matters Based on an Audit of Financial Statements  
Performed in Accordance With Government Auditing Standards**

The Governor and the Legislature of  
the State of California

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of California, as of and for the year ended June 30, 2004, which collectively comprise the State of California's basic financial statements, and have issued our report thereon dated January 28, 2005. We did not audit the following significant amounts in the financial statements of:

Government-wide Financial Statements

- Certain enterprise funds that, in the aggregate, represent 85 percent, 41 percent, and 50 percent, respectively, of the assets, net assets and revenues of the business-type activities.
- The University of California, State Compensation Insurance Fund, California Housing Finance Agency, and certain other funds that, in the aggregate, represent 76 percent, 89 percent, and 75 percent, respectively, of the assets, net assets and revenues of the discretely presented component units.

Fund Financial Statements

- The following major enterprise funds: Electric Power fund, Water Resources fund, Public Building Construction fund, and State Lottery fund.
- Certain nonmajor enterprise funds that represent 70 percent, 45 percent, and 81 percent, respectively, of the assets, net assets and revenues of the nonmajor enterprise funds.
- The funds of the Public Employees' Retirement System, State Teachers' Retirement System and the University of California Retirement System that, in the aggregate, represent 91 percent, 92 percent, and 70 percent, respectively, of the assets, net assets and additions of the fiduciary funds and similar component units.
- The discretely presented component units noted above.

Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as it relates to the amounts included for those funds and entities, are based on the reports of the other auditors. Except as discussed in the following paragraph, we conducted our audit in accordance

with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

The financial statements of the State Compensation Insurance Fund (SCIF) have not been audited and we were not engaged to audit the SCIF financial statements as part of our audit of the State of California's basic financial statements. SCIF's financial activities are included in the State of California's basic financial statements as a discretely presented component unit and represent 24 percent, 9 percent, and 24 percent of the assets, net assets, and revenues, respectively, of the State of California's aggregate discretely presented component units.

In addition, management has not included the California Earthquake Authority (CEA) in the State of California's financial statements. Accounting principles generally accepted in the United States of America require the CEA to be presented as a discretely presented component unit and financial information about the CEA to be part of the aggregate discretely presented component units, thus increasing the component units' assets, liabilities, revenues, and expenses, and changing its net assets. The amount by which this departure would affect the assets, liabilities, net assets, revenues, and expenses of the State of California's aggregate discretely presented component units is not reasonably determinable.

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit, we considered the State of California's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State of California's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2004-19-1 through 2004-19-4.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

## **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the State of California's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an

opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the governor and Legislature of the State of California, the management of the executive branch, and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BUREAU OF STATE AUDITS

A handwritten signature in cursive script that reads "Philip Jelicich".

PHILIP J. JELICICH, CPA  
Deputy State Auditor

January 28, 2005

Blank page inserted for reproduction purposes only.



# CALIFORNIA STATE AUDITOR

---

ELAINE M. HOWLE  
STATE AUDITOR

STEVEN M. HENDRICKSON  
CHIEF DEPUTY STATE AUDITOR

## **Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133**

The Governor and the Legislature of  
the State of California

### **COMPLIANCE**

We have audited the compliance of the State of California with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The State of California's major federal programs are identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State of California's management. Our responsibility is to express an opinion on the State of California's compliance based on our audit.

The State of California's basic financial statements include the operations of the University of California and the California State University systems, as well as the California Housing Finance Agency, a component unit authority of the State. However, these entities are not included in the accompanying schedule of findings and questioned costs or schedule of federal assistance for the year ended June 30, 2004. The University of California and the California State University systems, and the California Housing Finance Agency, which reported expenditures of federal awards totaling \$3.0 billion, \$1.3 billion, and \$73.1 million, respectively, engaged other auditors to perform an audit in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133).

Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State of California's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion. Our audit does not provide a legal determination of the State of California's compliance with those requirements.

As described in item 2004-1-4 in the accompanying schedule of findings and questioned costs, because of inadequacies in the accounting records, we were unable to obtain sufficient documentation supporting the State's compliance with the Crime Victim Assistance program's (CFDA 16.575) requirements relating

to activities allowed, allowable costs, cash management, eligibility, period of availability, and reporting, nor were we able to satisfy ourselves as to compliance with those requirements by other auditing procedures.

In our opinion, except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the State of California's compliance with the Crime Victim Assistance program's requirements relating to activities allowed, allowable costs, cash management, eligibility, period of availability, and reporting, the State of California complied in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs. See the attachment for a list of these issues.

## **INTERNAL CONTROL OVER COMPLIANCE**

The management of the State of California is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the State of California's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the State of California's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs. The attachment also contains a list of these issues.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 2004-1-4 to be a material weakness.

## **SCHEDULE OF FEDERAL ASSISTANCE**

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of California, as of and for the year ended June 30, 2004,

which collectively comprise the State of California's basic financial statements, and have issued our report thereon dated January 28, 2005. We did not audit the following significant amounts in the financial statements of:

Government-wide Financial Statements

- Certain enterprise funds that, in the aggregate, represent 85 percent, 41 percent, and 50 percent, respectively, of the assets, net assets and revenues of the business-type activities.
- The University of California, State Compensation Insurance Fund, California Housing Finance Agency, and certain other funds that, in the aggregate, represent 76 percent, 89 percent, and 75 percent, respectively, of the assets, net assets and revenues of the discretely presented component units.

Fund Financial Statements

- The following major enterprise funds: Electric Power fund, Water Resources fund, Public Building Construction fund, and State Lottery fund.
- Certain nonmajor enterprise funds that represent 70 percent, 45 percent, and 81 percent, respectively, of the assets, net assets and revenues of the nonmajor enterprise funds.
- The funds of the Public Employees' Retirement System, State Teachers' Retirement System and the University of California Retirement System that, in the aggregate, represent 91 percent, 92 percent, and 70 percent, respectively, of the assets, net assets and additions of the fiduciary funds and similar component units.
- The discretely presented component units noted above.

Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as it relates to the amounts included for those funds and entities, are based on the reports of the other auditors.

In addition, the financial statements of the State Compensation Insurance Fund (SCIF) have not been audited and we were not engaged to audit the SCIF financial statements as part of our audit of the State of California's basic financial statements. SCIF's financial activities are included in the State of California's basic financial statements as a discretely presented component unit and represent 24 percent, 9 percent, and 24 percent of the assets, net assets, and revenues, respectively, of the State of California's aggregate discretely presented component units.

Further, management has not included the California Earthquake Authority (CEA) in the State of California's financial statements. Accounting principles generally accepted in the United States of America require the CEA to be presented as a discretely presented component unit and financial information about the CEA to be part of the aggregate discretely presented component units, thus increasing component units' assets, liabilities, revenues, and expenses, and changing its net assets. The amount by which this departure would affect the assets, liabilities, net assets, revenues, and expenses of the State of California's aggregate discretely presented component units is not reasonably determinable.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the State of California's basic financial statements. The accompanying schedule of federal assistance is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. OMB Circular A-133 requires the schedule of federal assistance to present total expenditures for each federal assistance program. However, although the State's automated accounting system separately identifies receipts for each federal assistance program, it does not separately identify expenditures for each program. As a result, the State presents the schedule of federal assistance on a cash receipts basis. In addition, the schedule of federal assistance does not include expenditures of federal awards received by the University of California and the California State University systems, or the California Housing Finance Agency. These expenditures are audited by other independent auditors in accordance with OMB Circular A-133. The information in the accompanying schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the governor and Legislature of the State of California, the management of the executive branch, and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BUREAU OF STATE AUDITS



PHILIP J. JELICICH, CPA  
Deputy State Auditor

January 28, 2005

Attachment

## ATTACHMENT

The compliance issues are:

2004-1-1	2004-12-4
2004-1-2	2004-12-5
2004-1-3	2004-13-1
2004-1-4	2004-13-2
2004-1-5	2004-13-3
2004-1-6	2004-13-5
2004-2-1	2004-13-6
2004-3-1	2004-13-7
2004-3-3	2004-13-8
2004-3-4	2004-13-9
2004-3-5	2004-13-10
2004-3-8	2004-13-11
2004-3-9	2004-13-12
2004-3-10	2004-13-13
2004-3-12	2004-13-14
2004-5-1	2004-13-15
2004-5-3	2004-14-1
2004-7-1	2004-14-2
2004-12-1	2004-14-4
2004-12-2	2004-14-5
2004-12-3	

The internal control over compliance issues are:

2004-1-2	2004-7-3
2004-1-3	2004-9-1
2004-1-4	2004-9-2
2004-2-1	2004-9-3
2004-3-1	2004-9-4
2004-3-2	2004-9-5
2004-3-3	2004-12-2
2004-3-4	2004-12-3
2004-3-5	2004-12-4
2004-3-6	2004-12-5
2004-3-7	2001-13-4
2004-3-8	2004-13-7
2004-3-9	2004-13-9
2004-3-11	2004-13-11
2004-3-12	2004-13-12
2004-5-2	2004-13-13
2004-5-3	2004-14-3
2004-7-1	2004-14-4
2004-7-2	

Blank page inserted for reproduction purposes only.

## **Schedule of Findings and Questioned Costs**

**STATE OF CALIFORNIA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**Summary of Auditor's Results**

**Financial Statements**

Type of report issued by auditors	Qualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Reportable conditions identified that are not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

**Federal Awards**

Internal control over major programs:	
Material weaknesses identified?	Yes
Reportable conditions identified that are not considered to be material weaknesses?	Yes
Types of reports the auditor issued on compliance for major programs:	
Crime Victim Assistance (16.575)	Disclaimer
All other major programs	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133?	Yes
Dollar threshold used to distinguish between Type A and Type B programs*	\$72.1 million
Auditee qualified as low-risk auditee?	No

---

\* The accompanying Schedule of Federal Assistance includes 42 programs or clusters of programs with cash receipts exceeding the Type A threshold. However, the expenditures for one of these programs, Other-General Services Administration (39.999), did not meet the Type A threshold and, thus, is not a Type A program.

*Identification of major programs:*

<b>CFDA Number</b>	<b>Name of Federal Program or Cluster of Programs</b>
	Aging Cluster
	Child Care Cluster
	Emergency Food Assistance Cluster
	Employment Services Cluster
	Food Stamp Cluster
	Highway Planning and Construction Cluster
	Medicaid Cluster
	Special Education Cluster
	Student Financial Aid Cluster
	WIA Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
10.558	Child and Adult Care Food Program
14.228	Community Development Block Grant/State's Program
14.239	HOME Investment Partnerships Program
16.007	State Domestic Preparedness Equipment Support Program
16.575	Crime Victim Assistance
16.606	State Criminal Alien Assistance Program
17.225	Unemployment Insurance
21.999	Temporary State Fiscal Relief
39.011	Election Reform Payments
66.468	Capitalization Grants for Drinking Water State Revolving Funds
84.002	Adult Education—State Grant Program
84.010	Title I Grants to Local Educational Agencies
84.011	Migrant Education—State Grant Program
84.048	Vocational Education—Basic Grants to States
84.126	Rehabilitation Services—Vocational Rehabilitation Grants to States
84.298	State Grants for Innovative Programs
84.318	Education Technology State Grants
84.357	Reading First State Grants
84.365	English Language Acquisition Grants
84.367	Improving Teacher Quality State Grants
93.558	Temporary Assistance for Needy Families
93.563	Child Support Enforcement
93.568	Low-Income Home Energy Assistance
93.569	Community Services Block Grant
93.658	Foster Care—Title IV-E
93.767	State Children's Insurance Program
93.917	HIV Care Formula Grants
93.959	Block Grants for Prevention and Treatment of Substance Abuse
97.036	Public Assistance Grants
(formerly 83.544)	
97.039	Hazard Mitigation Grant
(formerly 83.548)	

Blank page inserted for reproduction purposes only.

**Internal Control Compliance and Issues  
Applicable to the Financial Statements  
and State Requirements**

Blank page inserted for reproduction purposes only.

## **SECRETARY OF STATE**

Reference Number

2004-19-1

### **CONDITION**

For the fiscal year ending June 30, 2002, we reported that the Secretary of State's Office did not exercise adequate control over its cash account during fiscal year 2001–2002. At the time of our follow-up review in January 2004, we determined that the Secretary of State's Office continued to lack adequate separation of duties in its accounting unit. Specifically, one employee continued to periodically enter data into the automated cash disbursements register and print signed checks. In its corrective action plan, the Secretary of State's Office stated that it had taken appropriate action to ensure that assets are properly safeguarded.

At the time of our follow-up review in August 2004, we determined that the employee continues to periodically enter data into the automated cash disbursements register and print signed checks. This lack of adequate segregation of duties may allow errors and irregularities to go undetected.

### **CRITERIA**

The California Government Code, Section 13401, requires state agencies to effectively maintain internal accounting and administrative controls. Section 13403 indicates that such controls include segregation of duties appropriate for proper safeguarding of state agency assets. In addition, the State Administrative Manual, Section 8080 and 8080.1, provide that the same person should not maintain books of original entry for cash disbursements and produce signed checks.

### **RECOMMENDATION**

We recommend that the Secretary of State's Office ensure that a single individual is not in a position to enter data into the automated cash disbursements register and print signed checks.

### **OFFICE'S VIEW AND CORRECTIVE ACTION PLAN**

The Secretary of State's Office concurs with our finding and indicates that accounting office will not issue checks unless there is adequate staff to differentiate duties between the process of inputting the data and printing the checks.

---

## DEPARTMENT OF FISH AND GAME

Reference Number: 2004-19-2

### CONDITION

For the fiscal year ending June 30, 2003, we reported that the Department of Fish and Game (Fish and Game) had inadequate procedures for accounting and reporting its real property. Fish and Game has two branches that report information on land and buildings and improvements to the Department of General Services' (General Services) Real Estate Services Division for inclusion in the Statewide Property Inventory. Its Land and Facilities Branch is responsible for reporting to General Services and reconciling with the Statewide Property Inventory. Its Fiscal and Administrative Services Branch, Property Unit has the same responsibilities for buildings and improvements. Its accounting unit reports real property information to the State Controller's Office (Controller's Office) for inclusion in the State's financial statements. However, for fiscal year 2001–02, the two branches did not reconcile their data with the Statewide Property Inventory. Further, the two branches and the accounting unit did not reconcile the property listings and Statement of Changes in General Fixed Assets. Also, the accounting unit reported incorrect information to the Controller's Office.

Fish and Game also accounts for and reports real property information for the Wildlife Conservation Board (board). To compare Fish and Game's records to the Statewide Property Inventory, we had to include real property amounts for the board because General Services uses the same agency number for both agencies in the Statewide Property Inventory. Specifically, we determined the following:

- For the year ending June 30, 2002, Fish and Game's property listings for itself and the board had land of approximately \$490.1 million and buildings and improvements of approximately \$89.0 million, while the Statewide Property Inventory had approximately \$587.7 million and \$86.9 million, respectively, differences of \$97.6 million and \$2.1 million, respectively. In some instances, Fish and Game had items on its property listing that we could not match to the Statewide Property Listing. For example, we found 149 land items totaling \$56.4 million on the property listing, but not on the Statewide Property Inventory. Also, we found 191 land items totaling \$150.2 on the Statewide Property Inventory that we could not locate on Fish and Game's property listing.
- Fish and Game and the board's Statements of Changes in General Fixed Assets reported as of June 30, 2002, land of approximately \$578.3 million and buildings and improvements of approximately \$106.1 million, differences of \$88.2 million and \$17.1 million, respectively, greater than the property listings. The primary reason for these differences is that the accounting unit records transactions at year-end that may not have been finalized by June 30. For the year ended June 30, 2002, the accounting unit included land of approximately \$146.4 million and buildings and improvements of approximately \$17.9 million that may not have represented completed asset purchases.
- The accounting unit overstated land additions in the board's Statement of General Fixed Assets by at least \$2.5 million by including cash grants given to a non-state entity. In addition, for fiscal year 2002–03, we determined that Fish and Game reported an additional \$65.9 million in cash grants as land additions. Further, in fiscal year 2002–03, Fish and Game understated the gift value of land purchased by the board by \$46.1 million.

In September 2004, we found that Fish and Game had not completed corrective action on these findings, but expects to do so by June 30, 2005.

Unless Fish and Game reconciles its property listings to the Statewide Property Inventory, reconciles its property listings to its Statement of General Fixed Assets, and reports complete and accurate information to the Controller's Office and General Services' Real Estate Services Division, the State's financial statements will be misstated and the Statewide Property Inventory will be incomplete and inaccurate.

## **CRITERIA**

The California Government Code, Section 11011.15, requires each agency to furnish General Services with a record of each parcel of real property that it acquires and to update its real property holdings by July 1 each fiscal year. It also requires General Services to maintain a complete and accurate inventory of all real property held by the State. General Services includes Fish and Game's information in the Statewide Property Inventory. In addition, the State Administrative Manual, Section 7924, requires agencies to annually reconcile the amounts reported in the Statewide Property Inventory with the Statement of Changes in General Fixed Assets.

Additionally, the State Administrative Manual, sections 7463, 7977, and 8660, requires agencies to report to the Controller's Office in a Statement of Changes in General Fixed Assets all additions and deductions to real property funded by governmental funds. The Controller's Office includes this information in the State's financial statements.

## **RECOMMENDATIONS**

To ensure that it reports complete and accurate information for the State's financial statements and the Statewide Property Inventory, Fish and Game should:

- Annually reconcile amounts it reports for the Statewide Property Inventory with its and the Wildlife Conservation Board's Statements of Changes in General Fixed Assets.
- Report in the Statement of Changes in General Fixed Assets real property that has been acquired on or before the end of the fiscal year.
- Report in the Statement of Changes in General Fixed Assets only real property acquired for the State.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Fish and Game concurs with the identified weaknesses in reporting and reconciling general fixed assets. It states that it is updating the database that captures property listings and has a plan to update and bring current its property database by June 2005. In addition, Fish and Game indicated that it no longer counts grants as land additions.

---

## **VARIOUS STATE DEPARTMENTS**

Reference Number: 2004-19-3

### **CONDITION**

State departments do not always report their employees' taxable fringe benefits and business expense reimbursements. Federal and state tax laws require that employers report income and related tax amounts for payments other than regular wages, including fringe benefits and business expense reimbursements. Fringe benefits—cash, property, or services received in addition to regular pay—are reportable as taxable income unless specifically excluded or deferred in Internal Revenue Service (IRS) regulations. Examples of such taxable reimbursements include mileage compensation for commuting or personal travel between home and office when employees must work overtime (overtime or callback mileage), payment for employees' meals when they must work overtime or travel for less than 24 hours without lodging, and the value of personal use of state vehicles.

The State Controller's Office (Controller's Office) informs state departments through its Payroll Procedures Manual and its Payroll Letters of the IRS and state requirements for reporting taxable fringe benefits and taxable business expenses. State departments must report these employee fringe benefits and business expense reimbursements to the Controller's Office by the 10th of the month following the month in which the payments were made. The Controller's Office then calculates and deducts the required taxes.

Despite these requirements, some departments did not consistently ensure that all employees' taxable benefits or taxable business expense reimbursements were being reported to the Controller's Office. To follow up on concerns we reported for fiscal year 2002–03, we reviewed the reporting of employee taxable benefits and reimbursements at ten state departments for January 2004 to June 2004. We reviewed from nine to 242 travel expense claims at each of these departments to determine whether the departments properly reported employee taxable reimbursements. However, not all of the travel expense claims we reviewed included claims for taxable fringe benefits.

Three state departments that we reviewed, the California Department of Education's California School for the Deaf–Fremont (Fremont), the Department of Fish and Game (Fish and Game), and the Department of Health Services (Health Services) continued to not always ensure that they reported taxable meals and/or taxable mileage reimbursements to the Controller's Office. The table shows the total number of travel expense claims with reportable items that we reviewed and the number of items we found that the departments did not report to the Controller's Office. Of the six meals that Fremont did not report, four were meals that it paid to a headquarters employee who was providing services on Fremont's behalf. However, neither Fremont nor the headquarters reported these taxable items to the Controller's Office. The remaining two items not reported were meals claimed by Fremont's employees. Fish and Game, after we communicated the results of our review, reported 43 of the 54 taxable meals and mileage reimbursements to the Controller's Office.

We also determined if those departments that issued vehicle home storage permits reported the personal use of state vehicles to the Controller's Office. Four state departments that we reviewed, the Department of Industrial Relations (Industrial Relations), the Department of Corrections (Corrections), Fish and Game, and Health Services did not always ensure that they reported the

personal use of state vehicles to the Controller's Office. The table also shows the total number of employees with personal use of state vehicles that we reviewed that were not reported to the Controller's Office.

As we reported for fiscal years 2001–02 and 2002–03, Corrections informed us that its agents are exempt from reporting personal use of state vehicles based on its view of IRS regulations that exempt unmarked law enforcement vehicles if the employee uses the vehicle for law-enforcement functions. However, for the use to qualify as exempt, specific conditions must be satisfied and documented by actual facts and circumstances. For unmarked law enforcement vehicles to qualify, any personal use must be both authorized and incident to law enforcement functions such as reporting directly from home to a stakeout or surveillance site, or to an emergency situation. Travel directly from home to headquarters or from headquarters to home would not be exempt from reporting. Further, Corrections' financial information memorandum of April 2004 states that it cannot issue a blanket certification for all employee assigned vehicles nor automatically continue exemption status to a qualifying employee that later changes his assignment and no longer meets the IRS criteria. The memorandum also states that routine commuting by a peace officer in an unmarked law enforcement vehicle to and from home to a headquarters site does not qualify for exemption from reporting commute miles as a taxable benefit. Corrections had not fully documented the actual facts and circumstances of the daily travel of any of the agents that we tested.

Further, Industrial Relations, Fish and Game, and Health Services continued to lack adequate procedures to help ensure that they consistently and correctly report taxable fringe benefits. In addition, although at the time of our review Fremont did not have written procedures addressing who would report the benefits Fremont pays to headquarters employees performing services on its behalf, it subsequently revised its procedures to help ensure that it consistently and correctly reports these taxable fringe benefits.

## Table

### Reportable Items Reviewed That Were Not Reported to the Controller's Office in Fiscal Year 2003-04

Department/ Institution	Total Number of Travel Expense Claims With Reportable Items Reviewed	Items Not Reported		
		Overtime/ Callback Mileage	Meals for Less Than 24-Hours Travel/ Overtime Meals	Employees With Personal Use of State Vehicle*
Department of Industrial Relations	17	N/A	0	11
California School for the Deaf—Fremont	6	N/A	6	N/A
Department of Corrections	22	0	0	18
Department of Fish and Game	29	31	23	8
Department of Health Services	23	N/A	4	7
<b>Totals</b>	<b>97</b>	<b>31</b>	<b>33</b>	<b>44</b>

Note: Some travel expense claims contained more than one type of reportable item.

N/A = None included in travel expense claims reviewed or no vehicle home storage permits issued.

\* Personal use of state vehicles is reported on documents separate from travel expense claims.

When state departments do not properly report their employees' taxable benefits and business expense reimbursements, the Controller's Office cannot calculate and withhold the related tax, as required by federal and state laws and regulations.

## **CRITERIA**

The Controller's Office Payroll Procedures Manual, sections 120 through 176, provides procedures for reporting to the Controller's Office taxable fringe benefits and business expense reimbursements provided to state employees. These procedures are based on federal and state tax laws. The following benefits and payments included in this manual relate to our testing of agency compliance:

- Section 129.1 states that the use of state-owned or leased vehicles for personal commutes between home and office is reportable taxable income.
- Section 129.1.3 describes an IRS exemption for unmarked law-enforcement vehicles if the use of the vehicle is authorized and incident to law enforcement functions and the actual facts and circumstances are documented.
- Section 130.1.2 states that reimbursements to employees for commuting expenses, such as for expenses from commuting or personal travel between home and office, is considered taxable income. This includes callback and overtime mileage.
- Section 143.3 states that overtime meal compensation is reportable and constitutes taxable income.
- Section 145.1.2 states that meal reimbursement for less than 24-hour travel without lodging is taxable income. Simply stated, if an employee receives reimbursement for meals during travel in which there was no overnight stay, this reimbursement is taxable income.

## **RECOMMENDATION**

To ensure proper reporting, all state departments should ensure that they have procedures established and implemented to properly report taxable fringe benefits and taxable employee business expense reimbursements.

## **DEPARTMENTS' VIEWS AND CORRECTIVE ACTION PLANS**

The Department of Industrial Relations agrees with the finding. It indicates that it will develop written procedures to help ensure that taxable fringe benefits are properly reported.

The Department of Fish and Game agrees with the finding. It states that currently it does not have a centralized process to ensure compliance with the IRS rules, or to review and approve exemptions from reporting taxable benefits for personal use of state vehicles. Fish and Game indicates that it plans to update its desk procedures by June 30, 2005, so that there is a consistent justification and approval process and assurance that the IRS rules are being complied with. In addition, it states that it will communicate these procedures to staff through training or correspondence.

The Department of Health Services agrees with the finding. It states that it will endeavor to research the travel expense claims for proper reporting. It also states that it will establish and implement procedures for the proper reporting of personal use of state vehicles.

The California Department of Education agrees with the finding related to Fremont. It indicates that all six taxable fringe benefits were reported to the Controller's Office in September 2004.

The Department of Corrections agrees with the finding. It indicates that although its Financial Information Memorandum 2004-04, issued April 19, 2004, reiterates the IRS regulations, its interpretation exempted agents based on the description of the vehicle and the individual's specific duties and assignments. Further, its Accounting Management Branch plans to meet with the impacted units to discuss the reporting requirements and to assist them with implementing procedures for documenting the actual facts and circumstances of daily travel not reported to the Controller's Office. Finally, it states that it will amend its Financial Information Memorandum 2004-04 to include procedures on documenting exemptions to reporting taxable fringe benefits for personal use of qualified law enforcement vehicles.

---

## **DEPARTMENT OF PARKS AND RECREATION**

Reference Number: 2004-19-4

### **CONDITION**

For the fiscal years ending June 30, 2002, and June 30, 2003, we reported that the Department of Parks and Recreation (Parks and Recreation) did not have adequate procedures to account for and report its real property. Specifically, its acquisition unit did not report \$3.4 million in ancillary costs for the assets acquired between July 2001 and June 2002. In its corrective action plan, Parks and Recreation had stated that it would train staff on reporting requirements for General Services' Statewide Property Inventory. It also indicated that it had taken steps necessary to ensure that it included ancillary costs of purchasing land in its reporting to General Services.

In November 2004 we followed up with Parks and Recreation to determine whether it reports ancillary costs to General Services for inclusion in the Statewide Property Inventory. We determined that the acquisition unit had not reported the \$3.4 million in ancillary costs of land acquired in fiscal year 2001-02, and still does not report ancillary costs to General Services in a format that allows input into the Statewide Property Inventory system. Specifically, although the unit reported ancillary costs related to new acquisitions by project, it did not report them by parcel number that is necessary for General Services to record these costs in the Statewide Property Inventory.

In November 2004 we also determined that Parks and Recreation has not implemented our prior years' recommendation to reconcile the amounts reported in the Statewide Property Inventory with its Statement of Changes in General Fixed Assets. In December 2004, in an attempt to reconcile the two sources, Parks and Recreation acknowledged a difference of approximately \$167 million between its and General Services' Statewide Property Inventory account balances for land.

In addition, for fiscal year 2002-03, we reported that the accounting unit had only reported to the State Controller's Office about \$1.8 million of the \$64 million gift value of land additions related to fiscal year 2001-02. We also reported that the acquisition unit had reported only

11 of 42 land additions acquired between July 2002 and June 2003 to General Services. During our November 2004 review, we determined that Parks and Recreation corrected these prior deficiencies.

Unless Parks and Recreation reports complete and accurate ancillary cost information to General Services, and periodically reconciles its Statement of Changes in General Fixed Assets with the Statewide Property Inventory records, the State's financial statements may be misstated and the Statewide Property Inventory will be incomplete and inaccurate.

## **CRITERIA**

The State Administrative Manual, Section 8611, requires that all costs related to purchasing land be included in the capitalized amount. This includes ancillary costs such as legal and title fees, title search costs, grading, surveying, draining, etc.

The California Government Code, Section 11011.15, requires each agency to furnish General Services with a record of each parcel of real property that it possesses and to update its real property holdings by July 1 each fiscal year. It also requires General Services to maintain a complete and accurate inventory of all real property held by the State. General Services includes Parks and Recreation's information in the Statewide Property Inventory. In addition, the State Administrative Manual, Section 7924, requires agencies to annually reconcile the amounts reported in the Statewide Property Inventory with the Statement of Changes in General Fixed Assets.

## **RECOMMENDATIONS**

We recommend that Parks and Recreation take the following actions:

- Report ancillary costs to General Services in a form acceptable for inclusion in the Statewide Property Inventory.
- Reconcile the amounts reported in the Statewide Property Inventory with its Statement of Changes in General Fixed Assets.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Parks and Recreation concurs with our findings and indicates that it is working with General Services to develop a process to include ancillary costs in the Statewide Property Inventory. Parks and Recreation also indicates that it has initiated a process to reconcile the amounts reported in the Statewide Property Inventory with its Statement of Changes in General Fixed Assets.

## **Compliance Issue Related to All Federal Grants**

Blank page inserted for reproduction purposes only.

## IDENTIFYING PROGRAM EXPENDITURES

---

Reference Number: 2004-12-1  
Federal Program: All Programs  
Category of Finding: Reporting

### CRITERIA

In our review of federal reports, we determined the following were among state and federal compliance requirements:

The U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133), requires that the State prepare a schedule showing total expenditures for the year for each federal program. Further, OMB Circular A-133 requires that the State identify and audit all high-risk Type A federal programs. Type A programs are those exceeding 15 percent of total federal program moneys the State expends during the fiscal year. The California Government Code, Section 13300, assigns the Department of Finance (Finance) the responsibility for maintaining a complete accounting system to ensure that all revenues, expenditures, receipts, disbursements, resources, obligations, and property of the State are properly tracked and reported.

### CONDITION

Because of limitations in its automated accounting systems, the State has not complied with the provision of OMB Circular A-133 requiring a schedule showing total expenditures for each federal program. As a result, the schedule (beginning on page 147) shows total receipts, rather than expenditures, by program. Expenditure information is necessary to identify Type A programs. To ensure that we identified and audited all high-risk Type A programs, we reviewed accrual basis expenditures, which are identified manually, for all programs that we did not already plan to audit and that had cash receipts within 10 percent of the Type A program threshold. We identified two such programs. Our review of the expenditures of these programs showed that they did not exceed the Type A threshold. We also learned of a third program—Capitalization Grants for Drinking Water State Revolving Fund—whose cash receipts were not within 10 percent of the Type A threshold but whose reported expenditures exceeded it. Thus, this program was audited.

### RECOMMENDATION

As priorities and resources permit, Finance should modify the State's accounting system to separately identify expenditures for all major programs.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Finance states that the State's accounting system will require substantial modification to compile expenditure information to meet all federal and State requirements. Because the State has limited resources, Finance has no plans at this time to enhance the State's accounting system or to implement a new system.

**Compliance and Internal Control Issues  
Related to Specific Grants Administered  
by Federal Departments**

Blank page inserted for reproduction purposes only.

# U.S. DEPARTMENT OF AGRICULTURE

---

Reference Number: 2004-3-12  
Federal Catalog Number: 10.568  
Federal Program Title: Emergency Food Assistance Program  
(Administrative Costs)  
Federal Award Numbers and  
Calendar Years Awarded: 7CA810CA8; 2003  
7CA400CA2; 2004  
Category of Finding: Cash Management  
State Administering Department: Department of Social Services

## CRITERIA

Our review of the Emergency Food Assistance Program identified the following compliance requirement related to cash management:

The Code of Federal Regulations, Title 31, Part 205, Subpart B, provides the cash management requirements for federal programs not covered in the Cash Management Improvement Act agreement between the U.S. Department of the Treasury and the State. Section 205.33 requires the State to limit cash transfers from the U.S. Department of the Treasury to the minimum amounts needed.

## CONDITION

The Department of Social Services (Social Services) did not always limit cash transfers of federal funds to the minimum amounts needed for the Emergency Food Assistance Program. In June 2004 Social Services transferred to the program two advances totaling \$1.9 million in federal funds. According to Social Services, it incorrectly transferred these advances based on May and June estimates to cover monthly expenditures for June. As a result, Social Services had excess monthly balances of federal funds in the State's account from July 1, 2004, through September 23, 2004. The excess balances ranged from \$49,000 to \$1.3 million more than the Emergency Food Assistance Program needed to cover its monthly expenditures.

## RECOMMENDATION

Social Services should limit transfers of federal funds to the minimum amounts needed for the Emergency Food Assistance Program. To accomplish this objective, Social Services should ensure that it follows its procedure to limit advances to monthly estimates and that it promptly liquidates excess cash balances.

## DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

The Department agrees with the recommendation. As a result of previous findings, the Department's estimating methodology was improved to more realistically reflect the cash need for disbursements at the end of the State fiscal year. In June 2003, however, an advance for June 2003 was duplicated in error using May 2003 expenditures. Staff thought the data to be June 2003 actual disbursements and drew the additional funds accordingly. New staff will be trained for the forthcoming year-end and will review the processes associated with the end of year advances to minimize the amount of funds requested.

---

Reference Number:	2004-13-2
Federal Catalog Number:	10.558
Federal Program Title:	Child and Adult Care Food Program
Federal Award Numbers and Calendar Years Awarded:	7CA300CA3; 2003 7CA300CA3; 2004
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Education

### CRITERIA

Our review of the Child and Adult Care Food Program (food program) determined that the following requirement relates to subrecipient monitoring:

The U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 400(d), requires the State to identify federal award information to subrecipients at the time of the award. This includes such information as the Catalog of Federal Domestic Assistance title and number, award name and number, and name of the federal agency.

### CONDITION

The Department of Education (Education) did not adequately fulfill its subrecipient monitoring responsibilities for the food program. Specifically, the application formats Education uses for its child care centers and day care homes did not contain all the required federal award information. After we reported the same issue in March 2004 for the fiscal year 2002–03 audit, Education revised its child care center applications in May 2004 to include the required information. When Education does not identify the federal award information, it cannot ensure that subrecipients of the Food Program correctly identify all their federal grant awards. As a result, subrecipients' independent auditors, who must conduct audits in accordance with U.S. Office of Management

and Budget Circular A-133, may not be aware of all grants they must consider for audit. The State uses the independent audits as one method to monitor subrecipients' compliance with applicable federal requirements and program goals.

## **RECOMMENDATION**

Education should ensure that it identifies and provides all required federal award information to all subrecipients of the food program at the time of the awards.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION**

Education revised its adult day care center, child care center, and day care home agreements and renewal applications to include the required federal award information.

---

Reference Number:	2004-13-7
Federal Catalog Number:	10.557
Federal Program Title:	Special Supplemental Nutrition Program for Women, Infants, and Children
Federal Award Numbers and Calendar Years Awarded:	7CA700CA7; 2002 7CA700CA7; 2003
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Health Services

## **CRITERIA**

Our review of the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC Program) identified the following compliance requirements related to subrecipient monitoring:

The U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133), describes the audit requirements for recipients of federal funds. Sections 200 and 320 require subrecipients spending \$300,000 or more annually in federal awards to submit audit reports to the State when the reports address findings related to the federal awards that the State administers. Audit reports are due within nine months of the subrecipient's audit period. In cases of continued inability or unwillingness of the subrecipient to have the required audits, the OMB Circular A-133, Section 225 requires the State to take appropriate action using sanctions to ensure compliance. The Circular A-133 also requires the State to issue management decisions on audit findings within six months of receiving audit reports and to ensure that subrecipients take appropriate and timely corrective action.

Further, the Department of Health Services (Health Services) has established guidelines requiring its Maternal and Child Health (MCH) Branch to send letters to its local agencies reminding them of the due dates for submitting their audit reports. Health Services' internal guidelines also require the MCH Branch to send late notices 30, 60, and 90 days after the due date of the reports.

## **CONDITION**

Health Services did not always promptly receive all audit reports from its nonprofit subrecipients. Specifically, Health Services received audit reports that were 20 to 268 days late from three of the 20 subrecipients we reviewed who participated in its WIC Program. Health Services did not always receive the required audit reports on time because it did not consistently adhere to its process for obtaining these reports. For the three subrecipients that submitted their reports late, Health Services sent reminder letters and late notices after the due dates and within three days of each other, reducing the effectiveness of the reminder letters and late notices. Additionally, rather than imposing any sanctions, Health Services continued to fund the one subrecipient that was unable to submit its audit report until 268 days after the federal due date. Failure to obtain audit reports promptly may prevent early detection and correction of deficiencies in services provided by subrecipients.

Moreover, Health Services did not require corrective action plans from two of the five subrecipients whose audit reports we reviewed, even though the reports identified material findings related to the WIC Program. Health Services sent letters to the subrecipients indicating that it had completed its review, but it did not request any type of corrective action plan. Discussions with staff from each of the three functional areas involved in tracking and monitoring audit reports from subrecipients revealed that they hold conflicting views regarding which functional area is responsible for identifying when a corrective action plan is needed. By not requiring corrective action plans, Health Services cannot ensure that subrecipients correct deficiencies.

## **RECOMMENDATIONS**

Health Services should ensure that its staff members follow its process for following up on delinquent audit reports from nonprofit subrecipients. Further, it should ensure that it makes clear which functional area is responsible for identifying when a corrective action plan is needed and obtain a plan when appropriate. Health Services should also establish a process to impose sanctions, such as withholding payments, for subrecipients who are continually unable or unwilling to provide the required audit reports.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

### **1. Follow internal process for following up on delinquent audit reports from nonprofit subrecipients.**

*Concur.* MCH and Health Services program staff recognizes that it is important to adhere to the process for obtaining the audit reports and has developed a thorough audit tracking system in order to do so; however, staffing shortages interrupted the ongoing management of the spreadsheets for a period of time. With a new supervisor and staff in place, the process is now back on course.

**2. Clarify which functional area is responsible for identifying when a corrective action plan is needed and obtain a plan when appropriate.**

**Concur.** MCH and Health Services program staff recognizes that it is important to clarify which program is responsible for approving technical corrective action plans involving accounting issues and has done so for the most part. MCH staff routinely handles the 30, 60 and 90-day late notices and sends out audit report approval letters. MCH staff also communicates regularly with Health Services programs to discuss agencies that experience fiscal problem or that have outstanding audits. The challenge is that some Health Services programs do not have the resources to track their own program audits and most do not have the ability to respond to technical accounting issues. Staff from Health Services programs are working together to clarify how to address this problem.

**3. Establish a process to impose sanctions, such as withholding payments, for subrecipients who are continually unable or unwilling to provide the required audit reports.**

**Concur.** Health Services programs have sanction language in their warning letters and staff has used it in the past to gain cooperation from programs. The subrecipient that did not submit its audit report for 268 days, Watts Healthcare Foundation, was involved in bankruptcy proceedings. In addition to MCH sending the late notices, WIC staff sent a probation-warning letter on September 2, 2003. Health Services received the audit once the agency's bankruptcy was resolved and therefore no sanction was imposed. While one clear priority is to ensure that audit reports are submitted in a timely manner, it is of equal importance that services to low-income mothers and children are maintained.

Health Services recognizes that it is a priority to track and monitor compliance with annual audits for fiscal compliance and has developed a detailed system for doing so. This example illustrates the equal importance of maintaining access to services for our low-income mothers and children.

The WIC Program follows the following procedure below to track audit reports:

- Contacting the local agency WIC program coordinator by phone to inform them that the audit report is late so they can investigate the situation. This has been effective in the past, as the agency management has reported back to WIC on the status of the audit report.
- Mailing the probation letter to formalize the audit request and continuing to monitor the response.
- Sanctioning the subrecipient following noncompliance to the probation letter.

Health Services programs continue to work with MCH to further clarify the functional roles and identify resources to improve performance in this area.

---

Reference Number:	2004-13-10
Federal Catalog Number:	10.557
Federal Program Title:	Special Supplemental Nutrition Program for Women, Infants, and Children
Federal Award Numbers and Calendar Years Awarded:	7CA700CA7; 2002 7CA700CA7; 2003
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Health Services

## **CRITERIA**

Our review of the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC Program) identified the following compliance requirements related to subrecipient monitoring:

The Code of Federal Regulations, Title 7, Section 246.19(b)(4), requires the State to promptly notify a local agency of any finding resulting from a monitoring review, and the State must require the local agency to submit a corrective action plan within 60 days of receipt of the State's findings. Finally, this section requires the State to monitor the local agencies' implementation of the corrective action plan.

## **CONDITION**

In fiscal year 2002–03, we reported that the Department of Health Services (Health Services) did not comply with its internal policy requiring it to issue letters of findings to the local agencies within 60 days of the exit conferences. We recommended that Health Services comply with its internal policy; we also recommended that if Health Services believes this deadline is too restrictive, it should consider revising its internal policy. However, rather than revising the policy and establishing a more reasonable deadline, Health Services eliminated the 60-day deadline from its internal policies.

Although it no longer has a 60-day requirement for fiscal year 2003–04, we reviewed the length of time it took Health Services to send letters of findings. We found that Health Services took more than 90 days and as much as 152 days following the exit conferences to send letters of findings to 10 of the 35 local agencies that we reviewed that had findings. Because of the significant amount of time it took to send these letters of findings, we believe it is important that Health Services reestablish a deadline to ensure that it meets the federal requirement of promptly notifying local agencies of findings and requesting corrective action plans. Finally, we also noted that nine of the 35 local agencies for which Health Services reported findings did not submit their corrective action plans within 60 days, as required. Specifically, nine of the local agencies submitted the corrective action plans between one and 142 days late. For another three local agencies required to submit corrective actions plans, Health Services could not provide evidence of when it received

the plans; therefore, we were unable to determine whether Health Services received the plans within 60 days. As a result of these weaknesses, Health Services cannot always ensure that its subrecipients correct deficiencies promptly.

## RECOMMENDATIONS

To ensure that it complies with applicable federal laws and regulations, Health Services should reestablish a reasonable deadline for issuing letters of findings to local agencies to ensure that they submit corrective action plans promptly. Health Services should also work with the local agencies to gain assurance that they submit corrective action plans promptly.

## DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

### 1. Reestablish a reasonable deadline for issuing letters of findings to local agencies to ensure that they submit corrective action plans promptly.

**Do not concur.** The 60-day target date for releasing a Program Evaluation letter of findings to the local agency was removed from the WIC Program Evaluation Training Manual, to be consistent with WIC Program Manual (WPM) Policy 150-10. This policy states, "A letter summarizing the findings and recommendations of the program evaluation team is forwarded to the local agency following the program evaluation". There is no time frame established in the WPM for a letter, because at the time a letter is released, DHS has already complied with the intent of the federal requirement.

DHS is in compliance with 7CFR246.19(b)(4) regarding the prompt notification to the local agency of the monitoring review findings. At the conclusion of the Program Evaluation, a formal Exit Conference is held with local agency management staff. During this Exit Conference, a comprehensive, itemized summary of the PE findings is presented by the PE team and thoroughly discussed. A typical Exit Conference lasts from one to two hours. The above referenced federal citation, states "The State agency must promptly notify a local agency of any finding in a monitoring review that the local agency did not comply with program requirements". The federal regulation is silent relative to the notification being provided orally or in writing. DHS maintains that the formal exit conference immediately following the program review more than satisfies the intent of the regulation.

Requirements aside, DHS concurs that providing a written summary of the evaluation findings within 90 days is a reasonable target, and state staff will work to strengthen its procedures for assuring timely completion, review and release of the letters.

### 2. Work with the local agencies to gain assurance that they submit corrective action plans promptly

**Concur.** State staff will issue reminders to local agencies prior to the due date in order to assure that they submit their Corrective Action Plans promptly.

## AUDITOR'S COMMENTS ON THE DEPARTMENT'S VIEW

If Health Service's position is that it is promptly notifying local agencies of findings as part of the formal exit conferences, we would then expect the local agencies to submit corrective action plans within 60 days of the exit conference rather than 60 days of issuing the letter of findings.

---

Reference Number: 2004-13-15  
Category of Finding: Subrecipient Monitoring  
State Administering Department: Department of Social Services

*(See listing of the specific federal program details following the discussion of the issues below.)*

### CRITERIA

Our review of the Food Stamps program and the State Administrative Matching Grants for Food Stamp Program (Food Stamps programs) identified the following requirements relating to subrecipient monitoring:

The Code of Federal Regulations, Title 7, Section 275.1, requires the State to have a system for monitoring and improving its administration of the Food Stamps programs, particularly the accuracy of eligibility and benefit determinations. Further, Section 275.5 requires the State to conduct management evaluation (ME) reviews regularly based on project area size: once every year for large project areas, once every two years for medium project areas, and once every three years for small project areas. In California, project areas are defined as counties. Finally, the procedures of the Department of Social Services (Social Services) indicate that it conducts three types of reviews to meet these requirements: a claims management review, a California Food Assistance Program review (program review), and a civil rights review.

### CONDITION

Social Services is not fulfilling all its monitoring responsibilities for the Food Stamps programs. For federal fiscal year 2003–04, although Social Services performed the required annual program reviews of seven large counties, it did not conduct any of the claims management reviews and two of the civil rights reviews required for those counties. Because it is not conducting annual reviews of the large project areas as required by the federal regulations, Social Services has less assurance that subrecipients are complying with applicable laws and regulations.

According to an official of the U.S. Department of Agriculture, he has already identified that Social Services is not performing the required annual and biennial reviews, and he is working with Social Services to develop a plan to perform alternative procedures. However, the official also indicated that if Social Services' review efforts are not increased, it could be subject to fiscal sanctions.

## **RECOMMENDATION**

To ensure that its subrecipients are complying with applicable laws and regulations, Social Services should continue to work with the U.S. Department of Agriculture to develop a plan to sufficiently monitor the activities of its subrecipients. However, if it is unable to develop a plan that satisfies the U.S. Department of Agriculture, it should perform the required reviews as outlined in the federal regulations.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

The California Department of Social Services (CDSS) concurs with this audit finding. CDSS is training staff to conduct reviews and will attempt to comply in future years. CDSS's corrective action plan is to continue working with the United States Department of Agriculture, Food and Nutrition Service to resolve these issues related to management evaluation reviews.

### **U.S. DEPARTMENT OF AGRICULTURE**

Federal Catalog Number:	10.551
Federal Program Title:	Food Stamps
Year Awarded:	State fiscal year 2003–04

---

Federal Catalog Number:	10.561
Federal Program Title:	State Administrative Matching Grants for Food Stamp Program
Federal Award Number and Calendar Year Awarded:	7CA400CA4; 2003

# U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

---

Reference Number: 2004-13-12

Federal Catalog Number: 14.239

Federal Program Title: HOME Investment Partnerships Program

Federal Award Number and  
Calendar Year Awarded: M03-SG060100; 2003

Category of Finding: Subrecipient Monitoring

State Administering Department: Housing and Community Development

## CRITERIA

Our review of the HOME Investment Partnerships Program (HOME) identified the following compliance requirements related to subrecipient monitoring:

The U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133), describes the requirements the State must follow when it awards federal funds to subrecipients. Section 400(d)(4) requires the State to ensure that each subrecipient spending \$300,000 or more in federal assistance in fiscal year 2002–03 meets applicable audit requirements, including submitting an audit report to the State within nine months following the end of the audit period. Further, Section 400(d)(5) requires the State to issue a management decision on audit findings within six months after receipt of a subrecipient’s audit report and to ensure that the subrecipient takes appropriate and timely corrective action.

## CONDITION

Housing and Community Development (Housing) lacks an adequate system to ensure that it promptly receives all audit reports from nonprofit subrecipients required to submit them. It also lacks an adequate system to ensure that it issues management decisions on reported findings. Specifically, we found that Housing did not receive the required audit reports for two of the five nonprofit subrecipients that received more than \$300,000 in HOME funds. For one of the two subrecipients, Housing has not taken any action to remind the subrecipient that its audit report is late. Although Housing sent a letter in August 2004 to the other subrecipient reminding it that its report is late, Housing has not taken further action.

Additionally, Housing did not always issue a management decision on audit findings for local governments within six months of receiving audit reports from them and did not ensure that they took appropriate and timely corrective action on the audit findings. Specifically, Housing has not issued management decisions for three of five local governments that had audit findings for

fiscal year 2002–03, even though it received these reports more than six months ago. In addition, Housing has not issued management decisions more than a year after receiving audit reports for four of five local governments that had audit findings for fiscal year 2001–02.

Without effective systems to ensure that subrecipients submit audit reports and take appropriate and timely corrective actions to resolve audit findings, Housing has reduced assurance that its nonprofit subrecipients are spending HOME funds according to applicable laws and regulations.

## **RECOMMENDATIONS**

Housing should establish procedures for ensuring that subrecipients submit audit reports as required. Further, for subrecipients with audit findings, Housing should issue management decisions within six months of receiving the subrecipients' audit reports and ensure that subrecipients take appropriate and timely corrective action on audit findings.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Housing concurs that current procedures should be improved. Housing currently has procedures in place for subrecipient monitoring, including the sending of letters to subrecipients requesting audit reports as required. Current procedures will be expanded to incorporate a more extensive tracking system of subrecipients, timely follow-up of non-responses, regular management meetings regarding the compliance status of subrecipients, etc. In addition, non-compliant subrecipients who have not submitted required audit reports will be subject to performance point reductions in the evaluation of their HOME applications until the required audit report is submitted (Title 25 California Code of Regulations, Section 8212). Non-compliant nonprofit subrecipients will not be certified as eligible Community Housing Development Organizations to participate in the State HOME Program (Title 25 California Code of Regulations, Section 8204.1).

## U.S. DEPARTMENT OF JUSTICE

---

Reference Number: 2004-1-4

Federal Catalog Number: 16.575

Federal Program Title: Crime Victim Assistance

Federal Award Numbers and Calendar Years Awarded: 2000-VA-GX-0006; 2000  
2001-VA-GX-0006; 2001  
2002-VA-GX-0006; 2002

Category of Finding: Activities Allowed, Allowable Costs, Cash Management, Eligibility, Period of Availability, Reporting

State Administering Department: Office of Emergency Services

### CRITERIA

Our review of the Crime Victim Assistance program identified the following compliance requirements related to activities allowed, allowable costs, cash management, eligibility, period of availability, and reporting:

The Code of Federal Regulations, Title 28, Section 66.41, requires the Office of Emergency Services (Emergency Services) to submit financial status reports showing all program outlays and program income. This section also requires Emergency Services to submit federal cash transaction reports, which enable the federal government to obtain information on the disbursements or outlays of each grant. Additionally, the final program guidelines established by the U.S. Department of Justice's Office of Justice Programs require Emergency Services to submit specific grant performance data for the Crime Victim Assistance program by December 31 of each year. These guidelines also require Emergency Services to use appropriate accounting and auditing procedures to maintain records that reflect sound fiscal control, proper management, and efficient disbursement of funds for the Crime Victim Assistance program.

### CONDITION

Emergency Services cannot ensure that all fiscal year 2003–04 expenditure and revenue transactions applicable to the Crime Victim Assistance program grants awarded for federal fiscal years 2000, 2001, and 2002 were recorded in the accounting records. As a result, Emergency Services cannot determine whether the federal financial status reports submitted for these grants are accurate. Moreover, because of the uncertainty of the completeness of Emergency Services' accounting records, we could not be sure that we subjected all transactions related to these grants to testing. Consequently, we are unable to conclude that Emergency Services or the former Office of Criminal Justice Planning (OCJP), which administered the grants until it closed in December 2003, complied with federal laws, regulations, and requirements for activities allowed, allowable costs, cash management, eligibility, period of availability, and reporting.

According to Emergency Services, the former OCJP failed to record numerous transactions in the accounting records. In March 2004, Emergency Services informed the U.S. Department of Justice that it had not had the opportunity to verify the accuracy of the final financial status reports for the Crime Victim Assistance program as well as other federal programs previously administered by the former OCJP and that it would take several months to complete the verification process. Subsequently, Emergency Services contracted with the Department of Finance to determine whether grant and accounting information was appropriately and accurately transferred from the former OCJP to Emergency Services and to reconstruct the financial accounting records. The Department of Finance expects to complete its work in February 2005. According to Emergency Services, the federal Department of Justice is not releasing the funds remaining in the 2000 and 2002 grants until Emergency Services can provide accurate reports. As of December 2003, when the former OCJP prepared closeout reports for these grants, there was approximately \$2.4 million in available federal funds remaining in the three grants.

Finally, Emergency Services included incorrect performance data on the annual report submitted to the U.S. Department of Justice. Among other things, Emergency Services is required to provide data showing the number of victims served in a variety of categories. We reviewed the documentation supporting the data included in the report for five categories and determined that Emergency Services reported inaccurate data for each of the five categories. For example, Emergency Services' performance report indicated that services were provided to 145,924 victims of domestic violence. However, the supporting documentation showed that services were actually provided to 132,537, a difference of 13,387.

## **RECOMMENDATIONS**

Emergency Services should submit revised financial status reports to the U.S. Department of Justice for the Crime Victim Assistance program when the Department of Finance completes its reconstruction of the accounting records. Further, based on the reconstructed accounting records, Emergency Services should determine if federal reimbursements received by the State for the Crime Victim Assistance program exceeded the amount of costs incurred for allowable activities and then take appropriate actions. Finally, Emergency Services should implement controls to ensure that performance data included in the annual reports submitted to the federal government is accurate.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Emergency Services is in agreement with the findings in this audit report. The Department of Finance has completed its contracted work effort related to the former OCJP accounting reconstruction and grant compliance review. Emergency Services will begin reviewing the contract work and posting necessary adjustments to the former OCJP accounting records beginning in February 2005. This process will take approximately 3-4 months to complete at which time the required financial status reports will be submitted to the federal government.

Additionally, the progress reports submitted by subgrantees to collect information for our performance report will be revised for field use this year and the subgrantees will be required to begin using them next fiscal year. This will allow them to revise/expand their management information systems to incorporate the changes and collect the data in the manner in which the revised progress report will require.

# U.S. DEPARTMENT OF JUSTICE U.S. DEPARTMENT OF HOMELAND SECURITY

---

Reference Number: 2004-13-9

Category of Finding: Subrecipient Monitoring

State Administering Department: Office of Emergency Services

*(See listing of the specific federal program details following the discussion of the issues below.)*

## CRITERIA

Our review of the Crime Victim Assistance, State Homeland Security Grant, Public Assistance Grants, and Hazard Mitigation Grant programs determined the following compliance requirements related to subrecipient monitoring:

The U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133), requires subrecipients spending \$300,000 or more in federal assistance in fiscal year 2002–03 to submit audit reports to the State within nine months of the end of their fiscal year. The State is responsible for notifying subrecipients of the applicable audit requirements. Additionally, the State requires subrecipients to submit audit reports to the State Controller’s Office (Controller’s Office) or the appropriate state department so that corrective action can be taken on reported deficiencies. If an audit finds that a subrecipient has failed to comply with federal program requirements, OMB Circular A-133 also requires the State to issue a management decision regarding the resolution of the audit finding within six months of receiving the audit report and to ensure that the subrecipient proceeds with timely corrective action.

Additionally, the United States Code, Title 31, Section 7502, requires the State to monitor subrecipients’ use of federal awards through site visits, limited scope audits, or other means. To comply with this requirement, Emergency Services’ Criminal Justice Programs Division conducts periodic site visits of subrecipients of the Crime Victim Assistance program.

## CONDITION

The Office of Emergency Services (Emergency Services) did not adequately monitor subrecipients of funds for the Crime Victim Assistance, State Homeland Security Grant, Public Assistance Grants, and Hazard Mitigation Grant programs. Specifically, during fiscal year 2003–04, Emergency Services did not ensure that it received or reviewed audit reports submitted by private nonprofit organizations that expended \$300,000 or more in federal assistance in fiscal year 2002–03 and, therefore, could not follow up on identified findings. For example, Emergency Services’ Criminal Justice Programs Division has not reviewed 143 audit reports it has received in accordance with OMB Circular A-133 since July 2000 from nonprofit subrecipients of the Crime Victim Assistance program.

Emergency Services also did not follow up on findings for audit reports provided by the Controller's Office regarding local governmental subrecipients that spent \$300,000 or more in federal assistance in fiscal year 2002–03. The Controller's Office receives audit reports for local governmental entities and, if the reports contain findings, forwards copies to the state agencies responsible for administering the programs to follow up with the local governmental subrecipients to ensure that identified weaknesses are corrected.

Because Emergency Services does not ensure that audit reports are received and does not review audit reports it does receive, it cannot ensure that subrecipients are complying with federal program requirements or that weaknesses identified in the audit reports are promptly corrected. According to Emergency Services' chief of the Grants Management Section, Disaster Assistance Division, and the manager of the Grants Analysis Unit, staffing limitations and redirection of existing staff prevented Emergency Services from tracking and reviewing the audit reports required by OMB Circular A-133.

Finally, Emergency Services' Criminal Justice Programs Division does not adequately follow up on the results of site visits it conducts. Specifically, for four of 10 on-site fiscal reviews it conducted, we found that it either failed to follow up or did not document that it had followed up with subrecipients to ensure that deficiencies identified during the site visits were corrected. Consequently, Emergency Services cannot ensure that its subrecipients correct deficiencies promptly.

## **RECOMMENDATIONS**

Emergency Services should promptly review audit reports submitted by private nonprofit subrecipients in accordance with OMB Circular A-133. In addition, Emergency Services should follow up on all reported audit findings concerning private nonprofit and local governmental subrecipients.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Emergency Services agrees that it did not fulfill all pass-through agency requirements for all grants included in OMB Circular A-133. During the past 12 months, Emergency Services has experienced a decrease in staffing levels, the mid-year assimilation of the former Office of Criminal Justice Planning, and a steadily increasing workload related to new Homeland Security grant programs.

Emergency Services has programmatic procedures in place to ensure that subrecipients comply with federal program regulations and administrative requirements. However, Emergency Services recently reorganized and is in the process of evaluating priorities, workloads and staffing needs as a whole. Emergency Services will consider its OMB Circular A-133 subrecipient monitoring role during this evaluation.

We also acknowledge the finding regarding site visits and have developed topical areas related to Site Visits and Correction Action Plans for tracking purposes in a spreadsheet on the Victim Services Branch Sharedrive to help staff with follow up activities and to serve as a mechanism for documentation. Each Section is responsible for updating the spreadsheet.

We would also like to point out that after the Budget Act was signed August 11, 2003 abolishing the Office of Criminal Justice Planning, time and attention was devoted into closeout procedures resulting in revising approximately 475 subgrant awards to include objectives and activities as

well as budgets to reflect an end date of September 30, 2003. Year end progress reports collected from all subgrantees were also required as part of the close out process. This major effort had an impact on routine activities such as site visits and follow up with deficiencies and corrective action plans occurred during this time. This was also complicated by the State Budget crisis that prevented staff from performing site visits to identify and follow up on deficiencies.

### **U.S. DEPARTMENT OF JUSTICE**

Federal Catalog Number: 16.575  
Federal Program Title: Crime Victim Assistance  
Federal Award Numbers and  
Calendar Years Awarded: 2000-VA-GX-0006; 2000  
2001-VA-GX-0006; 2001  
2002-VA-GX-0006; 2003  
2003-VA-GX-4025; 2003

---

Federal Catalog Number: 16.007  
Federal Program Title: State Domestic Preparedness  
Equipment Support  
Federal Award Numbers and  
Calendar Years Awarded: 2000-TE-CX-0166; 2000  
2002-TE-CX-0088; 2002  
2002-TE-CX-0133; 2002  
2003-TE-TX-0167; 2003  
2003-MU-T3-0035; 2003  
2004-GE-T4-0045; 2004

### **U.S. DEPARTMENT OF HOMELAND SECURITY**

Federal Catalog Number: 97.036 (formerly 83.544)  
Federal Program Title: Public Assistance Grants  
Year Awarded: State fiscal year 2003-04

---

Federal Catalog Number: 97.039 (formerly 83.548)  
Federal Program Title: Hazard Mitigation Grant  
Year Awarded: State fiscal year 2003-04

## U.S. DEPARTMENT OF LABOR

---

Reference Number: 2004-2-1

Category of Finding: Allowable Costs and Cost Principles

State Administering Department: Employment Development Department

*(See listing of the specific federal program details following the discussion of the issues below.)*

### CRITERIA

Our review of federal programs at the Employment Development Department (EDD) identified the following compliance requirements related to allowable costs and cost principles:

The U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* (OMB Circular A-87), Attachment A, Section C, states that for costs to be allowable under federal awards, they must be allocable to federal awards under the provisions of this circular. This is the case if the goods or services involved are chargeable or assignable to a grant in accordance with the relative benefits achieved. Section C also states that when an accumulation of indirect costs will ultimately result in charges to a federal award, a cost allocation plan will be required, as described in OMB Circular A-87, Attachments C, D, and E. OMB Circular A-87, Attachment E, Section A, states that indirect costs are incurred for common or joint purposes. These costs benefit more than one cost objective and cannot be readily identified with a particular final cost objective without effort disproportionate to the results achieved.

In addition, OMB Circular A-87, Attachment B, Section 8, states that charges to federal awards for salaries and wages will be based on payrolls documented according to the generally accepted practice of the governmental unit and approved by a responsible official of the governmental unit. EDD's employee time sheets include a signature block for the person approving an employee's time.

### CONDITION

EDD allocated six of 10 operating expense and equipment (OE&E) transactions we reviewed, even though it had not obtained federal approval to do so as part of its indirect cost rate proposal. The six allocated transactions included OE&E expenses such as equipment rental, repair, and maintenance; software purchasing and maintenance; and automobile maintenance and repairs. According to EDD, it used the allocation codes to distribute OE&E costs that it could not specifically identify with a particular federal program. Consequently, EDD should have included and distributed these allocated costs under its indirect cost rate proposal.

Costs related to the six test items totaled \$116,364. Although we could not determine the amount of allocated costs charged to the federal programs we audited, according to EDD, in fiscal year 2003–04 it used 70 allocation codes to distribute personnel costs and 88 allocation codes to distribute OE&E costs totaling more than \$60 million and \$31 million, respectively. These allocated costs were not included in EDD's indirect cost rate proposal. In total the allocated costs represented 7.4 percent of EDD's estimated total state operations expenditures of more than \$1.2 billion for

fiscal year 2003–04. When EDD does not distribute indirect costs under an indirect cost rate proposal, it is less likely to adequately demonstrate that these costs are distributed in accordance with the relative benefits received by its various federal programs. We reported a similar finding during our audits for fiscal years 1998–99 through 2002–03.

Further, for two of the 30 payroll expenditures we reviewed, the signature block for approval of the related employee time sheet was blank. When a time sheet is not approved, there is less assurance that reported time accurately reflects the work of the employee. The payroll expenditures from these two time sheets totaled \$5,189. We reported a similar condition during our audits for fiscal years 2001–02 and 2002–03.

## **RECOMMENDATIONS**

In its indirect cost rate proposal, EDD should include documentation to substantiate its use of indirect costs for such expenditures as equipment, software, and automotive expenses. EDD should also reiterate to its staff that supervisors must approve employee time sheets.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

1. The EDD has convened a workgroup to ensure the upcoming Indirect Cost Rate Proposal (March 2005) includes proper documentation for allocated costs. Currently, the workgroup is exploring (1) alternatives to allocation codes and (2) how to strengthen the existing procedure to justify allocation codes that are in use.
2. In May 2004 and September 2004, EDD sent e-mail notices to all staff explaining "Employee Time Reporting Responsibilities." Among other information, these e-mail notices reminded all staff that time sheets (1) must have an approval signature, (2) must be free of obliterations, and (3) will be monitored on a random sample basis. The notices further stated that significant instances of non-compliance will be reported to the appropriate Deputy Director for a resolution. In July 2004, the EDD began monitoring and working with specific entities to help ensure compliance.

### **U.S. DEPARTMENT OF LABOR**

Federal Catalog Number:	17.207
Federal Program Title:	Employment Services
Federal Award Number and Calendar Year Awarded:	ES-13042-03-55; 2003

---

Federal Catalog Number:	17.801
Federal Program Title:	Disabled Veterans' Outreach Program
Federal Award Number and Calendar Year Awarded:	E-9-5-4-5085; 2003

---

Federal Catalog Number: 17.804  
Federal Program Title: Local Veterans' Employment Representative Program  
Federal Award Number and  
Calendar Year Awarded: E-9-5-4-5085; 2003

---

Federal Catalog Number: 17.225  
Federal Program Title: Unemployment Insurance  
Federal Award Number and  
Calendar Year Awarded: UI-13546-04-55; 2003

---

Federal Catalog Number: 17.258  
Federal Program Title: WIA Adult Program  
Federal Award Number and  
Calendar Year Awarded: AA-12914-03-50; 2003

---

Federal Catalog Number: 17.259  
Federal Program Title: WIA Youth Activities  
Federal Award Number and  
Calendar Year Awarded: AA-12914-03-50; 2003

---

Federal Catalog Number: 17.260  
Federal Program Title: WIA Dislocated Workers  
Federal Award Number and  
Calendar Year Awarded: AA-12914-30-50; 2003

---

Reference Number: 2004-9-1  
Category of Finding: Procurement  
State Administering Department: Employment Development Department

*(See listing of the specific federal program details following the discussion of the issues below.)*

## **CRITERIA**

Our review of federal programs at the Employment Development Department (EDD) identified the following compliance requirements relating to procurement:

The Code of Federal Regulations, Title 29, Section 97.36, requires states procuring property and services under a federal grant to follow the same policies and procedures they use for procurements from their nonfederal funds. The State Administrative Manual (SAM), Section 8711.3, states it is the responsibility of the agency accounting office to verify invoices from transportation companies to verify that the transportation service was furnished and the rate charged is correct. In addition, Section 8422.114 of the SAM requires that a passenger's copy of an airline ticket be compared with the airline invoice to determine the propriety of the charge.

## **CONDITION**

EDD does not appropriately review invoices for purchases of airline tickets. Specifically, in December 2003 EDD used more than \$36,000 in federal funds to help pay an invoice from a credit card company that EDD employees use to purchase airline tickets. However, though EDD receives a detailed invoice of the airline tickets purchased, as well as any related fees, it does not compare the employee's copy of the airline ticket to the invoice to ensure that the charges are appropriate, as required by the SAM. According to EDD's manager of administrative payments, EDD does not have a procedure in place to perform this comparison. Thus, its failure to compare copies of airline tickets to invoices likely occurred for similar payments totaling more than \$182,500 made in other months of fiscal year 2003–04. By not performing this comparison, EDD has reduced assurance that it is paying for services it actually received and that the payments are appropriate.

## **RECOMMENDATION**

EDD should ensure that it compares the employee's copy of an airline ticket with detailed invoices to verify the propriety of the charge.

## DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

The EDD is currently preparing an EDD Travel Bulletin that will strengthen the review of airline charges. The Travel Bulletin will require all EDD offices to review monthly spreadsheets detailing airline travel charged to EDD. Offices will be required to follow-up on items that are inappropriately charged or are for non-approved EDD travel.

### U.S. DEPARTMENT OF LABOR

Federal Catalog Number: 17.207  
Federal Program Title: Employment Service  
Federal Award Number and  
Calendar Year Awarded: ES-13042-03-55; 2003

---

Federal Catalog Number: 17.801  
Federal Program Title: Disabled Veterans' Outreach Program  
Federal Award Number and  
Calendar Year Awarded: E-9-5-4-5085; 2003

---

Federal Catalog Number: 17.804  
Federal Program Title: Local Veterans' Employment  
Representative Program  
Federal Award Number and  
Calendar Year Awarded: E-9-5-4-5085; 2003

---

Federal Catalog Number: 17.225  
Federal Program Title: Unemployment Insurance  
Federal Award Number and  
Calendar Year Awarded: UI-113536-04-55; 2003

---

Federal Catalog Number: 17.258  
Federal Program Title: WIA Adult Programs  
Federal Award Number and  
Calendar Year Awarded: AA-12914-03-50; 2003

---

Federal Catalog Number: 17.259  
Federal Program Title: WIA Youth Activities  
Federal Award Number and  
Calendar Year Awarded: AA-12914-03-50; 2003

---

Federal Catalog Number: 17.260  
Federal Program Title: WIA Dislocated Workers  
Federal Award Number and  
Calendar Year Awarded: AA-12914-30-50; 2003

# U.S. DEPARTMENT OF TRANSPORTATION

---

Reference Number: 2004-9-2

Federal Catalog Number: 20.205

Federal Program Title: Highway Planning and Construction

Federal Award Number and  
Calendar Year Awarded: N4520.172; 2004

Category of Finding: Suspension and Debarment

State Administering Department: Department of Transportation

## CRITERIA

Our review of the Highway Planning and Construction program identified the following compliance requirement:

The Code of Federal Regulations, Title 49, Section 18.35, requires that the State neither make an award nor permit a subgrantee to make an award to any party that is debarred or suspended. Further, Title 49, Section 29.510, states that each participant must submit a certification regarding suspension and debarment at the time the participant submits its proposal.

## CONDITION

Although the California Department of Transportation (Caltrans) required its private contractors to submit suspension and debarment certifications, it did not require its subrecipients (local governments) to submit such certifications. We found that Caltrans did not have the appropriate certifications for 20 subrecipients we tested. When Caltrans does not obtain the required certifications, it risks unknowingly allowing suspended or debarred parties to participate in the federal program. For the 20 subrecipients that did not have certifications, we used an alternative test to determine that the subrecipients had not been suspended or debarred.

## RECOMMENDATION

Caltrans should ensure that subrecipients are not excluded from participating in federal assistance programs before awarding federal funds to subrecipients.

## DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Suspension and debarment certifications are obtained as a step in ensuring that subrecipients are eligible for participation in federal assistance programs. As such, to ensure Federal Highway Administration (FHWA) suspension and debarment certifications are obtained and maintained by Caltrans, the Division of Local Assistance, Office of Project Implementation (OPI) began incorporating a suspension and debarment provision in its program supplement agreements (PSAs) with subrecipients in February 2005 and plans to incorporate the provision into the master agreement by December 31, 2005. By agreeing to the new provision, the subrecipient is certifying that it has not been suspended or debarred from participation in the federal program, and agrees to notify the State in the event a suspension or debarment occurs after execution of the agreement.

---

Reference Number:	2004-9-3
Federal Catalog Number:	20.505
Federal Program Title:	Federal Transit–Metropolitan Planning Grants
Federal Award Number and Calendar Year Awarded:	CA-81-X003-01; 2003
Category of Finding:	Suspension and Debarment
State Administering Department:	California Department of Transportation

### CRITERIA

Our review of the Federal Transit–Metropolitan Planning Grants (planning grants) program identified the following compliance requirement related to suspension and debarment:

The Code of Federal Regulations, Title 49, Section 18.35, requires that the State neither make an award nor permit a subgrantee to make an award to any party that is debarred or suspended from participating in federal assistance programs. Further, Title 49, Section 29.510, requires the State to obtain from participants certifications affirming that they are not suspended, debarred, ineligible, or voluntarily excluded from transactions by any federal agency.

### CONDITION

Although the California Department of Transportation (Caltrans) states in its guidance to subrecipients of the planning grants program that subrecipients must submit suspension and debarment certifications, Caltrans did not always have suspension and debarment certifications from its subrecipients. Specifically, of the 20 subrecipients tested, Caltrans did not have appropriate certifications for six. When Caltrans does not obtain the required suspension and debarment

certifications, it risks unknowingly allowing suspended and debarred parties to participate in the federal program. For the six subrecipients that did not have certifications, we used an alternative test to determine that the subrecipients had not been suspended or debarred.

In response to a similar finding we reported during our fiscal year 2002–03 audit, Caltrans stated that it would ensure that subrecipients submit the required suspension and debarment certifications before approving their applications. However, because the fiscal year 2003–04 applications were officially closed out at that time, Caltrans said it would implement new procedures for the completion and retention of the suspension and debarment certifications beginning with fiscal year 2004–05.

## **RECOMMENDATION**

Caltrans should ensure that subrecipients submit the required suspension and debarment certification before it approves their participation in the planning grant program.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

To ensure that the Federal Transit Administration (FTA) suspension and debarment certifications are submitted and fully completed by Metropolitan Planning Organizations (MPO) and Regional Transportation Planning Agencies (RTPA), the Caltrans Office of Regional and Interagency Planning (ORIP) issued additional guidance to subrecipients in its annual fiscal year 2004–05 Overall Work Plan (OWP) Guidance for MPOs and RTPAs.

Subsequent to the distribution of the guidance materials, the federal regulations were revised (49 CFR Parts 29 and 32). The revised regulations now place the requirement for the certification at the State level and recommend various alternative methods for a State to ensure subrecipients complete debarment and suspension procedures.

ORIP, in consultation with the Division of Mass Transportation (also responsible for FTA funds) and the Caltrans Legal Office, will determine which procedure is most effective and will most likely select a process of developing a State debarment and suspension certification, and a notice of procedures to ensure the intent of federal regulations is met. This process will be completed by June 30, 2005, in preparation for the 2005–06 fiscal year OWP. ORIP will also ensure that the 2004–05 fiscal year certifications are completed appropriately and continue to emphasize the importance of suspension and debarment certifications in its instructions to subrecipients and will ensure all certifications were received and completed correctly.

Caltrans recognizes that it is using two different approaches to address what is essentially the same finding. OPI and ORIP have different funding and program requirements, thereby requiring a different State response. To be operationally efficient, Caltrans will determine if it can modify the two eligibility processes required by FHWA and FTA for the various subrecipients served.

# U.S. ELECTION ASSISTANCE COMMISSION

---

Reference Number: 2004-1-3

Federal Catalog Number: 39.011

Federal Program Title: Election Reform Payments

Year Awarded: State fiscal year 2003–04

Category of Finding: Activities Allowed, Allowable Costs,  
Procurement and Suspension and Debarment

State Administering Department: Office of the Secretary of State

## CRITERIA

The Help America Vote Act of 2002, sections 101 and 102 (act), authorized the Election Reform Payments program, which we refer to as HAVA. Our review of HAVA identified the following compliance requirements related to activities allowed, allowable costs, procurement, and suspension and debarment:

As codified in the United States Code, Title 42, sections 15301(b) and 15302(a), the act allows HAVA funds to be used for activities such as replacement of punch card or lever voting machines; improving the administration of elections for federal office; educating voters concerning voting procedures, voting rights, and voting technology; training election officials, poll workers, and election volunteers; and improving the accessibility and quantity of polling places, including providing physical access for individuals with disabilities.

The U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* (OMB Circular A-87), states that for costs to be allowable and charged to a federally funded program, the costs must be necessary, reasonable, allocable to that program, and authorized or not prohibited under state or local laws or regulations. In addition, OMB Circular A-87, Attachment B, Section 8.h, states that for employees expected to work solely on a single federal award, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that one program. However, for employees expected to work on more than one federal award or on one federal and one nonfederal award, a distribution of their salaries and wages will be supported by personnel activity reports or equivalent documentation that reflect an after-the-fact distribution of each employee's actual activity.

The Code of Federal Regulations, Title 41, Section 105-71.136, requires states to follow the same policies and procedures to procure property and services whether nonfederal funds or a federal grant is used to make the procurements. Additionally, grant recipients and subrecipients must maintain a contract administration system that ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders. Section 105-71.140 requires grantees to monitor grant- and subgrant-supported activities to ensure that applicable federal requirements are being complied with and that performance goals are being achieved.

Grantee monitoring must cover each program, function, or activity. Finally, Section 105-71.135 requires that the State neither make an award nor permit an award (subgrant or contract) to any party that is debarred or suspended from participation in federal programs.

## CONDITION

The Office of the Secretary of State (office) overrode and, in many cases, lacked adequate controls to ensure that it appropriately administered HAVA funds designated to improve the administration of federal elections (discretionary funds). These discretionary funds composed \$6.9 million (14.8 percent) of the \$46.6 million in HAVA funds the office spent as of June 30, 2004. We found that the office lacked support for the personal service costs it charged to HAVA. In addition, its poor oversight of consultants and consultant contracts also resulted in questionable costs. Because of these weaknesses, we question at least \$1.1 million of the \$6.9 million in discretionary funds the office spent. Moreover, the office used questionable practices to procure goods and services funded with discretionary funds. As a result, the office may have paid more than was necessary for these items.<sup>1</sup> Finally, the office did not obtain required suspension and debarment certifications from vendors with procurement contracts of \$100,000 or more that were paid with discretionary funds or from subrecipients who received HAVA funds to replace voting machines.

The office could not provide support for the personal service costs it charged to HAVA. The office neither prepared the required certifications for its employees who worked full-time on HAVA activities nor instructed its employees who worked part-time on HAVA activities to complete monthly time sheets or other personnel activity reports to support the \$1,025,695 in personal service costs it charged to HAVA funds in fiscal year 2003–04. Of the 10 employees we reviewed, five charged 100 percent of their salaries and benefits, totaling more than \$497,000, to HAVA. However, according to management staff and the employees we interviewed, the office has never prepared certifications for its employees who work full-time on HAVA activities. Without the certifications required by federal regulations, the office cannot ensure that the salaries and benefits it paid with HAVA funds during fiscal year 2003–04 are accurate and allowable.

The five remaining employees we reviewed charged less than 100 percent of their time to HAVA-funded activities. The total amount the office charged to HAVA for these employees during fiscal year 2003–04 was more than \$146,000. Although the office required each employee working on HAVA activities to submit, at the end of fiscal year 2003–04, a document estimating the percentage of time that he or she worked on HAVA and non-HAVA activities during the fiscal year, this method is not permitted by federal cost principles. According to four of the five employees, they based the percentages they reported on their best estimates; they could provide no other documentation to support their basis for arriving at those percentages. The other employee kept a personal log of his time. Because the office did not use time sheets in fiscal year 2003–04, it cannot be sure it charged the correct amount of personal service costs to HAVA funds during that fiscal year.

Further, of the five full-time employees we reviewed whose entire salaries the office charged to HAVA in fiscal year 2003–04, two submitted staff activity reports for attending certain events, such as a celebration of Canada Day and a Black Women Lawyers Association annual holiday mixer, among others, that did not appear related to HAVA. Additionally, even though the office charged 100 percent of the salary of one of these employees to HAVA in fiscal year 2003–04, the employee

---

<sup>1</sup> In December 2004 we issued a report titled *Office of the Secretary of State: Clear and Appropriate Direction Is Lacking in Its Implementation of the Federal Help America Vote Act*, which more fully discusses the office's administration of HAVA.

indicated that only about 80 percent of her time was spent on HAVA activities. Charging HAVA for staff activities that are not associated with allowed uses of these funds puts the office at risk that the federal government may ask for the repayment of some, if not all, of these funds.

The office's poor oversight of consultants also resulted in the questionable use of HAVA funds. Of the 169 staff activity reports that regional outreach consultants submitted between December 3, 2003, and September 5, 2004, 62 (37 percent) listed one or more activities that had no relationship to any HAVA requirements. For example, some consultants reported attending events—such as fundraisers and a state delegation meeting for the Democratic National Convention—as representatives of the secretary of state. However, HAVA does not specify attendance at fundraisers and political delegation meetings as allowable activities. Moreover, we could not quantify the amounts paid to the consultants for attending these types of events because the office did not require the contractors to indicate on their invoices the activities they were billing for or how much time they spent on each activity. Because the office failed to properly and adequately account for the activities of some consultants hired to assist in the implementation of HAVA, we question the use of federal funds to pay for them.

In another instance of using HAVA funds to pay for non-HAVA activities, the office paid a law firm \$1,050 for the preparation of three speeches that had little to do with HAVA. Our review of the written text for two speeches revealed that the speeches clearly had nothing to do with HAVA. One was given at a Unity in Diversity dinner organized by the Indo-American Community Federation, and the other speech was in commemoration of Indian Republic Day. Although the third speech referred to certain requirements of HAVA, more than half of the speech presented statistics concerning the October 2003 recall election of California's governor, bringing into question whether the entire speech should have been paid for with HAVA funds.

Further, the office's poor contract oversight resulted in its paying almost \$70,000 for invoiced services that violated the terms of one contract and almost \$5,000 on a second contract for a work product it may not have received. Specifically, the provisions of the original contract with a law firm stipulated that the firm's daily charge for services would not exceed \$1,200 per day and that the firm would provide services one day a week on an as-needed basis. However, the invoice the law firm submitted in April 2004 covering services rendered from November 17, 2003, through April 7, 2004, lists 17 separate days on which the amount the law firm charged the office exceeded the contract's \$1,200-per-day limit. Moreover, rather than providing services one day a week as called for by the terms of the contract, the firm billed the office for 22 days in January, 21 days in February, 23 days in March, and five days in the first two weeks of April 2004. Finally, although the term of the contract was from December 1, 2003, through December 31, 2004, the office paid for services rendered in November 2003—before a binding contract was in place.

In the second example of poor contract oversight, the office hired a consulting firm to perform public outreach within the context of HAVA. The consultant proposed preparing an outreach plan and was asked to identify specific events, people, and opportunities for outreach. Although the office used HAVA funds to pay this consultant \$4,750, it was unable to provide us with a plan or any other work products for this contract.

In addition to its poor oversight of staff and consultants, the office used questionable practices to procure goods and services paid for with discretionary funds. Specifically, the office used an exemption from competitive bidding it had requested and received from the Department of General Services (General Services) for 46 of the 77 HAVA contracts it entered into between June 2003 and September 2004; the 46 contracts totaled more than \$1.5 million. The justification the office provided General Services for this exemption was the urgent need to meet deadlines set forth in HAVA. However, most of the contracts entered into under the no-bid exemption were for services that did not relate to any specific HAVA deadline and could have been competitively bid had the

office planned better. For example, most of the activities performed by these consultants were for regularly scheduled elections occurring in March and November 2004. In addition, the office could not provide us with documentation, such as plans, showing what activities these consultants were to complete by March 2004 or by any other specified deadline. The office also did not establish a way to determine whether the consultants' efforts were successful. Because the office used the no-bid exemption rather than competitively bidding, the State has less assurance that it received the best value for its HAVA expenditures.

Further, the office did not follow best practices in making California Multiple Award Schedule (CMAS) procurements. CMAS is a procurement method that allows state agencies to avoid the administrative time and expense of the State's formal competitive bid process by purchasing goods and services under preestablished contracts awarded and maintained by General Services. However, the office did not follow its policy and obtain competitive offers for most of its CMAS procurements. In addition, rather than obtain competitive bids and use one contract, the office used multiple CMAS contracts to procure information technology (IT) consulting services totaling \$631,000 from one vendor and \$1,145,000 from another. In January 2003 General Services set the CMAS order limit at \$500,000 on all IT purchases and stipulates that if the total of multiple purchase orders exceeds that limit, state agencies should document why the orders are separate. Nevertheless, we found no documentation in which the office explained why these CMAS purchase orders for IT consulting services were separate and not combined.

Additionally, despite its policy to follow the same practices General Services requires of other state agencies, the office did not obtain comparison quotes for 10 of the 12 HAVA-expensed purchase orders it made using CMAS. General Services requires state agencies to solicit three price quotations for CMAS purchases exceeding \$5,000. The 10 purchases the office made for HAVA totaled \$1.9 million.

Moreover, for two of three commodity purchases we reviewed, the office failed to follow the state procurement policy requiring agencies to obtain at least two informal bids for commodity purchases exceeding \$5,000; the two purchases totaled \$23,000. As a result of these practices, the State is less sure that the office obtained the best value for the purchases it made with HAVA funds.

Finally, the office did not obtain suspension and debarment certifications from the five subrecipients we tested who received HAVA funds for voting machine replacement or from the two vendors who received more than \$100,000 of discretionary funds in fiscal year 2003–04. The office also did not verify whether any of these subrecipients were suspended or debarred. However, we used an alternative test to determine that none of the subrecipients or vendors we reviewed were suspended or debarred.

## **RECOMMENDATIONS**

To establish or strengthen controls, comply with federal and state laws, and reduce the risk that HAVA funds are spent inappropriately, the office should take the following actions:

- Ensure that time charged to HAVA or any other federal program is supported with appropriate documentation, including time sheets and certifications.
- Follow control procedures for the review and approval of contracts to ensure that contracts include a detailed description of the scope of work, specific deliverables, and performance measures.

- Require that contract managers monitor for the completion of contract services and work products prior to approving invoices for payment.
- Review invoices to ensure that charges to be paid with HAVA funds are reasonable and allowable and conform to the terms of the contract.
- Follow competitive bidding requirements to award contracts and restrict the use of exemptions to those occasions that truly justify the need for them.
- Follow General Services' policies when using CMAS for contracting needs.
- Comply with state policy for procuring commodities.

Finally, the office should develop a process to ensure its subrecipients and applicable vendors are not suspended or debarred from doing business with the federal government.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Thank you for the opportunity to respond to the preliminary audit report regarding the implementation by the Office of the Secretary of State of the Election Reform Program. Specifically, the report focuses on the Help America Vote Act of 2002 (HAVA), Sections 101 and 102, with an emphasis on Section 101, the discretionary funds provided to the Office of the Secretary of State to educate voters, improve the administration of federal elections, and for specified purposes.

We appreciate the Bureau of State Audit's (Bureau) report and recommendations and discuss below our intentions to implement as soon as possible the recommendations not already implemented.

As the Bureau correctly indicated in its report issued December 2004 with respect to a parallel state audit, this office was overburdened by a cyclone of unprecedented and historic forces:

- a combination of three elections—a first-ever statewide recall election, a presidential primary, and a presidential general election;
- a nation-wide controversy over electronic voting that threatened to undermine public confidence in the equipment used to cast and count ballots; and
- the management of HAVA, a complex law with built-in ambiguities and little administrative guidance.

This office historically has not administered federally funded programs. Even with conflicting demands on our time and staff, we have been able to competently fulfill our core mission of supervising those elections during this period. In particular, this office and county elections officials received high marks for the efficient and professional manner in which the unprecedented recall election was conducted.

So while we are disappointed that our administration of HAVA may not have been consistent with our performance in other areas, any mistakes that were made were certainly not intentional. We don't believe the audit report finds otherwise.

We continue to believe that the *sum total* of work performed—whether directed at increasing voting access for the disabled community, ensuring the accuracy and security of electronic voting machines, or providing voter education—can be fairly characterized as professional, solid work that the Secretary of State’s office performed in the public interest.

We are now in the process of implementing all of your recommendations, in addition to the changes we have made at our own initiative over the past several months to ensure proper management and oversight of HAVA activities.

We have recently appointed a new upper-level management team. Each member of that team has extensive experience with state systems and procedures and the ability to administer effectively the office and its programs, particularly the HAVA program.

In addition, in December 2004, we contracted with a respected management consulting firm (MGT of America, Inc.) to provide oversight of HAVA implementation activities. We are confident our new team, working in collaboration with the HAVA management contractor and newly appointed HAVA Coordinator, will improve the program’s effectiveness and productivity.

We have also adopted several *HAVA Implementation Guiding Principles* that govern our administration of HAVA, which are being distributed to all persons in the agency involved with the administration of HAVA. These persons are being requested to indicate in writing that they have read and understand the principles. These *Guiding Principles* are:

- 1. Every dollar of HAVA funds received shall be spent and accounted for in accordance with all applicable federal and state laws, regulations and procedures.**
- 2. No HAVA funds shall ever be used to promote any political party, candidate for elective office, ballot measure, political cause or political interest group.**
- 3. All grants and contracts using HAVA funds shall be made only to further the implementation of HAVA and shall be allocated objectively and equitably to eligible participants only.**
- 4. All HAVA mandates will be met by the statutory deadlines, to the extent control agency approvals permit.**
- 5. The Secretary of State’s Office shall, in consultation with local elections officials and other interested parties, including the Department of Finance and the Legislature, including the Joint Legislative Budget Committee and the Joint Legislative Audit Committee, determine the most effective and efficient way of achieving the goals of HAVA and ensuring compliance with HAVA mandates.**
- 6. The Secretary of State’s Office shall, in consultation with local elections officials and other interested parties, monitor California’s progress toward reaching the goals and mandates of HAVA.**
- 7. The activities needed to achieve the goals and mandates of HAVA shall be planned, implemented, and monitored using sound project management principles.**
- 8. All contracts using HAVA funds shall be awarded using a competitive procurement process whenever possible.**
- 9. The Secretary of State’s Office, in consultation with local elections officials, the Election**

**Assistance Commission, and other interested parties, shall develop performance measures to determine the effectiveness of all programs and efforts that receive HAVA funds.**

**10. The Secretary of State shall monitor the use of HAVA funds by any entity that receives them to ensure compliance with the requirements of the grant or contract and with HAVA.**

With this preliminary audit report in hand and the Bureau's parallel state report in hand, we will now take even more aggressive corrective action, including the implementation of all the audit's recommendations, as follows:

- (1) *Bureau Recommendation: Ensure that time charged to HAVA or any other federal program is supported with appropriate documentation, including time sheets and certifications.*
  - We have developed time sheets and procedures that comply fully with federal guidelines.
- (2) *Bureau Recommendation: Follow control procedures for the review and approval of contracts to ensure that contracts include a detailed description of the scope of work, specific deliverables, and performance measures.*
  - We have established a more efficient contract review process, which requires any contractor to have a detailed scope of work, specific deliverables, and performance measures. These requirements are now standard practice at the Office of the Secretary of State.
- (3) *Bureau Recommendation: Require that contract managers monitor for the completion of contract services and work products prior to approving invoices for payment.*
  - The office has reminded its managers of the need to ensure the completion of contract deliverables prior to approving invoices for payment and is writing detailed procedures for invoice approval.
- (4) *Bureau Recommendation: Review invoices to assure that charges to be paid with HAVA funds are reasonable and allowable and conform to the terms of the contract.*
  - We have implemented a system whereby a manager from our Management Services Division reviews contractors' deliverables and matches them against the contractors' contracts. If obligations are not met, no HAVA funds will be disbursed. The new management consultant will have a role in this oversight as well.
- (5) *Bureau Recommendation: Follow competitive bidding requirements to award contracts and restrict the use of exemptions to those occasions that truly justify the need for them.*
  - We will restrict the use of exemptions from competitive bidding to those occasions that truly justify the need.
- (6) *Bureau Recommendation: Follow General Services' policies when using CMAS for contracting needs.*
  - We will comply fully with applicable state procurement policies.
- (7) *Bureau Recommendation: Comply with state policy for procuring commodities.*
  - We will comply fully with applicable state procurement policies.

(8) *Bureau Recommendation: Ensure that subrecipients and vendors it awards HAVA funds to are not suspended or debarred from doing business with the federal government.*

- We will ensure that all subrecipients and vendors receiving HAVA funds are not suspended or debarred from doing business with the federal government.

It should be noted that the Office of the Secretary of State has been working on the planning and implementation of HAVA for nearly 24 months. In that time, we have made significant progress in implementing this complex law, including:

- The Secretary of State, in consultation with county elections officials, has allocated and distributed \$51.1 million to counties for replacement of punch-card voting machines. This is in addition to the approximately \$59 million that counties have already received for voting machine modernization as a result of the passage of Proposition 41. The Secretary of State has also allocated \$9.9 million to counties for voter education and poll worker training and \$4.6 million to counties to enhance the security of electronic voting machines.
- The office, in consultation with county elections officials, has developed a Provisional Ballot and Free Access Program, which provides all California voters with the right to cast provisional ballots and a method to determine whether the ballots were counted.
- The office has established an information clearinghouse for military and overseas voters.
- We revised voter registration forms to be consistent with HAVA requirements and these forms have been distributed to 58 California counties.
- The office has developed and implemented the nation's first "parallel monitoring" program to help ensure accuracy and security of electronic voting machines.
- Working with the county elections officials, we have successfully developed and implemented a posting program to inform voters of their rights.
- The office has developed a program for implementing HAVA's identification requirements for certain first-time voters who register to vote by mail. The office developed and implemented an interim system to verify information regarding voters who would otherwise have to present identification in order to vote.
- The office has developed and implemented an administrative complaint procedure.

With respect to implementing HAVA, much has been accomplished, but much remains to be done in order to meet various January 1, 2006, deadlines. We are committed to working with county elections officials, the Election Assistance Commission, the Governor, the Legislature, and other organizations and individuals to make California's implementation of HAVA a model for the nation.

We look forward to continuing the positive working relationship with the Bureau that has been established through this audit effort. We invite the Bureau to work closely with us as we strive to complete an exemplary HAVA program.

## U.S. DEPARTMENT OF EDUCATION

---

Reference Number: 2004-3-1

Federal Catalog Number: 84.357

Federal Program Title: Reading First State Grants

Federal Award Numbers and  
Calendar Years Awarded: S357A020005; 2002  
S357A030005; 2003

Category of Finding: Cash Management

State Administering Department: Department of Education

### CRITERIA

Our review of the Reading First State Grants program (Reading First) identified the following requirements related to cash management:

The Code of Federal Regulations, Title 34, Section 80.21, allows a state's subrecipients to receive advance payments provided they demonstrate the ability to minimize the time between receipt and disbursement of federal funds. Otherwise, reimbursement is the preferred method of payment. Further, this section requires a state's subrecipients to promptly pay the federal agency any interest greater than \$100 per year that they earned on advances. Additionally, if a state's subrecipients receive advance payments, Section 80.20(b)(7) requires them to follow procedures to minimize the time between receipt and disbursement of federal funds.

### CONDITION

The Department of Education (Education) does not have adequate procedures to ensure that Reading First subrecipients demonstrate the ability to minimize the time between receipt and disbursement of federal funds. Under its payment procedures, Education disburses predetermined percentages of program funds to subrecipients rather than assessing and disbursing funds based on each subrecipient's immediate cash needs. Further, Education does not always require its subrecipients to report their use of program advances before it makes additional payments to them. As a result, Education does not ensure that subrecipients minimize the time between receipt and disbursement of federal funds.

Of the 29 subrecipients we reviewed for Reading First, Education made advance payments to 26 subrecipients during fiscal year 2003-04. Because Education disbursed approximately 50 percent of the program funds awarded to these subrecipients before it received expenditure reports, it disbursed more than \$51 million with no assurance that these subrecipients had minimized the time between receipt and disbursement of federal funds.

Additionally, 11 of these subrecipients reported in their midyear expenditure reports that they had spent less than 75 percent of the previous two advances. Although we believe it is reasonable to expect that Education would have adjusted the third payment down to reflect the actual midyear expenditures, it instead disbursed to these 11 subrecipients the full amount of the third payment totaling more than \$3.5 million. One of the 11 subrecipients reported it had not spent any of its advance payments totaling more than \$1 million, yet Education provided this subrecipient with a third advance of more than \$500,000. As a result, Education awarded funds to subrecipients with no assurance that subrecipients minimized the time between receipt and disbursement of federal funds.

Further, Education did not require subrecipients of its 2002–03 and 2003–04 grant awards to report and remit interest in excess of \$100 earned on federal program advances. As a result, the subrecipients may have used the interest earned on federal program advances for activities that are not allowed.

## **RECOMMENDATIONS**

To minimize the time between subrecipients' receipt and disbursement of federal funds, Education should implement procedures to assess each subrecipient's cash needs and, if necessary, adjust its advance payments to more closely reflect each of its subrecipients' immediate cash needs. If Education cannot demonstrate its ability to ensure that subrecipients minimize the time between receipt and disbursement of federal funds, it should implement procedures to pay its subrecipients on a reimbursement basis rather than paying them in advance. Finally, Education should also establish controls for reporting interest earnings greater than \$100 on these advances so it can ensure that these interest earnings are repaid to the federal awarding agency.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

For future payments, Education will evaluate cash needs of subrecipients from interim expenditure reports and adjust advance payments as needed. The fiscal year 2004–05 subrecipient grant award letters include instructions for reporting any interest payments over \$100.

---

Reference Number:	2004-3-2
Federal Catalog Number:	84.002
Federal Program Title:	Adult Education—State Grant Program
Federal Award Numbers and Calendar Years Awarded:	V002A020005; 2002 V002A030005; 2003
Category of Finding:	Cash Management
State Administering Department:	Department of Education

## **CRITERIA**

Our review of the Adult Education—State Grant Program (Adult Education program) identified the following requirements related to cash management:

The Code of Federal Regulations, Title 34, Section 80.21, allows a state's subrecipients to receive advance payments provided they demonstrate the ability to minimize the time between receipt and disbursement of federal funds. Otherwise, reimbursement is the preferred method of payment. Further, this section requires a state's subrecipients to promptly pay the federal agency any interest greater than \$100 per year that they earned on the advances. Additionally, if a state's subrecipients receive advance payments, Section 80.20(b)(7) requires them to follow procedures for minimizing the time between receipt and disbursement of federal funds.

## **CONDITION**

The Department of Education (Education) does not have adequate procedures to ensure that program subrecipients demonstrate the ability to minimize the time between receipt and disbursement of federal funds. Under its payment procedures, Education disburses predetermined percentages of program funds to subrecipients rather than assessing and disbursing funds based on each subrecipient's immediate cash needs. During the fiscal year, Education typically disburses funds to subrecipients through two payments of 33 percent of the subgrant award for the English Literacy and Civics Education components of the Adult Education program. In addition, Education disburses funds to subrecipients for sections 225 and 231 of the Adult Education program through two payments of 50 percent and 25 percent, respectively, of the subgrant award. After it receives the subrecipients' final expenditure report, Education disburses the final payment. Although the timing of the disbursements appears reasonable, Education does not require subrecipients to report their expenditures before disbursing the second payment. Thus, it has little assurance that subrecipients minimize the time between receipt and disbursement of federal funds.

Of the 40 payments to subrecipients we reviewed for the Adult Education program, 23 involved disbursements made before Education received information on the subrecipients' use of funds; Education disbursed more than \$1.1 million to its subrecipients with inadequate assurance that the subrecipients had minimized the time between receipt and disbursement of federal funds. Finally, Education did not require subrecipients to report and remit interest exceeding \$100 per year that they earned on the federal program advances. As a result, these subrecipients could have used the interest earned on advances for activities that are not allowed.

## **RECOMMENDATIONS**

To minimize the time between subrecipients' receipt and disbursement of federal funds, Education should implement procedures to assess each subrecipient's cash needs and adjust its advance payments accordingly. Additionally, Education should ensure that its subrecipients report their program expenditures in time to allow Education to assess their cash needs before it makes additional advance payments. If Education determines it cannot implement procedures to ensure that its subrecipients report their program expenditures in time to allow Education to assess their cash needs before it makes additional payments, it should implement procedures to pay its subrecipients on a reimbursement basis rather than in advance. Finally, Education should also establish controls to ensure that its subrecipients report interest greater than \$100 that they earned on the advances and repay that income to the federal awarding agency.

## DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

For the 2004–05 fiscal year, Education amended its payment method to subrecipients in order to minimize the time elapsing between the receipt and use of federal program funds. Subrecipients initially receive 50 percent of their preliminary grant award amount, and then are required to submit a mid-year report showing expenditures and encumbrances toward their grant award amount. If the subrecipient expended or encumbered at least 80 percent of the initial payment, Education processes a second payment of 25 percent of the grant award amount. If the subrecipient expended or encumbered less than 80 percent of the initial payment, Education processes a second payment of only 12.5 percent of the grant award amount. Education continues to require a final report showing total grant expenditures and encumbrances.

In addition, the subrecipients are required to indicate on the mid-year and final reports the amount of interest earned on advance payments, and to promptly remit interest greater than \$100 to the federal agency.

---

Reference Number:	2004-3-3
Federal Catalog Number:	84.010
Federal Program Title:	Title I Grants to Local Educational Agencies
Federal Award Number and Calendar Year Awarded:	S010A030005A; 2003
Category of Finding:	Cash Management
State Administering Department:	Department of Education

### CRITERIA

Our review of the Title I Grants to Local Educational Agencies program (Title I, Part A) identified the following requirements relating to cash management:

The Code of Federal Regulations, Title 34, Section 80.21, allows a state's subrecipients to receive advance payments provided they demonstrate the ability to minimize the time between receipt and disbursement of federal funds. Otherwise, reimbursement is the preferred method of payment. Further, this section requires a state's subrecipient's to promptly pay the federal agency any interest greater than \$100 that they have earned on the advance. Additionally, if a state's subrecipients receive advance payments, Section 80.20(b)(7) requires them to follow procedures for minimizing the time between receipt and disbursement of federal funds. Moreover, grant requirements state that the regulations in Section 80 apply to Title I of the Elementary and Secondary Education Act of 1965, as amended.

In addition, the United States Code, Title 20, Section 6312(a)(1), indicates that a local educational agency (LEA) may receive subgrants under this section for any fiscal year only if it has filed with the Department of Education (Education) a plan approved by the State Board of Education (state board).

## **CONDITION**

The Department of Education (Education) does not have adequate procedures to ensure that Title I, Part A subrecipients, which are all LEAs, demonstrate the ability to minimize the time between receipt and disbursement of federal funds. Under its payment procedures, Education disburses predetermined percentages of program funds to subrecipients rather than assessing and disbursing funds based on each subrecipient's immediate cash needs. Further, Education does not require its subrecipients to report their use of program advances before it makes additional payments to them. Education's lack of procedures to assess each subrecipient's cash needs, combined with its predetermined advance-payment process, does not adequately ensure that subrecipients minimize the time between receipt and disbursement of federal program funds.

Of the 39 expenditure transactions we reviewed for Title I, Part A funds, Education disbursed approximately 80 percent of the funds during fiscal year 2003–04 without receiving information on the subrecipients' use of funds. As a result, Education disbursed more than \$319 million with limited assurance that subrecipients minimized the time between receipt and disbursement of federal funds.

We also found that Education does not ensure that the state board has approved subrecipients' plans prior to subrecipients receiving Title I, Part A funds. Subrecipients submit a five-year plan as a requirement for receiving federal funding for No Child Left Behind programs. The plan includes specific descriptions and assurances and describes the actions that subrecipients will take to ensure that they meet certain requirements. Title I, Part A funds are disbursed in three apportionments. We considered an approval appropriate when the state board had approved the plan prior to the disbursement of federal funds.

For fiscal year 2003–04, the state board did not approve five of 40 plans we reviewed prior to the disbursement of federal funds. Education disbursed \$583,166 to the five subrecipients.

## **RECOMMENDATIONS**

To ensure that subrecipients minimize the time between receipt and disbursement of federal funds, Education should implement procedures to assess each subrecipient's cash needs and, if necessary, adjust its advance payments to more closely reflect those needs. Additionally, Education should ensure that its subrecipients report their program expenditures in time to allow Education to assess their cash needs before making additional advance payments. Moreover, if Education cannot demonstrate its ability to ensure that subrecipients minimize the time between receipt and disbursement of federal funds, it should implement procedures to pay its subrecipients on a reimbursement basis rather than paying them in advance. Finally, Education should ensure that subrecipients of Title I, Part A funds have a state board-approved plan on file prior to the disbursement of federal funds.

## DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

With limited resources available to monitor whether subrecipients' advance payments are expended before subsequent payments are issued, Education is exploring various options for an optimal approach on monitoring, which includes seeking guidance from the United States Department of Education on its expectations.

In the interim, Education continues to allocate funds proportionate to the unpaid months that have elapsed prior to and including the month of the current apportionment, based on the principle that LEAs incur federal expenditures fairly constantly through the year. During the 2003–04 fiscal year, Education included language in apportionment letters to notify LEAs of a potential delay in funding if significant carry over balances existed. The next step will be separate written notifications to non-compliant LEAs that will detail specific dollar amounts and percentages. Currently, our plan is to issue these notifications at the release of the second 40 percent payment.

Furthermore, the Title I program office monitors the percentage of carry over balances as submitted on Part I of the Consolidated Application. When an LEA is over their 15 percent carry over limit, a waiver is requested from the program office. Program staff reviews/approves and notifies fiscal staff if funds should be withheld.

Education refined its process in fiscal year 2004–05 to ensure all LEA plans are approved by the State Board prior to the disbursement of federal funds. A file of the Consolidated Application (ConAp) Title I participants is compared to a listing of active schools to ensure those applying to participate in Title I funds are operating. When a LEA plan is received, it is reviewed to ensure all the information is present, then it is forwarded to the State Board for approval. The calculations of the entitlement are completed, but no funds are released into the apportionment until a State Board approved LEA plan is in Education's file and is verified against the ConAp and active schools listing. Education also checks the file as apportionments are ready for release to ensure there is a State Board approved LEA plan.

---

Reference Number:	2004-3-4
Federal Catalog Number:	84.243
Federal Program Title:	Tech-Prep Education
Federal Award Number and Calendar Year Awarded:	V243A030005; 2003
Category of Finding:	Cash Management
State Administering Department:	California Community Colleges, Chancellor's Office

## **CRITERIA**

Our review of Tech-Prep Education program (Tech-Prep) identified the following requirements related to cash management:

The Code of Federal Regulations, Title 34, Section 80.21, allows a state's subrecipients to receive advance payments provided they demonstrate the ability to minimize the time between receipt and disbursement of federal funds. Otherwise, reimbursement is the preferred method of payment. Additionally, if a state's subrecipients receive advance payments, Section 80.20(b)(7) requires them to follow procedures for minimizing the time between receipt and disbursement of federal funds.

## **CONDITION**

The California Community Colleges, Chancellor's Office (Chancellor's Office), does not have adequate procedures to ensure that Tech-Prep subrecipients minimize the time between receipt and disbursement of federal funds. Under its payment procedures the Chancellor's Office approves Tech-Prep advances for each subrecipient and disburses the advances each month based on predetermined percentages. However, because the Chancellor's Office approved advances that exceeded some subrecipients' immediate cash needs, some subrecipients carried excessive cash balances during the fiscal year.

The Chancellor's Office approves subrecipient applications, calculates advances, and pays the advances in monthly installments. To determine if a subrecipient's spending approximates the advances, the Chancellor's Office uses the subrecipient's quarterly year-to-date expenditure reports to compare the reported expenditures to the amounts it advanced the subrecipient. If it determines that the subrecipient's spending approximates the advances, it is the policy of the Chancellor's Office to authorize further advance payments in full; otherwise, its policy is to reduce the subrecipient's monthly advance payments. Further, when the Chancellor's Office determines that a reduction in the monthly advance payment amount is warranted, it generally begins making adjustments in the third quarter of the fiscal year.

Our review found that a significant number of subrecipients of Tech-Prep that we reviewed maintained high cash balances during the first and second quarters of fiscal year 2003–04. Because Tech-Prep subgrants are small, we considered balances high when they exceeded 10 percent of the amounts advanced by the Chancellor's Office and were at least \$7,000. We found that 10 of the 20 subrecipients we reviewed maintained high cash balances ranging from \$7,975 to \$26,250 during the first quarter. Additionally, during the second quarter, eight of 20 subrecipients maintained high cash balances ranging from \$7,454 to \$36,829.

The Chancellor's Office is responsible for ensuring that subrecipients minimize the time between receipt and disbursement of federal funds. However, when the Chancellor's Office does not adequately assess its subrecipients' immediate cash needs before approving advances, it cannot ensure that subrecipients minimize the time between receipt and disbursement of federal funds.

## RECOMMENDATIONS

To minimize the time between subrecipients' receipt and disbursement of federal funds, the Chancellor's Office should reassess the amount disbursed through the advance process and approve initial advances that more closely reflect each subrecipient's immediate cash needs. If the Chancellor's Office cannot demonstrate its ability to ensure that subrecipients minimize the time between receipt and disbursement of federal funds, it should implement procedures to pay its subrecipients on a reimbursement basis rather than paying them in advance.

## DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

The Chancellor's Office continues to "fine-tune" its system of putting funding into the apportionment process for the 72 community college districts, and adjusts advances based on prior expenditure patterns. Additionally, because expenditure reports are now submitted electronically, the Chancellor's Office easily can monitor the aggregate expenditures of the community college system.

Complicating factors for easy resolution of this continuing issue include the following:

- The federal Act limits reimbursable administrative expenditures by both the Chancellor's Office and the local sub-recipients, and a cost-reimbursement system of cash management (invoicing and processing disbursements)—given the scope of California—would have its own problems. The response time for such a system would interfere with the timely implementation of the program's objectives. Additionally, the added expense of such a system's operation would divert funds from the programs and colleges objectives. To serve the program's purposes best, the Chancellor's Office is attempting to use the most cost-effective system for cash disbursement.
- The apportionment process used offers only limited occasions (one prior to the fiscal year, two during the fiscal year, and one after the fiscal year) to adjust the flow of cash, and those occasions are not fully in sync with the regular quarterly reporting process. Additionally, the apportionment process has fixed percentages of funds that are released month by month, and those percentages are set in State Statute.
- Because of varying local conditions, prior patterns of expenditure are not an exact predictor of future patterns of expenditure.

The Chancellor's Office is concerned that the sub-recipient monitoring and cash management citing incompletely describes the cash management situation, and hopes that in the future a more complete analysis will be provided in any citings.

The material question of whether—or the extent to—the Chancellor's Office in its administration of Perkins funds created a condition of excess cash in "draw downs" from the U.S. Dept. of Education is not answered because of an incomplete analysis of sub-recipient monitoring.

The audit analysis instead builds the citing on an intermediate step in a much larger process of cash management. Specifically, the analysis notes several individual recipients who report expenditures less than cash received to date. Critically, though, the analysis fails to include those situations where individual recipients have expenditures greater than cash received to date. The community college system, which receives down cash in aggregate, experiences internal account

balancing where—in fact—over-expenditures can offset under-expenditures, and the question of whether the State of California has drawn down excessive cash can only be answered after a more complete analysis.

## **AUDITOR’S COMMENTS ON THE DEPARTMENT’S VIEW**

We acknowledge that it is difficult to balance the needs of subrecipients with the requirements for advancing federal funds to them. However, if the Chancellor’s Office is unable to comply with these requirements, it should consider paying its subrecipients on a reimbursement basis or seeking a waiver from the U.S. Department of Education from these requirements. Despite the concerns raised by the Chancellor’s Office, the requirements we test and the procedures we perform are those included in the U.S. Office of Management and Budget Circular A-133 compliance supplement. Accordingly, we cite the laws and regulations relevant to them.

---

Reference Number: 2004-3-5  
Category of Finding: Cash Management  
State Administering Department: Department of Education

*(See listing of the specific federal program details following the discussion of the issues below.)*

## **CRITERIA**

Our review of the Special Education—Grants to States program and the Special Education—Preschool Grants program identified the following requirements relating to cash management:

The Code of Federal Regulations, Title 34, Section 80.21, allows subrecipients to receive advance payments provided they demonstrate the ability to minimize the time between receipt and disbursement of federal funds. Otherwise, reimbursement is the preferred method of payment. Additionally, if subrecipients receive advance payments, Section 80.20(b)(7) requires them to follow procedures for minimizing the time between receipt and disbursement of federal funds.

## **CONDITION**

The Department of Education (Education) does not have adequate procedures to ensure that program subrecipients demonstrate the ability to minimize the time between receipt and use of federal funds. Although Education obtains information that would allow it to assess each subrecipient’s cash needs and disburse funds accordingly, it does not do so. Instead, under its payment procedures, Education disburses predetermined percentages of program funds to subrecipients during the grant period and then disburses any remaining amounts owed after it receives the subrecipient’s final expenditure reports, which are due 60 days after the end of the grant period. For fiscal year 2003–04 Education also required subrecipients to submit a midyear

report of expenditures as of February 15, 2004; however, it did not use these reports to adjust the subrecipients' subsequent payments, missing an opportunity to ensure that the payments more closely aligned with subrecipients' actual cash needs.

For the subrecipients of the Special Education—Grants to States program for the grant period July 2003 through September 2004, our review found that Education generally disbursed 50 percent of subrecipients' initial grant awards in February 2004 and an additional 25 percent in May 2004. In addition, to two subrecipients of the Special Education—Preschool Grants program that we reviewed, Education disbursed 50 percent of the subrecipients' initial grant awards in March 2004 and an additional 25 percent in May 2004. Although the timing and the amounts of the disbursements suggest that Education's process is adequate to ensure that subrecipients do not receive federal funds significantly before they are needed, our review of 32 subrecipients' midyear reports of expenditures indicates that this was not always the case.

When we compared Education's first payments to 32 subrecipients with their midyear expenditure reports, Education appeared to have disbursed appropriate amounts to 14 subrecipients. However, our comparison showed that Education's first payments to another 18 subrecipients significantly exceeded the expenditures of those subrecipients. We considered the difference significant when payments exceeded expenditures by at least 15 percent. For example, Education disbursed \$6.3 million as the first payment to one subrecipient that reported expenditures of only \$412,000 in its midyear report. Although we would have expected Education to adjust the second payment downward to reflect the subrecipient's actual midyear expenditures, it instead disbursed to this subrecipient the full amount of its second payment totaling \$3.1 million. Finally, although four other subrecipients did not submit midyear reports, Education still provided them with the full amounts of their second payments totaling \$2.8 million.

## **RECOMMENDATIONS**

To minimize the elapsed time between subrecipients' receipt and disbursement of federal funds, Education should use the expenditure information reported in the midyear reports to allow it to assess subrecipients' cash needs before making additional advance payments. If Education determines it cannot use subrecipients' reported program expenditures to assess their cash needs and make additional payments, it should consider procedures to pay its subrecipients on a reimbursement basis rather than paying them in advance.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Education implemented the midyear report for the first time in fiscal year 2003–04, and is enhancing it for fiscal year 2004–05 with stricter language to ensure assessment of each subrecipient's cash needs. This procedure will allow Education to adjust payments in accordance with the federal government "Cash Management" requirements outlined in Title 34, Code of Federal Regulations, section 80.21.

## U.S. DEPARTMENT OF EDUCATION

Federal Catalog Number: 84.027  
Federal Program Title: Special Education—Grants to States  
Federal Award Numbers and  
Calendar Years Awarded: H027A020116; 2002  
H027A030116; 2003

---

Federal Catalog Number: 84.173  
Federal Program Title: Special Education—Preschool Grants  
Federal Award Numbers and  
Calendar Years Awarded: H173A020120; 2002  
H173A030120; 2003

---

Reference Number: 2004-3-6  
Federal Catalog Number: 84.318  
Federal Program Title: Education Technology State Grants  
Federal Award Numbers and  
Calendar Years Awarded: S318X020005A; 2002  
S318X030005; 2003  
Category of Finding: Cash Management  
State Administering Department: Department of Education

### CRITERIA

Our review of the Education Technology State Grants program (Education Technology) identified the following requirements relating to cash management:

The Code of Federal Regulations, Title 34, Section 80.21, allows a state's subrecipients to receive advance payments provided they demonstrate the ability to minimize the time between receipt and disbursement of federal funds. Otherwise, reimbursement is the preferred method of payment. Additionally, if a state's subrecipients receive advance payments, Section 80.20(b)(7) requires them to follow procedures for minimizing the time between receipt and disbursement of federal funds.

## **CONDITION**

The Department of Education (Education) does not have adequate procedures to ensure that Education Technology subrecipients demonstrate the ability to minimize the time between receipt and disbursement of federal program funds. Under its payment procedures Education disburses predetermined percentages of program funds to subrecipients rather than assessing and disbursing funds based on each subrecipient's immediate cash needs. Further, Education does not always require its subrecipients to report their use of program advances before it makes additional payments to them. As a result, Education does not ensure that subrecipients minimize the time between receipt and disbursement of federal funds.

Education awards Education Technology funds to subrecipients in two ways: as a formula grant and as a competitive grant. Of the 35 payments to subrecipients made during fiscal year 2003–04 that we reviewed for Education Technology, we identified cash management weaknesses in both types of awards.

For nine formula grant subrecipients we reviewed, Education disbursed 85 percent of their 2002 awards between August and November 2003. However, Education did not require these subrecipients to report their expenditures until October 2004, at least 11 months after disbursing the payments. As a result, Education disbursed \$505,000 with no assurance that subrecipients had minimized the time between receipt and use of federal funds. Further, although Education's policy requires each subrecipient to submit a final expenditure report before it can receive the final payment, Education disbursed final payments totaling \$6,400 to three of the nine subrecipients before receiving final expenditure report information on the subrecipients' use of funds.

Finally, for 16 competitive grant subrecipients, Education disbursed 90 percent of the 2002 awards in two equal payments of 45 percent. Education generally made the disbursements in September 2003 and March 2004. However, Education did not require these subrecipients to report any expenditure information before disbursing the second payment. As a result, Education disbursed \$4.2 million with no assurance that the subrecipients had minimized the time between receipt and disbursement of federal funds.

## **RECOMMENDATIONS**

To minimize the time between subrecipients' receipt and disbursement of federal program funds, Education should implement procedures to assess each subrecipient's cash needs and, if necessary, adjust advance payments to more closely reflect each subrecipient's immediate cash needs. Additionally, Education should ensure that its subrecipients report their program expenditures in time to allow Education to assess their cash needs before making additional advance payments. Finally, if Education cannot ensure that subrecipients minimize the time between receipt and disbursement of federal funds, it should implement procedures to pay its subrecipients on a reimbursement basis rather than paying them in advance.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

The Enhancing Education Through Technology (Education Technology) formula grant provides subrecipients advance payments to implement their approved technology plan, which may require significant purchases of hardware and software. To facilitate the subrecipients' ability to make the required Education Technology program purchases and take advantage of discounts, Education provides the subrecipients advance payments.

With almost 1,000 potential Education Technology subrecipients, and over 500 grant awards under \$10,000, Education is exploring various methods for an optimal monitoring approach, including seeking guidance from the United States Department of Education to meet federal monitoring expectations with Education's limited resources.

Education continues to monitor end of period expenditure reports, which provides signed assurances that funds were expended in accordance with the grant award documents. Education bills subrecipients for:

1. unspent amounts reported on the end of period expenditure reports; and
2. total grant award amounts if the end of period expenditure report is not submitted to Education.

Education has recently sent final warning letters related to 2) described above and is prepared to send bills if the reports are not received by January 31, 2005.

---

Reference Number:	2004-3-7
Federal Catalog Number:	84.367
Federal Program Title:	Improving Teacher Quality State Grants
Federal Award Number and Calendar Year Awarded:	S367A030005A; 2003
Category of Finding:	Cash Management
State Administering Department:	Department of Education

## **CRITERIA**

Our review of the Improving Teacher Quality State Grants (Improving Teacher Quality) program identified the following requirements related to cash management:

The Code of Federal Regulations, Title 34, Section 80.21, allows a state's subrecipients to receive advance payments provided they demonstrate the ability to minimize the time between receipt and disbursement of federal funds. Otherwise, reimbursement is the preferred method of payment. Additionally, if a state's subrecipients receive advance payments, Section 80.20(b)(7) requires them to follow procedures for minimizing the time between receipt and disbursement of federal funds.

## **CONDITION**

The Department of Education (Education) does not have adequate procedures to ensure that subrecipients of the Improving Teacher Quality program demonstrate the ability to minimize the time between receipt and disbursement of federal funds. Under its payment procedures, Education disburses predetermined percentages of program funds to subrecipients rather than assessing and disbursing funds based on each subrecipient's immediate cash needs. Further, Education does not always require its subrecipients to report their use of program advances before it makes additional payments to them. As a result, Education does not ensure that subrecipients minimize the time between receipt and disbursement of federal funds.

Of the 39 subrecipients we reviewed for the Improving Teacher Quality program, Education disbursed 100 percent of the funds without receiving information on the subrecipients' use of funds. As a result, Education disbursed more than \$12.1 million with no assurance that these subrecipients minimized the time between the receipt and disbursement of federal funds.

We reported a similar issue in our fiscal year 2002–03 audit report, and as of January 2005 Education has yet to compare the amounts it disbursed for its 2002–03 grant to expenditure reports submitted by subrecipients. As a result, Education cannot be assured that it has disbursed the appropriate amounts to subrecipients and can make final adjustments, if necessary.

## **RECOMMENDATIONS**

To minimize the time between subrecipients' receipt and disbursement of federal funds, Education should implement procedures to assess each subrecipient's cash needs and, if necessary, adjust a subrecipients' advance payments to more closely reflect their immediate cash needs. Additionally, Education should ensure that its subrecipients report their program expenditures in time to allow Education to assess their cash needs before making additional advance payments. Finally, if Education cannot demonstrate its ability to ensure that subrecipients minimize the time between receipt and disbursement of advance payments of federal funds, it should implement procedures to pay its subrecipients on a reimbursement basis rather than paying them in advance.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Education is exploring various options for monitoring the expenditures of subrecipients before subsequent payments are issued. In fiscal year 2005–06, Education anticipates implementing a standardized method to assess the cash needs of subrecipients prior to releasing advance payments.

For the current year, Education will review fiscal year 2003–04 carryover amounts reported on the October 2004 fiscal reports, to evaluate each subrecipients cash needs prior to making additional advance payments.

---

Reference Number: 2004-3-8

Federal Catalog Number: 84.365

Federal Program Title: English Language Acquisition Grants

Federal Award Number and Calendar Year Awarded: T365A030005; 2003

Category of Finding: Cash Management

State Administering Department: Department of Education

## **CRITERIA**

Our review of the English Language Acquisition Grants program identified the following requirements relating to cash management:

The Code of Federal Regulations, Title 34, Section 80.21, allows a state's subrecipients to receive advance payments provided they demonstrate the ability to minimize the time between receipt and disbursement of federal funds. Otherwise, reimbursement is the preferred method of payment. Additionally, if a state's subrecipients receive advance payments, Section 80.20(b)(7) requires them to follow procedures for minimizing the time between receipt and disbursement of federal funds.

## **CONDITION**

The Department of Education (Education) does not have adequate procedures to ensure that program subrecipients demonstrate the ability to minimize the time between receipt and disbursement of federal funds. Under its payment procedures Education disburses predetermined percentages of program funds to subrecipients rather than assessing and disbursing funds based on each subrecipient's immediate cash needs. Further, Education does not require its subrecipients to report their use of program advances before it makes additional payments to them. Education's lack of procedures to assess each subrecipient's cash needs, combined with its predetermined advance-payment process, does not sufficiently ensure that subrecipients minimize the time between receipt and disbursement of federal funds.

Of the 40 expenditure transactions we reviewed for the English Language Acquisition Grants program, Education disbursed 100 percent of the funds in three payments during fiscal year 2003–04 before receiving information on the subrecipients' use of funds. Education did not require its subrecipients to report their use of program advances until October 2004, after it had disbursed the full amount of the grant. As a result, Education disbursed at least \$12.1 million for the 40 transactions we reviewed with little assurance that these subrecipients minimized the time between receipt and disbursement of federal funds. Moreover, our review found that 32 subrecipients reported, as of November 2004, that they had carried over \$5.4 million (44.1 percent) of grant funds from fiscal year 2003–04 to fiscal year 2004–05. The amounts that these 32 subrecipients carried over ranged from \$2,336 to \$1,215,509. The percentages of amounts the 32 subrecipients carried over ranged from 1.6 percent to 100 percent of the amounts Education disbursed to them in fiscal year 2003–04.

## RECOMMENDATIONS

To minimize the time between subrecipients' receipt and disbursement of federal funds, Education should implement procedures to assess each subrecipient's cash needs and, if necessary, adjust its advance payments to more closely reflect each subrecipient's immediate cash needs. Additionally, Education should ensure that its subrecipients report their program expenditures in time to allow Education to assess their cash needs before it makes additional advance payments. Finally, if Education determines it cannot implement procedures to ensure that its subrecipients report program expenditures before it assesses their cash needs and makes additional advance payments, it should implement procedures to pay its subrecipients on a reimbursement basis rather than in advance.

## DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Education is exploring various options for monitoring the expenditures of subrecipients before subsequent payments are issued. In fiscal year 2005–06, Education anticipates implementing a method to assess the cash needs of subrecipients prior to releasing additional funds.

In the interim, English Language Acquisition Grants funds will be disbursed in three payments throughout the year. This approach seems to be proportionate to the expenditure needs of most of the local education agencies.

---

Reference Number:	2004-3-9
Federal Catalog Number:	84.298
Federal Program Title:	Innovative Education Program Strategies
Federal Award Numbers and Calendar Years Awarded:	S298A020005; 2002 S298A030005; 2003
Category of Finding:	Cash Management
State Administering Department:	Department of Education

## CRITERIA

Our review of the Innovative Education Program Strategies (Innovative Education) program, identified the following requirements relating to cash management:

The Code of Federal Regulations, Title 34, Section 80.21, allows a state's subrecipients to receive advance payments provided they demonstrate the ability to minimize the time between receipt and disbursement of federal funds. Otherwise, reimbursement is the preferred method of payment. Additionally, if a state's subrecipients receive advance payments, Section 80.20(b)(7) requires them to follow procedures for minimizing the time between receipt and disbursement

of federal funds. Further, sections 299.1 and 299.2 state that the regulations in Section 80, with some exceptions, apply to Titles I through XIII of the Elementary and Secondary Education Act of 1965 as amended.

## **CONDITION**

The Department of Education (Education) does not have adequate procedures to ensure that subrecipients of the Innovative Education program minimize the time between receipt and disbursement of federal funds. Under its payment procedures, Education disburses predetermined percentages of Innovative Education program funds to subrecipients rather than assessing and disbursing funds based on each subrecipient's immediate cash needs. Education does not require its subrecipients to report their use of program advances before it makes additional payments to them. As a result, Education does not ensure that subrecipients minimize the time between receipt and disbursement of federal funds.

We reviewed 40 Innovative Education program subrecipients to which Education made advance payments and found that it disbursed 80 percent of the funds during fiscal year 2003–04 without receiving information on the subrecipients' use of funds. As a result, Education disbursed approximately \$747,000 with no assurance that these subrecipients minimized the time between the receipt and use of federal funds. Moreover, our review found that Education had awarded and disbursed \$968,000 to the same subrecipients for fiscal year 2002–03. In total the 40 subrecipients had \$409,000 (42 percent) in carryover from fiscal year 2002–03 to fiscal year 2003–04. Moreover, 11 subrecipients carried over 70 percent or more of their prior awards. The amounts that these 11 subrecipients carried over ranged from \$3,188 to \$57,550. The percentages that these 11 subrecipients carried over ranged from 77 percent to 263 percent of the amounts Education disbursed in the previous fiscal year.

## **RECOMMENDATIONS**

To minimize the time between subrecipients' receipt and disbursement of federal funds, Education should implement procedures to assess each subrecipient's cash needs and, if necessary, adjust its advance payments to more closely reflect the immediate cash needs of each subrecipient. Additionally, Education should ensure that its subrecipients report their program expenditures in time to allow Education to assess their cash needs before making additional advance payments. Finally, if Education determines it cannot implement procedures to ensure that subrecipients report program expenditures in time for it to assess cash needs and make additional payments, it should consider implementing procedures to pay its subrecipients on a reimbursement basis rather than in advance.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

With limited resources available to monitor whether subrecipients' advance payments are expended before subsequent payments are issued, Education is exploring various options for an optimal approach on monitoring, which includes seeking guidance from the United States Department of Education on its expectations.

In the interim, Education continues to allocate funds proportionate to the unpaid months that have elapsed prior to and including the month of the current apportionment, based on the principle that local education agencies (LEAs) incur federal expenditures fairly constant through the year. During the 2003–04 fiscal year, Education included language in apportionment letters to notify LEAs of a potential delay in funding if significant carry over balances existed. The next step will be separate written notifications to non-compliant LEAs that will detail specific dollar amounts and percentages. Currently, our plan is to issue these notifications at the release of the second 40 percent payment.

In addition, revisions are being made to Part II of the Consolidated Application to include collection of expenditure data. Education will evaluate this data in relation to cash management issues.

---

Reference Number:	2004-3-11
Federal Catalog Number:	84.048
Federal Program Title:	Vocational Education—Basic Grants to States
Federal Award Numbers and Calendar Years Awarded:	V048A020005A; 2002 V048A030005A; 2003
Category of Finding:	Cash Management
State Administering Department:	California Community Colleges, Chancellor's Office

## **CRITERIA**

Our review of the Vocational Education—Basic Grants to States program (Vocational Education) identified the following requirements related to cash management:

The Code of Federal Regulations, Title 34, Section 80.21, allows a state's subrecipients to receive advance payments, provided they demonstrate the ability to minimize the time between their receipt and disbursement of federal funds. Under its procedures to advance payments to subrecipients, the California Community Colleges, Chancellor's Office (Chancellor's Office) withholds a subrecipient's last payment until the Chancellor's Office has received and reviewed the subrecipient's final expenditure report for the fiscal year.

## **CONDITION**

The Chancellor's Office did not always withhold a subrecipient's last payment until the Chancellor's Office received and reviewed the subrecipient's final expenditure report for the fiscal year. Specifically, we found that the Chancellor's Office paid eight of 22 subrecipients a total of \$1,581,683 before reviewing and approving these subrecipients' final expenditure reports for fiscal year 2002–03. When it does not follow its policy to review subrecipients' final expenditure

reports before disbursing additional federal funds, the Chancellor's Office cannot be assured that it has disbursed the appropriate amounts to subrecipients and can make final adjustments, if necessary.

## **RECOMMENDATION**

To ensure that its has disbursed the appropriate amounts to its subrecipients and can make final adjustments, if necessary, the Chancellor's Office should ensure it follows its procedures for reviewing and approving subrecipients' final expenditure reports before releasing final payments.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

The Chancellor's Office concurs. We are examining the relationship between the 4th quarter end of program report, the subsequent final program report, and the payment of the last payment to the subrecipients. We are devising a better mechanism of coordination to ensure appropriate, approvable payment.

---

Reference Number:	2004-5-1
Federal Catalog Number:	84.126
Federal Program Title:	Rehabilitation Services—Vocational Rehabilitation Grants to States
Federal Award Numbers and Calendar Years Awarded:	H126A020005; 2002 H126A030005; 2003
Category of Finding:	Eligibility
State Administering Department:	Department of Rehabilitation

## **CRITERIA**

Our review of the Rehabilitation Services—Vocational Rehabilitation Grants to States program (Vocational Rehabilitation) determined that the following is among the compliance requirements for eligibility:

Title 34, Section 361.41, requires the State to determine an individual's eligibility for Vocational Rehabilitation services within 60 days of receiving his or her application, with certain exceptions.

## **CONDITION**

The Department of Rehabilitation (Rehabilitation) does not always determine applicant eligibility for Vocational Rehabilitation services within the required period. However, ongoing efforts to improve its ability to determine eligibility promptly have had a positive impact. Specifically, of the 35,160 applications Rehabilitation received between July 1, 2003, and April 30, 2004, it did not determine eligibility, obtain extensions, or close cases within the 60-day period for 2,820 applications, or 8 percent. In fiscal years 2001–02 and 2002–03, Rehabilitation exceeded the 60-day period for 21 percent and 14.6 percent of the applications it received, respectively. Thus, Rehabilitation is making consistent improvement.

In 1,926 of the 35,160 applications (5.5 percent) it received between July 1, 2003, and April 30, 2004, Rehabilitation determined an applicant's eligibility after 60 days. For some of these cases, Rehabilitation obtained an agreed-upon extension after the deadline. Of the 1,926 cases, Rehabilitation was fewer than 11 days late in 60.7 percent of the cases, between 11 and 30 days late in another 25.1 percent of the cases, and between 31 and 60 days late in an additional 9.3 percent of the cases. Rehabilitation took more than 120 days to determine eligibility in 4.9 percent of the cases. In addition to the 1,926 cases for which it was late in determining eligibility, Rehabilitation still had not determined eligibility status in 179 cases as of July 31, 2004, and 715 cases had other resolutions after the 60-day deadline. When Rehabilitation does not determine an applicant's eligibility within the required period, it reduces the assurance that clients receive the required vocational rehabilitation services promptly.

## **RECOMMENDATION**

To ensure that applicants receive Vocational Rehabilitation services promptly, Rehabilitation should continue with its efforts to determine eligibility within the required period.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

The Department of Rehabilitation (DOR) agrees with this finding and appreciates BSA's acknowledgement of our efforts in reducing the percentage of overdue eligibility determinations. As correctly noted by BSA, DOR's ongoing efforts have resulted in a significant decline in the number of overdue eligibility determinations from 21 to 8 percent. To meet the required confidence level, DOR will continue to take the following actions to further reduce the number of overdue eligibility determinations:

### **Action #1—Share information with District Administrators**

The District Administrators will continue to receive monthly reports that track the number of overdue eligibility determinations for prompt and immediate follow-up by Rehabilitation Supervisors and counselors.

### **Action #2—Inform and educate DOR staff**

The importance of timely eligibility determination continues to be stressed in all DOR sponsored training courses and during staff meetings at all levels. The Case Recording Handbook, Chapter 2, also provides a full description of the presumptive eligibility provisions in the Code of Federal

Regulations (CFR). Counselors and Rehabilitation Supervisors continue to receive automated reminder notices on the Field Computer System (FCS) before the expiration of the 60 days allowed for eligibility determination.

The Employment Preparation Services (EPS) and Specialized Services Deputy Directors are working directly with District Administrators to ensure the maximum use of the presumptive eligibility and use of existing information provisions in the CFR. Counselors and Rehabilitation Supervisors are being urged to fully implement these provisions and to determine applicant eligibility based on existing information and SSI/SSDI verification at the time of application.

### **Action #3—Local level monitoring of eligibility determinations**

The Rehabilitation Supervisors continue to conduct reviews of eligibility determinations and extensions to ensure appropriateness and compliance with federal regulations. Rehabilitation Supervisors work with the counselors to utilize existing information to the maximum extent possible and the presumptive eligibility criteria to ensure more timely eligibility determinations. Counselors and Rehabilitation Supervisors continue to receive automated reminder notices on the FCS before the expiration of the 60 days allowed for eligibility determination. In addition to the automated reminder notices, reports are generated monthly to track the number of overdue eligibility determinations in each district. These reports are shared with the District Administrators and Rehabilitation Supervisors for review and follow up. In response to previous BSA findings, these reports have been modified to include information as to whether the consumer receives SSI or SSDI to ensure that presumptive eligibility criteria is being applied in a manner consistent with the Rehabilitation Act to expedite the eligibility determination process for consumers.

### **Action #4—Executive level monitoring of eligibility determinations**

The EPS and Specialized Services Deputy Directors will continue to review monthly overdue eligibility reports to work with the District Administrators to resolve the issues preventing the timely determination of eligibility. The District Administrators are asked to review these reports and report back to the deputy directors with corrective plans to address any overdue eligibility determination issues.

DOR recognizes the importance of meeting eligibility determination timelines and remains committed to improve in this area through a collaborative effort with District Administrators and Rehabilitation Supervisors. DOR will continue to use the action plan above to monitor, identify, and promote best practices that will contribute to obtaining compliance with this federal requirement.

---

Reference Number:	2004-7-1
Federal Catalog Number:	84.298
Federal Program Title:	Innovative Education Program Strategies
Federal Award Number and Calendar Year Awarded:	S298A010005; 2001
Category of Finding:	Earmarking
State Administering Department:	Department of Education

## **CRITERIA**

Our review of the Innovative Education Program Strategies (Innovative Education) program identified the following requirements relating to earmarking:

For fiscal year 2001-02 the United States Code, Title 20, Section 7331(b), required that no more than 25 percent of funds available for the Innovative Education program be used for administration. Additionally, Section 8821 allowed the State to consolidate the administrative funds of several programs, including the Innovative Education program.

## **CONDITION**

The Department of Education (Education) does not have adequate procedures to ensure that it meets the Innovative Education program earmarking requirements. Thus, it cannot ensure that it spends federal funds in compliance with federal regulations. For the fiscal year 2001–02 grant award, Education consolidated its state administrative funds for the Innovative Education program and several other federal programs. Using the funds from each program, it determined the proportionate share for each program and applied those proportions to the costs it incurred. For the Innovative Education program, Education consolidated the entire \$5.8 million available for state use. However, based on our calculations, it should have consolidated only \$1.7 million of the funds set aside for state use and should have restricted administrative expenditures to this consolidated pool. Additionally, it should have tracked separately the remaining \$4.1 million for other state-level activities. Because Education failed to consolidate and track federal funds properly, the Innovative Education program may have borne a disproportionate share of the administrative costs the State incurred.

We reported a similar finding in our audits of fiscal years 2001–02 and 2002–03. For fiscal year 2001–02 Education asserted that the U.S. Department of Education (USDE) should have been aware it consolidated as administrative funds most of the allocation for state operations in the Innovative Education program since 1996. However, the USDE determined in February 2003 and informed Education that it should have consolidated as administrative funds no more than 25 percent of the amount allocated for state use.

## **RECOMMENDATION**

Education should ensure that it consolidates for state administration no more than 25 percent of the funds set aside for its use to meet the Innovative Education program earmarking requirement.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Education is no longer consolidating state administrative funds with the implementation of No Child Left Behind in fiscal year 2002–03. However, in the event that Education is authorized to consolidate state administrative funds in the future, the following procedures will ensure that no more than the amount authorized by the program statute, and related regulations and guidance will be included in that consolidation.

1. Education incorporated a new section in the *Office Manager's Guidelines* file under Federal Grant Control that provides guidance to current and future managers concerning the consolidation of state administrative funds, and documents a new requirement that there be additional reviews to ensure compliance with federal guidelines.
2. Education created a new electronic folder that contains information regarding audit findings on federal funds. This folder is filed under "Federal Grants" and provides current and future managers with historical information on audit findings.
3. Additionally, Education developed and continually updates a federal programs database that contains regulations and guidance on each federal grant, as well as links to Web sites that provide additional and updated information. The database provides management with information to determine the federal set-aside requirements for each federal grant. In the event that Education decides to consolidate state administrative funds in the future, this database will be a valuable tool in determining administrative amounts authorized by program statute.
4. Education has also taken steps to add additional professional staff, that have responsibility for tracking federal fund issues such as this, to its Budget Office.

---

Reference Number: 2004-7-2

Category of Finding: Level of Effort—Supplement Not Supplant

State Administering Department: Department of Education

*(See listing of the specific federal program details following the discussion of the issues below.)*

## **CRITERIA**

Our review of federal programs identified the following requirements related to level of effort:

The United States Code, Title 20, sections 2391(a), 6321(b)(1), 6613(f), 6825(g), and 7217c provide that, with certain exceptions, funds paid to a state for the federal programs listed below must be used to supplement, rather than supplant, the level of federal, state, and local funds expended for these programs:

## **CONDITION**

The Department of Education (Education) does not have a system in place for monitoring the State's compliance with the requirement that it use revenues from certain federal grants to supplement, rather than supplant, existing funds for grant-related activities. These grants include the Title I Grants to Local Educational Agencies, Vocational Education—Basic Grants to States, Innovative Education Program Strategies, English Language Acquisition Grants, and Improving Teacher Quality State Grants programs. By not tracking whether it is using its federal funds to supplement existing funds, the State may not identify potential noncompliance in time to take the necessary corrective action, which ultimately could result in reduced federal funding

in future years. We independently performed procedures to determine whether Education met the supplement-not-supplant requirements for three grant award years closing out during fiscal year 2003–04 and preliminary reviews for two grant awards and found that the State appeared to have met these requirements.

## **RECOMMENDATION**

Education should implement a process to monitor whether the federal grant revenues supplement other funding for the programs.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Each Education program office will determine the specific supplement requirements for its particular program, then work with fiscal staff to track and monitor state and local expenditures and state appropriations, as necessary, for compliance with the requirements. Based on the supplement requirements, Education will implement a process to monitor whether the federal grant revenues supplement, not supplant, other funding for the programs.

### **U.S. DEPARTMENT OF EDUCATION**

Federal Catalog Number: 84.010  
Federal Program Title: Title I Grants to Local Educational Agencies  
Federal Award Number and  
Calendar Year Awarded: S010A010005; 2001

---

Federal Catalog Number: 84.048  
Federal Program Title: Vocational Education—Basic Grants to States  
Federal Award Number and  
Calendar Year Awarded: V048A010005; 2001

---

Federal Catalog Number: 84.298  
Federal Program Title: Innovative Education Program Strategies  
Federal Award Number and  
Calendar Year Awarded: S298A010005; 2001

---

Federal Catalog Number: 84.365  
Federal Program Title: English Language Acquisition Grants  
Federal Award Number and  
Calendar Year Awarded: T365A020005; 2002

---

Federal Catalog Number: 84.367  
Federal Program Title: Improving Teacher Quality State Grants  
Federal Award Number and  
Calendar Year Awarded: S367A020005; 2002

---

Reference Number: 2004-7-3  
Federal Catalog Number: 84.027  
Federal Program Title: Special Education—Grants to States  
Federal Award Numbers and  
Calendar Years Awarded: H027A020116; 2002  
H027A030116; 2003  
Category of Finding: Level of Effort—Maintenance of Effort  
State Administering Department: Department of Education

## **CRITERIA**

Our review of the Special Education—Grants to States program (Special Education) identified the following requirements related to level of effort—maintenance of effort:

The United States Code, Title 20, Section 1412(a)(19)(A), prohibits any state that receives assistance under Special Education from reducing the amount of state financial support for Special Education and related services for children with disabilities, including support for the excess costs of educating those children, to less than the amount of that support for the preceding fiscal year. Further, the Code of Federal Regulations, Title 34, Section 300.154(a), specifies that the State must have on file with the U.S. Department of Education (USDE) information to demonstrate that the State will comply with this requirement.

## **CONDITION**

The Department of Education (Education) does not have a system in place to demonstrate that the State maintains funding for Special Education and related services at a level that is at least equal to the funding for the prior year. Additionally, because not all the funding information is available and questions exist on what funding should be included in the calculation, it is too early to tell whether the State will meet this requirement for fiscal year 2002–03. Failure to meet this requirement could result in the State losing some federal funding for Special Education.

Although in previous years the budget for Special Education has steadily increased, with the recent budget reductions, the State's ability to comply with the maintenance of effort requirement has come into question. However, without specifically tracking the State's funding of Special Education and related services, Education cannot demonstrate the State is meeting the maintenance of effort requirement.

For example, the State's budget for fiscal year 2002–03 deferred paying approximately \$100 million from the Department of Mental Health's budget, some of which had been used for services provided to children in Special Education, causing some to question whether the State had met its maintenance of effort requirement. Our review of preliminary budgetary information indicates that, despite the reduction of funding from the Department of Mental Health, state funding will be sufficient to meet its maintenance of effort requirement for fiscal year 2002–03. However, our preliminary analysis uses budgetary information rather than actual expenditures. According to Education, it will not have final expenditure information until July 2005. Additionally, Education told us that the calculation to determine whether it met its maintenance of effort requirement should include the portion of property taxes that are specifically designated by state law to be used for Special Education purposes. However, according to Education, final property tax information also will not be available until July 2005. Thus, we could not definitively conclude that the State will meet the requirement. Additionally, when we discussed Education's position with representatives from USDE, USDE questioned the State's inclusion of property taxes, an issue that remains unresolved.

## **RECOMMENDATIONS**

Education should clarify with USDE the definition of the funding that serves as the basis for determining whether the State has met the maintenance of effort requirements for Special Education. Further, it should implement a system for annually monitoring the State's compliance with the requirements.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Education will establish a monitoring system to ensure that the State meets the maintenance of effort requirements for the Special Education program. During this process, Education will determine the components of maintenance of effort and, if necessary, seek clarification from the federal government.

---

Reference Number:	2004-9-4
Federal Catalog Number:	84.126
Federal Program Title:	Rehabilitation Services—Vocational Rehabilitation Grants to States
Federal Award Numbers and Calendar Years Awarded:	H126A020005; 2002 H126A030005; 2003

Category of Finding: Suspension and Debarment

State Administering Department: Department of Rehabilitation

## **CRITERIA**

Our review of the Rehabilitation Services—Vocational Rehabilitation Grants to States program (Vocational Rehabilitation) determined that the following are among the compliance requirements for suspension and debarment:

The Code of Federal Regulations, Title 34, Section 80.35, prohibits the State from doing business with any party that is suspended, debarred, or otherwise ineligible to participate in federal assistance programs. In addition, Title 34, Section 85.510, requires the State to obtain certifications from participating organizations affirming that they are not suspended, debarred, ineligible, or voluntarily excluded from transactions by any federal agency. Further, Title 34, Section 85.110, makes procurement contracts for goods or services expected to equal or exceed \$100,000 subject to the suspension and debarment certification requirements.

## **CONDITION**

The Department of Rehabilitation (Rehabilitation) did not obtain the required suspension and debarment certification from three of the four contractors we reviewed that had amendments to existing contracts or new contracts initiated during fiscal year 2003–04. In our fiscal year 2002–03 review, we also reported that Rehabilitation had not obtained the required certifications from all five contractors reviewed. In response, Rehabilitation stated that it had developed suspension and debarment language to include in all fiscal year 2003–04 contract amendments and all 2004–05 contracts that were \$100,000 or more. However, two contract amendments and one new contract—together representing \$1.1 million—did not have the appropriate suspension and debarment language. Without obtaining the required certifications, Rehabilitation risks unknowingly allowing suspended or debarred parties to participate in Vocational Rehabilitation. For the transactions we reviewed, we used an alternative test to determine that these participants were not suspended or debarred.

## **RECOMMENDATION**

Rehabilitation should ensure that Vocational Rehabilitation participants receiving procurement contracts of \$100,000 or more submit the required suspension and debarment certifications before Rehabilitation approves their participation in Vocational Rehabilitation.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

The Department of Rehabilitation agrees with this finding and has taken additional steps to ensure that suspension and debarment certifications are included in all contracts over \$100,000. Specifically, all contract analysts have been directed to carefully and fully review each contract or amendment over \$100,000 to be certain it includes suspension and debarment language. In

addition, the lead contract analyst will review all contracts to ensure that the language is included. If the language is not included in the contracts, the contracts will be returned to the contract analyst to have the required language inserted into the contract and initialed by all parties.

---

Reference Number: 2004-13-3  
Category of Finding: Subrecipient Monitoring  
State Administering Department: Department of Education

*(See listing of the specific federal program details following the discussion of the issues below.)*

## **CRITERIA**

Our review of the Vocational Education—Basic Grants to States program (Vocational Education) and the Education Technology State Grants program (Education Technology) identified the following requirements relating to subrecipient monitoring:

The Code of Federal Regulations, Title 34, Section 80.40(a), requires the State to monitor subrecipient activities supported by federal program funds to ensure that they comply with applicable federal requirements and meet performance goals. Additionally, the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133), Section 400(d), requires the State to identify federal award information to subrecipients at the time of the award. This includes such information as the Catalog of Federal Domestic Assistance (CFDA) title and number, award name and number, and name of the federal awarding agency.

## **CONDITION**

The Department of Education (Education) did not adequately fulfill its subrecipient monitoring responsibilities for Vocational Education and Education Technology. Specifically, Education did not identify all required federal award information in award letters to subrecipients. Owing to staff oversight, Education did not identify the U.S. Department of Education as the federal awarding agency and did not provide the CFDA number and title or relevant regulations for any of its Vocational Education subrecipients. Also, none of the 40 grant award letters we reviewed for Education Technology contained CFDA numbers and titles. When Education does not identify the federal award information, it cannot ensure that subrecipients of Vocational Education or Education Technology funds correctly identify all their federal grant awards. As a result, subrecipients' independent auditors, who must conduct audits in accordance with OMB Circular A-133, may not be aware of all grants they must consider for audit. The State uses the independent audits as one method to monitor subrecipients' compliance with applicable federal requirements and program goals.

## RECOMMENDATION

Education should ensure that it identifies and provides all required federal award information to subrecipients of Vocational Education or Education Technology funds at the time of the awards.

## DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

As stated in the condition, the required federal award information was inadvertently omitted in the Vocational Education 2003–04 final grant award notification letters because this letter was combined with the eligible recipient's application approval information letter. However, Education is now sending out separate letters to transmit the final grant award notification and application approval information. The annual final grant award notification letters mailed to eligible recipients of the Carl D. Perkins Vocational and Technical Education Act Section 112, 131, and 132 funds includes the required federal award information. The letter states:

Your agency's (year) Perkins III allocation is part of the Vocational Education Basic Grant to States from the Office of Vocational and Adult Education (OVAE), United States Department of Education (USDE). The Catalog of Federal Domestic Assistance (CFDA) number is 84.048. The Vocational Education Basic Grant to States funds are subject to Title 34 Code of Federal Regulations (CFR) 400 and 403; Education Department General Administrative Regulations (EDGAR) 74, 76 (except 76.103), 77, 79-82, and 85; Office of Civil Rights (OCR) Guidelines for Vocational Education; and compliance requirements discussed in Office of Management and Budget (OMB) circulars A-87 and A-133.

Beginning with the 2004–05 Education Technology State Grants, Education will post the CFDA title and number, award name and number, and name of the federal agency on the grant award letters sent to subrecipients.

### U.S. DEPARTMENT OF EDUCATION

Federal Catalog Number:	84.048
Federal Program Title:	Vocational Education—Basic Grants to States
Federal Award Number and Calendar Year Awarded:	V048A030005; 2003

---

Federal Catalog Number:	84.318
Federal Program Title:	Education Technology State Grants
Federal Award Numbers and Calendar Years Awarded:	S318X020005A; 2002 S318X030005; 2003

---

Reference Number: 2004-13-4

Federal Catalog Number: 84.010

Federal Program Title: Title I Grants to Local Educational Agencies

Federal Award Number and Calendar Year Awarded: S010A030005A; 2003

Category of Finding: Subrecipient Monitoring

State Administering Department: Department of Education

## **CRITERIA**

Our review of the Title I Grants to Local Educational Agencies program (Title I, Part A) determined that the following compliance requirements relate to the comparability of school services and subrecipient monitoring:

The United States Code, Title 20, Section 6321(c), requires local educational agencies (LEAs) that receive Title I, Part A funds to use state and local funds to provide school services that are at least comparable to services provided by schools not receiving these federal funds, unless otherwise excluded. In addition, this section states that an LEA will have met the requirement of comparability if the LEA has filed with the state education agency a written assurance that the LEA has established and implemented an LEA-wide salary schedule and a policy to ensure equivalence among schools in the provision of curriculum materials and instructional supplies, among other things. Further, this section states that each LEA must develop procedures and maintain records documenting compliance with the requirements.

In addition, the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 400(d), requires the State to monitor the activities of subrecipients to ensure compliance with laws and regulations.

## **CONDITION**

The Department of Education (Education) has not monitored whether LEAs receiving Title I, Part A funds have complied with the requirement to provide school services that are at least comparable to services provided by schools not receiving these federal funds.

During fiscal year 2003–04 Education required LEAs that received Title I, Part A funds to file with Education specific written assurance that the LEAs had established and implemented an LEA-wide salary schedule; a policy to ensure equivalence among schools in teachers, administrators, and other staff; and a policy to ensure equivalence among schools in the provision of curriculum materials and instructional supplies. However, Education has not established and implemented procedures to monitor the LEAs' compliance with these requirements.

When Education does not monitor the LEAs' compliance, it cannot be sure that LEAs receiving Title I, Part A funds have established and implemented the policies and procedures federal law requires to ensure comparable school services.

## **RECOMMENDATION**

Education should establish and implement a Title I, Part A monitoring process to ensure that LEAs receiving these federal program funds provide school services that are at least comparable to the services provided by schools not receiving Title I, Part A funds.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

In the fall of each year, Education collects student and teacher data from all schools through the California Basic Educational Data System (CBEDS). This information is sufficient for Education to calculate a comparability report for each local education agency (LEA) every year regarding student-teacher averages, thus reducing the reporting burden on LEAs. LEAs that successfully meet the comparability requirement based on the comparability report will be finished with the reporting process for the current school year. For LEAs that fail to meet the comparability requirement based on the comparability report, the Title I Policy and Partnerships Office will contact the LEA for additional information to document compliance. Additional information may include a correction of the student-teacher ratio data that is more current or accurate than obtained by Education to calculate the comparability report. The LEA may also provide a fiscal report that compares Title I schools to a group average of non-Title I schools. Education is seeking technical assistance from the United States Department of Education in the analysis and interpretation of data submitted by the LEAs to ensure that the LEAs meet the comparability requirements.

Additionally, Education will incorporate comparability into its program monitoring process on an ongoing basis. Beginning with the school year 2005–06, the revised program monitoring process will include a Title I comparability element for the review of the implementation of consolidated programs in LEAs for the school year 2004–05 and subsequent school years.

---

Reference Number:	2004-13-5
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Education

*(See listing of the specific program details following the discussion of the issues below.)*

## **CRITERIA**

Our review of the Special Education—Grants to States program and the Special Education—Preschool Grants program identified the following requirements relating to subrecipient monitoring:

The Code of Federal Regulations, Title 34, Section 80.40(a), requires the State to monitor subrecipient activities supported by federal program funds to ensure that they comply with applicable federal requirements and meet performance goals. The U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 400(d) requires the State to monitor the activities of subrecipients to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and grant agreements and that performance goals are achieved.

In the grant award eligibility documents that it submitted to the U.S. Department of Education, the California Department of Education (Education) indicated that its monitoring system or quality assurance process is composed of four major or essential components: the local plan, the coordinated compliance self-review (self-review), compliance complaints, and focused monitoring (verification reviews). Additionally, its grant award eligibility documents state that 25 percent of the subrecipients submit their self-reviews annually.

## **CONDITION**

Education does not monitor the activities of its subrecipients awarded funds from the Special Education—Grants to States program and the Special Education—Preschool Grants program in accordance with grant award eligibility documents. Specifically, for fiscal year 2003–04 Education collected revisions to subrecipients' local plans, investigated complaints, and performed verification reviews. Although these activities, along with the self-review, represent Education's monitoring system, Education did not require any of its subrecipients to submit self-reviews during fiscal year 2003–04. Thus, it did not perform one of the monitoring functions that its grant award eligibility documents indicated was an essential component of its quality assurance process. According to various staff in Education's Special Education Division, during fiscal year 2003–04 Education collected mental health data and contacted subrecipients to remind them to have Individualized Education Plans (IEPs) conducted on time as required and to submit corrective action plans when necessary. Education believes these procedures were sufficient to replace the requirement that subrecipients perform self-reviews. However, we remain unconvinced that the collection of mental health data and Education's reminders of late IEPs and corrective action plans are sufficient to replace the self-review process. Consequently, for fiscal year 2003–04, Education's monitoring process did not provide reasonable assurance that subrecipients are complying with applicable federal requirements and meeting performance goals.

## **RECOMMENDATION**

Education should ensure that it sufficiently monitors the activities of subrecipients awarded funds from the Special Education—Grants to States program and the Special Education—Preschool Grants program to provide reasonable assurance that the subrecipients administer federal awards in compliance with laws, regulations, and the provisions of grant agreements and that performance goals are achieved.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Since Education was revamping its self review process, Education contacted the U.S. Department of Education regarding the change in the self review process as stated in the grant award eligibility documents. Education believed the U.S. Department of Education accepted the fact that it was requiring the designated districts scheduled for self review to submit mental health data to be

monitored and reviewed by Education staff. In addition, Education monitored all subrecipients through the submission of data on all children with disabilities, local plans for all Special Education Local Plan Areas (SELPA) and their constituent local education agencies (LEAs), and service delivery and budget plans for all SELPA and LEAs.

For fiscal year 2004–05, Education developed new procedures and software to align the self review process with the verification review process. Key to the processes is the software package that will assist in the development and implementation of a self review monitoring plan that customizes the review for each district based on data and parent input. The software package generates the items and forms used to conduct the self review and will be used for reporting the districts' findings to Education.

### **AUDITOR'S COMMENTS ON THE DEPARTMENT'S VIEW**

We contacted the U.S. Department of Education concerning Education's suspension of its self-review process for fiscal year 2003–04. The U.S. Department of Education would not confirm that it approved Education's actions nor could Education provide us with evidence of the U.S. Department of Education's approval.

#### **U.S. DEPARTMENT OF EDUCATION**

Federal Catalog Number: 84.027  
Federal Program Title: Special Education—Grants to States  
Federal Award Numbers and Calendar Years Awarded: H027A020116; 2002  
H027A030116; 2003

---

Federal Catalog Number: 84.173  
Federal Program Title: Special Education—Preschool Grants  
Federal Award Numbers and Calendar Years Awarded: H173A020120; 2002  
H173A030120; 2003

---

Reference Number: 2004-14-3  
Federal Catalog Number: 84.032  
Federal Program Title: Federal Family Education Loans  
Year Awarded: State fiscal year 2003–04  
Category of Finding: Special Tests and Provisions  
State Administering Department: California Student Aid Commission

## **CRITERIA**

Our review of the Federal Family Education Loans program (loan program) identified the following compliance requirements related to special tests and provisions:

The Code of Federal Regulations, Title 34, Section 682.414, requires guaranty agencies, such as the California Student Aid Commission (Student Aid), to maintain current, complete, and accurate records for each loan they hold. Good internal controls over information systems would include strong general controls, which are the structure, policies, and procedures that apply to an entity's overall computer operations. Some of the major categories of general controls are entitywide security program planning and management, and access controls.

Further, the California Education Code, Section 69522, authorized Student Aid to establish a nonprofit auxiliary organization to administer activities associated with the loan program. This section also requires the operations of the auxiliary organization to be conducted in conformity with an operating agreement approved annually by Student Aid and requires Student Aid to oversee the operations of the auxiliary organization.

## **CONDITION**

Student Aid's auxiliary organization administers the loan program. However, the auxiliary organization has not developed adequate internal controls over its information systems to provide reasonable assurance that it keeps current, complete, and accurate records of each loan. Specifically, we found weaknesses in the auxiliary organization's controls over entitywide security planning and management, and restriction of access to computer software and data files. We also found weaknesses in the operating agreement between Student Aid and its auxiliary organization. These weaknesses hamper Student Aid's ability to ensure that the auxiliary organization maintains strong controls over its information systems.

The auxiliary organization's management has not provided sufficient entitywide security planning and management. We found that although the auxiliary organization has made some progress, it has yet to complete a comprehensive security risk assessment or an entitywide security program plan. This plan should clearly describe the auxiliary organization's security program and the policies and procedures that support it. In addition, the plan should cover all major facilities and systems and outline the duties of the security management function. The lack of planning and management has led to insufficient protection of sensitive or critical computer records. In May 2004 the auxiliary organization created an Information Security Steering Committee, sponsored by executive management, to address information security issues. Additionally, the auxiliary organization issued a request for proposal seeking a vendor to conduct a comprehensive information security risk assessment and develop a comprehensive Information Security Awareness program for both the auxiliary organization and Student Aid. On January 3, 2005 the auxiliary organization awarded a contract to assess information security risks. However, the auxiliary organization has yet to award a contract to develop a comprehensive Information Security Awareness program.

In August 2003 the auxiliary organization hired a director of information security. Among the director's responsibilities are, developing and assisting in formulating and implementing of information security procedures and standards, as well as for facilitating processes to manage and mitigate security risk. Good business practices dictate that an information security officer be responsible to the auxiliary organization's president, and be of a sufficiently high classification that

he or she can execute the responsibilities of the office in an effective and independent manner. However from his appointment through September 2004, the director of information security reported to the vice president of technology solutions and services. This reporting relationship was not ideal because the director of information security could report security issues that were not also communicated to the auxiliary organization's president. As of October 1, 2004, the auxiliary organization appropriately modified its organizational structure so that the director of information security now reports directly to the auxiliary organization's president.

The auxiliary organization has strengthened its physical security controls in response to weaknesses we reported in previous years. For example, the auxiliary organization moved the computer room tape library to an adjacent secured room separate from other computer equipment, and installed external video cameras to monitor and record access to the main computer room. However, activity within the computer room remains unmonitored by either electronic surveillance or by personnel stationed within the computer room. Because the computer room still contains a variety of equipment, such as telecommunications equipment, various servers, and the mainframe, individuals with authorized access to the telecommunications equipment, for example, will also have unsupervised access to the servers and mainframe.

The auxiliary organization also needs to strengthen its logical security controls. Logical security controls are the policies and electronic access controls designed to restrict access to computer software and data files. Although the auxiliary organization had made some changes, it continued to have the following weaknesses in controls over its software and data files during fiscal year 2003–04:

- It does not always promptly remove employees' electronic access when they transfer or leave the employ of the auxiliary organization. We tested a sample of 29 employees who had left the employ of the auxiliary organization and found that in two cases the auxiliary organization did not promptly remove the employees' electronic access. For these employees, the auxiliary organization took 104 and 10 days to remove access after the employees left the employ of the auxiliary organization.
- Until September 2004, three employees from one division had the ability to add, change, or delete information from student loan data and the information system's master files. This level of access can allow for inappropriate modification of sensitive loan data and system files. However, during September 2004, the auxiliary organization corrected this situation by separating the duties of the three employees. Specifically, two employees kept access to student loan data and their access to the information system master files was deleted. The third employee kept access to the system's master files and access to the student loan data was deleted.
- It has not developed preventative controls that would help prohibit the 52 employees with a total of 135 guaranteed student loans from modifying or deleting their own borrower information. In addition, the auxiliary organization has not completed reviews that could promptly identify whether student loan data has been modified inappropriately. However, the auxiliary organization has taken some steps to mitigate this weakness by putting a policy in place that calls for the dismissal of any employee who attempts to alter or have altered by another party his or her own loan records. Additionally, the auxiliary organization continues its process instituted in April 2003 that identifies if an employee's guaranteed student loan is delinquent so that the auxiliary organization can work with the employee to bring the loan current. However, neither of these steps is sufficient to prevent an employee from modifying or deleting their own loan records.
- A limited number of employees are allowed access to data and tables in the system that is not related to their assigned responsibilities. Additionally, until June 2004, the auxiliary organization inappropriately allowed these same employees to make changes to sensitive data such as student loan and user security information, that were not subject to the normal edits of its information

system. Further, the auxiliary organization did not maintain a complete history or audit trail of the changes made to the data for a sufficient period of time to allow for the audit of these changes. On June 21, 2004, the auxiliary organization implemented changes that partially address our concerns. Specifically, it implemented a new process creating an automated audit trail to track some of the changes staff made to this sensitive data while it also reduced the ability of staff to make other types of modifications. However, according to the auxiliary organization's assistant vice president of applications development, due to the age and complexity of the information technology system, to limit staff access to only the data that is pertinent to their assigned responsibilities would require significant and costly changes to the information technology system and may require more than one year to complete.

Finally, Student Aid's operating agreement with the auxiliary organization does not include provisions to ensure that the auxiliary organization maintains strong controls over its information systems. In fiscal year 2002–03, we noted that the operating agreement did not detail Student Aid's expectations for the operation of the information technology system that maintains the records for the loan program. Such expectations could include requirements for information security, the performance of a security risk assessment, and development of an information security program plan. We also noted that Student Aid could require its auxiliary organization to obtain an audit of its information technology controls that are relevant to Student Aid's financial statements. This audit should report on whether such controls were suitably designed to achieve specified control objectives, whether they have been enacted as of a specific date, and whether the controls were sufficient to provide reasonable, but not absolute, assurance that the related control objectives were achieved during the period specified. Student Aid extended its operating agreement with the auxiliary organization for fiscal year 2003-04 without adding any provisions to strengthen controls over information systems. Student Aid believes there are sufficient provisions in the existing operating agreement to ensure the auxiliary organization maintains strong control over its information systems. However, the operating agreement does not identify performance measures or expectations for critical areas such as the operation of Student Aid's Financial Aid Processing System (FAPS). Performance measures should be quantifiable and reported on a regular basis to Student Aid. Absent such provisions, Student Aid may have limited recourse if FAPS or other critical activities did not perform as planned.

## **RECOMMENDATIONS**

Student Aid's auxiliary organization should implement an entitywide program for security planning and management that addresses the required independence of the security management function and provides for strong physical and logical security controls over its information systems. This will ensure that it maintains current, complete, and accurate records for each loan that it holds. In addition, Student Aid should amend its operating agreement with its auxiliary organization to specify its expectations related to the control structure over the information system.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

### Comprehensive Security Risk Assessment and Entity-wide Security Program Plan

Student Aid's auxiliary has contracted with a third-party contractor to perform a comprehensive security risk assessment. The contract became effective on January 3, 2005. Recommendations resulting from the assessment will be used in formalizing an entity-wide security program plan. In addition, the auxiliary will develop and implement a comprehensive information security awareness program for its employees during the federal fiscal year ending September 30, 2005.

### Information Security Officer

The auditors are correct in that the Director of Information Security is now the auxiliary's designated Information Security Officer and reports to the President of the auxiliary effective October 1, 2004.

### Computer Room Monitoring

The Commission agrees that monitoring the computer room would strengthen internal controls. The auxiliary has, therefore, purchased and installed security cameras within the data center. The installation was complete on December 15, 2004 and the cameras are now being used.

### Removal of Employee Electronic Access

A procedural change was made beginning September 15, 2003 to expedite employee electronic access removal. The two incidents identified by the auditors occurred prior to this change.

### Segregation of Duties

The auditors are correct in that the matter has been resolved by separating the duties of the three employees. This change was made during September 2004.

### Preventative Controls

The Commission continues to believe that a preventative control of the scope described may not be warranted. The following, however, will be undertaken during the federal fiscal year ending September 30, 2005 to address the concern:

- Research and determine industry standards pertaining to such controls of similar organizations.
- Evaluate the efficacy of implementing the controls recommended by the auditors, looking at the system capability, time and resources necessary to do so, as well as review any such options in light of the information gained from the industry standards research.
- Internal Audit will periodically sample and review system activity on loans associated with auxiliary employees. Although not a preventative control, the results of Internal Audit's review will provide support for the decision as to whether additional preventative controls are necessary or cost effective.

### Data and Table Maintenance

The auditors are correct in that the auxiliary implemented a new process creating an automated audit trail to track table changes.

During the federal fiscal year ending September 30, 2005, the auxiliary will perform the following activities regarding data maintenance:

- Inventory the key data maintenance changes

- Determine the cause(s) and criticality of such changes
- Determine the volume of such changes and associated risk(s)

The Commission believes that it is necessary to perform these activities before any additional controls over data maintenance can be evaluated and/or implemented.

### Operating Agreement

The Commission's operating agreement with the auxiliary organization has not been amended but was extended for one more year. The Commission believes that there are sufficient provisions in the Operating Agreement to appropriately enforce the auxiliary to maintain strong control over its information systems.

Reference Number:	2004-14-4
Federal Catalog Number:	84.011
Federal Program Title:	Migrant Education—State Grant Program
Federal Award Number and Calendar Year Awarded:	S011A030005; 2003
Category of Finding:	Special Tests and Provisions
State Administering Department:	Department of Education

### **CRITERIA**

Our review of the Migrant Education—State Grant Program (Migrant Education) determined that the following compliance requirement related to the subgrant process:

The United States Code, Title 20, Section 6394(b)(5), requires the State to determine the amount of subgrants it awards to local educational agencies (LEAs) and take into account the numbers and needs of migratory children, the priority for services for certain migratory children, and the availability of funds from other federal, state, and local programs.

### **CONDITION**

The Department of Education (Education) did not take into account all the required information when it awarded subgrants to LEAs for Migrant Education. During fiscal year 2003–04, Education allocated funds to LEAs using current data on the numbers and needs of migratory children in the State. However, although Education uses its applications to obtain limited information about the

availability of funds from other federal, state, and local programs, it did not consider the information when it determined the amount of subgrants it awarded to LEAs. In addition, Education did not take into account the priority for services of migratory children in the State when it determined the subgrant amounts awarded to LEAs. As a result, Education cannot be sure it appropriately funded the LEAs that had the greatest needs when it determined the subgrants for Migrant Education.

## **RECOMMENDATION**

Education should ensure that it obtains sufficient information about the availability of funds from other federal, state, and local programs and takes this information and the priority for services into account when it determines the size of subgrants it awards to LEAs for Migrant Education.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Education has a mechanism to obtain information on the availability of funds from other federal, state and local programs, and is developing a system to identify the number of students who meet the Priority for Services criteria. However, it is unclear how this information is to be used when determining the amount of a subgrant to LEAs for the Migrant Education program. Education is contacting the United States Department of Education's Office of Elementary and Secondary Education Migrant Education program office to seek clarification and guidance on how to use this information when determining the amount of a subgrant.

# U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

---

Reference Number: 2004-1-1

Federal Catalog Number: 93.778

Federal Program Title: Medical Assistance Program

Federal Award Number and Calendar Year Awarded: 05-0405CA5028; 2003

Category of Finding: Activities Allowed

State Administering Department: Department of Health Services

## CRITERIA

Our review of the Medical Assistance Program (Medicaid) identified the following compliance requirement related to activities allowed:

The United States Codes, Title 42, Section 1396b(o) requires that if an individual eligible for Medicaid has other health coverage, such as a private insurer, providers must bill the other health care coverage before billing Medicaid.

## CONDITION

The Department of Health Services (Health Services) applied too broadly a modification to its claims-processing system. As a result, since April 2004, Health Services has been inappropriately paying Medicaid claims for services provided to certain children under its Medical Therapy Program (MTP) without attempting to bill other health coverage first. Conducted primarily in public schools, the MTP is a state program that provides medically necessary occupational and physical therapy as well as physician consultations to children with conditions such as cerebral palsy, neuromuscular conditions, and chronic musculoskeletal and connective tissue diseases. Health Services has allowed counties to bill Medicaid for covered MTP services provided to Medicaid-eligible children since 1994. However, realizing that many of these claims for reimbursement were denied because counties submitted them before determining whether the children were covered by other health care insurers that would pay for the MTP services, Health Services modified its claims-processing system so that beginning in April 2004, it would no longer reject such claims. Health Services justified the system modification on compliance with federal law when claims are for MTP services to children in special education, reasoning that children in special education with therapy identified as a component of an individualized education program are entitled to a “free and appropriate” education. According to Health Services, billing a child’s other health care insurer could result in the family incurring a cost for therapy, such as a deductible or a copayment. Consequently, Health Services decided that other health care insurers should not be billed for MTP services because of the possible financial burden to families. Although we agree that this action is appropriate under federal law when claims are for services to MTP children receiving special education services, Health Services has not obtained the necessary federal approval to apply the modification when claims are for service to MTP children not in special education.

As a result, Health Services is improperly allowing Medicaid to pay claims for services to MTP children who are not in special education without first determining whether other available health care insurance plans will pay.

When we asked Health Services about obtaining federal approval for applying the system modification when claims are for children not in special education, Health Services acknowledged it had not obtained federal approval in this case. Health Services asserted it did not obtain federal approval because the federal government had denied a similar request in the past and it told Health Services it was too busy to respond to such requests. Further, Health Services indicated it had to make the change for the whole MTP population because neither Health Services nor its fiscal agent can distinguish between those children who are in special education and those who are not when a claim is processed. Finally, Health Services asserts that other health care insurers do not cover the kinds of services the MTP provides. Nevertheless, because it has not obtained federal approval to apply this modification when claims are for services to MTP children who are not in special education, Health Services is in violation of federal laws designed to ensure that Medicaid is the payer of last resort.

Because neither Health Services nor its fiscal agent can distinguish between those children who are in special education and those who are not when claims are processed, we are not able to determine the amount of questioned costs related to these claims.

## **RECOMMENDATIONS**

Health Services should obtain federal approval for allowing Medicaid to pay for MTP services provided to children who are not in special education without checking for the existence of other health coverage. Otherwise, Health Services should modify the current claims-processing system to ensure that other available health insurance is charged before Medicaid pays for MTP services provided to children who are not in special education.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Health Services does not believe that obtaining federal approval is promising because, on issues similar to this, the federal Centers for Medicare and Medicaid Services (CMS) has advised Health Services that it would not review a waiver request from the State because of workload considerations. Health Services maintains that it would not be productive to develop and submit a waiver request to CMS on this issue since CMS would not consider it. Further, Health Services states that the claims-processing system has no access to a database that would enable the system to determine whether an individual Medicaid beneficiary participates in special education. Health Services further believes that the cost of developing such a system would exceed any foreseeable benefit experienced by the nominal increase of federal participation.

## **AUDITOR'S COMMENTS ON THE DEPARTMENT'S VIEW**

As we already stated, not all children in the MTP receive special education services. Therefore, Health Services is improperly allowing Medicaid to pay claims for services to MTP children who are not in special education without first determining whether other available health care plans will pay. Lacking the necessary federal approval to implement its current process, Health Services

needs to take the appropriate steps to comply with Medicaid requirements. Additionally, Health Services has not indicated whether it intends to modify its current claims-processing system to ensure compliance with Medicaid requirements.

---

Reference Number: 2004-1-2

Federal Catalog Number: 93.767

Federal Program Title: State Children's Insurance Program

Federal Award Numbers and Calendar Years Awarded: 05-03A5CA5021; 2003  
05-04A5CA5R21; 2004

Category of Finding: Activities Allowed

State Administering Department: Department of Health Services

## **CRITERIA**

Our review of the State Children's Insurance Program identified the following compliance requirement related to activities allowed:

The Code of Federal Regulations, Title 42, Section 457.1, requires that, within broad federal rules, each state decides payment levels for benefit coverage, among other items.

## **CONDITION**

The Department of Health Services (Health Services) does not always ensure that the provider information and rates it uses to calculate payments for certain services provided under the State Children's Insurance Program are current. Specifically, for one of 10 invoices we tested, Health Services paid the provider using a rate that was 14 percent more than the correct rate. As a result, Health Services overpaid this provider more than \$48,000 for this one invoice. According to Health Services, this provider should only have one active provider number for inpatient services and it was unaware that the provider had two active numbers for inpatient services. Although Health Services updated the rates for the original provider number, the second active provider number had outdated rates. The provider submitted its invoice using the second number and therefore Health Services used the old rate to calculate the provider's payment. Health Services also indicated that it plans to recover this overpayment. At the completion of our fieldwork, Health Services had not yet determined the extent of other overpayments, if any, it made to this provider.

For a second invoice, Health Services had not updated certain rates in its system for the provider. For providers that do not have a contract with Health Services, Health Services pays the lower of the amount of a provider's invoice or a maximum amount it calculates using established rates. Although our review of this invoice indicated that Health Services paid the provider correctly

because it paid the invoice amount, which was lower than the calculated maximum amount, it may have incorrectly paid this provider for other invoices because it failed to update the rates in its system.

Finally, for another three invoices, Health Services was unable to provide us with documentation to support some of the rates it used in calculating the amounts paid to the providers. As a result, we were unable to verify the accuracy of \$35,807 that Health Services paid to providers for these three invoices.

## **RECOMMENDATIONS**

Health Services should follow through on its plan to collect the overpayment and determine the extent of other overpayments, if any, it made to this provider for other invoices. Additionally, Health Services should deactivate the provider number with old rates. Further, Health Services should ensure that it updates the rates in its system that it uses to calculate amounts it pays to providers and it should maintain documentation to support those rates.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

The Department confirms the first finding. The circumstances described in this finding were made known to the Department on March 2, 2005. The claim in question was billed with CGP inpatient provider number CGP019420 which should have been end dated when the provider was issued a second CGP inpatient provider number, CGP007260. While updates to the interim rate adjustment in 1998, 1999, 2000, 2001, and 2004 were correctly entered in the provider master file (PMF) for this second CGP provider number, they were not entered in the PMF for CGP019420. The Department will enter the interim rate adjustment updates in the PMF for CGP019420. When this is accomplished the Department will request that its fiscal intermediary contractor implement an erroneous payment correction (EPC) cycle in the California Medicaid Management Information System (CA-MMIS) to debit or credit the provider for any overpayments or under payments, including the one in the auditor's sample, made for claims billed by the provider with provider number CGP019420. When this is accomplished provider number CGP019420 will be deactivated.

The Department confirms the second finding. The Department received a request from the provider in question to update the accommodation codes and usual and customary charges for those codes in the PMF for CGP inpatient provider number CGP136785 in May 2002. An update of the PMF was initiated by the Department at that time, but was not completed because of some indeterminate technical problem with the PMF update. The Department will again initiate an update of the accommodation codes and usual and customary charges in the PMF for CGP136785. When this update is completed, the Department will request that its fiscal intermediary contractor implement an EPC cycle in CA-MMIS to debit or credit the provider for any over payments or under payments made for claims billed by the provider with provider number CGP136785 resulting from not entering the 2002 accommodation code and usual and customary charge update requested by the provider.

In the third finding the auditor is requesting hard copy documentation (i.e., the accommodation code change request received from the individual provider) to support requested updates of the accommodation codes and usual and customary charges in the electronic PMF for CGP inpatient

provider numbers CGP021035, CGP000355, and CGP007260. The Children's Medical Services Branch received this request from the auditor on 03/02/05. If the hard copy documentation requested by the auditor is available, the Department will provide that material to the auditor.

In July 2004, the Department implemented major changes for the adjudication of CCS provider claims. The CA-MMIS system was modified to allow providers to bill for CCS services using Medi-Cal provider numbers. CCS offices are now issuing service authorizations linked to the providers Medi-Cal provider number and the providers are using their Medi-Cal provider numbers to bill for CCS services. CGP inpatient provider numbers will be deactivated by September 2005. This will eliminate the possibility of future interim reimbursement rate and accommodation code errors analogous to those cited by the auditor.

## **AUDITOR'S COMMENTS ON THE DEPARTMENT'S VIEW**

Health Services states that its Children's Medical Services branch received our request for documentation to support payment rates for the ten claims we reviewed on March 2, 2005. However, we first requested the documentation from Health Services on February 15, 2005. Our final request for this information, which we still had not received as of March 17, 2005, was on March 2, 2005.

---

Reference Number:	2004-1-5
Federal Catalog Number:	93.778
Federal Program Title:	Medical Assistance Program
Federal Award Numbers and Calendar Years Awarded:	05-0305CA5028; 2002 05-0405CA5028; 2003
Category of Finding:	Activities Allowed
State Administering Department:	Department of Health Services

## **CRITERIA**

Our review of the Medical Assistance Program (Medicaid) identified the following compliance requirements related to activities allowed:

The U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* (OMB Circular A-87) states that a given cost is reasonable if it is generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the federal award. Additionally, the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations, Compliance Supplement* (Circular A-133 Compliance Supplement) states that a Medicaid cost is allowable

when it applies to an allowable medical service rendered and supported by medical records or other evidence indicating that the service was actually provided and consistent with the medical diagnosis.

## **CONDITION**

The Department of Health Services (Health Services) did not always ensure that services approved for Medicaid beneficiaries were medically necessary. We requested that Health Services conduct field reviews of client records and other pertinent documents to substantiate the medical necessity of the services billed to the Medicaid program for the 30 claims we reviewed.

Health Services' review revealed that one of the 30 claims did not have adequate support to substantiate the medical necessity of the service paid for by the Medicaid program. In this case, Health Services found that the Medicaid beneficiary received Adult Day Health Care (adult day) services that were not medically necessary. Health Services stated that the patient's medical status did not put her at high risk for skilled nursing facility confinement and that there was no clear documentation that the patient could not obtain her medical care through traditional outpatient medical care providers. Although the amount Health Services paid for this claim was only \$158, Health Services acknowledged that enrolling and rendering unnecessary services is a common problem with adult day providers. Thus, according to an audit manager at Health Services, its' Audits and Investigations Unit is beginning to place a greater emphasis on these types of providers by conducting postpayment reviews and investigations.

Additionally, in our fiscal year 2002–03 review, we reported that Health Services did not always ensure that services approved for Medicaid beneficiaries were supported by sufficient documentation. As part of its corrective action, Health Services stated that it would develop cases on the providers with systemic findings and subject them to a comprehensive reviews of paid claims to prevent any further unnecessary utilization. Health Services also stated that it promptly takes action when it identifies a systemic problem with a Medicaid provider. As of February 2005 Health Services had not yet conducted comprehensive reviews of the providers identified with systemic findings. It has, however, initiated case development for these providers.

## **RECOMMENDATIONS**

Health Services should continue to emphasize reviews of adult day providers to ensure that adult day providers enroll and provide adult day services only to those Medicaid beneficiaries whose medical conditions require this level of care. Health Services should also ensure that systemic weaknesses identified during reviews of Medicaid provider records are promptly corrected and that it seek restitution from providers if services are not medically necessary or properly documented.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

DHS' review of 30 randomly selected fee for service claims determined that one claim for Adult Day Health Center (ADHC) services rendered to a Medi-Cal beneficiary was medically unnecessary.

We agree with the BSA recommendations.

ADHC services are approved based on submitting Treatment Authorization Requests (TAR) to the Medi-Cal field office. The field office must rely on the accuracy of the documentation submitted by the ADHC and/or physicians when determining the medical necessity of a patient. The only way to guarantee medical necessity prior to approving an ADHC service is through an on-site TAR approval process and seeing the patient face-to-face. On-site TAR approvals are labor intensive and cannot be accomplished with current staffing.

However, Audits and Investigations (A&I) is continuing its post payment focus on ADHC providers. A&I, Investigation Branch (IB) has conducted over 30 ADHC reviews in 2003/2004. The majority of IB's reviews of ADHCs have resulted in a recovery of overpayments. In addition, several branches of DHS are combining efforts to conduct comprehensive reviews on selected ADHCs. The review will be an unannounced inspection that will target the facility staffing and program violations. The project is currently in the planning phase. It is anticipated that the first reviews will occur in March 2005. Branches of DHS participating in the joint effort are: IB, Medical Review Branch (MRB), Licensing & Certification (L&C), Financial Audits Branch (FAB) and Medi-Cal Field Services. Also, the Medicare Safeguard Contractor has contributed data to this project to identify potential duplicate and fraudulent billings.

DHS is also in the process of trying to change the current ADHC rate methodology. The current ADHC all-inclusive rate was set based on the California Association for Adult Day Services (CAADS) lawsuit against DHS regarding the rate setting methodology used by DHS for ADHCs services. In 1993, the case was settled and new rates for ADHCs services were established. A State Plan Amendment (SPA) is being developed to change the current rate development methodology. The SPA will primarily:

- Redefine services to be rehabilitative in nature.
- Unbundle the current all-inclusive rate into individual service rates for which providers will have to bill separately.
- Develop a new rate setting methodology.
- Eliminate those services for which there is no federal financial participation (FFP).

The SPA will also further define medical necessity to reflect a rehabilitation care plan. The SPA is being mandated by the Centers for Medicare and Medicaid Services (CMS) to ensure FFP for the ADHC program.

In the 2004–05 budget year, a one-year moratorium on certification of new ADHCs servicing Medi-Cal beneficiaries was established. ADHCs continued to receive licenses but were not able to serve Medi-Cal beneficiaries. The moratorium is renewable annually until the SPA is ready for implementation.

Legislation is also pending for authority to make the changes in the SPA. If the legislation is passed, the SPA will be submitted to CMS. DHS is estimating approval for the SPA by spring of 2006. System billing changes are estimated to take at least one year with implementation of the new billing methodology by the summer of 2007.

In the fiscal year 2002–03 review, DHS determined there were three claims with systemic findings in the sample of claims selected by the BSA. In the corrective action plan, DHS was to initiate cases on the three providers. Field Audit Review (FAR) cases were not established until February 2005. It is anticipated that the three providers will be reviewed by the FAR committee and assigned to a MRB field office in March 2005.

---

Reference Number: 2004-1-6

Federal Catalog Number: 93.778

Federal Program Title: Medical Assistance Program

Federal Award Numbers and Calendar Years Awarded: 05-0205CA5028; 2001  
05-0305CA5028; 2002  
05-0405CA5028; 2003

Category of Finding: Activities Allowed

State Administering Department: Department of Health Services

## **CRITERIA**

Our review of the Medical Assistance Program (Medicaid) identified the following compliance requirements related to activities allowed:

The Code of Federal Regulations, Title 42, Part 438, Subpart A, allows states to contract with managed care health plans (health plans) to provide health care to Medicaid beneficiaries. Under the terms of these contracts, the Department of Health Services (Health Services) pays the health plans a monthly capitation payment for each Medicaid beneficiary. The contracts allow Health Services to recover overpayments of any capitation payment it makes to the health plans.

## **CONDITION**

In our fiscal year 2002–03 audit we reported that Health Services did not recover overpayments of Medicaid funds paid to health plans as capitation payments for beneficiaries who had died and thus were no longer eligible for Medicaid. As a result, Health Services allowed health plans to retain Medicaid funds to which they were not entitled. Specifically, based on information provided by Health Services, we found that between August 2002 and August 2003, Health Services made monthly capitation payments to health plans for deceased beneficiaries 16,454 times. According to Health Services, the average monthly capitation payment paid to health plans was approximately \$100. Consequently, Health Services paid at least \$1,645,400 for deceased beneficiaries during this period. Health Services had not recovered any of these payments. Staff at Health Services said that the backlog of overpayments for deceased members might extend as far back as 1999. Health Services' Managed Care Division, which is responsible for recovering overpayments, informed us that it had assigned staff to identify the extent of the overpayments and develop a method for recovering the overpayments, pending management approval. Additionally, Health

Services stated that it was implementing a process that will enable it to identify overpayments monthly, thus allowing it to recover the overpayments more quickly. During our 2003–04 audit, we found that Health Services had implemented this new process in April 2004.

In our fiscal year 2002–03 audit, we recommended that Health Services continue its efforts to determine the full extent of monthly capitation payments made to health plans for deceased beneficiaries and immediately implement procedures to recover the overpayments. Health Services concurred with our recommendation. However, during our fiscal year 2003–04 audit, it came to our attention that Health Services had not yet recovered the overpayments. Instead, Health Services determined that its best course of action was not to recoup past capitation overpayments because doing so would expose Health Services to lawsuits. However, Health Services has not obtained federal approval to forgive the overpayments. Consequently, the federal government may require Health Services to return these funds, which represent costs that were not allowable.

## **RECOMMENDATION**

Health Services should obtain federal approval to forgive past capitation overpayments.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Medi-Cal Managed Care agrees with the condition statement that managed care health plans were overpaid capitation for deceased Medi-Cal Managed Care Plan members. The Department has taken the necessary steps to ensure that all future capitation payments for deceased Medi-Cal Managed Care Plan members are offset against future capitation payments (retroactive to the first month after the month of death) to the plans once a deceased member's status is corrected on Medi-Cal Eligibility Data System. For incorrect capitation payments made for deceased Medi-Cal Managed Care Plan members prior to the date of the modification allowing for capitation offsets, the Department has been advised by the Office of Legal Services that significant legal exposure to lawsuits that would be expected to be filed by the managed care health plans exists should the department attempt to recoup the capitation overpayments. Consequently, Medi-Cal Managed Care Division will not pursue recovery of these overpayments. The Department will contact the Centers for Medicare and Medicaid Services to determine what avenues to pursue in order to forego collection of these overpayments.

---

Reference Number:	2004-3-10
Federal Catalog Number:	93.778
Federal Program Title:	Medical Assistance Program
Federal Award Numbers and Calendar Years Awarded:	05-0305CA5028; 2002 05-0405CA5028; 2003
Category of Finding:	Cash Management
State Administering Department:	Department of Health Services

## **CRITERIA**

Our review of the Medical Assistance Program (Medicaid) identified the following compliance requirements related to cash management:

The Cash Management Improvement Act (CMIA) agreement between the State and federal government, sections 8.4 and 8.6, establish the conditions giving rise to the State's interest liability on all refunds for Medicaid and provide the methods for calculating the interest liability.

The Department of Finance (Finance) requires state departments to report information related to the receipt and disbursement of federal funds so that Finance can calculate the State's interest liability under the CMIA agreement.

## **CONDITION**

Our review of the refund portion of worksheets that the Department of Health Services (Health Services) submitted to Finance for Medicaid found that Health Services did not always accurately report the dates for five of 12 months during fiscal year 2003–04.

Specifically, Health Services incorrectly reported the warrant-issued date for 25 refund transactions included on the worksheets for the months of October, November and December 2003, as well as January and April 2004. When Health Services does not accurately report the warrant-issued dates, it causes Finance to incorrectly calculate the amount of the State's interest liability. If we had not informed Finance of the errors and the errors remained uncorrected, it would have understated the State's interest liability by \$31,749.

## **RECOMMENDATION**

Health Services should ensure that the quarterly worksheets it submits to Finance accurately report warrant-issued dates.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Accounting met with the Department of Finance to discuss the date that should be used and the reasoning behind using the "Warrant-issued dates". It was determined and agreed upon that Accounting will use the "Warrant-issued dates"; however, in most instances Accounting will now show the refunds and adjustments on the line associated with the Medi-Cal checkwrite. This will be the case unless the refunds and adjustments against that line item cause a credit amount in the "Net Warrant Amount" column. If a credit amount were to occur, then a portion of the refund or adjustment will be moved to the next larger amount with a "Warrant issue date" closest to the "Date Bank Recv'd". When the refunds and adjustments are shown against the Medi-Cal Checkwrite amount, the "Warrant-issued date" and the "Date Bank Recv'd" should be the same date and will result in the lowest amount of interest liability for the State.

---

Reference Number: 2004-5-2

Federal Catalog Number: 93.044

Federal Program Title: Special Programs for the Aging—Title III, Part B—  
Grants for Supportive Services and Senior Centers

Federal Award Numbers and  
Calendar Years Awarded: 02-03-AA-CA-1320; 2002  
04AACAT3SP; 2003

Category of Finding: Eligibility

State Administering Department: Department of Aging

## **CRITERIA**

Our review of the Special Programs for the Aging—Title III, Part B—Grants for Supportive Services and Senior Centers identified the following compliance requirement related to eligibility:

The United States Code, Title 42, Section 3026(a)(8)(C), states that case management services will be provided by a public agency or a nonprofit private agency.

## **CONDITION**

The Department of Aging (Aging) does not have procedures to ensure that case management providers are public or nonprofit private agencies. According to the program specialist, Aging was unaware of the requirements for it to screen case management providers for public or nonprofit private status. As a result, Aging may not have complied with federal requirements for eligibility. For the nine Area Agencies on Aging we reviewed, we performed procedures to verify that their case management providers were, in fact public agencies or nonprofit private agencies.

## **RECOMMENDATION**

To ensure that case management providers are public or nonprofit private agencies, Aging should develop procedures to screen case management providers for their public or nonprofit private status.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Title III B Case Management contracts will be modified to include these requirements to ensure that the Department is in compliance with the United States Code, Title 42, Section 3026(a)(8)(C). The Department will: 1) prepare a Program Memo to communicate these requirements to the Area Agencies on Aging (AAA); 2) integrate the requirements into the Department's monitoring tools; 3) examine other tools to ensure compliance; and 4) follow up with AAA's if monitoring reveals any cases where this requirement has not been met.

---

Reference Number: 2004-5-3

Federal Catalog Number: 93.778

Federal Program Title: Medical Assistance Program

Federal Award Numbers and Calendar Years Awarded: 05-0305CA5028; 2002  
05-0405CA5028; 2003

Category of Finding: Eligibility

State Administering Department: Department of Health Services

## **CRITERIA**

Our review of the Medical Assistance Program (Medicaid) identified the following compliance requirement related to eligibility:

The Code of Federal Regulations, Title 42, Section 435.916(a), requires a state agency to redetermine the eligibility of Medicaid recipients, with respect to circumstances that may change, at least every 12 months.

## **CONDITION**

The Department of Health Services (Health Services) is the single state agency designated to supervise the administration of the State's Medical Assistance Program (Medicaid) in accordance with all applicable provisions and federal regulations for the program. In its administration Health Services delegates the day-to-day operation of the program to county welfare departments (counties). However, Health Services maintains full responsibility for ensuring a county's federal compliance with all Medicaid program requirements, including those relevant to client eligibility determinations. Our review of three of the 33 small counties not subject to Medicaid eligibility quality control reviews found that Placer County did not always ensure that it redetermined Medicaid eligibility at least once every 12 months. Specifically, although the eligibility redetermination for the Medicaid recipient we tested was due by March 2004, as of October 2004 Placer County had not yet performed the redetermination—seven months beyond the due date. During that time the Medicaid recipient received \$79 in benefits. According to one of Placer County's program managers, the county's case data system did not always automatically generate due dates to inform county staff when redeterminations on Medicaid recipients were due. The program manager also stated that the county took corrective action to address this problem when it became aware of the issue prior to our audit. However, at the time of our review, Placer County had not yet applied corrective action to the one case we selected for review. Finally, the program manager also stated that Placer County discontinued Medicaid eligibility for this case in November 2004 and is implementing a new case data system in January 2005 that should resolve this problem.

## RECOMMENDATION

Health Services should ensure that Placer County performs redeterminations of Medicaid recipients at least every 12 months, as required.

## DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

The Department agrees with the Bureau of State Audit's (BSA) finding and conclusion regarding the need for Placer County to conduct timely and accurate annual eligibility redeterminations. In view of the BSA's audit findings in Placer County, the Department plans to make immediate contact with the county to discuss plans for annual redeterminations and any issues the county may have regarding compliance with the redetermination process. The Department anticipates that the compliance review will consist of a random sample of 100 Medi-Cal Assistance Only cases in all aid categories with continuous Medi-Cal eligibility for 13 or more months. The cases will be reviewed to determine if the county completed the mandatory annual redeterminations on accurate and timely bases. Remedial action will be recommended based upon the findings of our review.

Based upon the outcome of this review, if the county fails to achieve acceptable accuracy and timeliness rates, a follow-up review would automatically be scheduled within a reasonable time.

---

Reference Number: 2004-12-2  
Category of Finding: Reporting  
State Administering Department: Department of Education

*(See listing of the specific federal program details following the discussion of the issues below.)*

## CRITERIA

Our review of the Child Care Mandatory and Matching Funds of the Child Care and Development Fund program and the Child Care and Development Block Grant program determined that the following compliance requirement relates to reporting:

The U.S. Department of Health and Human Services (HHS) Administration for Children and Families Child Care and Development Fund Terms and Conditions require that each state submit an original financial status report (ACF-696) detailing expenditures on a quarterly basis.

## CONDITION

The Department of Education (Education) did not report accurate data in its ACF-696 for fiscal year 2000–01, which it submitted on October 29, 2003. Because its management failed to ensure the accuracy of the report, Education overstated the State’s share of expenditures by more than \$6 million. After we brought this error to the attention of Education, it submitted a corrected report.

## RECOMMENDATION

Education should ensure that it adequately reviews its required reports for accuracy before submitting them to HHS.

## DEPARTMENT’S VIEW AND CORRECTIVE ACTION PLAN

The reporting error occurred when the accountant was preparing reports for two different grant years. Inadvertently, the accountant typed the wrong grant information at the top of the report, and as a result, the back-up documentation was attached to the wrong reports. Since the error was made in a quarterly report, rather than a final report, Education was able to correct the problem. In the future, all final financial status reports will be reviewed by the accountant’s manager and a second level manager.

## U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Federal Catalog Number: 93.575  
Federal Program Title: Child Care and Development Block Grant  
Federal Award Number and  
Calendar Year Awarded: 2001 G996005; 2001

---

Federal Catalog Number: 93.596  
Federal Program Title: Child Care Mandatory and Matching Funds of the  
Child Care and Development Fund  
Federal Award Numbers and  
Calendar Years Awarded: 2001 G999004; 2001  
2001 G999005; 2001

---

Reference Number: 2004-12-5  
Federal Catalog Number: 93.767  
Federal Program Title: State Children’s Insurance Program

Federal Award Numbers and  
Calendar Years Awarded: 05-03A5CA5021; 2003  
05-04A5CA5R21; 2004

Category of Finding: Reporting

State Administering Department: Department of Health Services

## **CRITERIA**

The U.S. Office of Management and Budget Circular A-133, *Audits of States, Local governments, and Non-Profit Organizations*, Compliance Supplement (Circular A-133 Compliance Supplement), requires the State to submit the Centers for Medicare and Medicaid Services (CMS-21) report titled *Quarterly Children's Health Insurance Program Statement of Expenditures for Title XXI*.

The Code of Federal Regulations, Title 45, Section 74.21 requires that the recipients' financial management system provide for accurate, current and complete disclosure of the financial results of each project or program sponsored by the U.S. Department of Health and Human Services. In addition, the financial management system must provide accounting records that are supported by source documentation.

## **CONDITION**

The Department of Health Services (Health Services) does not ensure that amounts reported on its quarterly CMS-21 report are correctly classified. Although the total amounts spent on the program reported by Health Services are accurate, we were unable to verify the accuracy of detailed expenditures reported by line item or category of service. Our review of the four quarterly reports for fiscal year 2003–04 revealed that Health Services was unable to provide supporting documentation for amounts totaling approximately \$850,000 that it reported in the Inpatient Hospital Services category. Further, whatever Health Services incorrectly reported in the Inpatient Hospital Services category, it misstated that amount in at least one other category of service.

According to Health Services, it does not receive enough information from its fiscal intermediary to be able to reconcile and accurately report program expenditures by category of service as required. Health Services is aware of the issue and is working to obtain additional information from its fiscal intermediary to resolve the differences so that it can accurately report all information on its quarterly CMS-21 report.

## **RECOMMENDATION**

Health Services should work with its fiscal intermediary to obtain reports that it can use to accurately report all program expenditures by category of service.

## DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

The Department agrees with the finding.

The differences between information reported on the MR-O-421 and the MR-H-145 has been discussed by Payment Systems Division and the Accounting Office. An Interim Problem Statement was prepared by the Payment Systems Division, on December 10, 2004. An Interim Response was prepared by EDS on 12/31/2004. Although progress is being made, the problem has not yet been resolved.

---

Reference Number: 2004-13-1  
Category of Finding: Subrecipient Monitoring  
State Administering Department: Department of Education

*(See listing of the specific federal program details following the discussion of the issues below.)*

### CRITERIA

Our review of the Child Care Mandatory and Matching Funds of the Child Care and Development Fund program and the Child Care and Development Block Grant program (child care cluster programs) determined that the following compliance requirement relates to subrecipient monitoring:

The Code of Federal Regulations, Title 45, Section 98.11(b)(4), requires the Department of Education (Education) to ensure that the child care cluster programs comply with all federal requirements and Education's Child Care and Development Fund Plan (plan), which was submitted to and approved by the U.S. Department of Health and Human Services. In the approved plan, Education committed to reviewing every three years each contractor providing local child care and development services.

### CONDITION

Education does not adequately monitor subrecipients of the child care cluster programs. For instance, Education has not performed compliance-monitoring reviews (CMR) as frequently as established in its plan. We found that for eight of the 10 subrecipients we reviewed, Education did not conduct CMRs within the required three-year period. In fact, according to an analysis provided by staff at Education, more than 27 percent of the 123 CMRs it conducted in fiscal year 2003–04 occurred after the three-year deadline had expired. Failure to perform CMRs in accordance with its plan may prevent early detection and correction of deficiencies in the services provided by subrecipients.

## RECOMMENDATION

Education should ensure that it conducts CMRs at least every three years, in accordance with its plan.

## DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Education managers and consultants have been reminded of the review intervals and the need to comply with current requirements. Managers and staff have thoroughly discussed the development and monitoring of the review schedules in unit meetings, and implemented a tracking system to help schedule the reviews within the required timelines, and monitor CMR deadlines. The Field Services Unit managers monitor review schedules and data to help ensure CMR requirements are being met.

During fiscal year 2004–05, the entire Field Services Unit was redirected for a period of several months to conduct an error rate study of child care and development programs pursuant to Senate Bill 1104. Due to this priority, a similar examination of compliance review intervals for fiscal year 2004–05 would reveal that some reviews were not conducted in a timely fashion. We have informed the Department of Finance and legislative staff about this fact. They have agreed that the redirection of staff for the error rate study required by Senate Bill 1104 is the higher priority.

### U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Federal Catalog Number: 93.575  
Federal Program Title: Child Care and Development Block Grant  
Federal Award Number and  
Calendar Year Awarded: 2003 G996005; 2003

---

Federal Catalog Number: 93.596  
Federal Program Title: Child Care Mandatory and Matching Funds of the  
Child Care and Development Fund  
Federal Award Numbers and  
Calendar Years Awarded: 2003 G999004; 2003  
2003 G999005; 2003

---

Reference Number: 2004-13-6  
Category of Finding: Subrecipient Monitoring  
State Administering Department: Department of Aging

*(See listing of the specific federal program details following the discussion of the issue below.)*

## **CRITERIA**

Our review of the Special Programs for the Aging—Title III, Part B—Grants for Supportive Services and Senior Centers; Special Programs for the Aging—Title III, Part C—Nutrition Services; and the Nutrition Services Incentive Program (aging programs) identified the following compliance requirements related to subrecipient monitoring:

The United States Code, Title 42, Section 3027(a)(4), requires the State to conduct periodic evaluations of activities and projects carried out under Title III of the Older Americans Act. The Code of Federal Regulations, Title 45, Section 1321.3, defines periodic as, at a minimum, once each fiscal year. However, in a letter to the Department of Aging (Aging), the U.S. Administration on Aging has agreed that Aging's description of its evaluation activities, which includes on-site evaluations every two years, is in compliance with the federal requirements for monitoring the supportive and nutrition services funded by the aging programs. Finally, Title 45, Section 1321.11, requires the State to establish policies that address the manner in which it will monitor the performance of all programs and activities funded by the aging programs for quality and effectiveness. Furthermore, the State is responsible for enforcement of these policies.

## **CONDITION**

Aging is not adequately fulfilling its responsibility to monitor the Area Agencies on Aging (area agencies). Currently, two units within Aging are responsible for performing on-site monitoring of the area agencies. The audits unit performs audits with financial and compliance components and the monitoring unit performs program evaluations of the area agencies. Aging considers that it has met the federal requirements for monitoring when both units have completed their reviews. However, we found that for 24 of the 33 area agencies, Aging did not perform either one or both of these reviews every two years as required. As of June 2004 Aging is between one and 28 months late with these reviews.

Failure to conduct timely on-site evaluations may prevent early detection and correction of deficiencies in the services provided by the area agencies.

## **RECOMMENDATION**

To ensure that it complies with applicable federal laws and regulations, Aging should conduct on-site reviews every 24 months as required.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

The Department of Aging (Department) has examined its processes and has implemented various efficiencies to leverage limited staff resources and improve monitoring coverage of Area Agencies on Aging (AAA). We are continuing to implement the following actions in response to recent fiscal constraints that have impacted our ability to address existing workload:

### **Concerning Program Monitoring**

- Monitoring teams triage and visit those AAAs most in need of monitoring first.

- Monitoring protocols have been streamlined and the Department continues to work on ways to further streamline protocols and make activities more efficient.
- We are developing procedures for in-office desk reviews of certain documents submitted by AAAs that could reduce the time needed during the monitoring field visits.
- In light of reduced resources, staff is also exploring how it could use annual desk reviews and other means to identify either problem AAAs that need immediate attention or exemplary AAAs that could be site-monitored less frequently than a “normal” visit schedule would dictate. In addition, it may be that a smaller, less comprehensive on-site monitoring (for instance, review of specific program areas vs. all programs operated by the AAA) will provide targeted assistance and monitoring of potential problem areas without the need for a full survey. The Department would need to seek approval from Administration on Aging (AoA) for any alternative it would propose to the two-year minimum on-site monitoring requirement.

### **Concerning Financial Audits**

- Fiscal audit staff has developed a risk-based model to assist in prioritizing audits. The date of the last visit will be one of the factors considered in the analysis.
- Prior to scheduling audits, staff is now requiring AAAs to self-certify whether the required fiscal monitoring of their subrecipients has been performed. This pre-site visit review will allow audit staff to work with problem AAAs to correct deficiencies earlier on rather than wait until field work is complete and final reports are issued.
- AAAs are being required to submit financial documents for desk review prior to scheduling audit site visits to reduce time on the audit site.
- Audit staff and program staff are exploring ways to complement their respective monitoring activities, thereby increasing efficiency.
- Existing audit staff resources have recently been redirected toward Older American Act audit work.

In addition to the above, constraints on travel and staffing freezes that existed in 2003–04 and contributed to the lack of site visits no longer exist.

Even though staff constraints have impacted our ability to do timely reviews, the Department recognizes the priority of monitoring programs every two years. In light of the limited resources, we plan to open discussions with AoA to address this and explore alternative ways to meet the monitoring mandate. In the meantime, we will continue to pursue the above actions to improve monitoring of AAAs and we will continue to explore ways to make this process more efficient.

## **U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES**

Federal Catalog Number: 93.044

Federal Program Title: Special Programs for the Aging—Title III, Part B—  
Grants for Supportive Services and Senior Centers

Federal Award Numbers and  
Calendar Years Awarded: 02-03-AA-CA-1320; 2002  
04AACATSP; 2003

---

Federal Catalog Number: 93.045

Federal Program Title: Special Programs for the Aging—Title III, Part C—  
Nutrition Services

Federal Award Numbers and  
Calendar Years Awarded: 02-03-AA-CA-1712; 2002  
02-03-AA-CA-1713; 2002  
04AACAT3SP; 2003

---

Federal Catalog Number: 93.053

Federal Program Title: Nutrition Services Incentive Program

Federal Award Numbers and  
Calendar Years Awarded: 03AACANSIP; 2003  
04AACANSIP; 2004

---

Reference Number: 2004-13-11

Category of Finding: Subrecipient Monitoring

State Administering Department: Department of Community Services and Development

*(See listing of the specific federal program details following the discussion of the issues below.)*

## **CRITERIA**

Our review of the Low-Income Home Energy Assistance and Community Services Block Grant programs identified the following compliance requirements for subrecipient monitoring:

The U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133), describes the requirements the State must follow when it awards federal funds to subrecipients. Specifically, OMB Circular A-133 requires the State to ensure that subrecipients spending \$300,000 or more in federal assistance in fiscal year 2002–03 meet applicable audit requirements, including the submission of an audit report to the State within nine months following the end of the audit period. Also, the State is required to issue management decisions on audit findings within six months of receiving the audit reports and must ensure that the subrecipient takes timely and appropriate and timely corrective action.

## CONDITION

The Department of Community Services and Development (Community Services) did not have an adequate system to ensure that it met the OMB Circular A-133 requirements it must follow when it awards federal funds to subrecipients. Specifically, Community Services did not have adequate procedures for ensuring that it obtained the OMB Circular A-133 audit reports from subrecipients within the required nine-month period. Of the 22 audit reports we sampled for the Low-Income Home Energy Assistance and Community Services Block Grant programs, Community Services received three audit reports that were between 77 and 257 days late. The late reports were the result, in part, of Community Services not having formal procedures for following up with subrecipients that have not submitted audit reports on time. In addition, despite some improvement from the previous year, Community Services still did not always review subrecipients' OMB Circular A-133 audit reports in time to issue any necessary management decisions within the required six-month period. As of January 21, 2005, Community Services was between 14 and 153 days late in reviewing three of the 22 audit reports we sampled for the Low-Income Home Energy Assistance Program and Community Services Block Grant programs.

Further, Community Services did not ensure that four of 12 subrecipients with findings took appropriate and timely corrective action. In each of four cases, Community Services requested the subrecipients to respond in writing to findings within 30 days of its management decision. However, as of January 21, 2005, two subrecipients that owed a total of \$8,043 in disallowed costs were 112 and 264 days late in submitting their responses to Community Services. Although Community Services received responses from the other two subrecipients, the responses were 116 and 256 days late. Community Services sent a letter that reminded one of the four subrecipients that a response was due; however, it did so 228 days after its initial letter to the subrecipient. In addition, Community Services did not follow up with the other three subrecipients by sending any formal status or reminder letters notifying the subrecipients that their written responses were past due. Although Community Services had evidence that it communicated by e-mail with two of the subrecipients about responding to the findings, these communications did not fully address the corrective actions taken by the subrecipients. Additionally, we would expect to see a formal letter from Community Services if it reached any agreement with a subrecipient. Because Community Services did not have adequate procedures for following up with subrecipients, it did not ensure that all subrecipients took appropriate and timely corrective action on findings. Consequently, Community Services cannot be certain that federal funds have been charged appropriately.

Finally, Community Services could not provide sufficient evidence to support its decision to waive the repayment of approximately \$350,000 in federal funds for one subrecipient's disallowed costs. As early as 1995, Community Services identified inappropriate transactions between a subrecipient and the subrecipient's wholly owned for-profit subsidiary for Low-Income Home Energy Assistance services. Community Services determined the majority of the costs were not allowable because the transactions resulted in a profit to the wholly owned subsidiary and determined the remaining costs did not meet other guidelines for allowable costs. However, because the subrecipient disagreed with Community Services' decision not to allow the costs, Community Services obtained a legal opinion in May 2002 to resolve the dispute. The legal opinion stated that a subrecipient is not allowed to use subcontracts with a controlled corporation to create a profit that may then be redirected back to the subrecipient, because by doing so the subrecipient could effectively avoid state and federal requirements that strictly control the use of those funds. Despite this legal opinion, in November 2004 Community Services officially forgave the repayment of approximately \$350,000 in federal funds, primarily because Community Services erroneously told the subrecipient many years ago that some of these transactions were allowable. When we asked to review the relevant information it relied on to make its decision, Community Services could not provide us with sufficient supporting documentation, including details of the specific erroneous information it once provided to the subrecipient.

In January 2005, after we brought this issue to its attention, Community Services stated that it plans to reverse its decision to forgive the \$350,000. However, Community Services may have a more difficult time collecting the amount due because it already communicated in writing its final decision to the subrecipient. Additionally, if Community Services does not collect amounts that were not spent according to program requirements, the federal government may require the State to return that portion because Community Services could not support its decision to forgive the repayment of disallowed costs.

## RECOMMENDATIONS

Community Services should develop formal policies and procedures for following up with subrecipients when subrecipients do not submit OMB A-133 audit reports or respond to its management decisions on time.

Community Services should develop formal policies and procedures for ensuring that it reviews all OMB A-133 audit reports on time.

In the future Community Services should obtain and retain sufficient evidence to support its decision to forgive the repayment of disallowed costs. Additionally, Community Services should proceed with its plan to reverse its decision to forgive the \$350,000 in disallowed costs and ultimately collect the appropriate amount.

## DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Community Services Responses to Bureau of State Audits Recommendations (in bold):

- 1. Community Services should develop formal policies and procedures for following up with subrecipients when subrecipients do not submit OMB A-133 audit reports or respond to its management decisions on time.** *CSD agrees with this recommendation and will develop policies and procedures for following up with subrecipients that do not submit timely audit reports or respond to management decisions on time.*
- 2. Community Services should develop formal policies and procedures for ensuring that it reviews all OMB A-133 audit reports on time.** *CSD agrees with this recommendation and will develop formal policies and procedures for ensuring that it reviews audit reports on time.*
- 3. In the future, Community Services should obtain and retain sufficient evidence to support its decision to forgive the repayment of disallowed costs. Additionally, Community Services should proceed with its plan to reverse its decision to forgive the \$350,000 in disallowed costs and ultimately collect the appropriate amount.** *CSD agrees with this recommendation and will fully document all decisions to forgive the repayment of disallowed costs. CSD has already proceeded with its decision to reverse its previous position regarding the \$350,000, including efforts to collect the disallowed costs. CSD understands BSA's concerns and is confident that there will be no state liability regarding the funds in question.*

## U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Federal Catalog Number: 93.568  
Federal Program Title: Low-Income Home Energy Assistance  
Federal Award Number and  
Calendar Year Awarded: G-03B1CALIEA; 2003

---

Federal Catalog Number: 93.569  
Federal Program Title: Community Services Block Grant  
Federal Award Number and  
Calendar Year Awarded: G-03B1CACOSR; 2003

---

Reference Number: 2004-13-13  
Federal Catalog Number: 93.778  
Federal Program Title: Medical Assistance Program  
Federal Award Numbers and  
Calendar Years Awarded: 05-0305CA5028; 2002  
05-0405CA5028; 2003  
Category of Finding: Subrecipient Monitoring  
State Administering Department: Department of Health Services

### CRITERIA

Our review of the Medical Assistance Program (Medicaid) identified the following compliance requirements related to subrecipient monitoring:

The U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133), requires subrecipients spending \$300,000 or more in federal assistance to submit audit reports to the State. If an audit finds that a subrecipient has failed to comply with federal program requirements, OMB Circular A-133 also requires the State to issue a management decision regarding the resolution of the audit findings within six months of receiving the audit report and to ensure that the subrecipient proceeds with appropriate corrective action promptly.

## CONDITION

The Department of Health Services (Health Services) does not have a formal process to ensure that Medicaid subrecipients take appropriate corrective action to findings identified in OMB Circular A-133 audit reports. During our fiscal year 2003–04 audit, we selected a sample of OMB Circular A-133 audit reports received by the State Controller’s Office (Controller’s Office) for federal programs we review. The Controller’s Office notifies state departments of audit findings associated with the programs they administer. Our review of one item for Medicaid revealed that Health Services received notification of the audit finding but had not followed up with the subrecipient. This occurred because it does not have formal procedures to follow up on audit findings. After our inquiry on the status of the subrecipient’s corrective action, Health Services contacted the subrecipient and indicated to the Controller’s Office that it had reviewed the subrecipient’s corrective action plan. According to the chief of Health Services’ Audit Review and Analysis Section, Health Services plans to prepare formal written procedures for following up on audit findings it receives from the Controller’s Office to ensure that subrecipients take prompt and appropriate corrective action.

Because it does not have a formal process for ensuring that Medicaid subrecipients respond to audit findings by taking appropriate corrective action promptly, Health Services has less assurance that its subrecipients are complying with applicable laws and regulations.

## RECOMMENDATION

Health Services should continue its plan to prepare written formal procedures for following up on notifications it receives from the Controller’s Office regarding findings from OMB Circular A-133 audit reports.

## DEPARTMENT’S VIEW AND CORRECTIVE ACTION PLAN

Health Services agrees with this recommendation. Formal written procedures are in the process of being developed, with a targeted completion date of March 1, 2005. A copy of these procedures will be provided to the Bureau of State Audits upon completion.

---

Reference Number:	2004-13-14
Federal Catalog Number:	93.917
Federal Program Title:	HIV Care Formula Grants
Federal Award Number and Calendar Year Awarded:	5X07HA00041-13; 2003
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Health Services

## CRITERIA

Our review of the HIV Care Formula Grants program identified the following compliance requirements related to subrecipient monitoring:

The U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations* (OMB Circular A-133) requires the State to monitor the activities of subrecipients to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. The Department of Health Services (Health Services) has established policies for administering the HIV Care Formula Grants program. Among other things, these policies set a goal for Health Services to conduct a site visit of each case management and care services subrecipient every 18 months and three years, respectively. Further, in its state application for grant funds, Health Services specified a goal to conduct 50 visits each year to enrollment sites for the AIDS drug assistance program, with each enrollment site receiving a visit at least every five years.

Additionally, U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133), Section 400 (d), requires the State to inform each subrecipient of specific federal award information, including the Catalog of Federal Domestic Assistance (CFDA) title and number, the award name and number, and the name of the federal agency.

## CONDITION

We identified Health Services' site visit goals as a key component of its subrecipient monitoring process for the HIV Care Formula Grants program. However, Health Services is not performing site visits as frequently as its goals state. Specifically, we found the following:

- Health Services did not conduct site visits within the last 18 months for 10 of 20 subrecipients of the case management program that received funding in fiscal years 2002–03 and 2003–04. Of the 10 late site visits, Health Services conducted three visits within 21 months and another three within 30 months of the previous site visit. We could not determine when Health Services had conducted the previous site visit for the remaining four subrecipients.
- Health Services did not conduct site visits for 11 of the 37 subrecipients of the care services program within the last three years. Of these 11 subrecipients, Health Services conducted financial reviews for two within the last three years.
- Health Services did not conduct site visits for 34 of the 132 enrollment sites of the AIDS drug assistance program within the last five years. Additionally, Health Services did not achieve its goal because it conducted only eight of the 50 targeted site reviews during fiscal year 2003–04.

According to Health Services, the state's budget crisis in recent fiscal years limited its ability to maintain adequate staffing levels, as well as restricting travel for its existing staff as a means of meeting its performance goals.

Because it does not conduct site visits with the frequency it has established in its performance goals, Health Services has less assurance that subrecipients are complying with applicable laws, regulations, and provisions of contracts or grant agreements.

Finally, Health Services did not inform all subrecipients of specific federal award information, including the CFDA title and number, the award name and number, and the name of the federal agency, even though it was required to do so. In our review of 31 sample contracts, we found 11 contracts in which Health Services did not convey any of the required information to the subrecipients. When Health Services does not provide subrecipients with information related to the federal grant, it cannot ensure that subrecipients will identify all their federal awards for independent auditors conducting audits under the OMB Circular A-133.

## **RECOMMENDATIONS**

Health Services should ensure that it conducts site visits in accordance with its established performance goals. Health Services may also want to reassess its policies related to subrecipient monitoring to determine if the current frequency of site visits is reasonable. Finally, Health Services should ensure that it conveys all required federal award information to its subrecipients at the time of the award.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

The Office of AIDS (OA) concurs with the findings. Specific program responses are as follows:

### **1. Case Management Program (CMP)**

CMP's self-established goal is to visit each sub-recipient site at least once every 18 months. This is not a federal requirement. To date, six of the ten sites have been visited. Of the four remaining sites not visited, one has since left the program; the remaining three sites will be visited by May 31, 2005.

In response to the finding that requires the State to inform each sub-recipient of specific federal award information, CMP has sent letters to the fiscal year 2004–05 contractors notifying them of the required information. Notification letters will be sent to the fiscal year 2003–04 contractors by March 15, 2005.

### **2. Care Services Program (CSP)**

CSP is reviewing its self-established goal of monitoring all sub-recipients at least once every three years. Although this schedule is preferable, given staff resources, it is increasingly unlikely that the program can meet this expectation (see #4 below). Bureau of State Audits found that 11 of the 37 CSP sub-recipients were not visited within the last three years. CSP plans to conduct the remaining 11 site visits by December 31, 2005.

In response to the finding that requires the State to inform each sub-recipient of specific federal award information, notification letters will be sent to the appropriate contractors by March 15, 2005.

### **3. AIDS Drug Assistance Program (ADAP)**

ADAP anticipates that it will need to modify its goal of visiting all program enrollment sites at least once every five years, and conducting at least 50 visits to ADAP enrollment sites each year. Although this schedule is preferable, given the staff resources available and other required duties, it is increasingly unlikely that the program can meet this self-established goal. Currently, sites first visited are those that have not been visited within the past five years and that have the highest volume of enrollment activity (currently defined as more than 50 enrollments in the most recent year). If it is unrealistic to visit all sites meeting this profile, the program will consider redefining "high volume," and/or examining the enrollment data available to look for unusual patterns at the targeted sites (e.g., most clients certifying they receive "no income" rather than providing income documentation). This may help the program "fine tune" prioritization of the sites that need to be visited. The 34 ADAP sites identified as top priority for fiscal year 2003–04 will receive a site visit by March 31, 2006.

A letter informing our ADAP contractor of specific federal award information will be sent by March 15, 2005.

### **4. Combined responses for CMP, CSP and ADAP**

In response to the Bureau of State Audits finding that the OA did not meet their internal programmatic site visit monitoring goals. The State's budget situation in recent fiscal years limited OA's ability to maintain adequate staffing levels and restricted staff's ability to travel to meet its performance goals for CMP, CSP, and ADAP. Although OA's annual site visit goals were not met, programs relied upon daily contact with contractors, detailed review of invoices and backup documentation, progress reports, and telephonic monitoring of contractors to adequately provide fiscal and programmatic oversight. Additionally, ADAP and CSP fund a full-time auditor assigned by Health Service's Audits and Investigation (A&I) Division to perform in-depth financial audits of contractors.

OA's HIV Care Branch programs (CMP, CSP, and ADAP) are examining the feasibility of consolidating site visits by staff from various programs in an effort to maximize staff resources. The Branch's Quality Management Team is currently examining the lists of various grantees/sites to identify programs that provide services under more than one HIV Care Branch program. HIV Care Branch programs are also comparing the site visit tools used by each program to identify commonalities and determine the feasibility of creating a site visit tool that would work for more than one program.

---

Reference Number:	2004-14-1
Federal Catalog Number:	93.563
Federal Program Title:	Child Support Enforcement
Federal Award Number and Calendar Year Awarded:	75-X-1501; 2003

Category of Finding: Special Tests and Provisions  
State Administering Department: Department of Child Support Services

## **CRITERIA**

The Code of Federal Regulations, Title 45, Section 303.7(a), requires the Department of Child Support Services (DCSS) to establish an interstate central registry responsible for receiving, distributing, and responding to inquiries on all incoming interstate cases. Further, DCSS must respond to inquiries from other states within five working days of receipt of a request for a case status review.

## **CONDITION**

In our review of 20 requests from other states for case status reviews, we found that for 13 requests DCSS did not indicate the dates it received the requests; therefore, we were unable to determine whether DCSS responded within five days. For the remaining seven requests, DCSS took more than the required five days to respond to two requests, taking eight days for one request and 22 days for the second. By not responding to other states' requests for case status reviews within the required five days, DCSS may be unnecessarily delaying the other states from enforcing support orders and collecting child support.

## **RECOMMENDATIONS**

DCSS should take steps to ensure that it responds to all requests for case status reviews from other states within five working days of receiving the requests. In addition, DCSS should indicate on each request the date DCSS received it.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

It has always been the policy in the California Central Registry (CCR) to date-stamp all incoming mail, including status requests from other states. However, as discussed with staff from the Bureau of State Audits (BSA), an oversight occurred at the CCR during the audit period, which resulted in incoming status requests not being date-stamped. Immediately after the BSA's review of the CCR in June 2004, the staff was instructed to resume date-stamping all income status requests and made aware of the importance of following this procedure, so that this oversight does not occur again. The CCR is now following the correct procedures and date-stamping all incoming mail, including status requests, on the date of receipt.

---

Reference Number: 2004-14-2

Federal Catalog Number: 93.959

Federal Program Title: Block Grants for Prevention and Treatment of Substance Abuse

Federal Award Number and Calendar Year Awarded: 04B1CASAPT; 2003

Category of Finding: Special Tests and Provisions

State Administering Department: Department of Alcohol and Drug Programs

## **CRITERIA**

Our review of the Block Grants for Prevention and Treatment of Substance Abuse program identified the following requirement related to special tests and provisions:

The Code of Federal Regulations, Title 45, Section 96.136, requires the State to provide for independent peer reviews of at least 5 percent of the treatment providers receiving funds to assess the quality, appropriateness, and efficacy of treatment services provided to individuals.

## **CONDITION**

The Department of Alcohol and Drug Programs (DADP) did not ensure that independent peer reviews were conducted for at least 5 percent of the treatment providers receiving funds from the Block Grants for Prevention and Treatment of Substance Abuse program. In the past DADP contracted with an outside party to conduct independent peer reviews. However, as indicated in its fiscal year 2004–05 grant application, DADP did not have a contract in place during fiscal year 2003–04 because it believed that states would no longer be required to conduct independent peer reviews. As a result, none of the 678 treatment providers receiving funds from the Block Grants for Prevention and Treatment of Substance Abuse program during fiscal year 2003–04 received a peer review. DADP plans to resume the independent peer reviews of treatment providers in fiscal year 2004–05 and has awarded a contract to conduct independent peer reviews of 32 to 35 treatment providers.

## **RECOMMENDATION**

DADP should ensure annually that at least 5 percent of treatment providers receiving funds from the Block Grants for Prevention and Treatment of Substance Abuse program receive an independent peer review.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

The DADP concurs with the assessment of the Federal compliance review; peer reviews were not conducted for Fiscal Year 2003–04.

The DADP initiated the independent peer review contract with the California Association of Addiction Recovery Resources (CAARR) for Fiscal Year 2004–05 (renewable for two additional fiscal years), and has appointed a contract monitor to ensure the peer reviews are conducted in accordance with Federal requirements and timeframes. CAARR will conduct 32 to 35 peer reviews each fiscal year upon approval of the Substance Abuse Prevention and Treatment Block Grant. The Department will ensure that a minimum of 5 percent of treatment providers receiving funds from the Block Grants for Prevention and Treatment of Substance Abuse program receives an independent peer review.

---

Reference Number: 2004-14-5

Federal Catalog Number: 93.778

Federal Program Title: Medical Assistance Program

Federal Award Numbers and Calendar Years Awarded: 05-0305CA5028; 2002  
05-0405CA5028; 2003

Category of Finding: Special Tests and Provisions

State Administering Department: Department of Health Services

## **CRITERIA**

Our review of the Medical Assistance Program (Medicaid) identified the following compliance requirements related to special tests and provisions:

The Code of Federal Regulations, Title 42, sections 431.51(b) and (c), allows recipients to obtain Medicaid services from any provider qualified and willing to furnish the services. However, these regulations do not prohibit the state Medicaid agency from setting reasonable standards for provider qualifications. For example, the California Welfare and Institutions Code, Section 14043.6, requires automatic suspension from the state Medicaid program for any provider whose license, certificate, or other approval has been revoked or suspended by a federal, California, or another state's licensing, certification, or approval authority, or has been surrendered or otherwise lost while a disciplinary hearing was pending.

Additionally, the Code of Federal Regulations, Title 42, Section 442.101, requires that certain Medicaid facility providers obtain certification before a Medicaid agency enters a provider agreement with the provider. Furthermore, sections 455.104 through 455.106 require Medicaid providers and facilities to make certain disclosures to the State regarding ownership, business transactions, and criminal convictions. Finally, Title 42, Section 431.107, also requires the State to provide for an agreement between each provider and the state agency administering the Medicaid program. Among other things, the provider must agree to disclose the information required in sections 455.104 through 455.106.

## **CONDITION**

Our review of selected Medicaid providers revealed that the Department of Health Services (Health Services) did not always have the required agreements, disclosures, licenses and certifications on file.

Of the 30 providers we reviewed, Health Services did not have provider agreements on file for 14 providers, did not have any of the required disclosures on file for five providers, and did not obtain the required license and certification for one provider. In response to a similar finding in our fiscal year 2002–03 audit report, Health Services indicated it has begun a reenrollment process that includes gathering appropriate licenses, certifications, agreements, and disclosures. According to Health Services, it is prioritizing provider types for the new reenrollment process based on the provider types with the highest risk. Health Services also indicated that it targeted durable medical equipment providers as the first group for reenrollment and has completed reenrollment for this provider type. Health Services has been working to reenroll pharmacy providers for more than a year and has also begun reenrollment of physician providers.

When Health Services cannot demonstrate that it has obtained provider certifications, licenses, proper agreements, and disclosures, it cannot ensure that it made Medicaid claim payments only to eligible providers.

## **RECOMMENDATION**

Health Services should continue its reenrollment process to ensure that it obtains the appropriate licenses, certifications, agreements, and disclosures.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Health Services agrees and is continuing its reenrollment process. Provider Enrollment Branch (PEB) is pursuing, with other departments/entities enrolling Medi-Cal providers, the need to comply with this requirement. PEB's newly modified Medi-Cal Disclosure Statement (DHS 6207) form was prepared and designed to specifically comply with Code of Federal Regulations governing information that must be disclosed by providers for participation or continued participation in the Medi-Cal program. In addition to the form's compliance with federal regulations, the comprehensive modification enables the disclosure form to be used by other departmental programs and other entities involved in the enrollment process. This form is currently available on-line at [www.medi-cal.ca.gov](http://www.medi-cal.ca.gov).

In order to meet this requirement, Health Services' Deputy Director of Medi-Cal Services has prepared a letter to all Medi-Cal linked departments, which addresses provider enrollment and specifically, the federal disclosure regulatory requirements. The letter includes the Centers for Medicare and Medicaid Services finding, description of required information, and a copy of the DHS 6207. The departments will be asked to bring disclosure information into compliance prior to the completion of an amended interagency agreement requiring such compliance. Health Services distributed the letter in February 2005.

Health Services is fully committed to reenrolling all providers on a continuing basis in accordance with all federal and state statutes and regulations. PEB and Audits and Investigations (A&I) have a coordinated effort to implement this strategy on a provider type basis. Reenrollment of durable medical equipment providers has been completed and Health Services is currently concentrating on non-chain pharmacies and physicians/groups identified by A&I as high-risk providers. To achieve maximum effectiveness, PEB and A&I will continue to coordinate efforts to identify providers posing the greatest risk to the Medi-Cal program. Once Health Services completes reenrollment of these high-risk providers, the process will be continued for all other providers on an ongoing basis. It should be noted that with over 100,000 providers enrolled in Medi-Cal, reenrollment of all providers will require significant resources and time intensive processes. To date, approximately 2,300 providers (pharmacies and physicians) are going through the reenrollment process.

# U.S. DEPARTMENT OF HOMELAND SECURITY

---

Reference Number: 2004-9-5  
Federal Catalog Number: 97.036 (formerly 83.544)  
Federal Program Title: Public Assistance Grants  
Year Awarded: State fiscal year 2003–04  
Category of Finding: Suspension and Debarment  
State Administering Department: Office of Emergency Services

## CRITERIA

Our review of the Public Assistance Grants program identified the following compliance requirements related to suspension and debarment:

The Code of Federal Regulations, Title 44, Section 17.225(a), requires the Office of Emergency Services (Emergency Services) to ensure that it does not make subawards to any parties who are debarred, suspended, or otherwise excluded from participation in federal assistance programs. Additionally, Section 17.510(b) requires Emergency Services to obtain certifications that affirm participating parties are not presently debarred or suspended.

## CONDITION

Emergency Services did not require applicants to the Public Assistance Grants program to submit suspension and debarment certifications. By not requiring these certifications, Emergency Services risks allowing suspended or debarred parties to participate in the federal program. However, we tested a sample of 35 subrecipients using alternative procedures and determined that none of the subrecipients in our sample were suspended or debarred.

## RECOMMENDATION

Emergency Services should revise its application for the Public Assistance Grants program to include suspension and debarment certifications.

## DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Previously, Emergency Services agreed to modify its standard assurance form for the Public Assistance Grants program to specifically address the suspension and debarment requirements noted in the Code of Federal Regulations. Emergency Services also agreed to implement the new form for future disaster grants.

Unfortunately, Emergency Services did not implement those form changes. During the past 12 months, Emergency Services has experienced a decrease in staffing levels, the mid-year assimilation of the former Office of Criminal Justice Planning, and a steadily increasing workload related to Homeland Security grants. Additionally, Emergency Services recently reorganized and is in the process of evaluating priorities, workloads and staffing. The revision of existing forms will be included in the workload evaluation process.

---

Reference Number: 2004-12-3

Federal Catalog Number: 97.036 (formerly 83.544)

Federal Program Title: Public Assistance Grants

Year Awarded: State fiscal year 2003–04

Category of Finding: Reporting

State Administering Department: Office of Emergency Services

## **CRITERIA**

Our review of the Public Assistance Grants program identified the following compliance requirement related to reporting:

The Code of Federal Regulations, Title 44, Section 206.204(f), requires the Office of Emergency Services (Emergency Services) to submit quarterly progress reports to the Federal Emergency Management Agency (FEMA), part of the U.S. Department of Homeland Security.

## **CONDITION**

Emergency Services reported incorrect financial information in its June 2004 quarterly progress report. Specifically, for three of the 20 projects we reviewed, Emergency Services understated the project obligations by a total of more than \$200 million. Additionally, we could not determine whether the total amounts reported for two additional projects were correct because Emergency Services used incorrect project numbers in its quarterly progress report. Emergency Services reported obligations for the two projects of \$80 million and \$250,000, respectively. According to Emergency Services, a field office provided the total obligations for the five projects, and staff at Emergency Services' headquarters did not review the amounts for accuracy before they were reported to FEMA.

## **RECOMMENDATION**

Emergency Services should ensure that its staff review the accuracy of the financial information contained in each quarterly progress report.

## DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Emergency Services recognizes this finding and is developing a procedure to address the finding. The Public Assistance Section has been made aware of the requirement to include accurate project cost information in the quarterly progress reports to FEMA. All subsequent Quarterly Reports will include an attachment generated by Emergency Services' Grant Management Section from the Automated Ledger System with the latest required cost data for all projects for which final payment has not been made for all open disaster declarations. To avoid reporting conflicts between the two Emergency Services' sections, all cost data will be removed from the Large Project Monitoring Program reports generated by the Public Assistance Section staff. In addition, all future revisions of the State Administrative Plan for Public Assistance will include the stipulation that the quarterly progress reports to FEMA will include, for each open project, the obligated amount, the amount claimed by the subgrantee, the paid amount and the balance of obligated funding.

---

Reference Number: 2004-12-4

Category of Finding: Reporting

State Administering Department: Office of Emergency Services

*(See listing of the specific federal program details following the discussion of the issues below.)*

## CRITERIA

Our review of the Public Assistance Grants and Hazard Mitigation Grant programs determined the following compliance requirements related to reporting:

The Code of Federal Regulations, Title 44, Section 13.20, requires the Office of Emergency Services (Emergency Services) to maintain accounting records to properly track and accurately report financial activities related to federal grants. Additionally, Section 13.41(b) requires Emergency Services to use the financial status report form to report on the status of federal funds for nonconstruction grants. To meet this requirement, the Federal Emergency Management Agency (FEMA), an agency within the U.S. Department of Homeland Security, requires Emergency Services to submit quarterly financial status reports for each disaster. FEMA mandates that these status reports include total recipient and subrecipient nonfederal expenditures and administrative expenses.

## CONDITION

Emergency Services' financial status reports do not always contain complete expenditure information. Specifically, for 16 of the 18 financial status reports for fiscal year 2003–04 that we tested, Emergency Services did not report the subrecipients' shares of outlays for the Hazard Mitigation Grant program because it does not have a process to consistently capture the expenditure information it receives from subrecipients. Also, Emergency Services did not provide separate disclosure of its and the subrecipients' administrative costs in the financial status

reports for the Public Assistance Grants and Hazard Mitigation Grant programs. FEMA requires separate reporting of administrative expenditures so that it can accurately compute and analyze the shared costs of the disaster.

## **RECOMMENDATIONS**

Emergency Services should record subrecipients' shares of Hazard Mitigation Grant program outlays it receives and accurately report those expenditures. Additionally, Emergency Services should separately account for and report its and the subrecipients' administrative costs in accordance with FEMA instructions.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Emergency Services has made several attempts over the years to discuss with the Federal Emergency Management Agency (FEMA) how best to report California disaster activity (which involves more than 20,000 individual projects) into a single generic format. Although Emergency Services has informally discussed the issue with FEMA staff, given the repeat nature of this finding, Emergency Services will initiate a formal request to FEMA management this year to reach a consensus on how to report on-going disaster activity without creating a burdensome workload for the state.

### **U.S DEPARTMENT OF HOMELAND SECURITY**

Federal Catalog Number: 97.036 (formerly 83.544)  
Federal Program Title: Public Assistance Grants  
Year Awarded: State fiscal year 2003–04

---

Federal Catalog Number: 97.039 (formerly 83.548)  
Federal Program Title: Hazard Mitigation Grant  
Year Awarded: State fiscal year 2003-04

---

Reference Number: 2004-13-8  
Federal Catalog Number: 97.036 (formerly 83.544)  
Federal Program Title: Public Assistance Grants  
Year Awarded: State fiscal year 2003–04

Category of Finding: Subrecipient Monitoring  
State Administering Department: Office of Emergency Services

## **CRITERIA**

Our review of the Public Assistance Grants program identified the following compliance requirements related to subrecipient monitoring:

The Code of Federal Regulations, Title 44, Section 13.40(a), requires the Office of Emergency Services (Emergency Services) to monitor grant- and subgrant-supported activities to ensure that applicable federal requirements are being complied with and that performance goals are being achieved. Further, the State Administrative Plan for Public Assistance (administrative plan)—the state plan approved by the Federal Emergency Management Agency (FEMA)—an agency within the U.S. Department of Homeland Security—specifies that a selected number of larger projects and projects with extenuating considerations will be monitored at least on a quarterly basis to ensure compliance with grant requirements as a whole.

To meet the requirements of the Code of Federal Regulations and the administrative plan, Emergency Services developed the Large Project Monitoring Program (monitoring program). Projects are included in the monitoring program if they meet minimum dollar thresholds or certain risk criteria. To facilitate project monitoring, Emergency Services staff are required to prepare Quarterly Construction Performance Reports (quarterly reports) for projects included in the monitoring program using data collected from subrecipients.

## **CONDITION**

Emergency Services did not adequately monitor subrecipients of federal funds from the Public Assistance Grants program. Specifically, for 13 of the 15 projects included in its monitoring program, Emergency Services did not complete one or more quarterly reports. According to Emergency Services, some of the reports are missing because staff often had difficulty obtaining project information from subrecipients. Emergency Services uses the quarterly reports to identify potential problems with the grants, such as cost overruns, deviations from the eligible scope of work, and whether a project will not be completed on time. Because Emergency Services was unable to complete many of the reports, it has less assurance that the subrecipients are using grant funds as intended or that the projects are progressing as planned.

## **RECOMMENDATIONS**

To ensure that it adequately monitors subrecipients of the Public Assistance Grants program, Emergency Services should implement measures to compel subrecipients to provide project information for the quarterly reports in a timely manner. When it is unsuccessful in obtaining the information it needs from subrecipients, it should employ alternative monitoring techniques.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Emergency Services recognizes this finding and is in the process of developing a system to automate the subgrantee quarterly progress reporting process. Until the new system is fully implemented, the Public Assistance Grants section is making every effort to collect the information needed from subgrantees to complete the Quarterly Construction Performance Reports for all projects included in the large project monitoring program and include this information in the quarterly progress reports to FEMA. The Public Assistance Grants staff have been instructed to notify Emergency Services management of any nonconforming applicants so arrangements can be made to withhold funding for these applicants until they comply with the quarterly reporting requirements.

# **AUDITEE'S SECTION**

Blank page inserted for reproduction purposes only.

# **Schedule of Federal Assistance**

**Prepared by  
Department of Finance**

Blank page inserted for reproduction purposes only.

**STATE OF CALIFORNIA  
SCHEDULE OF FEDERAL ASSISTANCE  
FISCAL YEAR ENDED JUNE 30, 2004**

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
<b>Department of Agriculture</b>		
Plant and Animal Disease, Pest Control, and Animal Care	10.025	\$ 82,612
Market Protection and Promotion	10.163	462,006
Farm Labor Housing Loans and Grants	10.405	5,799,324
Food Distribution	10.550	100,841,633 *
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	843,264,550
Child and Adult Care Food Program	10.558	233,360,020
State Administrative Expenses for Child Nutrition	10.560	15,260,513
Commodity Supplemental Food Program	10.565	3,024,511
Nutrition Services Incentive	10.570	1,772,759
WIC Farmers' Market Nutrition Program (FMNP)	10.572	3,237,523
Team Nutrition Grants	10.574	195,736
Cooperative Forestry Assistance	10.664	7,134,261
National Forest - Dependent Rural Communities	10.670	152,268
Wildlife Habitat Incentive Program	10.914	205
Other - U.S. Department of Agriculture	10.999	38,634,230
<b>Total Excluding Clusters</b>		<u>1,253,222,151</u>
<b>Food Stamp Cluster</b>		
Food Stamps	10.551	1,903,216,237 *
State Administrative Matching Grants for Food Stamp Program	10.561	377,079,163
<b>Total Food Stamp Cluster</b>		<u>2,280,295,400</u>
<b>Child Nutrition Cluster</b>		
School Breakfast Program	10.553	224,093,865
National School Lunch Program	10.555	875,559,291
Special Milk Program for Children	10.556	642,294
Summer Food Service Program for Children	10.559	15,528,178
<b>Total Child Nutrition Cluster</b>		<u>1,115,823,628</u>

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received	
<b>Emergency Food Assistance Cluster</b>			
Emergency Food Assistance Program (Administrative Costs)	10.568	10,653,508	
Emergency Food Assistance Program (Food Commodities)	10.569	<u>48,539,038</u>	*
<b>Total Emergency Food Assistance Cluster</b>		<u>59,192,546</u>	
<b>Schools and Roads Cluster</b>			
Schools and Roads - Grants to States	10.665	62,077,565	
<b>Research and Development Cluster</b>			
Agricultural Research Service - Basic and Applied Research	10.001	9,500	
Plant and Animal Disease, Pest Control, and Animal Care	10.025	<u>115,390</u>	
<b>Total Research and Development Cluster</b>		<u>124,890</u>	
<b>Total U.S. Department of Agriculture</b>		<u><u>4,770,736,180</u></u>	
<b>Department of Commerce</b>			
Economic Development - Support for Planning Organizations	11.302	100,000	
Anadromous Fish Conservation Act Program	11.405	789,081	
Interjurisdictional Fisheries Act of 1986	11.407	159,587	
Coastal Zone Management Administration Awards	11.419	5,396,520	
Coastal Zone Management Estuarine Research Reserves	11.420	786,247	
Marine Sanctuary Program	11.429	12,170	
Pacific Coast Salmon Recovery - Pacific Salmon Treaty Program	11.438	19,025,601	
Habitat Conservation	11.463	265,663	
Fisheries Disaster Relief	11.477	457,007	
Other - U.S. Department of Commerce	11.999	<u>95,623</u>	
<b>Total U.S. Department of Commerce</b>		<u><u>27,087,499</u></u>	

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
------------------------------	------------------------	-----------------------

**Department of Defense**

Navigation Projects	12.107	71,283
Planning Assistance to States	12.110	1,389,342
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113	12,862,870
National Guard Military Operations and Maintenance (O&M) Projects	12.401	49,012,151
National Guard Civilian Youth Opportunities	12.404	5,072,795
Other - U.S. Department of Defense	12.999	<u>1,381,222</u>
<b>Total U.S. Department of Defense</b>		<u><u>69,789,663</u></u>

**Department of Housing and Urban Development**

Manufactured Home Construction and Safety Standards	14.171	202,571	
Community Development Block Grants/State's Program	14.228	47,317,981	
Emergency Shelter Grants Program	14.231	5,724,767	
Supportive Housing Program	14.235	4,989,427	***
HOME Investment Partnerships Program	14.239	96,197,699	***
Housing Opportunities for Persons with AIDS	14.241	2,309,531	
Equal Opportunity in Housing	14.400	3,150,884	
Section 8 Rental Voucher Program	14.855	3,360,058	
Lead-Based Paint Hazard Control Privately-Owned Housing	14.900	<u>964,470</u>	
<b>Total Excluding Clusters</b>		164,217,388	
<b>Section 8 Project-Based Cluster</b>			
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	<u>38,066</u>	
<b>Total U.S. Department of Housing and Urban Development</b>		<u><u>164,255,454</u></u>	

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
------------------------------	------------------------	-----------------------

**Department of the Interior**

Recreation Resource Management	15.225	7,279
Wildland Urban Interface Community and Rural Fire Assistance	15.228	886,725
Small Reclamation Projects	15.503	323,341
Water Reclamation and Reuse Program	15.504	19,302
Anadromous Fish Conservation	15.600	19,385
Fish and Wildlife Management Assistance	15.608	16,267
Endangered Species Conservation	15.612	382,268
Coastal Wetlands Planning, Protection and Restoration Act	15.614	1,290,533
Cooperative Endangered Species Conservation Fund	15.615	1,699,052
Clean Vessel Act	15.616	603,000
Wildlife Conservation and Appreciation	15.617	20,000
Sportfishing and Boating Safety Act	15.622	290,000
Wildlife Conservation and Restoration	15.625	1,619,553
U.S. Geological Survey - Research and Data Acquisition	15.808	456,207
Historic Preservation Fund Grants-In-Aid	15.904	1,169,026
Outdoor Recreation-Acquisition, Development and Planning	15.916	5,251,507
Native American Graves Protection and Repatriation Act	15.922	3,943
Research Information	15.975	985,997
Other - U.S. Department of the Interior	15.999	35,837,841
<b>Total Excluding Clusters</b>		50,881,226

**Fish and Wildlife Cluster**

Sport Fish Restoration	15.605	9,077,637
Wildlife Restoration	15.611	4,676,471
<b>Total Fish and Wildlife Cluster</b>		13,754,108

**Research and Development Cluster**

Anadromous Fish Conservation	15.600	57,746
Coastal Wetlands Planning, Protection and Restoration Act	15.614	23,121
Cooperative Endangered Species Conservation Fund	15.615	4,820
<b>Total Research and Development Cluster</b>		85,687

<b>Total U.S. Department of Interior</b>		64,721,021
--	--	------------

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
------------------------------	------------------------	-----------------------

**Department of Justice**

State Domestic Preparedness Equipment Support Program	16.007	54,496,449
Offender Reentry Program	16.202	72,926
Juvenile Accountability Incentive Block Grants	16.523	42,458,628
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540	5,915,637
Juvenile Justice and Delinquency Prevention - Special Emphasis	16.541	2,403,353
Title V - Delinquency Prevention Program	16.548	24,986
Part E - State Challenge Activities	16.549	602,558
State Justice Statistics Program for Statistical Analysis Centers	16.550	30,115
National Criminal History Improvement Program (NCHIP)	16.554	2,699,399
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	187,614
Crime Victim Assistance	16.575	44,722,534
Crime Victim Compensation	16.576	1,564,977
Byrne Formula Grant Program	16.579	31,303,007
Drug Court Discretionary Grant Program	16.585	168,812
Violent Offender Incarceration and Truth in Sentencing Incentive Grants	16.586	55,777,477
Violence Against Women Formula Grants	16.588	12,625,234
Rural Domestic Violence and Child Victimization Enforcement Grant Program	16.589	55,183
Residential Substance Abuse Treatment for State Prisoners	16.593	3,311,106
State Criminal Alien Assistance Program	16.606	66,182,010
Regional Information Sharing Systems	16.610	4,453,942
Public Safety Partnership and Community Policing Grants	16.710	4,247,493
National Incident Based Reporting System	16.733	467,224
Other - U.S. Department of Justice	16.999	968,934
<b>Total U.S. Department of Justice</b>		<b>334,739,598</b>

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
------------------------------	------------------------	-----------------------

**Department of Labor**

Labor Force Statistics	17.002	7,394,776
Compensation and Working Conditions Data	17.005	704,836
Labor Certification for Alien Workers	17.203	4,675,768
Unemployment Insurance	17.225	7,066,336,721
Senior Community Service Employment Program	17.235	6,611,761
Trade Adjustment Assistance-Workers	17.245	23,185,973
Employment Services and Job Training - Pilot and Demonstration Programs	17.249	55,633
Welfare-to-Work Grants to States and Localities	17.253	25,887,053
Workforce Investment Act	17.255	12,501,521
Employment and Training Administration Pilots, Demonstrations, and Research Projects	17.261	504,893
Work Incentives Grant	17.266	437,045
Occupational Safety and Health - State Program	17.503	23,716,100
Consultation Agreements	17.504	5,083,396
Mine Health and Safety Grants	17.600	425,801
Employment Programs for People with Disabilities	17.720	16,199
Veterans' Employment Program	17.802	832,707
Other - U.S. Department of Labor	17.999	407,614
<b>Total Excluding Clusters</b>		7,178,777,797

**Employment Services Cluster**

Employment Service	17.207	99,376,805
Disabled Veterans' Outreach Program (DVOP)	17.801	9,065,172
Local Veterans' Employment Representative Program	17.804	6,897,623
<b>Total Employment Services Cluster</b>		115,339,600

**WIA Cluster**

WIA Adult Program	17.258	166,624,300
WIA Youth Activities	17.259	168,634,744
WIA Dislocated Workers	17.260	209,031,654
<b>Total WIA Cluster</b>		544,290,698

**Total U.S. Department of Labor**

7,838,408,095

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
------------------------------	------------------------	-----------------------

**Department of Transportation**

Boating Safety Financial Assistance	20.005	3,583,437
Airport Improvement Program	20.106	125,719
Motor Carrier Safety	20.217	10,512,097
Local Rail Freight Assistance	20.308	914,266
High Speed Ground Transportation - Next Generation High Speed Rail Program	20.312	384,539
Federal Transit - Metropolitan Planning Grants	20.505	41,455,279
Formula Grants for Other Than Urbanized Areas	20.509	16,894,781
Pipeline Safety	20.700	1,811,309
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	716,287
<b>Total Excluding Clusters</b>		<u>76,397,714</u>

**Highway Planning and Construction Cluster**

Highway Planning and Construction	20.205	2,085,876,257	***
-----------------------------------	--------	---------------	-----

**Federal Transit Cluster**

Federal Transit - Capital Investment Grants	20.500	9,226,853
---	--------	-----------

**Highway Safety Cluster**

State and Community Highway Safety	20.600	61,720,914
------------------------------------	--------	------------

**Research and Development Cluster**

Highway Planning and Construction	20.205	13,554,895
National Motor Carrier Safety	20.218	91,579
Formula Grants for Other Than Urbanized Areas	20.509	145,107
State Planning and Research	20.515	1,940,124
<b>Total Research and Development Cluster</b>		<u>15,731,705</u>

**Total U.S. Department of Transportation**

2,248,953,443

**Department of the Treasury**

Temporary State Fiscal Relief	21.999	575,906,288
-------------------------------	--------	-------------

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received	
<b>Equal Employment Opportunity Commission</b>			
Employment Discrimination - State and Local Fair Employment Practices Agency Contracts	30.002	3,109,200	
<b>General Services Administration</b>			
Donation of Federal Surplus Personal Property	39.003	5,652,161	**
Election Reform Payments	39.011	84,663,537	
Other - General Services Administration	39.999	<u>94,559,169</u>	
<b>Total General Services Administration</b>		<u><u>184,874,867</u></u>	
<b>National Aeronautics and Space Administration</b>			
Technology Transfer	43.002	209,163	
<b>National Foundation on the Arts and the Humanities</b>			
Promotion of the Arts - State and Regional Program	45.007	962,600	
State Library Program	45.310	<u>16,990,723</u>	
<b>Total National Foundation on the Arts and Humanities</b>		<u><u>17,953,323</u></u>	
<b>Small Business Administration</b>			
Small Business Development Center	59.037	1,622,269	
<b>Department of Veterans Affairs</b>			
Veterans State Domiciliary Care	64.014	9,041,948	
Veterans State Nursing Home Care	64.015	10,738,594	
Veterans State Hospital Care	64.016	105,680	
Veterans Housing - Guaranteed and Insured Loans	64.114	238,407,041	***

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
All Volunteer Force Educational Assistance	64.124	71,774
Other - U.S. Department of Veterans Affairs	64.999	1,280,096
<b>Total U.S. Department of Veteran's Affairs</b>		<b>259,645,133</b>

### Environmental Protection Agency

Air Pollution Control Program Support	66.001	9,502,076
State Indoor Radon Grants	66.032	125,000
Water Pollution Control State and Interstate Program Support	66.419	6,615,433
State Underground Water Source Protection	66.433	471,895
Water Quality Management Planning	66.454	850,367
National Estuary Program	66.456	275,179
Capitalization Grants for Clean Water State Revolving Funds	66.458	36,605,544
Nonpoint Source Implementation Grants	66.460	11,658,237
Wetland Program Development Grants	66.461	343,616
Water Quality Cooperative Agreements	66.463	732,370
Capitalization Grants for Drinking Water State Revolving Fund	66.468	57,931,074
Hardship Grants Program for Rural Communities	66.470	25,000
Beach Monitoring and Notification Program Development Grants	66.472	484,830
Environmental Protection - Consolidated Research	66.500	102,828
Safe Drinking Water Research and Demonstration Surveys, Studies, Investigations and Special Purpose Grants	66.506	8,716,618
State Information Grants	66.606	1,080,888
Consolidated Pesticide Enforcement Cooperative Agreements	66.608	88,950
Toxic Substances Compliance Monitoring Cooperative Agreements	66.700	1,412,001
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.701	53,134
Pollution Prevention Grants Program	66.707	569,815
Hazardous Waste Management State Program Support	66.708	63,313
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.801	7,813,957
	66.802	1,639,802

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
State and Tribal Underground Storage Tanks Program	66.804	325,793
Leaking Underground Storage Tank Trust Fund Program	66.805	2,915,462
Solid Waste Management Assistance	66.808	32,380
Superfund State and Indian Tribe Core Program		
Cooperative Agreements	66.809	127,132
State and Tribal Response Program Grants	66.817	792,888
U.S.-Mexico Border Grants Program	66.930	137,219
<b>Total Excluding Clusters</b>		<u>151,492,801</u>
<b>Research and Development Cluster</b>		
Wetland Program Development Grants	66.461	2,075
Consolidated Pesticide Enforcement Cooperative		
Agreements	66.700	25,710
Pollution Prevention Grants Program	66.708	223,557
Pesticide Environmental Stewardship - Regional Grants	66.714	5,700
<b>Total Research and Development Cluster</b>		<u>257,042</u>
<b>Total U.S. Environmental Protection Agency</b>		<u><u>151,749,843</u></u>
<b>Office of State and Tribal Programs, Nuclear Regulatory Commission</b>		
Radiation Control - Training Assistance and Advisory Counseling	77.001	39,707
<b>Department of Energy</b>		
State Energy Program	81.041	2,860,002
Weatherization Assistance for Low-Income Persons	81.042	6,770,680
Environmental Restoration	81.092	461,096
National Industrial Competitiveness through Energy, Environment, and Economics	81.105	18,160
Other - U.S. Department of Energy	81.999	473,646
<b>Total U.S. Department of Energy</b>		<u><u>10,583,584</u></u>

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
------------------------------	------------------------	-----------------------

**Federal Emergency Management Agency**

Community Assistance Program - State Support Services Element (CAP-SSSE)	83.105	534,646
Earthquake Hazards Reduction Grants	83.521	30,918
Flood Mitigation Assistance	83.536	915,792
Public Assistance Grants	83.544	151,713,513
Hazard Mitigation Grant	83.548	39,620,407
Emergency Management Performance Grants	83.552	8,210,167
Fire Management Assistance Grant	83.556	4,689,353
Pre-Disaster Mitigation	83.557	632,214
State and Local All Hazards Emergency Operations Planning	83.562	8,144,736
Emergency Operations Centers	83.563	9,532
Citizen Corps	83.564	1,772,723
Other - Federal Emergency Management Agency	83.999	127,412
<b>Total Federal Emergency Management Agency</b>		<u><u>216,401,413</u></u>

**Department of Education**

Adult Education - State Grant Program	84.002	86,857,168
Title I Grants to Local Educational Agencies	84.010	1,310,013,936
Migrant Education - State Grant Program	84.011	125,340,772
Title I Program for Neglected and Delinquent Children	84.013	1,862,519
Vocational Education - Basic Grants to States	84.048	132,661,367
Vocational Education - State Councils	84.053	394,537
Leveraging Educational Assistance Partnership	84.069	11,668,907
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	244,483,419
Rehabilitation Services - Service Projects	84.128	1,272,840
Public Library Construction and Technology Enhancement	84.154	120,973
Independent Living-State Grants	84.169	1,831,127
Rehabilitation Services - Independent Living Services for Older Individuals Who are Blind	84.177	2,719,663
Special Education - Grants for Infants and Families with Disabilities	84.181	51,158,138
Safe and Drug-Free Schools and Communities - National Programs	84.184	1,827,225
Byrd Honors Scholarships	84.185	5,686,000

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
Safe and Drug-Free Schools and Communities - State Grants	84.186	51,415,539
Supported Employment Services for Individuals with Severe Disabilities	84.187	3,949,853
Education for Homeless Children and Youth	84.196	7,404,637
Even Start - State Educational Agencies	84.213	32,895,674
Fund for the Improvement of Education	84.215	41,966
Assistive Technology	84.224	800,853
Tech-Prep Education	84.243	14,227,773
Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	84.265	355,140
Goals 2000 - State and Local Education Systematic Improvement Grants	84.276	79,796
School to Work Opportunities	84.278	2,896,638
Eisenhower Professional Development State Grants	84.281	14,303,830
Charter Schools	84.282	23,476,264
Twenty-First Century Community Learning Centers	84.287	33,069,442
Foreign Language Assistance	84.293	51,223
State Grants for Innovative Programs	84.298	42,930,551
Even Start - Statewide Family Literacy Program	84.314	104,712
Education Technology State Grants	84.318	96,982,261
Special Education - State Program Improvement Grants for Children with Disabilities	84.323	2,981,254
Advanced Placement Program	84.330	3,224,462
Grants to States for Incarcerated Youth Offenders	84.331	1,959,061
Comprehensive School Reform Demonstration	84.332	34,294,849
Child Care Access Means Parents in School	84.335	13,748
Teacher Quality Enhancement Grants	84.336	1,903,359
Reading Excellence	84.338	4,808,743
Class Size Reduction	84.340	3,003,414
Preparing Tomorrow's Teachers to Use Technology	84.342	59,181
Title I Accountability Grants	84.348	11,791,135
Transition to Teaching	84.350	378,743
School Renovation Grants	84.352	70,040,037
Reading First State Grants	84.357	87,267,214
Rural Education	84.358	2,598,464
Literacy Through School Libraries	84.364	40,342
English Language Acquisition Grants	84.365	109,352,433

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received	
Mathematics and Science Partnerships	84.366	5,421	
Improving Teacher Quality State Grants	84.367	260,511,181	
Grants for State Assessments and Related Activities	84.369	14,037,094	
<b>Total Excluding Clusters</b>		<u>2,911,154,878</u>	
<b>Student Financial Aid Cluster</b>			
Federal Family Education Loans	84.032	22,423,957,743	***
<b>Special Education Cluster</b>			
Special Education - Grants to States	84.027	969,676,627	
Special Education - Preschool Grants	84.173	38,706,252	
<b>Total Special Education Cluster</b>		<u>1,008,382,879</u>	
<b>Total U.S. Department of Education</b>		<u>26,343,495,500</u>	
<b>Consumer Product Safety Commission</b>			
Other - Consumer Product Safety Commission	87.999	6,150	
<b>Department of Health and Human Services</b>			
Public Health and Social Services Emergency Fund	93.003	6,749,951	
Special Programs for the Aging - Title VII, Chapter 3, Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041	512,757	
Special Programs for the Aging - Title VII, Chapter 2 - Long Term Ombudsman Services for Older Individuals	93.042	1,529,468	
Special Programs for the Aging - Title III, Disease Part D - Prevention and Health Promotion Services	93.043	2,687,649	
Special Programs for the Aging - Title IV - and Title II - Discretionary Projects	93.048	333,812	
National Family Caregiver Support	93.052	15,670,875	
Food and Drug Administration - Research	93.103	1,136,637	
Maternal and Child Health Federal Consolidated Programs	93.110	105,084	
Biological Response to Environmental Health Hazards	93.113	30,449	
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	8,552,420	

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
Emergency Medical Services for Children	93.127	97,254
Primary Care Services - Resource Coordination and Development	93.130	192,949
Injury Prevention and Control Research and State and Community Based Programs	93.136	17,096,802
Projects for Assistance in Transition from Homelessness	93.150	5,937,103
Health Program for Toxic Substances and Disease Registry	93.161	1,022,675
Grants for State Loan Repayment	93.165	654,183
Disabilities Prevention	93.184	216,162
Consolidated Knowledge Development and Application (KD&A) Program	93.230	1,410,805
Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	93.238	75,462
Policy Research and Evaluation Grants	93.239	189,535
State Rural Hospital Flexibility Program	93.241	407,400
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	457,016
Universal Newborn Hearing Screening	93.251	26,531
Rural Access to Emergency Devices Grant	93.259	197,972
Immunization Grants	93.268	182,166,907
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	60,157,312
Promoting Safe and Stable Families	93.556	51,176,114
Temporary Assistance for Needy Families	93.558	3,094,459,687
Child Support Enforcement	93.563	437,595,741
Child Support Enforcement Research	93.564	11,438
Refugee and Entrant Assistance - State Administered Programs	93.566	25,520,821
Low-Income Home Energy Assistance	93.568	99,997,480
Community Services Block Grant	93.569	63,812,232
Community Services Block Grant Discretionary Awards - Community Food and Nutrition	93.571	557,059
Refugee and Entrant Assistance - Discretionary Grants	93.576	4,959,635
U.S. Repatriation Program	93.579	42,994
Refugee and Entrant Assistance - Targeted Assistance Grants	93.584	5,918,931
Empowerment Zones Program	93.585	343,899
State Court Improvement Program	93.586	988,822
Community-Based Family Resource and Support Grants	93.590	2,587,956

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
Welfare Report Research, Evaluations, and National Studies	93.595	108,309
Grants to States for Access and Visitation Programs	93.597	1,139,048
Head Start	93.600	165,957
Adoption Incentive Payments	93.603	5,079,102
Developmental Disabilities Basic Support and Advocacy Grants	93.630	7,814,035
Children's Justice Grants to States	93.643	918,931
Child Welfare Services - State Grants	93.645	41,100,948
Social Services Research and Demonstration	93.647	226,959
Adoption Opportunities	93.652	259,858
Foster Care - Title IV-E	93.658	1,182,419,351
Adoption Assistance	93.659	246,550,251
Social Services Block Grant	93.667	319,680,600
Child Abuse and Neglect State Grants	93.669	1,020,670
Family Violence Prevention and Services/Grants for Battered Women's Shelters-Grants to States and Indian Tribes	93.671	1,101,569
Chafee Foster Care Independent Living	93.674	26,859,901
State Children's Insurance Program	93.767	651,665,396
Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	93.768	160,097
Health Insurance for the Aged - Supplementary Medical Insurance	93.774	5,635,441
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations, and Evaluations	93.779	906,634
Grants to States for Operation of Offices of Rural Health	93.913	345,502
HIV Care Formula Grants	93.917	120,742,366
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Program	93.919	55
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	631,911
HIV Prevention Activities - Health Department Based	93.940	17,085,512
HIV Demonstration, Research, Public and Professional Education Projects	93.941	1,839,422
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944	2,633,701
Assistance Program for Chronic Disease Prevention and Control	93.945	199,399

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
Tuberculosis Demonstration, Research, Public and Professional Education	93.947	45,143
Improving EMS/Trauma Care in Rural Areas	93.952	37,277
Block Grants for Community Mental Health Services	93.958	56,996,921
Block Grants for Prevention and Treatment of Substance Abuse	93.959	255,928,610
Preventive Health Services - Sexually Transmitted Disease Control Grants	93.977	5,861,269
Preventive Health Services - Sexually Transmitted Diseases Research, Demonstrations, and Public Information and Education Grants	93.978	1,755,630
Health Program for Refugees	93.987	616,621
Cooperative Agreements for State-Based Diabetes Control Program and Evaluation of Surveillance Systems	93.988	619,525
Preventive Health and Health Services Block Grant	93.991	7,651,028
Maternal and Child Health Services Block Grant to the States	93.994	44,034,133
Other - Department of Health and Human Services	93.999	14,369,204
<b>Total Excluding Clusters</b>		<u>7,119,794,265</u>
<b>Aging Cluster</b>		
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	38,624,934
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045	51,319,696
Nutrition Services Incentive Program	93.053	10,654,988
<b>Total Aging Cluster</b>		<u>100,599,618</u>
<b>Child Care Cluster</b>		
Child Care and Development Block Grant	93.575	811,383,586
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	251,543,815
<b>Total Child Care Cluster</b>		<u>1,062,927,401</u>

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
<b>Medicaid Cluster</b>		
State Medicaid Fraud Control Units	93.775	16,569,656
State Survey and Certification of Health Care Providers and Suppliers	93.777	32,478,900
Medical Assistance Program	93.778	18,497,303,273
<b>Total Medicaid Cluster</b>		<u>18,546,351,829</u>
<b>Research and Development Cluster</b>		
Maternal and Child Health Federal Consolidated Programs	93.110	180,906
Consolidated Knowledge Development and Application (KD&A) Program	93.230	72,909
<b>Total Research and Development Cluster</b>		<u>253,815</u>
<b>Total U.S. Department of Health and Human Services</b>		<u>26,829,926,928</u>
<b>Corporation for National and Community Service</b>		
State Commissions	94.003	1,311,714
Learn and Serve America - School and Community Based Programs	94.004	2,794,811
AmeriCorps	94.006	15,892,209
<b>Total Excluding Clusters</b>		<u>19,998,734</u>
<b>Foster Grandparent/Senior Companion Cluster</b>		
Foster Grandparent Program	94.011	1,517,382
<b>Total U.S. Corporation for National and Community Service</b>		<u>21,516,116</u>
<b>Social Security Administration</b>		
<b>Disability Insurance/SSI Cluster</b>		
Social Security - Disability Insurance	96.001	189,715,018

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
------------------------------	------------------------	-----------------------

**Department of Homeland Security**

Homeland Security Grant Program	97.004	776,000
Urban Areas Security Initiative	97.008	6,014,473
Hazardous Materials Assistance Program	97.021	4,650
Crisis Counseling	97.032	901,095
Individual and Family Grants	97.035	150
Public Assistance Grants	97.036	284,903,158
Hazard Mitigation Grant	97.039	63,503,492
Emergency Management Performance Grants	97.042	91,938
Cooperating Technical Partners	97.045	1,376
Fire Management Assistance Grant	97.046	<u>13,904,957</u>

**Total U.S. Department of Homeland Security** 370,101,289

**Office of National Drug Control Policy**

High Intensity Drug Trafficking Area	See Note 4	5,522,611
--------------------------------------	------------	-----------

**Miscellaneous Grants and Contracts**

Shared Revenue - Flood Control Lands	99.002	383,724
Shared Revenue - Grazing Land	99.004	111,445
U.S. Department of the Interior - Fire Prevention/ Suppression Agreement	99.014	134,000
U.S. Department of the Interior - Fire Prevention/ Suppression Agreement	99.015	252,310
U.S. Department of Agriculture and Various Other U.S. Department - Fire Prevention/Suppression	99.016	22,228,717
Miscellaneous Federal Receipts	99.099	523,880
Miscellaneous Federal Receipts	99.999	<u>4,211,823</u>

**Total Miscellaneous** 27,845,899

**Total Federal Awards Received** \$70,728,915,254

- \* Amount includes value of commodities or food stamps.
- \*\* Amount includes donated property.
- \*\*\* Amount includes loans and insurance in effect as of June 30, 2004.

**NOTES TO THE SCHEDULE OF FEDERAL ASSISTANCE  
FISCAL YEAR ENDED JUNE 30, 2004**

**1. GENERAL**

The accompanying State of California Schedule of Federal Assistance presents the total amount of federal financial assistance programs received by the State of California for the fiscal year ended June 30, 2004. This schedule does not include expenditures of federal grants received by the University of California, the California State University, and the California Housing Finance Agency. The expenditures of the University of California, California State University, and California Housing Finance Agency are audited by other independent auditors in accordance with the U.S. Office of Management and Budget, Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133).

The \$70,728,915,254 in total federal assistance consists of the following:

Cash assistance received	\$45,801,335,207
Noncash federal awards	2,211,734,600
Loans and/or loan guarantees outstanding	22,664,934,194
Insurance in-force	<u>50,911,253</u>
<b>Total</b>	<b><u>\$70,728,915,254</u></b>

**2. BASIS OF ACCOUNTING**

OMB Circular A-133 and the Single Audit Act of 1984 (Amended 1996) require the Schedule of Federal Assistance to present total expenditures for each federal assistance program. However, although the state accounting system separately identifies revenues for each federal assistance program, it does not separately identify expenditures for each program. As a result, the State prepares its Schedule of Federal Assistance on a cash receipts basis. The schedule shows the amount of cash and noncash federal assistance received, loans and loan guarantees outstanding, and insurance in force for the year ended June 30, 2004.

**3. UNEMPLOYMENT INSURANCE**

Of the \$7,066,336,721 in total unemployment insurance funds (federal catalog number 17.225) received by the Employment Development Department during fiscal year 2003-04, \$6,721,537,917 was state unemployment insurance funds that were drawn down from the Unemployment Trust Fund (UTF) in the U.S. Treasury. Of the amount drawn down from the UTF, \$827,232,600 represented excess unemployment insurance funds spent in accordance with the Reed Act. Specifically, EDD used \$78,793,999 for unemployment insurance administrative expenditures, \$714,713,884 for unemployment insurance benefit payments, and \$33,724,717 for employment services administrative expenditures.

#### 4. OTHER

The California Department of Justice (DOJ) receives cash reimbursements from local law enforcement agencies under the Office of National Drug Control Policy's High Intensity Drug Trafficking Area program. During the period July 1, 2003 through June 30, 2004, the DOJ received the following cash reimbursements from pass-through entities:

Federal Agency/Program	Pass-through Entity	Grant Number	Amount
Office of National Drug Control Policy High Intensity Drug Trafficking Area			
	LA Police Chiefs Association	12PLAP534	\$ 11,809
		13PLAP534	1,317,880
		14PLAP534	132,383
		13PSFP501	100,984
		11PNVP501	2,874
		12PNVP501	73,482
	California Border Alliance Group	11PSCP575	170,552
		12PSCP575	16,944
		13PSCP575	1,707,601
		14PSCP575	450,539
	Northwest High Intensity Drug Traffic Area	11PNWP505	46,500
	Las Vegas Police Department	11PNVP501	4,861
		12PNVP501	21,506
	Clallum County Sheriffs	200JCKWX0177	40,867
	Criminal Information Sharing Alliance	PCA1000310001	1,303,026
	Institute for Intergovernmental Research	2003RSCX1002	120,803
			<u>120,803</u>
		Total	<u>\$5,522,611</u>

The State was also loaned Federal Excess Personal Property (FEPP) from the U.S. Forest Service during the period July 1, 2003 to June 30, 2004. According to the California Department of Forestry and Fire Protection, the amount loaned from July 1, 2003 to June 30, 2004, was \$2,702,903. The U.S. Forest Service and the State maintain the FEPP program at federal acquisition costs of the property.

## **Summary Schedule of Prior Audit Findings**

**Prepared by  
Department of Finance**



## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Reference Number: **2003-12-1**

Federal Program: All Programs

State Administering Department: Department of Finance

Fiscal Year Initially Reported: 1995-96

Audit Finding: Reporting. Because of limitations in its automated accounting systems, the State has not complied with the provision of OMB Circular A-133 requiring a schedule showing total expenditures for each federal program.

Status of Corrective Action: Remains uncorrected. The State's accounting system will require substantial modification to comply with federal and State requirements. Given the State's current limited resources, the Department of Finance has no plans at this time to enhance the State's accounting system or to implement a new system.<sup>1</sup>

---

Reference Number: **2003-3-3**

Federal Program: 10.557

State Administering Department: Department of Health Services

Fiscal Year Initially Reported: 2002-03

Audit Finding: Cash Management. Health Services does not always limit "prospective" payments of WIC program funds to the subrecipients' immediate needs. As a result, some subrecipients likely received WIC program funds in excess of their immediate cash needs.

Status of Corrective Action: Fully corrected.

---

Reference Number: **2003-3-4**

Federal Program: 10.557

State Administering Department: Department of Health Services

Fiscal Year Initially Reported: 2001-02

Audit Finding: Cash Management. During the first three quarters of state fiscal year 2002-03, Health Services used an incorrect method when transferring funds from the federal government. Although it corrected the error, using the modified zero balance accounting method during the fourth quarter, Health Services did not always apply this method correctly.

Status of Corrective Action: Fully corrected.

---

Reference Number: **2003-3-6**

Federal Program: 10.568

State Administering Department: Department of Social Services

Fiscal Year Initially Reported: 2001-02

Audit Finding: Cash Management. The Department of Social Services (Social Services) did not always limit cash advances of federal funds to the minimum amounts needed for the Emergency Food Assistance Program.

Status of Corrective Action: Remains uncorrected/disagree with finding. Social Services re-evaluated its advance estimation process and believe it to be reasonable and consistent with Title 31, Part 205, Subpart B of the Code of Federal Regulations. The United States Department of Agriculture approved our revised process as sufficient corrective action in a May 10, 2004 letter.<sup>2</sup>

---

Reference Number: **2003-9-4**

Federal Program: 10.568; 10.569

State Administering Department: Department of Social Services

Fiscal Year Initially Reported: 2001-02

Audit Finding: Suspension and Debarment. For fiscal year 2002-03, the Department of Social Services (Social Services) did not require 46 of its Emergency Food Assistance Program subrecipients requiring suspension and debarment certifications to submit them.

Status of Corrective Action: Fully corrected.

---

Reference Number: **2003-13-1**

Federal Program: 10.558

State Administering Department: Department of Education

Fiscal Year Initially Reported: 2002-03

Audit Finding: Subrecipient Monitoring. The Department of Education (Education) did not adequately fulfill its subrecipient monitoring responsibilities for the food program.

Status of Corrective Action: Fully corrected.<sup>3</sup>

---

Reference Number: **2003-13-5**

Federal Program: 10.557

State Administering Department: Department of Health Services

Fiscal Year Initially Reported: 2002-03

Audit Finding: Subrecipient Monitoring. The Department of Health Services (Health Services) did not perform required biennial reviews of subrecipients of WIC program funds.

Status of Corrective Action: Fully corrected.

---

Reference Number: **2003-13-6**

Federal Program: 10.568; 10.569

State Administering Department: Department of Social Services

Fiscal Year Initially Reported: 2001-02

Audit Finding: Subrecipient Monitoring. During fiscal year 2002-03, the Department of Social Services (Social Services) did not have an adequate system to ensure it met the OMB Circular A-133 requirements it must follow when it passes federal funds through to subrecipients.

Status of Corrective Action: Fully corrected.

---

Reference Number: **2003-7-1**

Federal Program: 14.239

State Administering Department: Department of Housing and Community Development

Fiscal Year Initially Reported: 2002-03

Audit Finding: Matching. The Department of Housing and Community Development's (Housing) system for determining whether it has made the necessary matching contributions for its HOME program is deficient.

Status of Corrective Action: Fully corrected.

---

Reference Number: **2003-9-2**

Federal Program: 14.228

State Administering Department: Department of Housing and Community Development

Fiscal Year Initially Reported: 2001-02

Audit Finding: Suspension and Debarment. The Department of Housing and Community Development (Housing) did not obtain the suspension and debarment certifications from 26 of 40 subrecipients of CDBG funds we reviewed.

Status of Corrective Action: Fully corrected.

---

Reference Number: **2003-14-3**

Federal Program: 14.239

State Administering Department: Department of Housing and Community Development

Fiscal Year Initially Reported: 2002-03

Audit Finding: Special Tests and Provisions. Our review of six HOME contracts that had expenditures for rental housing developments in fiscal year 2002-03 revealed that Housing did not obtain the required layering analysis for one of them.

Status of Corrective Action: Fully corrected.

---

Reference Number: **2003-2-1**

Federal Program: Various

State Administering Department: Employment Development Department

Fiscal Year Initially Reported: 1998-99

Audit Finding: Allowable Costs. EDD allocated eight of 40 expenditures we reviewed even though it had not obtained federal approval to do so as part of its indirect cost rate proposal.

Status of Corrective Action: Partially corrected. Anticipated Correction Date: Ongoing.

1. The EDD will include documentation for its allocated costs in the indirect cost rate proposal.
2. The EDD reminds all staff periodically, and will do so again, that timesheets must be supervisor reviewed and approved.

Recent corrective Action:

- The EDD has convened a workgroup to ensure the upcoming Indirect Cost Rate Proposal (March 2005) includes proper documentation for allocated costs.

- In May 2004 and September 2004, the EDD sent email notices to all staff explaining “Employee Time Reporting Responsibilities.”<sup>4</sup>

---

Reference Number: **2003-2-2**

Federal Program: 17.207; 17.203

State Administering Department: Employment Development Department

Fiscal Year Initially Reported: 2002-03

Audit Finding: Allowable Costs. The Employment Development Department (EDD) drew down federal funds under one program to pay the costs of another program.

Status of Corrective Action: Fully corrected.

---

Reference Number: **2003-4-1**

Federal Program: 20.205

State Administering Department: Department of Transportation

Fiscal Year Initially Reported: 2000-01

Audit Finding: Davis-Bacon; Suspension and Debarment; Special Tests and Provisions. The California Department of Transportation (Caltrans) could not always locate its contract files or other documents to show that it complied with certain federal requirements for its highway construction projects.

Status of Corrective Action: Fully corrected.

---

Reference Number: **2003-9-3**

Federal Program: 20.505

State Administering Department: Department of Transportation

Fiscal Year Initially Reported: 2002-03

Audit Finding: Suspension and Debarment. Although the California Department of Transportation (Caltrans) states in its guidance to subrecipients of the planning grant that subrecipients must submit suspension and debarment

certifications, Caltrans did not always have suspension and debarment certifications from its subrecipients.

Status of Correction Action:

Partially corrected. Anticipated Correction Date: Fiscal year 2004-05. Caltrans responded that this corrective action is the responsibility of the Division of Transportation Planning (DOTP), Office of Regional and Interagency Planning (ORIP). This response and corrective action plan contains the procedural steps, roles and responsibilities that will be undertaken by ORIP and the Regional Planning Branches in Caltrans (Department's) Districts. Where such activities or products have already been completed it is noted below.

The ORIP recently updated the Master Fund Transfer Agreements (MFTAs) for Consolidated Planning Grant (CPG) funds and Rural Planning Assistance (RPA) funds; these contracts are between Metropolitan Planning Organizations (MPOs) and Regional Transportation Planning Agencies (RTPAs) and the Department. These contracts now specifically include the Federal Highway Administration (FHWA) and Federal Transit Administration (FTA) Certifications and Assurances (C&As), including the Suspension and Debarment Certification.

- It is the intent that all the MFTAs be completed and executed during the current fiscal year 2004-05.
- The distribution of this transmittal and the OWP Guidance was completed in January 2004 and was provided to MPOs/RTPAs and the Department's Districts.

In past years, due to unmitigable circumstances, CPG discretionary grant fund approvals (FTA 5313 [b] and FHWA SP&R Partnership Planning) have been off cycle. This meant that grants were later amended into approved OWPs. Should off cycle approval occur in the future, the following procedures are in place:

- ORIP Plan and Grants Branch – Grant Award Letter should indicate that both FHWA and FTA C&As must be completed for any CPG discretionary funds. (FTA C&As will be done for any CPG discretionary funds, not by fund source or type. That is, both FTA Section 5313 (b) and FHWA SP&R Partnership Planning will require FTA C&As).

- Districts will not submit an OWP/OWPA amendment to encumber any discretionary grant funds without providing copies of both FHWA and FTA C&As.
- ORIP Plan and Grants Branch will revise its grant checklist (completed by the ORIP Regional Liaisons) to include the completed C&As.
- ORIP Regional Liaisons cannot provide the OWP/OWPA amendment to the ORIP Funds Administrator for encumbrance until both FHWA and FTA C&As are completed and on file.
- ORIP Funds Administrator will not encumber grants funds amended into the OWPs/OWPAs until the grant checklist is marked to show that both the FHWA and FTA C&As are completed.

ORIP believes that placing a greater emphasis on the completion of C&As in the updated MFTA, annual OWP Guidance and implementing the above procedures will assure that all C&As, including the Suspension and Debarment Certification, are completed and appropriately retained. CPG funds for fiscal year 2004-05 and beyond will not be encumbered without both the FHWA and FTA proof of completion of both the FHWA and FTA Certifications.<sup>5</sup>

---

Reference Number:	<b>2003-12-4</b>
Federal Program:	66.458
State Administering Department:	State Water Resources Control Board
Fiscal Year Initially Reported:	2002-03
Audit Finding:	<u>Reporting.</u> As a result of the accounting for EPA grant funding on a first in first out basis, the manner in which the Fund has been applying the indirect cost allocation on a monthly basis to the grant awards has resulted in incorrect reporting of the indirect cost rate on the Form 269s filed for each grant award. Although there were incorrect amounts reported, the Fund did not draw funds in excess of the amounts allowed and therefore there are no questioned costs.
Status of Corrective Action:	Fully corrected.

---

Reference Number: **2003-12-2**

Federal Program: 83.544; 83.548

State Administering Department: Office of Emergency Services

Fiscal Year Initially Reported: 1999-00

Audit Finding: Reporting. Emergency Services' financial status reports do not always contain complete and accurate expenditure information.

Status of Corrective Action: Remains uncorrected/agree with finding. OES has made several attempts over the years to discuss with the Federal Emergency Management Agency (FEMA) how best to report California disaster activity (which involves more than 23,000 individual projects) into a single generic format. Although OES has informally discussed the issue with FEMA staff, given the repeat nature of this finding, OES will initiate a formal request to FEMA management this year to reach a consensus on how to report on-going disaster assistance activity without creating a burdensome workload for the state.

While the above is valid, the individual grant programs under Public Assistance and Hazard Mitigation do have other procedures, including a quarterly report process, in place at the unit level to monitor disbursements and to aide staff in ensuring subrecipients comply with federal program regulations and administrative requirements.<sup>6</sup>

---

Reference Number: **2003-13-3**

Federal Program: 83.544; 83.548

State Administering Department: Office of Emergency Services

Fiscal Year Initially Reported: 2001-02

Audit Finding: Subrecipient Monitoring. The Office of Emergency Services (Emergency Services) did not adequately fulfill its subrecipient monitoring responsibilities for its Public Assistance Grants and Hazard Mitigation Grant programs.

Status of Corrective Action: Remains uncorrected/agree with finding. During the past 12 months, OES has experienced a staffing decrease of approximately 40 percent, while at the same time experiencing an increased workload related to Homeland Security grants. OMB Circular A-133 subrecipient monitoring will be reinstated when staffing levels are increased to meet all of the programmatic requirements. Meanwhile, OES does have other programmatic procedures in place to ensure that subrecipients comply with federal program regulations and administrative requirements.<sup>7</sup>

---

Reference Number: **2003-1-5**

Federal Program: 84.048

State Administering Department: California Community Colleges, Chancellor's Office

Fiscal Year Initially Reported: 2002-03

Audit Finding: Activities Allowed. The Chancellor's Office did not ensure that it approved applications for subrecipients of the Vocational Education program.

Status of Corrective Action: Fully Corrected.

---

Reference Number: **2003-3-1**

Federal Program: 84.027; 84.173

State Administering Department: Department of Education

Fiscal Year Initially Reported: 2001-02

Audit Finding: Cash Management. The Department of Education (Education) does not have adequate procedures to ensure that program subrecipients demonstrate the ability to minimize the elapsed time between their receipt and use of federal program funds.

Status of Corrective Action: Fully corrected.<sup>8</sup>

---

Reference Number: **2003-3-5**  
Federal Program: 84.048; 84.243  
State Administering Department: California Community Colleges, Chancellor's Office  
Fiscal Year Initially Reported: 1997-98

Audit Finding: Cash Management. The California Community Colleges, Chancellor's Office (Chancellor's Office) does not have adequate procedures to ensure that subrecipients of the Vocational Education - Basic Grants to States program (Vocational Education) and Tech-Prep Education program (Tech-Prep) minimize the time elapsing between their receipt and use of federal program funds.

Status of Corrective Action: Fully Corrected.<sup>9</sup>

---

Reference Number: **2003-3-7**  
Federal Program: 84.010; 84.298  
State Administering Department: Department of Education  
Fiscal Year Initially Reported: 2001-02

Audit Finding: Cash Management. The Department of Education (Education) does not have adequate procedures to ensure that program subrecipients demonstrate the ability to minimize the time elapsing between their receipt and use of federal program funds.

Status of Corrective Action: Partially corrected. Education continues to allocate funds proportionate to the unpaid months that have elapsed prior to and including the month of the current apportionment, based on the principle that local education agencies (LEAs) incur federal expenditures fairly constant through the year. During the 2003-04 fiscal year, Education included language in apportionment letters to notify LEAs of a potential delay in funding if significant carry over balances existed. The next step will be a separate written notification to the non-compliant LEAs that will detail specific dollar amounts and percentages. Currently our plan is to issue this notification at the release of the 40 percent payment.

As a result of adding language to apportionment letters regarding the remittance of interest earned in excess of \$100, LEAs have returned federal interest to Education. Education has returned to the federal government any interest earned over \$100 received from the LEAs.

Regarding Title V, revisions are being made to Part II of the Consolidated Application to include collection of expenditure data. Education will evaluate this data in relation to cash management issues.

Regarding Title I, the program office monitors the percentage of carry over balances as submitted on Part I of the Consolidated Application. When an LEA is over their 15 percent carry over limit, a waiver is requested from the program office. Program staff reviews/approves and notifies fiscal staff if funds should be withheld.<sup>10</sup>

---

Reference Number:	<b>2003-3-8</b>
Federal Program:	84.318
State Administering Department:	Department of Education
Fiscal Year Initially Reported:	2002-03
Audit Finding:	<u>Cash Management</u> . The Department of Education (Education) does not have adequate procedures to ensure that Education Technology State Grants program subrecipients demonstrate the ability to minimize the time elapsing between their receipt and use of federal program funds.
Status of Corrective Action:	Partially corrected. Education is exploring various methods for an optimal monitoring approach, including seeking guidance from the USDE to meet federal monitoring expectations with Education's limited resources. In the interim, Education continues to monitor end of period expenditure reports, which provides signed assurances that funds were expended in accordance with the grant award documents. In addition, the end of period expenditure reports include a reporting section that requires LEAs to indicate interest earned on advance payments, and to remit prompt payment of interest greater than \$100. <sup>11</sup>

---

Reference Number: **2003-3-9**

Federal Program: 84.002

State Administering Department: Department of Education

Fiscal Year Initially Reported: 2002-03

Audit Finding: Cash Management. The Department of Education (Education) does not have adequate procedures to ensure that Adult Education subrecipients demonstrate the ability to minimize the time elapsing between their receipt and use of federal program funds.

Status of Corrective Action: Fully corrected.<sup>12</sup>

---

Reference Number: **2003-3-10**

Federal Program: 84.011

State Administering Department: Department of Education

Fiscal Year Initially Reported: 1999-00

Audit Finding: Cash Management. The Department of Education (Education) does not have adequate procedures to ensure that Migrant Education program subrecipients demonstrate the ability to minimize the time elapsing between their receipt and use of federal program funds.

Status of Corrective Action: Fully corrected.

---

Reference Number: **2003-3-11**

Federal Program: 84.365; 84.367

State Administering Department: Department of Education

Fiscal Year Initially Reported: 2002-03

Audit Finding: Cash Management. The Department of Education (Education) does not have adequate procedures to ensure that Title III - English Language Acquisition Grants and Improving Teacher Quality State Grants program subrecipients demonstrate the ability to

minimize the time elapsing between their receipt and use of federal program funds.

Status of Corrective Action: Partially corrected. Education continues to assess a method to ensure minimal time elapses between the receipt and use of federal program funds. Title II and Title III program staff will use the balances from prior year financial reports to evaluate if future funds should be delayed. The apportionment of funds will be adjusted as needed. In addition, Title II funds continue to be apportioned in three payments during the last six months; February (40 percent), April (40 percent), and June (20 percent); and Title III funds will be disbursed in three payments throughout the year. Both disbursement approaches seem to be proportionate to the expenditure needs of the LEAs.<sup>13</sup>

---

Reference Number: **2003-5-1**

Federal Program: 84.126

State Administering Department: Department of Rehabilitation

Fiscal Year Initially Reported: 1996-97

Audit Finding: Eligibility. The Department of Rehabilitation (Rehabilitation) does not always determine applicant eligibility for the Vocational Rehabilitation program within the required time period.

Status of Corrective Action: Partially corrected. The Department of Rehabilitation's (Rehabilitation) ongoing efforts have resulted in a significant and steady decline in the number of overdue eligibility determinations.

Specifically, Rehabilitation will continue its ongoing corrective actions until satisfactory compliance is achieved, as follows:

Action #1 – Share information with district administrators

Action #2 – Inform and educate Rehabilitation staff

Action #3 – Local level monitoring of eligibility determinations

Action #4 – Executive level monitoring of eligibility determinations

These actions that were implemented in the Spring of 2003 resulted in a noticeable reduction in the percentage of overdue eligibility determinations for the

2002-03 reporting year (14.6 percent). Using BSA's methodology, Rehabilitation is pleased to report that preliminary review of raw data shows the overdue eligibility percentage for the July 1, 2003 to April 1, 2004 time frame is approximately 8 percent.<sup>14</sup>

---

Reference Number: **2003-7-2**

Federal Program: 84.298

State Administering Department: Department of Education

Fiscal Year Initially Reported: 2001-02

Audit Finding: Earmarking. The Department of Education (Education) does not have adequate procedures to ensure that it meets the Title V program earmarking requirements.

Status of Corrective Action: Fully corrected.<sup>15</sup>

---

Reference Number: **2003-7-3**

Federal Program: 84.048

State Administering Department: Department of Education

Fiscal Year Initially Reported: 2001-02

Audit Finding: Level of Effort. The Department of Education (Education) did not ensure that it met its level of effort requirement for administration of the Vocational Education program for fiscal year 2002-03.

Status of Corrective Action: Fully corrected.

---

Reference Number: **2003-9-1**

Federal Program: 84.126

State Administering Department: Department of Rehabilitation

Fiscal Year Initially Reported: 2001-02

Audit Finding: Suspension and Debarment. The Department of Rehabilitation (Rehabilitation) did not obtain the required suspension and debarment certification from any of the five contractors we reviewed.

Status of Corrective Action: Fully corrected.<sup>16</sup>

---

Reference Number: **2003-12-3**

Federal Program: 84.048

State Administering Department: Department of Education

Fiscal Year Initially Reported: 2000-01

Audit Finding: Reporting. The Department of Education (Education) did not report accurate, complete, and supported data in its Vocational Education performance accountability report.

Status of Corrective Action: Fully corrected.

---

Reference Number: **2003-13-7**

Federal Program: 84.048

State Administering Department: California Community Colleges, Chancellor's Office

Fiscal Year Initially Reported: 2002-03

Audit Finding: Subrecipient Monitoring. The California Community Colleges, Chancellor's Office (Chancellor's Office) did not ensure that it issued management decisions within six months of receiving audit reports from its subrecipients and did not ensure that subrecipients took appropriate and timely corrective action on the audit findings.

Status of Corrective Action: Fully corrected.

---

Reference Number: **2003-13-8**

Federal Program: 84.318

State Administering Department: Department of Education

Fiscal Year Initially Reported: 2002-03

Audit Finding: Subrecipient Monitoring. The Department of Education (Education) does not sufficiently monitor the activities of its subrecipients awarded Education Technology State Grants program funds.

Status of Corrective Action:

Partially corrected. Education continues to develop and implement its monitoring process over Enhancing Education Through Technology (EETT) formula grant awards. In collaboration with the California Technology Assistance Project (CTAP), Education will implement the following actions:

- Developing procedures to utilize the CTAP<sup>2</sup> and technology hardware surveys to monitor the LEA's progress in implementing technology.
- Developing procedures to review the impact and accountability of EETT formula grant funds at the same time as the EETT competitive grant's annual site reviews are conducted.
- Developing procedures to conduct site visits to review the reasonableness of EETT formula expenditures and how they were spent in accordance with approved district technology plans.
- Requiring LEAs to submit a description of the process and accountability measures used to evaluate the extent to which activities funded under the program are effective in: (1) integrating technology into curricula and instruction; (2) increasing the ability of teachers to teach; and (3) enabling students to meet challenging State standards. A task force of CTAP and Education staff was formed to develop the process and procedures. Education developed the Education Technology Plan Benchmark Form that is required to be submitted when a tech plan is revised. The form requires the applicant to describe how it is meeting EETT Criteria 3.d. (Curriculum Component) and Criteria 4.b. (Professional Development Component Criteria), and will be used as a component of the random site review described in #3.
- Exploring the possibility of including a step to review LEAs awarded EETT formula grants in the Education Coordinated Compliance Review process.
- Developing procedures to review End of Period Expenditure Reports and signed Grant Award Assurances that were received from the LEAs in October 2004.

---

Reference Number: **2003-14-4**

Federal Program: 84.032

State Administering Department: California Student Aid Commission

Fiscal Year Initially Reported: 2002-03

Audit Finding: Special Tests and Provisions. During our review of four false certification claims that Student Aid paid to lenders and reimbursed with loan program funds, we noted that two of the four loans resulted in borrower refunds that occurred three years after Student Aid approved the borrowers' requests for a loan discharge.

Status of Corrective Action: Fully corrected.

---

Reference Number: **2003-14-6**

Federal Program: 84.011

State Administering Department: Department of Education

Fiscal Year Initially Reported: 2002-03

Audit Finding: Special Tests and Provisions. The Department of Education (Education) did not take into account all of the required information when it awarded subgrants to LEAs for the Migrant Education program.

Status of Corrective Action: Partially corrected. Education's 2004-05 Regional Application includes three sections that request information on the availability of funds from other federal, state, and local programs. One section is on the Staffing Profile, which requests the percentage of program positions funded from Migrant and other funding sources for regular and summer/intersession. Another section requests applicants to describe their process and procedures that LEAs may use to leverage other funds to provide services to migrant children. And the last section requests information to document the coordination and collaboration of the LEA.

Education is seeking clarification from USDE on how it should take into account the availability of funds from other federal, state, and local programs when

determining the amount of subgrant it awards to LEAs.<sup>17</sup>

---

Reference Number:	<b>2003-14-7</b>
Federal Program:	84.032
State Administering Department:	California Student Aid Commission
Fiscal Year Initially Reported:	2001-02
Audit Finding:	<u>Special Tests and Provisions.</u> Student Aid's auxiliary organization administers the loan program. However, the auxiliary organization has not developed adequate internal controls over its information systems to provide reasonable assurance that it keeps current, complete, and accurate records of each loan.
Status of Corrective Action:	Partially corrected. The following corrective actions have been implemented: <ul style="list-style-type: none"><li>• The Commission and its auxiliary are currently in the process of reviewing bids from third-party vendors to perform a comprehensive security risk assessment.</li><li>• The Information Security Officer designation has been reassigned to the Director of Information Security and this position has been realigned to report directly to the EDFUND president.</li><li>• Access to the computer operations facility was removed for the one individual who did not have a legitimate need to perform her job duties.</li><li>• A procedural change was made in September 2003, to promptly remove system access for terminated employees.</li><li>• System access to both: (1) add, change, or delete information from student loan data, and (2) the information system's master files have been changed to provide for segregation of duties. Each authorized employee can perform only one, but not both, activities.</li></ul> The Commission continues to believe that a preventative control of the scope described may not be warranted. The following, however, will be

undertaken during the federal fiscal year ending September 30, 2005, to address the concern:

- Research and determine industry standards pertaining to such controls of similar organizations.
  - Evaluate the efficacy of implementing the controls recommended by the auditors, looking at the system capability, time and resources necessary to do so, as well as review any such options in light of the information gained from the industry standards research.
  - Internal Audit will periodically sample and review system activity on loans associated with auxiliary employees. Although not a preventative control, the results of Internal Audit's review will provide support for the decision as to whether additional preventative controls are necessary or cost effective.
- The auxiliary has established audit trails for table maintenance. During the federal fiscal year ending September 30, 2005, the auxiliary will examine the system's capability to produce reportable audit trails for data maintenance transactions.
  - The Commission's operating agreement with the auxiliary organization has not been amended but was extended for one more year. The Commission believes that there are sufficient provisions in the Operating Agreement to appropriately enforce the auxiliary to maintain strong control over its information systems.<sup>18</sup>

---

Reference Number:	<b>2003-14-8</b>
Federal Program:	84.032
State Administering Department:	California Student Aid Commission
Fiscal Year Initially Reported:	2002-03
Audit Finding:	<u>Special Tests and Provisions</u> . Student Aid's auxiliary organization annually reviews collection cost and recovery data to calculate the collection cost rate it will apply to borrowers' payments for the upcoming year. However, our review of the auxiliary's collection cost

calculation revealed that the auxiliary factored in and recovered costs that were unallowable.

Status of Corrective Action: Fully corrected.

---

Reference Number: **2003-14-9**

Federal Program: 84.010; 84.011

State Administering Department: Department of Education

Fiscal Year Initially Reported: 1998-99

Audit Finding: Special Tests and Provisions, Subrecipient Monitoring.  
The Department of Education (Education) did not require LEAs receiving Migrant Education funds to file with Education a specific written assurance that they have developed procedures and maintain records to comply with the comparability requirements. In addition, Education has not monitored whether LEAs receiving Migrant Education and Title I, Part A funds have complied with the requirement to provide school services that are at least comparable to services provided by schools not receiving these federal funds.

Status of Corrective Action: Partially corrected. *Response with regards to Title I, Part C – Migrant Education:*

Education revised its fiscal year 2003-04 legal assurances for the Migrant Education program to state:

The LEA has developed procedures for complying with comparability requirements and must maintain records that are updated biennially documenting compliance with those requirements. 20 U.S.C. Section 6321(c).

Education is seeking guidance from USDE on how to monitor comparability at the regional and district level. Once guidance is obtained, Education will revise its Migrant Fiscal Review Procedures to include steps to monitor comparability at the regional and district level. Education will also revise the fiscal review instrument to specifically include comparability requirements.

Furthermore, Education is working on utilizing information in the California Basic Educational Data System (CBEDS) to calculate comparability for Title I, Part C. CBEDS data includes grade span, enrollment, teacher-pupil ratio and the number of fulltime

equivalent staff, which can be used to calculate teacher-student ratios at both Title I and non-Title I schools. However, the process for Title I, Part C is more complicated because an outside vendor manages the Migrant Education Program database. Education is exploring the possibility of merging the data from CBEDS and the Migrant Education Program database in order to calculate comparability for Title I, Part C by September 2005.

*Response with regards to Title I, Part A:*

Starting with the 2003-04 school year, Education began calculating comparability using CBEDS information.

Furthermore, Education is developing its monitoring protocol for site visits and will pilot test it in the 2005-06 school year. The new monitoring protocol embeds the assurances of Consolidated Application, Part I.<sup>19</sup>

---

Reference Number:	<b>2003-1-1</b>
Federal Program:	93.959
State Administering Department:	Department of Alcohol and Drug Programs
Fiscal Year Initially Reported:	2002-03
Audit Finding:	<u>Activities Allowed.</u> The Department of Alcohol and Drug Programs (DADP) expended funds from its Block Grants for Prevention and Treatment of Substance Abuse program for unallowable activities.
Status of Corrective Action:	Fully corrected.

---

Reference Number:	<b>2003-1-2</b>
Federal Program:	93.778
State Administering Department:	Department of Health Services
Fiscal Year Initially Reported:	2002-03
Audit Finding:	<u>Activities Allowed.</u> During fiscal year 2002-03, the Department of Health Services (Health Services) did not always correctly reimburse vendors of Medicaid-

covered drugs, resulting in Health Services underpaying some vendors.

Status of Corrective Action: Partially corrected. The pricing issue affected four nutritional NDCs and was corrected as of August 14, 2004. The affected claims are currently in the Erroneous Paid Claim Process for reprocessing. Due to workload, the reprocessing of these claims has not yet been completed.

---

Reference Number: **2003-1-3**

Federal Program: 93.778

State Administering Department: Department of Health Services

Fiscal Year Initially Reported: 2001-02

Audit Finding: Activities Allowed. The Department of Health Services (Health Services) did not always ensure that all services approved for Medicaid beneficiaries were supported by sufficient documentation.

Status of Corrective Action: Fully corrected.<sup>20</sup>

---

Reference Number: **2003-1-4**

Federal Program: 93.778

Fiscal Year Initially Reported: 2001-02

State Administering Department: Department of Health Services

Audit Finding: Activities Allowed. During fiscal year 2002-03, Health Services did not recover overpayments of Medicaid funds paid to health plans as capitation payments for beneficiaries who had died and thus were no longer eligible for Medicaid.

Status of Corrective Action: Partially corrected. MMCD has implemented procedures effective April 2004 to automatically disenroll deceased beneficiaries beginning with the month after the beneficiaries' month of death. This prospectively eliminates the problem of managed care plans (MCP) receiving capitation for deceased beneficiaries after the month of death.

The DHS Office of Legal Services (OLS) is currently reviewing existing MCP contract language and statutory authority to determine Health Services' potential for exposure to lawsuits should MMCD attempt to retroactively recoup overpayments made to MCPs for deceased beneficiaries. Although MMCD will continue to work with OLS on this issue, OLS' preliminary position indicates Health Services has significant exposure.<sup>21</sup>

---

Reference Number: **2003-3-2**

Federal Program: 93.044; 93.045

State Administering Department: Department of Aging

Fiscal Year Initially Reported: 2002-03

Audit Finding: Cash Management. The Department of Aging (Aging) did not follow its procedures to ensure that subrecipients of the aging programs minimize the time elapsing between their receipt and use of federal program funds.

Status of Corrective Action: Fully corrected.

---

Reference Number: **2003-3-12**

Federal Program: 93.568; 93.569

State Administering Department: Department of Community Services and Development

Fiscal Year Initially Reported: 2002-03

Audit Finding: Cash Management. The Department of Community Services and Development (Community Services) does not have adequate procedures to ensure that it limits cash advances of federal program funds to the minimum amounts needed.

Status of Corrective Action: Fully corrected.

---

Reference Number: **2003-8-1**

Federal Program: 93.959

State Administering Department: Department of Alcohol and Drug Programs

Fiscal Year Initially Reported: 2000-01

Audit Finding: Period of Availability. The Department of Alcohol and Drug Programs (DADP) lacks adequate procedures to ensure that federal grant awards are obligated and spent within their applicable periods of availability for the Block Grants for Prevention and Treatment of Substance Abuse. In addition, it has not completed its corrective action on a period-of-availability finding we reported last year.

Status of Corrective Action: Fully corrected. Partially corrected. The six transactions identified in the finding, totaling \$38,197, were corrected and charged to an award that was available during the period the services were provided. The changes were completed December 31, 2003.

DADP implemented edits in its accounting system that will reject any transaction recorded after the period of availability. The edits were completed August 12, 2003.

Mandatory training for all DADP staff responsible for monitoring contracts was conducted on March 22 and April 7, 2004. The training included clear direction on the period of availability for federal grant expenditures and obligations.

DADP completed its corrective action related to the Fiscal Year 2001-02 audit. Specifically, for the fiscal years involved, DADP exceeded its maintenance of effort (MOE) requirement under the Substance Abuse Prevention and Treatment Block Grant. The issue was resolved by substituting the excess MOE against the \$145,491. DADP submitted revised MOE tables to the federal agency February 19, 2004.

Desk procedure manuals that will include instruction on period availability for federal grants are still being prepared for the Accounting Office staff positions that process encumbrances and payables. DADP anticipates that the desk manuals will be completed by January 2005.

---

Reference Number: **2003-9-5**

Federal Program: 93.558; 93.658

State Administering Department: Department of Social Services

Fiscal Year Initially Reported: 2002-03

Audit Finding: Suspension and Debarment. The Department of Social Services (Social Services) did not obtain the required suspension and debarment certifications from two of the eight contractors we reviewed.

Status of Corrective Action: Partially corrected. Anticipated Correction Date: June 30, 2005. The Corrective Action Plan has been implemented with the exception of the desk procedures. The signed certifications now accompany the contracts being forwarded for signature and execution. The "Contract Checklist" is currently being used and provides the Internet address as an alternative to the signed certifications to verify contractor status. The desk procedures are in the developmental stage and completion is anticipated by the end of the current state fiscal year.

---

Reference Number: **2003-13-2**

Federal Program: 93.044; 93.045

State Administering Department: Department of Aging

Fiscal Year Initially Reported: 2002-03

Audit Finding: Subrecipient Monitoring. The Department of Aging (Aging) is not fulfilling all of its monitoring responsibilities for the Area Agencies on Aging (area agencies).

Status of Corrective Action: Partially corrected. Based on the limited resources, the AAA-Based Terms did not conduct any monitoring visits in fiscal year 2003-04. In calendar year 2003, six visits were conducted and in calendar year 2004, three visits were scheduled to be conducted, but one to PSA 16 had to be canceled due to weather.

In response to diminished State resources, the Department of Aging has established a Monitoring Protocol Team to ensure that monitoring is performed

as efficiently as possible and in compliance with laws and regulations. The Monitoring Team oversees all logistical operations, writing of the report, and follow-up to ensure all documents are sent or received by the appropriate dates assigned.

The first monitoring visit under the new structure was conducted in August at PSA 14, Fresno Madera AAA. New tools were tested and the team provided a formal exit letter containing findings and recommendations for action to correct any deficiencies uncovered during the visit. The final monitoring report is due within 90 days from the visit and will follow a new streamlined format that includes an Executive Summary, Best Practices, Technical Assistance Recommendations, and a Corrective Action Plan. Best Practices are being placed on the web for use by all AAAs. Future visits will be guided by both the "risk assessment" process which will be in place and fully developed by the end of this fiscal year, and based upon available resources.<sup>22</sup>

---

Reference Number:	<b>2003-13-4</b>
Federal Program:	93.917
State Administering Department:	Department of Health Services
Fiscal Year Initially Reported:	2002-03
Audit Finding:	<u>Subrecipient Monitoring</u> . Health Services does not adequately monitor subrecipients of the HIV Care Formula Grants program.
Status of Corrective Action:	<ul style="list-style-type: none"><li>• Case Management Program (CMP): Fully corrected.</li><li>• Consortia Program (CP): Partially corrected. The seven projects cited are scheduled for completion by March 31, 2005. As previously stated in Office of AIDS's (OA) original response to this finding, OA Care Section, which administers the CP, has administratively established a policy for fully monitoring each program contractor no less than once per three-year period. March 31, 2005 is the ending date of the three-year cycle.</li><li>• AIDS Drug Assistance Program (ADAP): Partially corrected. Twelve of the sixteen sites identified as having received annual funding during each of the</li></ul>

last five years have been visited. The remaining sites will be visited by March 31, 2005.

Of the 50 site reviews required for fiscal year 2002-03, 45 have been performed. The remaining 5 site reviews will be completed by March 31, 2005.

ADAP continues to regularly evaluate results of site visits and reprioritizes sites to be visited based on volume and date last visited. Sites required to provide and implement a corrective action plan are also re-evaluated to ensure findings were corrected. As previously stated in OA's original response to this finding, the frequency of these visits continues to be impacted by state budget constraints that result in increased demands on staff's in-office time.

- Inadequate follow-up:
  - Saint Mary's Medical: Fully corrected. In March 2004, OA contacted Department of Health Services, Audits and Investigations, and discussed the findings regarding this contract's A-133 audit. A corrective action letter was sent to the contractor on March 22, 2004, instructing the contractor to submit a corrective action plan to OA within 30 days. OA's September 2004 site visit found full compliance with this finding.
  - California Pacific Medical Center: Anticipated Correction Date: January 2005. OA's site visit is scheduled for January 2005.<sup>23</sup>

---

Reference Number:	<b>2003-13-9</b>
Federal Program:	93.568; 93.569
State Administering Department:	Department of Community Services and Development
Fiscal Year Initially Reported:	2002-03
Audit Finding:	<u>Subrecipient Monitoring</u> . The Department of Community Services and Development (Community Services) did not always review subrecipients' OMB Circular A-133 audit reports in time to issue any necessary management decisions within the required six-month period.

Status of Corrective Action: Fully corrected.<sup>24</sup>

---

Reference Number: **2003-14-1**

Federal Program: 93.959

State Administering Department: Department of Alcohol and Drug Programs

Fiscal Year Initially Reported: 2002-03

Audit Finding: Special Tests and Provisions. The Department of Alcohol and Drug Programs (DADP) did not ensure that independent peer reviews were conducted for at least 5 percent of the treatment providers receiving Block Grants for Prevention and Treatment for Substance Abuse funds.

Status of Corrective Action: Fully corrected.<sup>25</sup>

---

Reference Number: **2003-14-2**

Federal Program: 93.778

State Administering Department: Department of Health Services

Fiscal Year Initially Reported: 1997-98

Audit Finding: Special Tests and Provisions. As we discussed in our December 2003 report titled *Department of Health Services: It Needs to Better Plan and Coordinate Its Medi-Cal Antifraud Activities* (Report 2003-112), the Department of Health Services (Health Services) does not always ensure the continuing eligibility of enrolled providers.

Status of Corrective Action: Develop Re-enrollment Plan: Partially corrected. The Provider Enrollment Branch (PEB) recently prepared a comprehensive Draft Re-enrollment Work Plan that proposes to change existing procedures to more efficiently process re-enrollment applications. While the review of all re-enrollment applications would still be thorough, Health Services recognizes the need to utilize data driven targets which focus on identified fraud (consistent with the Malcolm Sparrow anti-fraud model). To that end, PEB continues to work closely with Audits and Investigations to identify those providers which post the greatest fraud risk, and will continue to conduct a comprehensive re-enrollment

review of the provider. Providers deemed to pose little to no fraud risk will be subjected to a more streamlined review, ensuring that they continue to meet the standards of participation. Internal checklists and procedures have been completed and implemented.

Enforce Deactivation Laws: Fully corrected.

Establish Agreements with State Professional Licensing Boards: Partially corrected. Assembly Bill 3023 – Chapter 351, approved by the Governor, August 27, 2004, which adds Section 683(a) and (b) to the Business and Professions Code. The bill requires the Dental Board of California, the Medical Board of California, the Board of Psychology, the State Board of Optometry, the California State Board of Pharmacy, the Osteopathic Medical Board of California, and the State Board of Chiropractic Examiners to report to the Department of Health Services, within 10 working days, the name and license number of a person whose license has been revoked, suspended, surrendered, made inactive by the licensee, or placed in another category that prohibits the licensee from practicing his or her profession. The purpose of the reporting requirement is to prevent reimbursement by the state for Medi-Cal and Denti-Cal services provided after the cancellation of a provider's professional license. The enactment of AB 3023 enables Health Services to receive any changes in license status for prompt updating of the Provider Master File to ensure that only claims for Medi-Cal reimbursement are issued to eligible providers. Some Boards (Medical and Dental) currently provide information on suspended providers, but not within 10 days. The Department will work with the various boards to ensure the mandated information is received on a timely basis.<sup>26</sup>

---

Reference Number:	<b>2003-14-5</b>
Federal Program:	93.775; 93.778
State Administering Department:	Department of Health Services
Fiscal Year Initially Reported:	2002-03
Audit Finding:	<u>Special Tests and Provisions</u> . As we discussed in our December 2003 report titled <i>Department of Health Services</i> :

*It Needs to Better Plan and Coordinate Its Medi-Cal Antifraud Activities* (Report 2003-112), the Department of Health Services (Health Services) does not always make timely or complete referrals to the Department of Justice (Justice).

Status of Corrective Action: Fully corrected.

## ENDNOTES—AUDITOR COMMENTS

---

<sup>1</sup> The status of this issue remains unchanged. Please refer to reference number 2004-12-1 for additional information.

<sup>2</sup> We reported a similar weakness in our audit of fiscal year 2003-04. Please refer to reference number 2004-3-12 for additional information.

<sup>3</sup> We reported a similar weakness in our audit of fiscal year 2003-04. Please refer to reference number 2004-13-2 for additional information.

<sup>4</sup> We reported a similar weakness in our audit of fiscal year 2003-04. Please refer to reference number 2004-2-1 for additional information.

<sup>5</sup> We reported a similar weakness in our audit of fiscal year 2003-04. Please refer to reference number 2004-9-3 for additional information.

<sup>6</sup> We reported a similar weakness in our audit of fiscal year 2003-04. Please refer to reference number 2004-12-4 for additional information.

<sup>7</sup> We reported a similar weakness in our audit of fiscal year 2003-04. Please refer to reference number 2004-13-9 for additional information.

<sup>8</sup> We reported a similar weakness in our audit of fiscal year 2003-04. Please refer to reference number 2004-3-5 for additional information.

<sup>9</sup> We reported a similar weakness in our audit of fiscal year 2003-04 for the Tech-Prep Education program only. Please refer to reference number 2004-3-4 for additional information.

<sup>10</sup> We reported a similar weakness in our audit of fiscal year 2003-04. Please refer to reference numbers 2004-3-3 and 2004-3-9 for additional information.

<sup>11</sup> We reported a similar weakness in our audit of fiscal year 2003-04. Please refer to reference number 2004-3-6 for additional information.

<sup>12</sup> We reported a similar weakness in our audit of fiscal year 2003-04. Please refer to reference number 2004-3-2 for additional information.

<sup>13</sup> We reported a similar weakness in our audit of fiscal year 2003-04. Please refer to reference numbers 2004-3-7 and 2004-3-8 for additional information.

<sup>14</sup> We reported a similar weakness in our audit of fiscal year 2003-04. Please refer to reference number 2004-5-1 for additional information.

<sup>15</sup> We reported a similar weakness in our audit of fiscal year 2003-04. Please refer to reference number 2004-7-1 for additional information.

<sup>16</sup> We reported a similar weakness in our audit of fiscal year 2003-04. Please refer to reference number 2004-9-4 for additional information.

<sup>17</sup> We reported a similar weakness in our audit of fiscal year 2003-04. Please refer to reference number 2004-14-4 for additional information.

<sup>18</sup> Although less severe, we reported a similar weakness in our audit of fiscal year 2003-04. Please refer to reference number 2004-14-3 for additional information.

<sup>19</sup> We reported a similar weakness in our audit of fiscal year 2003-04. Please refer to reference number 2004-13-4 for additional information.

<sup>20</sup> We reported a similar weakness in our audit of fiscal year 2003-04. Please refer to reference number 2004-1-5 for additional information.

<sup>21</sup> We reported a similar weakness in our audit of fiscal year 2003-04. Please refer to reference number 2004-1-6 for additional information.

<sup>22</sup> We reported a similar weakness in our audit of fiscal year 2003-04. Please refer to reference number 2004-13-6 for additional information.

<sup>23</sup> We reported a similar weakness in our audit of fiscal year 2003-04. Please refer to reference number 2004-13-14 for additional information.

<sup>24</sup> We reported a similar weakness in our audit of fiscal year 2003-04. Please refer to reference number 2004-13-11 for additional information.

<sup>25</sup> We reported a similar weakness in our audit of fiscal year 2003-04. Please refer to reference number 2004-14-2 for additional information.

<sup>26</sup> We reported a similar weakness in our audit of fiscal year 2003-04. Please refer to reference number 2004-14-5 for additional information.



*Agency response provided as text only.*

Department of Finance  
State Capitol, Room 1145  
Sacramento, CA 95814

March 15, 2005

Ms. Elaine M. Howle, State Auditor  
Bureau of State Audits  
555 Capitol Mall, Suite 300  
Sacramento, CA 95814

Dear Ms. Howle:

**State of California: Internal Control and State and Federal Compliance Audit Report for the Fiscal Year Ended June 30, 2004**

Thank you for the opportunity to respond to the internal control and state and federal compliance audit report. This report was the result of your examination of the state's general purpose financial statements and administration of federal programs for the fiscal year ended June 30, 2004, and will be part of the Single Audit Report covering this period. We accept the reported findings and recommendations. Although our internal controls and administration of federal awards can always be improved, the state is committed to sound and effective fiscal oversight.

California provides its citizens with numerous state and federal programs and activities and is much more complex and vast than most economic entities in the world. Such complexity, along with ever-present budget constraints, challenges us to meet the requirements of those programs and activities efficiently and effectively. Moreover, such operations must exist within a system of internal and administrative control that safeguards assets and resources and produces reliable financial information. Attaining these objectives and overseeing the financial and business practices of the state continues to be an important part of the Department of Finance's leadership.

In meeting our responsibility for financial leadership and oversight, the Department of Finance conducts internal control reviews of state departments and also reviews areas of potential weakness in the state's fiscal systems. In addition, we provide oversight of departmental internal audit units by issuing audit guidelines and conducting quality assurance reviews. Further, we have an ongoing process of issuing audit memos to departments that establish statewide policy and provide technical advice on various audit related issues. We will soon issue an audit memo concerning the results of the fiscal year 2003-04 Single Audit.

The head of each state department is responsible for establishing and maintaining a system of internal accounting and administrative control within their department. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified for changing conditions.

Ms. Elaine M. Howle  
March 15, 2005  
Page 2

Moreover, all levels of state management must be involved in assessing and strengthening their system of internal accounting and administrative controls to minimize fraud, errors, abuse, and waste of government funds.

Individual departments have separately responded to the report's findings and recommendations. Accordingly, their viewpoints and corrective action plans are included in the report. We will monitor the findings and reported corrective actions to identify potential changes in statewide fiscal procedures. Specifically, in regards to the disclaimer for the Crime Victim Assistance, we continue to monitor the Office of Emergency Services' progress in implementing their corrective action plan.

The Department of Finance will continue to provide leadership to ensure the proper financial operations and business practices of the state, and to ensure that internal controls exist for the safeguarding and effective use of assets and resources.

If you have any questions concerning this letter, please contact Samuel E. Hull, Chief, Office of State Audits and Evaluations, at (916) 322-2985.

Sincerely,

*(Original Signed By: Stephen W. Kessler)*

STEPHEN W. KESSLER  
Chief Deputy Director