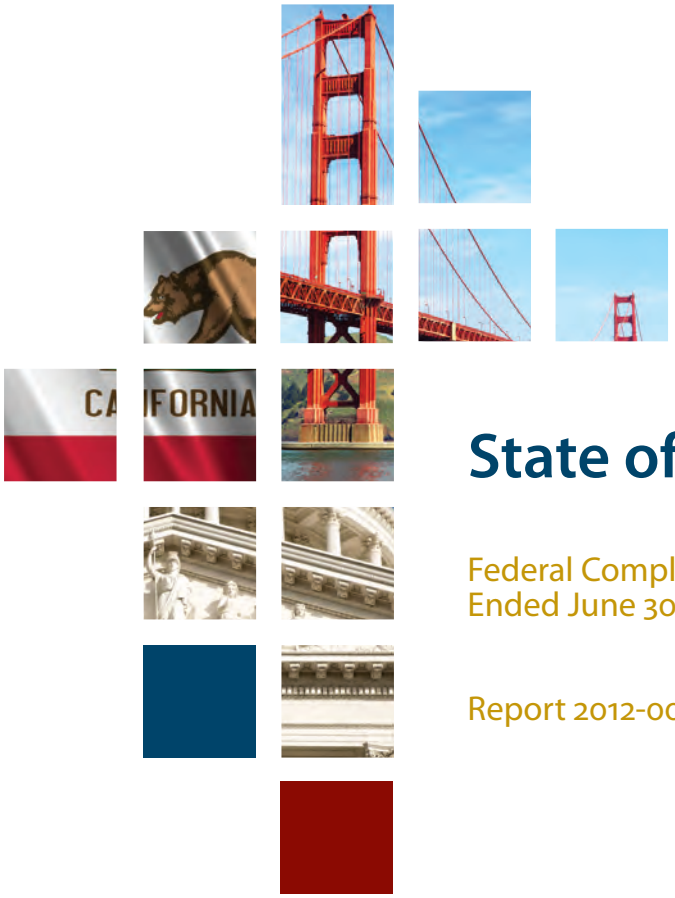
California State Auditor

March 2013



State of California

Federal Compliance Audit Report for the Fiscal Year Ended June 30, 2012

Report 2012-002

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For questions regarding the contents of this report,
please contact Margarita Fernández, Chief of Public Affairs, at 916.445.0255.

California State Auditor

Elaine M. Howle State Auditor
Doug Cordiner Chief Deputy

March 26, 2013 2012-002

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 8543 et seq., the California State Auditor (state auditor) presents this audit report concerning the review of the State of California's internal controls and compliance with federal laws and regulations for the year ended June 30, 2012. The state auditor contracted with KPMG LLP (KPMG) to perform this review for fiscal year 2011–12.

This report concludes that the State did not materially comply with certain requirements for 10 of the 34 federal programs or clusters of programs (federal programs) KPMG audited. Additionally, although KPMG concluded that the State materially complied with requirements for the remaining federal programs it audited, KPMG reported various instances of noncompliance relating to those programs. Further, the State continues to experience certain deficiencies in its accounting and administrative practices that affect its internal controls over compliance with federal requirements. Deficiencies in the State's internal control system could adversely affect its ability to administer federal programs in compliance with applicable requirements.

Respectfully submitted,

Elaine M. Howle

ELAINE M. HOWLE, CPA
State Auditor

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Contents

AUDITOR'S SECTION

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Independent Auditors' Report on the Schedule of Expenditures of Federal Awards

The Governor and the Legislature of the State of California:

We have audited the accompanying Schedule of Expenditures of Federal Awards (the Schedule) of the State of California for the year ended June 30, 2012. The Schedule is the responsibility of the State of California's management. Our responsibility is to express an opinion on the Schedule based on our audit.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State of California's internal control over financial reporting of the Schedule. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the Schedule does not include expenditures of federal awards of the University of California system, the California State University system, the California State Water Resources Control Board Water Pollution Control Revolving Fund, the California Department of Public Health Safe Drinking Water State Revolving Fund, and the California Housing Finance Agency, a component unit of the State of California. The University of California system, the California State University system, the California State Water Resources Control Board Water Pollution Control Revolving Fund, the California Department of Public Health Safe Drinking Water State Revolving Fund, and the California Housing Finance Agency, which reported expenditures of federal awards totaling $4.2 billion, $2.4 billion, $140 million, $185 million, and $73 million, respectively, have their own independent audits in compliance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.*

In our opinion, the Schedule of Expenditures of Federal Awards referred to above presents fairly, in all material respects, the expenditures of federal awards of the State of California, as of June 30, 2012, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2013 on our consideration of the State of California's internal control over financial reporting of the Schedule and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance of the Schedule, and the

results of that testing, and not to provide an opinion on the effectiveness of State of California's internal control over financial reporting or on compliance of the Schedule. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

KPMG LLP

March 15, 2013

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Schedule of Expenditures of Federal Awards Performed in Accordance With *Government Auditing Standards*

The Governor and the Legislature of the State of California:

We have audited the Schedule of Expenditures of Federal Awards (the Schedule) of the State of California as of and for the year ended June 30, 2012, and have issued our report thereon dated March 15, 2013. 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.

As described in note 1, the Schedule does not include expenditures of federal awards of the University of California system, the California State University system, the California State Water Resources Control Board Water Pollution Control Revolving Fund, the California Department of Public Health Safe Drinking Water State Revolving Fund, and the California Housing Finance Agency, a component unit of the State of California. The University of California system, the California State University system, the California State Water Resources Control Board Water Pollution Control Revolving Fund, the California Department of Public Health Safe Drinking Water State Revolving Fund, and the California Housing Finance Agency, which reported expenditures of federal awards totaling $4.2 billion, $2.4 billion, $140 million, $185 million, and $73 million, respectively, have their own independent audits in compliance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Internal Control Over Financial Reporting

Management of the State of the California is responsible for establishing and maintaining effective internal control over financial reporting of the Schedule. In planning and performing our audit, we considered the State of California's internal control over financial reporting of the Schedule as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Schedule, but not for the purpose of expressing an opinion on the effectiveness of the State of California's internal control over financial reporting of the Schedule. Accordingly, we do not express an opinion on the effectiveness of the State of California's internal control over financial reporting of the Schedule.

Our consideration of internal control over financial reporting of the Schedule was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over financial reporting of the Schedule that we consider to be a material weakness.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting of the Schedule, such that there is a reasonable possibility that a material misstatement of the entity's Schedule of Expenditures of Federal Awards will not be prevented, or detected and corrected, on

a timely basis. We consider the deficiency in the State of California's internal control over financial reporting of the Schedule described in the accompanying schedule of findings and questioned costs as finding 12-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Schedule is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of Schedule 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 or other matters that are required to be reported under *Government Auditing Standards.*

The State of California's response to finding 12-1 identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the State of California's response and, accordingly, we express no opinion on it.

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State of California's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of California's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

March 15, 2013

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Independent Auditors' Report on Compliance With Requirements That Could Have a Direct and Material Effect on 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 State of California's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the State of California's major federal programs for the year ended June 30, 2012. The State of California's major federal programs are identified in the summary of auditors' 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 Schedule of Expenditures of Federal Awards and our audit described below does not include expenditures of federal awards of the University of California system, the California State University system, the California State Water Resources Control Board Water Pollution Control Revolving Fund, the California Department of Public Health Safe Drinking Water State Revolving Fund, and the California Housing Finance Agency, a component unit of the State of California. The University of California system, the California State University system, the California State Water Resources Control Board Water Pollution Control Revolving Fund, the California Department of Public Health Safe Drinking Water State Revolving Fund, and the California Housing Finance Agency, which reported expenditures of federal awards totaling $4.2 billion, $2.4 billion, $140 million, $185 million, and $73 million, respectively, have their own independent audits in compliance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.*

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 provides 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 the Table below and in the accompanying schedule of findings and questioned costs, the State of California did not comply with requirements that are applicable to certain major federal programs.

COMPLIANCE REQUIREMENT(S)	FINDING NUMBER	STATE ADMINISTERING DEPARTMENT	FEDERAL PROGRAM OR CLUSTER
Eligibility			
	12-24	California Department of Rehabilitation	Vocational Rehabilitation Cluster
Subrecipient Monitoring			
	12-2	Department of Social Services	SNAP Cluster
	12-5	Department of Social Services	SNAP Cluster Foster Care - Title IV-E (93.658) Adoption Assistance (93.659) Social Service Block Grant (93.667)
	12-6	Department of Social Services California Department of Transportation Department of Social Services Department of Health Care Services	SNAP Cluster Highway Planning and Construction Cluster TANF Cluster Medicaid Cluster
	12-23	California Department of Education	Career & Technical Education - Basic Grants to States (84.048)
	12-31	Department of Social Services	TANF Cluster
	12-34	Department of Alcohol and Drug Programs	Block Grants for Prevention and Treatment of Substance Abuse (93.959)
	12-5, 12-36, 12-37, 12-38	Department of Health Care Services	Medicaid Cluster
Special Tests and Provisions—Provider Eligibility			
	12-39	Department of Health Care Services	Medicaid Cluster

Compliance with such requirements is necessary, in our opinion, for the State of California to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding Table, the State of California complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. 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 Table below and the accompanying schedule of findings and questioned costs.

COMPLIANCE REQUIREMENT(S)	FINDING NUMBER	STATE ADMINISTERING DEPARTMENT	PROGRAM OR CLUSTER AND CFDA NUMBER
Activities Allowed/Allowable Cost			
	12-40	Department of Health Care Services	Medicaid Cluster
Eligibility			
	12-32	Department of Social Services	Adoption Assistance (93.659)
	12-41	Department of Health Care Services	Medicaid Cluster
Matching, Level of Effort, Earmarking			
	12-21	California Department of Education	Special Education Cluster (IDEA)
	12-22	California Department of Education	Career and Technical Education – Basic Grants to States (84.048)
Procurement, Subrecipient Monitoring			
	12-27	California Department of Education	Child Nutrition Cluster
Reporting			
	12-4	Department of Public Health	Special Supplemental Nutrition Program for Women, Infants, and Children (10.557)
	12-11	Employment Development Department	WIA Cluster

COMPLIANCE REQUIREMENT(S)	FINDING NUMBER	STATE ADMINISTERING DEPARTMENT	PROGRAM OR CLUSTER AND CFDA NUMBER
	12-18	California Department of Education	Title I, Part A Cluster Migrant Education - State Grant Program (84.011) Special Education Cluster (IDEA) Career & Technical Education - Basic Grants to States (84.048) Twenty-First Century Community Learning Centers (84.287) English Language Acquisition Grants (84.365) Improving Teacher Quality State Grants (84.367) School Improvement Grants Cluster Child Nutrition Cluster Child and Adult Care Food Program (10.558) CCDF Cluster
	12-25	California Department of Education	School Improvement Grants Cluster Title I, Part A Cluster Special Education Cluster (IDEA)
	12-28	Department of Aging	Aging Cluster
	12-29	Department of Public Health	Immunization Grants Cluster
	12-33	Department of Social Services	Foster Care Title IV-E (93.658) Adoption Assistance - Title IV-E (93.659) TANF Cluster Social Services Block Grant (93.667)
	12-42	California Emergency Management Agency	Homeland Security Grant Program (97.067)
Subrecipient Monitoring			
	12-7	Department of Housing and Community Development	Home Investment Partnerships Program
	12-12, 12-13	Employment Development Department	WIA Cluster
	12-15	California Department of Transportation	Highway Planning and Construction Cluster
	12-19	California Department of Education	Title I, Part A Cluster CCDF Cluster
	12-26	California Department of Education	School Improvements Grant Cluster
Special Test and Provisions - UI Benefit Payments			
	12-9	Employment Development Department	Unemployment Insurance (17.225)
Special Test and Provisions - Awards with ARRA Funding			
	12-10	Employment Development Department	Unemployment Insurance (17.225)
Special Tests and Provisions - Control, Accountability, and Safeguarding of Vaccine			
	12-30	Department of Public Health	Immunization Grants Cluster

Internal Control Over Compliance

Management of the State of California is responsible for establishing and maintaining effective internal control over compliance with the 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 the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State of California's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 12-2, 12-5, 12-6, 12-8, 12-14, 12-23, 12-24, 12-31, 12-34, 12-35, 12-36, 12-37, 12-38, and 12-39 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 12-3, 12-4, 12-7, 12-9, 12-10, 12-11, 12-12, 12-13, 12-15, 12-16, 12-17, 12-18, 12-19, 12-20, 12-21, 12-22, 12-25, 12-26, 12-27, 12-28, 12-29, 12-30, 12-32, 12-33, 12-40, 12-41, and 12-42 to be significant deficiencies.

The State of California's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the State of California's responses and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

KPMG LLP

March 15, 2013

Schedule of Findings and Questioned Costs

STATE OF CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Section I - Summary of Auditor's Results

Financial Statements

Issued under a separate cover. See California State Auditor's 2012-001.1 report entitled *State of California: Internal Control and State Compliance Audit Report for the Fiscal Year Ended June 30, 2012.*

Schedule of Expenditures of Federal Awards (SEFA)

Type of auditor's report issued	Unqualified
Internal control over financial reporting:	
Material weakness (es) identified?	Yes
Significant deficiency (ies) identified that are not considered to be material weaknesses?	No
Noncompliance material to SEFA noted?	No

Federal Awards

Internal control over major programs:	
Material weakness (es) identified?	Yes
Significant deficiency (ies) identified that are not considered to be material weaknesses?	Yes
Type of auditor's reports issued on compliance for major programs:	See below

Qualification

CFDA Number	*Name of Federal Program or Cluster of Programs*
Various	SNAP Cluster
Various	Highway Planning and Construction Cluster
Various	Vocational Rehabilitation Cluster
Various	TANF Cluster
Various	Medicaid Cluster
84.048	Career and Technical Education – Basic Grants to States
93.658	Foster Care – Title IV-E
93.659	Adoption Assistance – Title IV-E
93.667	Social Services Block Grant
93.959	Block Grants for Prevention and Treatment of Substance Abuse

(continued)

Unqualified

CFDA Number	*Name of Federal Program or Cluster*
Various	Child Nutrition Cluster
Various	Employment Service Cluster
Various	WIA Cluster
Various	Title I, Part A Cluster
Various	Special Education Cluster (IDEA)
Various	School Improvement Grants Cluster
Various	Aging Cluster
Various	Child Care Development Fund (CCDF) Cluster
Various	Immunization Cluster
Various	Disability Insurance/SSI Cluster
Various	Homeland Security Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
14.239	Home Investment Partnership Program
17.225	Unemployment Insurance
81.041	State Energy Program
10.558	Child and Adult Care Food Program
84.011	Migrant Education – State Grant Program
84.287	Twenty-First Century Community Learning Centers
84.365	English Language Acquisition Grants
84.367	Improving Teacher Quality State Grants
93.563	Child Support Enforcement
93.568	Low-Income Home Energy Assistance
93.767	Children's Health Insurance Program
93.917	HIV Care Formula Grants

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	$112.8 million
Auditee qualified as low-risk auditee?	No

(continued)

Identification of Major Programs

CFDA Number	*Name of Federal Program or Cluster*
Various	SNAP Cluster
Various	Child Nutrition Cluster
Various	Employment Service Cluster
Various	WIA Cluster
Various	Highway Planning and Construction Cluster
Various	Title I, Part A Cluster
Various	Special Education Cluster (IDEA)
Various	Vocational Rehabilitation Cluster
Various	School Improvement Grants Cluster
Various	Aging Cluster
Various	Immunization Cluster
Various	TANF Cluster
Various	Child Care Development Fund (CCDF) Cluster
Various	Medicaid Cluster
Various	Disability Insurance / SSI Cluster
Various	Homeland Security Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
10.558	Child and Adult Care Food Program
14.239	Home Investment Partnerships Program
17.225	Unemployment Insurance
81.041	State Energy Program
84.011	Migrant Education – State Grant Program
84.048	Career and Technical Education – Basic Grants to States
84.287	Twenty-First Century Community Learning Centers
84.365	English Language Acquisition Grants
84.367	Improving Teacher Quality State Grants
93.563	Child Support Enforcement
93.568	Low-Income Home Energy Assistance
93.658	Foster Care – Title IV-E
93.659	Adoption Assistance – Title IV-E
93.667	Social Services Block Grant
93.767	Children's Health Insurance Program
93.917	HIV Care Formula Grants
93.959	Block Grants for Prevention and Treatment of Substance Abuse

(continued)

Schedule of Expenditures of Federal Awards Findings and Questioned Costs

DEPARTMENT OF FINANCE

Reference Number: 12-1

Criteria

State Administrative Manual (SAM) Section 7974 – *Year-End Report No. 13, Report of Expenditures of Federal Awards*, states that at year-end, departments will prepare a Report of Expenditures of Federal Awards, Report No. 13 (Report 13), for all federal funds. Expenditures shall include all accruals of valid obligations incurred and receivables earned as of June 30.

Condition

The Department of Finance (Finance) and certain departments, as listed below, lack adequate controls to ensure the Schedule of Expenditures of Federal Awards (the Schedule) and Report 13s are complete and accurate. We identified errors in the original Schedule. Finance did not have adequate review procedures for the Schedule, including an analytical review, that could have identified these errors and did not adequately communicate with departments to ensure federal expenditures were accurately reported. Departments also did not have adequate review procedures for Report 13s and did not fully understand guidance in SAM Section 7974, which states that "at year-end, departments will prepare a Report of Expenditures of Federal Awards, Report No. 13 (Report 13), for all federal funds. Expenditures shall include all accruals of valid obligations incurred and receivables earned as of June 30."

Failure to implement effective review controls over the Schedule and the Report 13s increases the risk that amounts reported as federal awards will be misstated. We identified the following errors, which were corrected by Finance:

- Finance did not include the State Energy Program in the Schedule. State Energy Program expenditures totaled $144 million.
- Finance included the HIV Care Formula Grants program, totaling approximately $150 million, on the Schedule twice.
- Finance reported $241 million of miscellaneous federal receipts. Approximately $188 million related to the Tax Credit Exchange program and does not constitute a federal award that should be presented on the Schedule.
- The Department of Housing and Community Development did not report approximately $16 million of new loans on the Schedule.
- The Department of Public Health did not report to Finance the last quarter of immunization vaccinations, totaling $62 million.
- The Department of Rehabilitation reported federal cash receipts instead of federal expenditures.
- Several departments misinterpreted SAM Section 7974 and recorded the remaining unobligated amount of grants as federal expenditures in the Report 13s. As a result, federal expenditures were overstated.

Recommendations

1. The Department of Finance should improve its internal review process of the Schedule, including performance of analytical procedures, to identify programs that may be missing, reported twice, or require additional analysis. Finance should also consider revising its guidance contained in SAM Section 7974 and provide additional training to departments to ensure departments properly record federal expenditures and do not record the remaining unobligated balance of the grant.

2. The Department of Housing and Community Development should ensure it reports new loans in the expenditure balance of the Report 13.

3. The Department of Public Health should ensure it properly reports all immunization vaccinations.

4. The Department of Rehabilitation should modify its Report 13 to report federal expenditures.

Department's View and Corrective Action Plan (Department of Finance)

Finance is aware of the importance of the reporting requirement. The State's accounting system will require substantial modification to comply with federal and state requirements. Finance is continuing to work on both a long-term plan and short-term solution to correct this finding. In the short-term, Finance will continue to work cooperatively with all state agencies/departments to obtain accurate Schedule information. Finance will compile federal expenditures for the State of California using year-end financial reports and data collection forms certified by the management of individual state agencies/departments. In addition, Finance will perform additional analytical procedures of the data presented in the Schedule. In the long-term, the State has received legislative approval for a new integrated statewide financial management system, the Financial Information System for California (FI$Cal Project). The FI$Cal Project is anticipated to be completed by 2017 and will automate the Schedule compilation thereby minimizing errors and inaccuracies.

Finance will inform state agencies/departments of the reporting and accounting errors made and stress the importance of submitting correct information. In addition, Finance will provide additional training and revise its guidance contained in relevant SAM sections.

Contact

David Botelho, Chief, Office of State Audits and Evaluations

Implementation Date

May 2013

Department's View and Corrective Action Plan (Department of Housing and Community Development)

The Report 13 (Q34 CALSTARS generated report) is not structured to include the Loan Disbursements (GL9844) and Expenditures (GL9000); only the expenditures (GL9000) are included.

To meet the needs of DOF, in addition to the Report 13 – Report of Expenditures of Federal Awards, HCD shall provide additional reports that support all accruals of valid obligations, including new loan disbursement, and will footnote the Report 13 for the Loan Disbursement Data.

Contact

Terrie Watson, Deputy Director, HCD Administration and Management Division

Implementation Date

Effective immediately

Department's View and Corrective Action Plan (Department of Public Health)

The Immunization Branch receives monthly reports of immunization vaccine expenditures from CDC and has policies and procedures in place to report them to the Department of Finance upon request. The reporting error noted by the auditor was a one-time oversight.

Contact

Maria Volk, MPA, Acting Branch Chief

Implementation Date

Immediate

Department's View and Corrective Action Plan (Department of Rehabilitation)

The DOR acknowledges that the original Report 13 was prepared based on federal cash receipts. This was due, in part, to inadequate instruction and guidance in the State Administrative Manual, as well as from Finance, regarding Report 13 preparation for non-CalStars departments. Working with the auditors, DOR was able to identify a better methodology and process for preparing the Report 13 for the next year end cycle. For future Report 13 preparation, Finance can assist State agencies by:

- Revising the Report 13 template to separate accruals from expenditures, by having a separate column for expenditures, accruals, and encumbrances, with the accrual column split into (a) accruals for current year and (b) accruals from prior year;
- Communicating requirements to all departments clearly and timely; and
- Using the State Fund Accounting Class to train State Accounting staff on the Report 13.

Contact

David Kwan, Chief, Accounting Services

Implementation Date

June 30, 2013

Federal Award Findings and Questioned Costs

U.S. DEPARTMENT OF AGRICULTURE

Reference Number:	12-2
Federal Catalog Number:	10.551
Federal Program Title:	Supplemental Nutrition Assistance Program (SNAP) Cluster
Federal Award Number and Years:	7CA4004CA; 2012 7CA430CA; 2012 7CA4004CA; 2011 7CA430CA; 2011
Category of Finding:	Subrecipient Monitoring
Type of Finding:	Material Weakness and Material Instance of Noncompliance
State Administering Department:	Department of Social Services (Social Services)

Criteria

Section 63.104.2, *Manual of Policies and Procedures, Food Stamps:* County welfare departments administrative responsibilities include, but are not limited to, certifying applicant households and ensuring that recertifications are completed and recorded at the required time for all cases.

TITLE 7 – AGRICULTURE, PART 272.10, *ADP/CIS MODEL PLAN,* AND PART 277.18, *Establishment of an Automated Data Processing (ADP) and Information Retrieval System:* State agencies automate their SNAP operations and computerize their systems for obtaining, maintaining, utilizing, and transmitting information concerning SNAP. This includes (1) processing and storing all case file information necessary for eligibility determination and benefit calculation, identifying specific elements that affect eligibility, and notifying the certification unit of cases requiring notices of case disposition, adverse action and mass change, and expiration; (2) providing an automatic cutoff of participation for households which have not been recertified at the end of their certification period by reapplying and being determined eligible for a new period and (3) generating data necessary to meet federal issuance and reconciliation reporting requirements.

TITLE 7 – AGRICULTURE, PART 274, Maintain adequate security over, and documentation/records for, Electronic Benefit Transfers (EBT) cards (7 CFR section 274.12(h)(3)), to prevent their theft, embezzlement, loss, damage, destruction, unauthorized transfer, negotiation, or use (7 CFR sections 274.7(b) and 274.11(c)).

U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133—*AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS* (OMB Circular A-133), Subpart C—Auditees, Section .300—Auditee Responsibilities

(b) Maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.

Condition

The State implemented state automated welfare systems (SAWS) to manage various county welfare processes, including SNAP, Medicaid, and Temporary Assistance for Needy Families (TANF). All 58 counties aligned themselves into one of three consortia. Each county consortium is responsible for the application software development, implementation, and maintenance and operations activities of

its SAWS. The State Office of System Integration provides oversight. As a result of setting up these consortia, counties are thereby responsible for ensuring these systems meet the federal requirements described in the criteria section above. In addition, county welfare departments distribute, secure, and account for certain EBT cards.

Social Services issued County Fiscal Letter No. 11/12-09 in August 2011 notifying county welfare departments of their responsibilities for monitoring requirements pursuant to federal law, regulations, and the terms and conditions of federal awards. Social Services included in this letter Catalog of Federal Domestic Assistance (CFDA) No. 10.551, Supplemental Nutrition Assistance Program, which represents the benefits portion of SNAP. By including CFDA No. 10.551, Social Services communicated to counties that benefits in addition to administrative costs, CFDA No. 10.561, were the responsibility of county welfare departments. However, Social Services did not evaluate that the use of county-owned systems rather than a state-owned system created the need for additional communication to county welfare departments (CWDs) in terms of how certain federal compliance requirements related to the SAWS and EBT cards were to be addressed in the county single audit. As a result, CWDs were not aware of the specific federal laws and regulations related to SAWS and EBT card security.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Social Services should work with the U.S. Department of Agriculture and CWDs to determine how the federal requirements related to the SAWS and EBT card security will be addressed in county OMB Circular A-133 audits.

Department's View and Corrective Action Plan

Social Services agrees with the audit recommendation. In correcting the finding, Social Services will formally communicate with the SAWS consortia and county welfare departments (CWDs) the specific federal laws and regulations related to their responsibility to monitor their SNAP eligibility determination systems and for EBT card security.

A letter will be issued by Social Services to the SAWS consortia and CWDs no later than June 30, 2013.

Contact

Rapone Anderson, Chief, Program Technology & Support Bureau

Implementation Date

June 30, 2013

Reference Number:	12-3
Federal Catalog Number:	10.557
Federal Program Title:	Special Supplemental Nutrition Program for Women, Infants and Children (WIC)
Federal Award Number and Years:	7CA700CA7; 2012 7CA700CA1; 2012 7CA730CA7; 2012 7CA700CA7; 2011 7CA700CA1; 2011 7CA700CA2; 2011 7CA700CA1; 2010
Category of Finding:	Eligibility
Type of Finding:	Significant Deficiency
State Administering Department:	Department of Public Health (Public Health)

Criteria

U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133—*AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS* (OMB Circular A-133), Subpart C—Auditees, Section .300—Auditee Responsibilities

(b) Maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.

State Administrative Manual, Section 5300 – Information security means the protection of information and information systems, equipment, and people from a wide spectrum of threats and risks. Implementing appropriate security measures and controls to provide for the confidentiality, integrity, and availability of information, regardless of its form (electronic, print, or other media) is critical to ensure business continuity and protection against unauthorized access, use, disclosure, disruption, modification, or destruction.

State Administrative Manual, Section 5305 – State agencies need to ensure the integrity of computerized information resources by protecting them from unauthorized access, modification, destruction, or disclosure and to ensure the physical security of these resources.

Condition

Public Health utilizes the Integrated Statewide Information System (ISIS) to aid in the determination of eligibility for WIC participants and monitor issuance and redemption of food vouchers. We found that Public Health did not properly design or implement certain information security and change management controls over ISIS. The deficiencies noted in these controls were due to a lack of adequate policies and procedures in place during the year. Information technology (IT) general controls over the IT environment should be properly designed and operating effectively to help ensure a properly functioning information system.

- Public Health stores all passwords in a database which is not encrypted and therefore is accessible by all individuals with access to the database. Password security settings allow an individual to utilize a password that is not of adequate strength.

- Public Health did not document the quarterly review of terminated users to ensure access was properly disabled. Additionally, Public Health does not have a control in place to ensure all terminated users are communicated to the IT staff.

- Public Health does not evidence approvals by the Change Board to implement changes into the production environment.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Public Health should implement policies and procedures to ensure IT general controls are properly designed and operating effectively. Public Health should:

1. Store passwords in an encrypted database and strengthen password security settings to ensure that passwords are sufficient to prevent improper access.

2 Document the quarterly review of terminated users and include a review of terminated employees provided by human resources.

3. Document system change approval by the Change Board.

Department's View and Corrective Action Plan

CDPH partially agrees that Public Health should implement policies and procedures to ensure general information technology controls are properly designed and operating effectively.

1. Store passwords in an encrypted database and strengthen password security settings to ensure that passwords are sufficient to prevent improper access.

   CDPH believes that existing security and technology measures in place adequately safeguard ISIS and its data. To gain access to ISIS, a user must have the following four components in place:

   - An Active Directory (AD) Logon ID with access to the CDPH Network. AD accounts are created and deleted as part of an employee's onboarding and exit clearance process.

   - A 3270 Emulator installed on a personal computer (PC) by a CDPH local area administrator (LAN) administrator.

   - Knowledge of the address path to ISIS.

   - An ISIS Logon ID authorized by Regional Advisors and created by the ISIS Testing and Modification Section or Information Technology Services Division (ITSD) staff.

   Further access to system tables requires a Resource Access Control Facility ID with elevated privileges. Only ITSD database administrators have access at this level.

   While CDPH believes these measures adequately safeguard ISIS and its data, CDPH will implement password encryption and explore the feasibility of implementing stronger passwords without negatively affecting the system and business processes.

2. Document the quarterly review of terminated users and include a review of terminated employees provided by Human Resources.

   CDPH deletes ISIS IDs of users as part of a state employee's exit clearance process. The WIC Program Manual requires Local Agency Supervisors to delete any logon IDs of former employees and any other unnecessary logon IDs. Additionally, CDPH reviews monthly the ISIS logon ID Maintenance Report and deletes any suspicious logon ID's (e.g., IDs not used for more than 90 days).

   CDPH will formally document the review and deletion of IDs and will work with our Human Resources Branch to periodically cross check ISIS users against separated employee lists.

3. Document system change approval by the Change Board.

   CDPH captures all system change approvals and supporting documentation in the department's Track Web change management solution. CDPH uses Track Web to manage the life cycle of each system change.

   All steps of the process are tracked and approved before moving to subsequent development. Once the change is "Acceptance Tester Approved," it is recognized as approved by the Change Control Board and scheduled for a release date. Each change is documented in Tack Web.

   While CDPH believes the Track Web system adequately documents change approvals, we will develop new procedures to further document the review and approvals of the Change Control Board.

Contact

Edwin Lieu, Data Processing Manager III

Implementation Date

December 31, 2013

Reference Number:	12-4
Federal Catalog Number:	10.557
Federal Program Title:	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
Federal Award Number and Years:	7CA700CA7; 2012 7CA700CA1; 2012 7CA730CA7; 2012 7CA700CA7; 2011 7CA700CA1; 2011 7CA700CA2; 2011 7CA700CA1; 2010
Category of Finding:	Reporting
Type of Finding:	Significant Deficiency and Instance of Noncompliance
State Administering Department:	Department of Public Health (Public Health)

Criteria

TITLE 2 – GRANTS AND AGREEMENTS, Appendix A to Part 170 – Award Term-Reporting subaward and executive information compensation:

(a) Reporting of first tier subawards.

(1) Applicability. Unless you are exempt as provided in paragraph d. of this award term, you must report each action that obligates $25,000 or more in federal funds that does not include Recovery funds (as defined in section 1512(a)(2) of the American Recovery and Reinvestment Act of 2009, Pub. L. 111 5) for a subaward to an entity.

Condition

Public Health does not have adequate controls in place to ensure information required by the Federal Funding Accountability Transparency Act (FFATA) is properly reported. Public Health did not report six of the nine local agencies appropriately in the FFATA subaward reporting system. While Public Health had input these local agencies in the system, when a contract amendment increased the amount of the subaward, Public Health reported the total amount of the subaward rather than the incremental portion of the subaward amendment. As a result, Public Health over-reported the amount of these subawards by $14.7 million.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Public Health should strengthen its policies and procedures over FFATA reporting to ensure that individuals are knowledgeable of the reporting requirements and controls are implemented to ensure award information is properly reported.

Department's View and Corrective Action Plan

California Department of Public Health (CDPH) agrees that the California WIC Program, Financial Management and Reporting Branch (FMRB) should strengthen its policies and procedures over FFATA reporting to ensure that individuals are knowledgeable of the reporting requirements and controls are implemented to ensure award information is properly reported.

In December 2012, FMRB reopened the report in question and adjusted the discrepancies identified by the auditor. FMRB has also resolved some technical problems with the reporting system and provided additional training to staff. In addition, WIC is working with CDPH Accounting to establish more internal controls.

On February 6, 2013, the U.S. Department of Agriculture (USDA) provided new FFATA reporting requirements. FMRB is updating its desk procedures with the new FFATA requirements.

Contact

Ofelia Franco, Chief, Financial Management and Reporting Branch

Implementation Date

February 2013

U.S. DEPARTMENT OF AGRICULTURE, U.S. DEPARTMENT OF HEATLH AND HUMAN SERVICES

Reference Number:	12-5
Category of Finding:	Subrecipient Monitoring
Type of Finding:	Material Weakness and Material Instance of Noncompliance
State Administering Department:	Department of Social Services (Social Services)
Federal Catalog Number:	10.551, 10.561
Federal Program Title:	Supplemental Nutrition Assistance Program (SNAP) Cluster
Federal Award Number and Years:	7CA4004CA; 2012 7CA430CA; 2012 7CA4004CA; 2011 7CA430CA; 2011

Federal Catalog Number:	93.658
Federal Program Title:	Foster Care – Title IV-E
Federal Award Number and Years:	1201CA1401; 2012 1201CA1404; 2012 1101CA1401; 2011 1101CA1404; 2011

Federal Catalog Number:	93.659
Federal Program Title:	Adoption Assistance – Title IV-E
Federal Award Number and Years:	1201CA1405; 2012 1101CA1405; 2011 1101CA1407; 2011

Federal Catalog Number:	93.667
Federal Program Title:	Social Services Block Grant
Federal Award Number and Years:	1201CASOSR; 2012 1101CASOSR; 2011

Federal Catalog Number:	93.720, 93.775, 93.777, 93.778
Federal Program Title:	Medicaid Cluster
Federal Award Number and Years:	05-1005CA5MAP; 2011 1005CARRA; 2011 05-1005CA5MAP; 2010 1005CARRA; 2010

Criteria

TITLE 31 – MONEY AND FINANCE, SUBTITLE V – GENERAL ASSISTANCE ADMINISTRATION, Sec. 7502. Audit requirements; exemptions:

(f)(2) Each pass-through entity shall:

(A) provide such subrecipient the program names (and any identifying numbers) from which such assistance is derived, and the federal requirements, which govern the use of such awards and the requirements of this chapter;

(B) monitor the subrecipient's use of federal awards through site visits, limited scope audits, or other means; and,

(C) review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the director, pertaining to federal awards provided to the subrecipient by the pass-through entity.

Condition

Social Services provides services under the SNAP, Foster Care, Adoption Assistance, and Social Services Block Grant programs through various subrecipients. Monies are primarily passed through to counties, which are responsible for implementing the programs, including eligibility determination and other administrative and program activities. In addition, monies are passed through to counties for reimbursement of expenditures for beneficiary payments for Adoption Assistance. Social Services monitors its subrecipients through various mechanisms including regular communication and training, monthly desk reviews of summary expenditure information, and review of county OMB Circular A-133 reports. In addition, Social Services policy requires that one county site visit be conducted every quarter. During site visits, Social Services reviews costs charged to the various programs for allowability in addition to other fiscal and programmatic requirements. As part of its site visits, Social Services also reviews administrative costs charged by counties to the Medicaid grant. Social Services disbursed approximately $2.27 billion to subrecipients in fiscal year 2011-12 for SNAP, Foster Care, Adoption Assistance, and the Social Service Block Grant.

Our audit revealed that Social Services does not have adequate policies and procedures to monitor subrecipients in accordance with federal requirements. Social Services does not have a documented risk-based audit plan, including an approach to selecting counties for site visits. Current policy requires only four site visits per year. Social Services informed us that a county will not have another site visit until all counties have been reviewed. As a result, counties with a higher risk profile, such as those receiving a large percentage of the State's funding, will not be subject to audit more than once every 10 years or more. In addition, due to limited resources, Social Services completed only three site visits during fiscal year 2011-12, covering less than 5 percent of monies disbursed by Social Services. Failure to properly monitor subrecipients increases the risk the federal monies will be paid for unallowable costs.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Social Services should evaluate its policies and procedures to ensure the department properly monitors its subrecipients. Social Services should:

1. Establish and document a risk-based monitoring plan to include the selection process for site visits to include a plan for performing site visits at those counties receiving a large portion of the State's funding. In addition, if Social Services elects to continue to perform only four site visits per year, it should work with Administration for Children and Families, Food and Nutrition Services, and Centers for Medicare and Medicaid Services to obtain a management decision on its monitoring and rotation plan.

2. Complete all scheduled site visits in accordance with the risk-based audit plan.

Department's View and Corrective Action Plan

Social Services agrees with the recommendations above and has established a risk-based monitoring plan using the specific criteria defined below. The Department also notes that it has frequent and open communication regarding its processes for onsite monitoring reviews with the federal cognizant agencies, including the federal Administration for Children and Families (ACF) Region IX and the United States Department of Food and Agriculture Food and Nutrition Service (FNS). To date, neither of these federal agencies has expressed concern over its processes for the FY 2011-12 on-site monitoring reviews.

The Department received approval of its Corrective Action Implementation Plan (CAIP) related to multiple audit findings issued in 2010. In accordance with the CAIP, the Department completed five county on-site monitoring reviews in FY 2010-11 through a one-time redirection of staff. In a September 23, 2011 letter from ACF, the Department was commended for "well-planned and executed on-site monitoring reviews," but was also notified that the Department must complete additional on-site monitoring reviews in FY 2011-12 to avoid additional audit findings and enforcement actions. The California State Auditor's Office (CSA) cleared Social Services of all findings related to on-site monitoring reviews in its "Interim Reporting: Fiscal Year 2010-11 Single Audit" issued in December 2011.

Subsequently, the Department informed ACF that it intended to perform on-site monitoring reviews in FY 2011-12 on a more limited basis. Due to the timing of the negotiations with ACF, the on-site monitoring reviews included one review per quarter for the remainder of FY 2011-12 at that time, for a total of three reviews. All scheduled on-site monitoring reviews were completed in FY 2011-12.

Per discussions with FNS, every county should have a review, regardless of size. The ACF has not prescribed any specific criteria for identifying which counties to review, nor have they prescribed any specific number of counties to review each FY. The ACF has acknowledged that on-site monitoring reviews must continue at a minimum of one county per quarter. Additionally, ACF has acknowledged improvement in the Department's monitoring process and has stated its appreciation of the Department's continuing work to improve the process and meet federal expectations. The ACF will also continue to monitor the Department's on-site monitoring reviews.

Of the three counties monitored in FY 2011-12, one county (Sacramento County) was chosen based on some of the on-going criteria established in the CAIP. One criterion relates to risk: if a county has been designated as "high-risk" based on the Office of Management and Budgets A-133 annual county audits. This criterion is used in conjunction with two additional criteria: a county's caseload as well as expenditure information for the largest social services programs (Foster Care and California Work Opportunity and Responsibility to Kids [CalWORKs]). Another of the original CAIP criteria was related to American Recovery and Reinvestment Act (ARRA) funding and is no longer applicable, as ARRA funding for these programs ended in September 2011.

Two additional counties (Santa Cruz County and Mendocino County) were chosen for review in FY 2011-12 based on requests from those counties for review and technical assistance. These counties had expressed concerns regarding their interpretation of allowable costs and requested the Department's assistance in validating their claims. The Department believes that reviewing a county

that has expressed claiming issues could prevent future disallowances, should improper claiming be discovered. It is important, therefore, to prioritize on-site monitoring reviews of counties that request the Department's oversight.

To correct this finding, the Department will add an additional criterion for review beginning with reviews conducted in FY 2013-14: as part of the risk-based monitoring plan, the top five counties based on caseload and expenditures will be reviewed once every five years. This will ensure that over half of the State's caseload and expenditures for the larger social services programs are reviewed regularly.

The Department will continue with one on-site monitoring review per quarter. The four counties reviewed annually will include one county based on the aforementioned risk-based monitoring plan criteria, and the three remaining counties each fiscal year will be chosen based on the original CAIP criteria or based on requests for review and technical assistance, as noted above.

Contact

Elisa Tsujihara, Chief, Fiscal Policy Bureau

Implementation Date

July 1, 2013

Auditors' Conclusion

We acknowledge actions taken by Social Services to address prior year findings and components of its risk-based approach. However, given the significance of federal funding passed through to subrecipients and the frequency with which on-site monitoring is planned, we believe Social Services should obtain a management decision from Administration for Children and Families, Food Nutrition Service, and the Centers for Medicare and Medicaid Services as to the sufficiency of its monitoring plan.

U.S.DEPARTMENT OF AGRICULTURE, U.S. DEPARTMENT OF TRANSPORTATION, U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Reference Number:	12-6
Category of Finding:	Subrecipient Monitoring
Type of Finding:	Material Weakness and Material Instance of Noncompliance
State Administering Department:	State Controller's Office (SCO)
Federal Catalog Number:	10.551, 10.561
Federal Program Title:	Supplemental Nutrition Assistance Program (SNAP) Cluster
Federal Award Number and Years:	7CA4004CA; 2012 7CA430CA; 2012 7CA4004CA; 2011 7CA430CA; 2011

Federal Catalog Number:	20.205 (ARRA), 20.219
Federal Program Title:	Highway Planning and Construction Cluster
Federal Award Number and Years:	N4510.758; 2012 N4520.208; 2011 N4520.207; 2010

Federal Catalog Number:	93.558, 93.714 (ARRA)
Federal Program Title:	Temporary Assistance for Needy Families (TANF) Cluster
Federal Award Number and Years:	C-1201CATANF; 2012 C-1101CATANF; 2011

Federal Catalog Number:	93.772, 93.775, 93.777, 93.778
Federal Program Title:	Medicaid Cluster
Federal Award Number and Years:	05 1005CA5MAP; 2011 1005CARRA; 2011 05 1005CA5MAP; 2010 1005CARRA; 2010

Criteria

STATE ADMINSTRATIVE MANUAL SECTION 20070 - FEDERAL PASS-THROUGH FUNDS

The Federal Single Audit Act of 1984 as amended by the Single Audit Act Amendment of 1996 and amendments in conjunction with the OMB Circular A-l33, defines a pass-through entity as a non-federal entity that provides a federal award to a sub recipient to carry out a federal program. OMB

Circular A-133 Sub-Section .310(b) requires a schedule of expenditures of federal awards be prepared each year and lists the requirements for completing the schedule of expenditures, including the requirement to identify the total amount provided to sub recipients.

To facilitate the identification and tracking of federal funds transferred between state agencies or state agencies and local governments, each contract, interagency agreement, or any other document controlling the disbursement of federal financial assistance must cite the applicable catalog number from the Catalog of Federal Domestic Assistance. If state matching funds are involved, specify the percentage of state and federal funds. Where federal funds are disbursed through a claim schedule, the catalog number should be recorded.

The OMB Circular A-133, Subpart D describes the responsibilities of federal agencies and pass-through entities. Specifically, Section .400(d) prescribes the responsibilities of a pass-through entity for the federal awards it makes.

To ensure that the State of California carries out its responsibilities in accordance with this federal act, the following procedures shall apply:

1. As part of the annual Single Audit, the Department of Finance (DOF) requires state agencies to provide certain financial information related to federal awards received. Specifically, agencies must provide schedules of cash and non-cash federal assistance. The information provided is consolidated by the DOF and is forwarded to the Bureau of State Audits (BSA) for inclusion in the Single Audit Report.

2. The SCO will coordinate single audit compliance with local governments.

    a. Each state entity will monitor the federal funds it disburses to local governments to ensure compliance with federal laws and regulations. State entities will receive local government audit reports performed in accordance with the Single Audit Act of 1984, P.L. 98-502, and the Single Audit Act Amendments of 1996, P.L. 104-156 from the SCO when the audit report includes a schedule of findings and questioned costs with respect to federal funds that were passed through state entities. In addition, the SCO will distribute the single audit reports to state entities when the prior fiscal year's single audit report included audit findings related to federal funds. The state entity will review these reports and evaluate the corrective action plans submitted in response to findings of noncompliance.

    b. All contracts or agreements issued by state entities concerning disbursement of federal funds to local governments will include the requirement for an audit in accordance with P.L. 104-156 and amendments.

    c. The SCO will inform units of local government to submit copies of audit reports and corrective action plans, when warranted, prepared in accordance with P.L. 104-156 and amendments directly to the SCO.

    d. The SCO will distribute copies of each audit report and corrective action plan to state entities affected by audit findings.

    e. State entities will follow up on audit findings pertaining to federal programs, which they administer, and the SCO will follow up on general findings such as those relating to internal control.

    f. The SCO will review and monitor the audit reports issued by external independent auditors. The SCO will determine whether or not the audit reports conform to Government Auditing Standards.

U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133 – AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS (OMB CIRCULAR A-133), Subpart D – Federal Agencies and Pass-Through Entities, Section .400 – Responsibilities

(d) Pass-through entity responsibilities. A pass-through entity shall perform the following for the federal awards it makes:

(4) Ensure that subrecipients expending $300,000 ($500,000 for fiscal years ending after December 31, 2003) or more in federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

(5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.

Condition

Counties, cities, towns, and special districts in California must file their OMB A-133 reports with the SCO within nine months of the entity's fiscal year-end. Upon receipt, the SCO performs a centralized desk review on behalf of all state departments. As required by SAM 20070, the SCO sends a letter to the responsible State department if findings are identified related to federal programs it manages. The State department has six months to issue its management decision. Prior communication between the SCO and the Department of Health and Human Services, the State's cognizant agency, confirmed that the six-month time period set forth by OMB A-133 Section 400 (d)(5) begins when the SCO receives the complete single audit reporting package.

The SCO does not have adequate procedures to ensure findings are identified in OMB A-133 reports and submitted to the appropriate State department. As a result, the department may not have been aware of findings applicable to its federal program and may not have issued a management decision letter. We tested 67 OMB A-133 audits submitted to and reviewed by the SCO. We found four reports contained findings applicable to federal programs administered by certain State departments that were not submitted to the respective department or submitted to a department not responsible for managing the federal program. We also found one report that contained a general finding related to internal control that impacted all of a city's federal programs. This report was not sent to any State department and the SCO did not follow up on the general finding.

During our audit, the SCO indicated that it was not fully responsible for identification of findings related to federal funds but instead State departments are ultimately responsible for review of OMB A-133 reports. However, our discussions with various State departments revealed that they rely on the initial review by the SCO and generally only follow up on findings reported to them by the SCO.

Questioned Costs

No specific questioned costs were identified.

Recommendations

The SCO should improve its desk review process and supervisor review to ensure findings are identified in OMB A-133 reports and submitted to the appropriate state department in a timely manner.

The SCO should evaluate SAM 20070 and determine if the SCO is responsible for identification of findings related to federal funds or State departments are ultimately responsible for review of OMB A-133 reports. If the SCO determines state departments are fully responsible for review of OMB A-133 reports, the SCO should work with the Department of Finance to revise SAM 20070. SAM 20070 and other communication to State departments should contain clear delineation of responsibilities between the SCO and State departments.

Department's View and Corrective Action Plan

The State Controller's Office (SCO) disagrees with the finding. The SCO is not a pass-through entity and is not required to comply with federal subrecipient requirements. However, the SCO does have oversight responsibilities as defined in SAM 20070. During our quality control review of fiscal year 2010-11 single audit reports the SCO determined that our administrative staff was not consistently identifying all audit findings in the preliminary review process, and as a result, some State departments were not notified of audit findings that may have required a management decision. As such, the SCO notified the State departments where the SCO identified discrepancies in reporting and followed up on the one general finding. However, it should be noted that none of the audit findings identified involved questioned costs.

The SCO also revised its preliminary review procedures in November of 2012, to require that all audit reports are secondarily reviewed by a lead auditor to ensure that all audit findings are identified, and that the appropriate State department is notified. The SCO has corrected all of the issues identified in the finding.

To provide perspective to this finding, in fiscal year 2010-11, the SCO monitored 704 local government agencies with 686 of these required to submit audit reports to our office. 276 audit findings were identified and 271 were referred to State departments. In addition, the SCO provides the State department with a copy of the entire reporting package when the audit findings are initially identified in our preliminary review. A second copy of the entire reporting package, along with any revisions, is provided again to the State department when the audit report is certified by our office. Finally, the State department is the ultimate responsible party for reporting these management decisions in relation to federal requirements.

It should also be noted that many State departments, such as the Department of Transportation, receive their own audit reports directly from their subrecipients and they should be following up on audit findings without relying on the SCO to identify their findings.

Contact

Jeff Brownfield Chief, Division of Audits

Implementation Date

November 15, 2012

Auditors' Conclusion

We acknowledge that the SCO is not a pass-through entity from the federal government. However, in accordance with SAM 20070, the State has developed procedures to ensure compliance with OMB Circular A-133, Subpart D, Section 400(d). The SCO is responsible for distributing the Single Audit reports to state entities when the Single Audit report includes audit findings related to federal funds passed through by the state and departments rely on this process. As we stated in our recommendation, if the SCO does not believe they are responsible for identification of findings and distributing the Single Audit reports to the state departments, the SCO should work with the Department of Finance to revise SAM 20070.

In addition, the SCO stated that it performed a quality review of the fiscal year 2010-2011 Single Audit reports and notified state departments where the SCO identified discrepancies in reporting and followed up on one general finding. For our five exceptions, neither the SCO nor the departments were able to provide evidence that these discrepancies that we identified were reported to departments or follow-up was made on the general finding.

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Reference Number:	12-7
Federal Catalog Number:	14.239
Federal Program Title:	HOME Investment Partnerships Program (HOME Program)
Federal Award Number and Years:	M11-SG060100; 2012
Category of Finding:	Subrecipient Monitoring
Type of Finding:	Significant Deficiency and Instance of Noncompliance
State Administering Department:	Department of Housing and Community Development (Housing)

Criteria

TITLE 2 – GRANTS AND AGREEMENTS, PART 25 – UNIVERSAL IDENTIFIER AND CENTRAL CONTRACTOR REGISTRATION, Appendix A to Part 25 – Award Term

I. Central Contractor Registration and Universal Identifier Requirements

B. Requirement for Data Universal Numbering System (DUNS) Numbers

If you are authorized to make subawards under this award, you:

1. Must notify potential subrecipients that no entity (see definition in paragraph C of this award term) may receive a subaward from you unless the entity has provided its DUNS number to you.

2. May not make a subaward to an entity unless the entity has provided its DUNS number to you.

Condition

Housing did not have a process in place to obtain DUNS numbers from its HOME Program subrecipients prior to awarding federal funds. As a result, HOME Program subrecipients were not aware of the requirement to provide their DUNS number to Housing. Housing obtained DUNS numbers for subrecipients of the Community Development Block Grants (CDBG) program; however, all HOME Program subrecipients do not receive CDBG funds. By not obtaining a DUNS number prior to awarding HOME Program funds, Housing puts at risk its federal funding.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Housing should implement a process to obtain DUNS numbers from HOME Program subrecipients prior to approving the subaward.

Department's View and Corrective Action Plan

HOME agrees with the finding. The HOME Program began requesting Duns & Bradstreet Report's on the 2012 Project Applications for Developers which will provide Duns number for most of our Community Housing Development Organization (CHDO) Sub recipients. We plan to begin requesting the Duns Number in all of our 2013 Applications and inform the Applicants during our Notice of

Funding Availability (NOFA) Training. Once we are able to begin input for our 2011/12 Awards in the FSRS system, HOME plans to evaluate any additional information required for entry into FSRS site and to send a request to our Awardees, if additional information is required. This information will also then be incorporated into the applications, as applicable

Responsible Person

Tom Bettencourt, Branch Chief, HOME Investment Partnerships Program

Implementation Date

June 30, 2013

U.S. DEPARTMENT OF LABOR

Reference Number:	12-8
Federal Catalog Number:	17.225
Federal Program Title:	Unemployment Insurance (UI)
Federal Award Number and Years:	UI-22264-12-55-A-6; 2011 UI-21088-11-55-A-6; 2010
Category of Finding:	Special Tests and Provisions
Type of Finding:	Material Weakness
State Administering Department:	Employment Development Department (EDD)

Criteria

TITLE 20 OF THE CODE OF FEDERAL REGULATIONS, REGULATIONS, CHAPTER V – EMPLOYMENT AND TRAINING ADMINISTRATION, DEPARTMENT OF LABOR, PART 602 – QUALITY CONTROL IN THE FEDERAL-STATE UNEMPLOYMENT INSURANCE SYSTEM, SUBPART B – Federal Requirements, Section 602.11, Secretary's Interpretation:

(a) The Secretary interprets Section 303(a)(1), SSA, to require that a State law provide for such methods of administration as will reasonably ensure the prompt and full payment of unemployment benefits to eligible claimants, and collection and handling of income for the State unemployment fund (particularly taxes and reimbursements), with the greatest accuracy feasible.

State Administrative Manual, Section 5300 – Information security means the protection of information and information systems, equipment, and people from a wide spectrum of threats and risks. Implementing appropriate security measures and controls to provide for the confidentiality, integrity, and availability of information, regardless of its form (electronic, print, or other media) is critical to ensure business continuity and protection against unauthorized access, use, disclosure, disruption, modification, or destruction.

State Administrative Manual, Section 5305 – State agencies need to ensure the integrity of computerized information resources by protecting them from unauthorized access, modification, destruction, or disclosure and to ensure the physical security of these resources.

Condition

EDD uses the Accounting and Compliance Enterprise System (ACES) to calculate tax liabilities and process payment information and experience ratings for employers. During the audit period, EDD's formal information security and user awareness policies and procedures were being revised due to a prior year audit finding. However, the formal policy was not in place for the entire fiscal year. Also, the information technology (IT) general controls over logical access were not operating effectively. EDD did not have a policy to formally document timely deactivation of employee's access to ACES. In addition, the IT general controls over emergency and system changes to ACES also were not operating effectively. EDD did not enforce proper segregation of duties and did not follow its policy and maintain evidence of approval prior to changes being made. Finally, EDD did not logically separate the production and development environments within ACES.

- We found four terminated employees whose system access was not deactivated timely.
- We noted that one employee's deactivation from ACES was not evidenced on the EDD separation checklist that is used when an employee is terminated. Therefore, we could not determine whether the employee's access was deactivated timely.

- We found that EDD does not have a policy or procedures to review logical access to ACES on a periodic basis, and therefore, the reviews were not taking place.
- We found 10 of 40 system changes that were not properly approved prior to implementation.
- We found 13 of 40 emergency changes for which EDD was not able to provide evidence of management approval prior to implementation.
- We found nine employees who had access to approve and develop code changes to the staging environment, which does not promote proper segregation of duties.

Questioned Costs

No specific questioned costs were identified.

Recommendations

EDD should strengthen its IT general controls over ACES. EDD should:

1. Remove access upon termination and maintain evidence to reflect timely deactivation, and review access on a periodic basis.
2. Enforce segregation of duties so that employees cannot make and approve changes to ACES.
3. Ensure program changes are approved by authorized individuals prior to implementation.

Department's View and Corrective Action Plan

The EDD agrees that general IT controls over ACES should be strengthened. The EDD has been working to strengthen ACES controls and protect financial information stored in the ACES by implementing the following corrective actions.

The EDD will address timely deactivation of terminated employees. EDD will modify the instructions for the ACES access activation and deactivation request to address the identified deficiencies and work to modify its Appointment/Separation Checklist to include a step for notifying the proper unit of user terminations. EDD has also reminded managers and external agency single point of contacts to timely submit a security case or email request whenever a user transfers or separates. These reminders will continue to be sent out at regular intervals. Finally, EDD has implemented a quarterly process to deactivate users with 90 days or more of inactivity.

The EDD is developing procedures to review the logical access to ACES and will conduct a formal review of the logical access of each security group to evaluate the appropriateness of the current access. EDD has removed users from a number of the security groups who did not have sufficient business needs and have further refined the criteria for restricting a user's ability to access certain groups. EDD will continue conducting reviews at least annually.

The EDD will also work to improve change control and has fully implemented a proper segregation of duties. All code changes made through the Solution Request Manager must go through multiple levels of approval, including the Change Control Board (CCB), before being migrated into production. The CCB has developed a comprehensive process to address an Emergency Change Request that includes five levels of approval. As an added security measure, the software used for the ACES code migration prevents any code changes once it enters the staging environment.

Contact

Carol Hallett, Alan Cooper, and Rafael Rosas, Tax Branch
Thea Man, Andrew Hall, and Navin Arora, IT Branch

Implementation Date

March 1, 2013

Reference Number:	12-9
Federal Catalog Number:	17.225
Federal Program Title:	Unemployment Insurance
Federal Award Number and Years:	UI-22264-12-55-A-6; 2011 UI-21088-11-55-A-6; 2010
Category of Finding:	Special Tests and Provisions – UI Benefit Payments
Type of Finding:	Significant Deficiency and Instance of Non-Compliance
State Administering Department:	Employment Development Department (EDD)

Criteria

20 CFR PART 602, QUALITY CONTROL (QC) IN THE FEDERAL STATE UNEMPLOYMENT INSURANCE SYSTEM, SUBPART B FEDERAL REQUIREMENTS, SEC. 11 SECRETARY'S INTERPRETATION

(d) To satisfy the requirements of Sections 303(a) (1) and (6), a State law must contain a provision requiring, or which is construed to require, the establishment and maintenance of a QC Program in accordance with the requirements with the requirements of this part.

Condition

An EDD Benefit Accuracy Measurement (BAM) analyst misclassified the results of a file review and the peer review performed by another BAM analyst did not detect the error. We selected a sample of 40 BAM-reviewed cases (25 benefit payment cases and 15 denial cases) and found one case in which a denied claim was classified as a proper denial; however, the supporting documentation for the case showed that the claim should not have been denied. EDD reprocessed and approved the claim and the claim did not constitute an underpayment. However, the misclassification and review by a peer analyst that did not detect the misclassification constitutes a failure in the operation of the BAM review process.

Questioned Costs

No specific questioned costs were identified.

Recommendations

EDD should reinforce its policies and procedures, and provide additional training as necessary, to ensure BAM analysts properly classify results and peer reviewers perform thorough reviews over case files.

Department's View and Corrective Action Plan

The EDD agrees that the error occurred, and as a result, incorrect statistics were reported to the U.S. Department of Labor. In its follow-up assessment of the situation, the EDD determined the error occurred due to a misunderstanding by the initial reviewer and an oversight on the part of the peer reviewer. Additional training and guidance have been provided to the employees involved in this instance.

The Benefit Accuracy Measurement (BAM) program managers currently review 100 percent of cases for trainees and check cases after the peer review has been completed for trained analysts on a sample basis; a practice that EDD will continue. All staff involved in the BAM program, including those performing peer reviews, have been reminded of the importance of conducting thorough reviews of the BAM cases. Peer reviewers have been further reminded to ensure errors are corrected prior to final findings being reported.

Training is ongoing in the BAM program as policies/procedures are revised or errors are identified. Additionally, all BAM staff participate in a monthly conference call in which various issues and questions on coding are addressed. This particular issue will be discussed during the next conference call.

Contact

Lori Hofer, UI Policy & Coordination Division, UI Branch

Implementation Date

October 18, 2012

Reference Number:	12-10
Federal Catalog Number:	17.225
Federal Program Title:	Unemployment Insurance
Federal Award Number and Years:	UI-21088-11-55-A-6; 2010 UI-19571-10-55-A-6; 2009
Category of Finding:	Special Tests and Provisions – Awards with ARRA Funding
Type of Finding:	Significant Deficiency and Instance of Non-Compliance
State Administering Department:	Employment Development Department (EDD)

Criteria

TITLE 2 – GRANTS AND AGREEMENTS, PART 176 – AWARD TERMS FOR ASSISTANCE AGREEMENTS THAT INCLUDE FUNDS UNDER THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009, PUBLIC LAW 111-5, Subpart D – Single Audit Information for Recipients of Recovery Act Funds, Section 176.210 – Award term – Recovery Act Transactions listed in the Schedule of Expenditures of Federal Awards and Recipient Responsibilities for Informing Subrecipients.

(a) To maximize the transparency and accountability of funds authorized under the American Recovery and Reinvestment Act of 2009 (Pub. L. 111-5) (Recovery Act) as required by Congress and in accordance with 2 CFR 215.21 "Uniform Administrative Requirements for Grants and Agreements" and OMB Circular A-102 Common Rules provisions, recipients agree to maintain records that identify adequately the source and application of Recovery Act funds.

Condition

EDD has not updated its financial management systems to allow it to separately identify and report on Recovery Act funds expended for certain benefits paid under the UI program. EDD could not separately identify Recovery Act expenditures for the Federal Additional Compensation (FAC) program, the Emergency Unemployment Compensation (EUC) program, or the Federal-State Extended Benefits (Fed-Ed) program.

During fiscal year 2011-12, the UI program expended $16 billion, which included both Recovery Act and non–Recovery Act funds. Of the several types of unemployment benefit programs, the EUC and Fed–Ed programs expended Recovery Act funds. In fiscal year 2011-12, EDD spent $8.4 billion on these programs. However, since EDD is unable to separately identify Recovery Act funds, it cannot identify what portion of the total expenditures for these two programs were paid for with Recovery Act funds.

Questioned Costs

No specific questioned costs were identified.

Recommendations

EDD should continue its efforts to update its financial management systems so that it can separately identify Recovery Act expenditures from non-Recovery Act expenditures.

Department's View and Corrective Action Plan

The EDD has partially completed programming changes to revise the 58 different financial reports. Programming for the Benefit Accounting Group's (BAG) 28 reports are complete, including report fixes needed for BAG's monthly reports, and the clarification of the Federal Additional Compensation (FAC) benefits for ARRA and post-ARRA funds. The process for rerunning these reports, beginning with July 2008, is currently being finalized. Once the first two months of reports have been rerun, EDD will develop a schedule for running the remaining months. Modifications have been started for the remaining 30 Overpayment Accounting and Reporting Group (OARG) reports and once complete, testing will be scheduled. After the OARG reports are tested and released, the reruns of those reports will be scheduled. As has been the case previously, the schedule of the accounting reports may be impacted by other legislative mandates or project priorities, such as the Continued Claims Redesign project.

Contact

Cathy Barratt, Unemployment Insurance Branch
Sumi Smith, Information Technology Branch

Implementation Date

June 30, 2013

Reference Number:	12-11
Federal Catalog Number:	17.258, 17.259, 17.278
Federal Program Title:	Workforce Investment Act (WIA) Cluster
Federal Award Number and Years:	AA-20183-11-55-A-6; 2012 AA-21384-10-55-A-6; 2011
Category of Finding:	Reporting

Type of Finding:	Significant Deficiency and Instance of Noncompliance
State Administering Department:	Employment Development Department (EDD)

Criteria

FEDERAL FUNDING ACCOUNTABILITY TRANSPARENCY ACT; TITLE 2 – GRANTS AND AGREEMENTS, Appendix A to Part 170 – Award Term

Reporting subaward and executive information compensation:

(a) Reporting of first tier subawards.

(1) Applicability. Unless you are exempt as provided in paragraph d. of this award term, you must report each action that obligates $25,000 or more in federal funds that does not include Recovery funds (as defined in section 1512(a)(2) of the American Recovery and Reinvestment Act of 2009, Pub. L. 111 5) for a subaward to an entity.

Condition

EDD did not have a process in place to comply with reporting requirements of the Federal Funding Accountability Transparency Act (FFATA) for the WIA Cluster. Although EDD approved subawards greater than $25,000 from its WIA grant, it failed to report these subawards to the FFATA Subaward Reporting System as required. Failure to implement adequate controls over FFATA reporting increases the risk of late or nonsubmission of subaward information.

Questioned Costs

No specific questioned costs were identified.

Recommendations

EDD should implement policies and procedures to report subaward information under the FFATA Act.

Department's View and Corrective Action Plan

The EDD concurs with this finding and has taken action to correct the deficiency. EDD issued Workforce Services Directive12-11, "FFATA Compensation Data Reporting Requirements," in January 2013 that provided guidance to federally funded sub-awardees and subcontractors on Federal Funding Accountability and Transparency Act (FFATA) reporting requirements. Implementation of this Directive will effectively address this finding.

Contact

Greg Gibson, Deputy Chief, Budget, Policy, Capacity Building and Administration Section

Implementation Date

January 18, 2013

Reference Number:	12-12
Federal Catalog Number:	17.258, 17.259, 17.278
Federal Program Title:	Workforce Investment Act (WIA) Cluster

Federal Award Number and Years:	AA-20183-11-55-A-6; 2012 AA-21384-10-55-A-6; 2011
Category of Finding:	Subrecipient Monitoring
Type of Finding:	Significant Deficiency and Instance of Noncompliance
State Administering Department:	Employment Development Department (EDD)

Criteria

U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133 – *AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS* (OMB CIRCULAR A-133), Subpart D – Federal Agencies and Pass-Through Entities, Section .400 – Responsibilities

(d) Pass-through entity responsibilities. A pass-through entity shall perform the following for the federal awards it makes:

(4) Ensure that subrecipients expending $300,000 ($500,000 for fiscal years ending after December 31, 2003) or more in federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

(5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.

Condition

EDD did not have adequate controls to issue management decisions on findings reported in OMB Circular A-133 reports within six months after receipt of the subrecipient's audit report. We tested 22 audits and found 2 in which the management decision letter was not issued within six months of the receipt of the subrecipient's OMB Circular A-133 report. Failure to comply with timely issuance of management decisions on audit findings will not allow the subrecipient to take appropriate and timely corrective action.

Questioned Costs

No specific questioned costs were identified.

Recommendations

EDD should strengthen its policies and procedures to ensure that management decision letters are issued for audit findings within six months after receipt of the subrecipient's audit report.

Department's View and Corrective Action Plan

The EDD concurs with the finding and will implement new procedures to correct the deficiency. Those procedures include using online automated tools to track the status of the management decision and send automated alerts to keep the decision process on schedule. EDD will also shorten the process time line followed to review audit findings and make management decisions. These steps will ensure that management decisions are made and issued timely.

Contact

Jessie Mar, Staff Services Manager III

Implementation Date

February 15, 2013

Reference Number:	12-13
Federal Catalog Number:	17.258, 17.259, 17.278
Federal Program Title:	Workforce Investment Act (WIA) Cluster
Federal Award Number and Years:	AA-20183-11-55-A-6; 2012 AA-21384-10-55-A-6; 2011
Category of Finding:	Subrecipient Monitoring
Type of Finding:	Significant Deficiency and Instance of Noncompliance
State Administering Department:	Employment Development Department (EDD)

Criteria

TITLE 2 – GRANTS AND AGREEMENTS, PART 25 – UNIVERSAL IDENTIFIER AND CENTRAL CONTRACTOR REGISTRATION, Appendix A to Part 25 – Award Term

I. Central Contractor Registration and Universal Identifier Requirements

B. Requirement for Data Universal Numbering System (DUNS) Numbers

If you are authorized to make subawards under this award, you:

3. Must notify potential subrecipients that no entity (see definition in paragraph C of this award term) may receive a subaward from you unless the entity has provided its DUNS number to you.

4. May not make a subaward to an entity unless the entity has provided its DUNS number to you.

Condition

EDD did not ensure its subrecipients provided DUNS numbers prior to awarding WIA funds. EDD indicated that it was unaware of these requirements and, as such, EDD did not implement a process to inform its subrecipients of the requirement. By not obtaining the DUNS number prior to awarding funds, EDD puts at risk its federal funding.

Questioned Costs

No specific questioned costs were identified.

Recommendations

EDD should implement a process to obtain DUNS numbers from subrecipients prior to approving subaward of federal funds.

Department's View and Corrective Action Plan

The EDD concurs with this finding and has taken action to correct the deficiency. EDD issued Workforce Services Directive 12-11 "FFATA Compensation Data Reporting Requirements" in January 2013 that provided guidance to federally funded sub-awardees and subcontractors on Federal Funding

Accountability and Transparency Act (FFATA) reporting requirements. This Directive also requires that DUNS numbers be reported to EDD. In addition, EDD has revised the Subgrantee Tax Identification form which is sent out for completion with all bilateral (new) sub-grant packages to include a request for the DUNS number. Implementation of these actions will effectively address this finding.

Contact

Greg Gibson, Deputy Chief, Budget, Policy, Capacity Building and Administration Section

Implementation Date

January 18, 2013

U.S. DEPARTMENT OF TRANSPORTATION

Reference Number:	12-14
Federal Catalog Number:	20.205 (ARRA)
Federal Program Title:	Highway Planning and Construction Cluster
Federal Award Number and Years:	N4510.758; 2012 N4520.208; 2011 N4520.207; 2010
Category of Finding:	Cash Management, Matching, and Reporting
Type of Finding:	Material Weakness
State Administering Department:	California Department of Transportation (Caltrans)

Criteria

U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133—*AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS* (OMB Circular A-133), Subpart C—Auditees, Section .300—Auditee Responsibilities

(b) Maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.

State Administrative Manual, Section 5300 – Information security means the protection of information and information systems, equipment, and people from a wide spectrum of threats and risks. Implementing appropriate security measures and controls to provide for the confidentiality, integrity, and availability of information, regardless of its form (electronic, print, or other media) is critical to ensure business continuity and protection against unauthorized access, use, disclosure, disruption, modification, or destruction.

State Administrative Manual, Section 5305 – State agencies need to ensure the integrity of computerized information resources by protecting them from unauthorized access, modification, destruction, or disclosure and to ensure the physical security of these resources.

Condition

Caltrans uses the Advantage Financial ERP system (Advantage) as its accounting system. This system is critical to federal compliance since the system is configured to calculate and submit requests to the Federal Highway Administration (FHWA) for reimbursement, to calculate the State's share of expenditures (matching), and report expenditures to FHWA for the Highway Planning and Construction program. We found the information technology (IT) general controls over logical access and system changes were not properly designed. Lack of adequate IT general controls could result in inappropriate access and unauthorized changes to the system.

Caltrans grants access to Advantage based on approval by an employee's direct supervisor. The Security and Workflow Section relies on the employee's supervisor to assign the appropriate role or privilege and Caltrans has no role manager, such as a gatekeeper or knowledge manager, to determine whether the access privileges requested are appropriate given the employee's role and responsibility. For federal compliance, the Data Management Section can initiate the system processes that result in federal billings and Project Control Staff can modify matching information within Advantage. These roles should be reviewed by the business owner to ensure access is appropriate. In addition, Caltrans does not periodically review employee access to ensure such access remains appropriate.

Caltrans uses a system administrator/system developer account to implement system changes and the two system administrators do not have unique user IDs indicating who implemented the change. In addition, the two developers have access to the production environment. With proper segregation of duties, developers should not be able to change production code.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Caltrans should strengthen Advantage IT general controls over logical access and system changes. Caltrans should:

1. Implement a role manager for certain key roles or user profiles to ensure access is appropriate.

2. Implement periodic reviews of user access and assigned privileges.

3. Implement unique user IDs for system administrators and ensure segregation of duties with developers.

Department's View and Corrective Action Plan

Caltrans concurs with the recommendations.

1. Caltrans will identify key roles and user profiles for the Advantage system. Role managers will be designated who will provide a secondary approval in addition to supervisory approval for access to the key roles and user profiles. These actions will be completed by May 1, 2013.

2. Caltrans will institute a policy for periodic review of employees' assigned access to the Advantage system. This policy will require review by role managers and/or supervisors. These actions will be completed by May 1, 2013.

3. Caltrans has implemented changes to ensure that system administrators have unique IDs which can be used to identify who implements changes in the production environment. In addition, Caltrans has implemented a change where development staff do not have access to the production environment and are unable to change production code. This action was completed on February 19, 2013.

Contact

1. Frank Garcia, Reporting and Data Control Branch, Division of Accounting
2. Frank Garcia, Reporting and Data Control Branch, Division of Accounting
3. Paul Allen, IT Solutions Branch, Division of Information Technology

Implementation Date

See above.

Reference Number:	12-15
Federal Catalog Number:	20.205 (ARRA)
Federal Program Title:	Highway Planning and Construction Cluster

Federal Award Number and Years:	N4510.758; 2012 N4520.208; 2011 N4520.207; 2010
Category of Finding:	Subrecipient Monitoring
Type of Finding:	Significant Deficiency and Instance of Noncompliance
State Administering Department:	California Department of Transportation (Caltrans)

Criteria

TITLE 2 – GRANTS AND AGREEMENTS, PART 25 – UNIVERSAL IDENTIFIER AND CENTRAL CONTRACTOR REGISTRATION, Appendix A to Part 25 – Award Term

I. Central Contractor Registration and Universal Identifier Requirements

B. Requirement for Data Universal Numbering System (DUNS) Numbers

If you are authorized to make subawards under this award, you:

5. Must notify potential subrecipients that no entity (see definition in paragraph C of this award term) may receive a subaward from you unless the entity has provided its DUNS number to you.

6. May not make a subaward to an entity unless the entity has provided its DUNS number to you.

Condition

Caltrans did not have a process in place to obtain DUNS numbers from its subrecipients prior to awarding Highway Planning and Construction funds. As a result, subrecipients were not aware of the requirement to provide their DUNS number to Caltrans. By not obtaining a DUNS number prior to awarding funds, Caltrans puts at risk its federal funding.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Caltrans should implement a process to obtain DUNS numbers from subrecipients prior to approving the subaward.

Department's View and Corrective Action Plan

Caltrans concurs with the recommendation.

Caltrans will notify all Divisions that subrecipients of federal funds shall have a DUNS number and include that number in their subaward application. No federal funds will be subawarded if a DUNS number is not provided.

The notification will request each Division, authorized to make subawards, to notify potential subrecipients that no entity may receive a subaward from Caltrans unless the entity has obtained a DUNS number and provided it to Caltrans. Each Division will be requested to review and modify their internal guidelines and procedures, as necessary, to ensure the DUNS number is included as part of the required information to determine subrecipient eligibility for subawards.

Contact

Fardad Falakfarsa, Office of Federal Resources, Division of Budgets

Implementation Date

March 15, 2013

U.S. DEPARTMENT OF ENERGY

Reference Number:	12-16
Federal Catalog Number:	81.041 (ARRA)
Federal Program Title:	State Energy Program
Federal Award Number and Years:	DE-EE0000221; 2012
Category of Finding:	Cash Management
Type of Finding:	Significant Deficiency
State Administering Department:	California Energy Commission (Energy Commission)

Criteria

TITLE 31 – MONEY AND FINANCE: TREASURY, CHAPTER II – FISCAL SERVICE, DEPARTMENT OF THE TREASURY, PART 205 – RULES AND PROCEDURES FOR EFFICIENT FEDERAL STATE FUNDS TRANSFERS, Subpart A – Rules Applicable to

Federal Assistance Programs Included in a Treasury – State Agreement, Section 205.11.

(a) A state and a federal program agency must minimize the time elapsing between the transfer of funds from the United States Treasury and the state's payout of funds for federal assistance program purposes, whether the transfer occurs before or after the payout of funds.

TITLE 10 – ENERGY, PART 600 – FINANCIAL ASSISTANCE RULES, Subpart C – Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, Section 600.221 – Payment.

(i) Interest earned on advances. Unless there are statutory provisions to the contrary, grantees and subgrantees shall promptly, but at least quarterly, remit to the federal agency interest earned on advances. The grantee of subgrantee may keep interest amounts up to $100 per year for administrative expenses.

The Energy Commission follows the California Prompt Pay Act, which requires payments to be made to contractors and subrecipients within 45 days of the receipt of the federal funds.

Condition

The Energy Commission did not have adequate controls in place to ensure cash management requirements were met for the State Energy Program. We tested 16 cash draws and found that the Energy Commission disbursed the funds for two draws well after the funds were received from the federal government. The Energy Commission disbursed one draw 87 days after the funds were received from the federal government. The Energy Commission stated that this delay was the result of a vendor contract amendment that was not on file with the State Controller's Office (SCO), which would have allowed the SCO to continue to disburse payments to the vendor. The second draw exception was related to loan payments for which the loans were subsequently canceled. The Energy Commission subsequently disbursed this draw between 93 days to 329 days after receipt of the federal funds.

In addition, the Energy Commission does not have a process in place to accrue and pay interest to the federal government for the number of days federal cash is held by the Energy Commission. The Energy Commission contacted the U.S. Department of Energy (DOE) and was instructed not to pay interest on these draws because the Energy Commission did not have a process to accrue interest. However, a

management decision letter has not been obtained from the DOE to exempt the Energy Commission from paying interest in the future. As a result, the Energy Commission was not in compliance with federal requirements and the California Prompt Pay Act requirements for the State Energy Program.

Finally, the Energy Commission did not have adequate segregation of duties when submitting cash draw requests to the federal government until November 2012. During fiscal year 2011-12, Energy Commission staff processed payment requests and initiated the cash draw without a review and approval of the draw request. Lack of adequate segregation of duties could result in improper amounts drawn from the federal government.

Questioned Costs

No specific questioned costs were identified.

Recommendations

The Energy Commission should improve controls over cash management. The Energy Commission should:

1. Ensure that all contract amendments are submitted to the SCO on a timely basis and strengthen its policies over cash draws in order to ensure funds are disbursed within the time line of the California Prompt Pay Act.

2. Implement a policy to track and remit interest earned to the federal government, or obtain a management decision letter from the DOE that waives the requirement to remit any interest over $100.

3. Follow its policies and procedures over cash draws to ensure proper segregation of duties.

Department's View and Corrective Action Plan

1. Some contract amendments go to the Department of General Services (DGS) for approval, while others do not require DGS approval. If DGS receives an amendment from us, they forward the amendment to SCO after they approve it. Our Contract Office sends amendments to SCO if DGS does not.

   For the situation noted where SCO did not receive the amendment, it is impossible to determine whether that amendment was lost by SCO or was never received by them, as amendments are not sent by certified mail.

   The claim schedule in question was returned to us the first time because SCO said they did not have a copy of the amendment. The schedule was returned a second time because SCO erroneously concluded that the contract was overspent. We sent a spreadsheet to SCO showing what was spent, and SCO agreed that their records were in error.

   In regards to the second draw exception related to loan payments, we were told by the Department of Energy (DOE) to retain the funds and use them for future expenditures.

2. As explained to auditors during the course of their review, we have had several phone conversations and e-mail exchanges with our DOE Project Officer explaining the cause for the excess fund draw. The Energy Commission did not track or remit interest to DOE due to the fact the State Federal Trust Fund does not earn interest and DOE understood and accepted this fact. Based on this understanding, the Energy Commission did not calculate interest earnings. If this situation were to occur again, the Energy Commission would ensure an agreement with DOE is followed with a management decision letter.

3. Effective November 1, 2012, we began to follow our new policies and procedures over cash draws to ensure proper segregation of duties.

Contact

Mark Jones, Accounting Administrator

Implementation Date

November 1, 2012

Auditors' Conclusion

We acknowledge the correspondence that took place between the Energy Commission and DOE. However, we believe the Energy Commission should obtain a management decision from DOE that waives the requirement to remit any interest over $100.

Reference Number:	12-17
Federal Catalog Number:	81.041 (ARRA)
Federal Program Title:	State Energy Plan
Federal Award Number and Years:	DE-EE0000221; 2012
Category of Finding:	Reporting
Type of Finding:	Significant Deficiency
State Administering Department:	California Energy Commission (Energy Commission)

Criteria

U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133 – *AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS* (OMB Circular A-133), Subpart C – Auditees, Section .300 – Auditee Responsibilities

The auditee shall:

(b) Maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements related to each of its federal programs.

Condition

The Energy Commission does not have proper controls in place to evidence its review of the SF-425, Federal Financial Report, prior to submission. Failure to maintain adequate controls increases the risk that the Energy Commission may report inaccurate information to the federal government.

Questioned Costs

No specific questioned costs were identified.

Recommendations

The Energy Commission should strengthen controls over the reporting process to include evidence of review by someone other than the preparer prior to submission.

Department's View and Corrective Action Plan

The Grants & Loans Office has been reviewing the SF-425 reports in the past, but did not notate their review.

Effective with the March 31, 2013 reports, the Grants & Loans Officer will be reviewing and signing off on the SF-425 reports before the Accounting Officer submits them to DOE.

Contact

Mark Jones, Accounting Administrator

Implementation Date

March 31, 2013

U.S. DEPARTMENT OF EDUCATION

Reference Number:	12-18
Category of Finding:	Reporting
Type of Finding:	Significant Deficiency and Instance of Noncompliance
State Administering Department:	California Department of Education (Education)
Federal Catalog Number:	84.010
Federal Program Title:	Title I, Part A Cluster
Federal Award Number and Years:	S010A100005A; 2011 S010A110005A; 2010 S010A090005A; 2009 S389A090005A; 2009

Federal Catalog Number:	84.011
Federal Program Title:	Migrant Education – State Grant Program
Federal Award Number and Years:	S011A110005A; 2011 S011A100005A; 2010 S011A090005A; 2009

Federal Catalog Number:	84.027, 84.173
Federal Program Title:	Special Education Cluster (IDEA)
Federal Award Number and Years:	H027A110116; 2011 H173A110120; 2011 H173A100120; 2010 H027A100116; 2010 H027A090116; 2009 H173A090120; 2009 H391A090116A; 2009 H392A090120A; 2009

Federal Catalog Number:	84.048
Federal Program Title:	Career and Technical Education – Basic Grants to States
Federal Award Number and Years:	V048A110005; 2011 V048A100005; 2010 V048A090005; 2009

Federal Catalog Number:	84.287
Federal Program Title:	Twenty-First Century Community Learning Centers
Federal Award Number and Years:	S287C110005; 2011 S287C100005; 2010 S287C090005; 2009

Federal Catalog Number:	84.365
Federal Program Title:	English Language Acquisition Grants
Federal Award Number and Years:	T365A110005A; 2011 T365A100005A; 2010 T365A100005A; 2009

Federal Catalog Number:	84.367
Federal Program Title:	Improving Teacher Quality State Grants
Federal Award Number and Years:	S367A110005A; 2011 S367A100005A; 2010 S367A090005A; 2009

Federal Catalog Number:	84.377
Federal Program Title:	School Improvement Grants Cluster
Federal Award Number and Years:	S377A110005; 2011 S377A100005; 2010 S377A090005A; 2009

Federal Catalog Number:	10.553, 10.555, 10.556, 10.559
Federal Program Title:	Child Nutrition Cluster
Federal Award Number and Years:	58-3198-7430; 2011

Federal Catalog Number:	10.558
Federal Program Title:	Child and Adult Care Food Program
Federal Award Number and Years:	7CA300CA4; 2011

Federal Catalog Number:	93.575, 93.596
Federal Program Title:	CCDF Cluster
Federal Award Number and Years:	G1101CACCDF; 2011 G1101CACCD7; 2011 G1001CACCDF; 2010 G1001CACCD7; 2010

Criteria

FEDERAL FUNDING ACCOUNTABILITY TRANSPARENCY ACT; TITLE 2 – GRANTS AND AGREEMENTS, Appendix A to Part 170 – Award Term

Reporting subaward and executive information compensation:

(a) Reporting of first tier subawards.

(1) Applicability. Unless you are exempt as provided in paragraph d. of this award term, you must report each action that obligates $25,000 or more in federal funds that does not include Recovery funds (as defined in Section 1512(a)(2) of the American Recovery and Reinvestment Act of 2009, Pub. L. 111 5) for a subaward to an entity.

Condition

Education did not comply with reporting requirements of the Federal Funding Accountability Transparency Act (FFATA) for each of its federally funded programs. Education reported subaward information for the Career and Technical Education (CTE) – Basic Grants to States program as a pilot for reporting all programs in fiscal year 2011-12, but Education did not report information for each of its other programs. For the CTE program, we found that Education did not have adequate controls to ensure the subaward information was accurate. Education did not include one local education agency in the report due to insufficient DUNS documentation. Education's failure to implement adequate controls over FFATA increases the risk that inaccurate or incomplete information will be reported.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Education should implement policies and procedures to report subaward information under the Federal Funding Accountability Transparency Act and implement controls to ensure information is accurate and complete.

Department's View and Corrective Action Plan

To effectively improve subaward information reporting under the Transparency Act, as mentioned by the auditors, Education implemented a pilot submission with its Career and Technical Education Program. Once the submission process is deemed to be working as intended, Education plans to expand the new submission process to other federal programs.

Contact

Mark Baude, Accounting Administrator III, Fiscal and Administrative Services Division

Implementation Date

September 30, 2013

Reference Number:	12-19
Category of Finding:	Subrecipient Monitoring
Type of Finding:	Significant Deficiency and Instance of Noncompliance
State Administering Department:	California Department of Education (Education)
Federal Catalog Number:	84.010, 84.389 (ARRA)
Federal Program Title:	Title I, Part A Cluster

Federal Award Number and Years:	S010A110005; 2011 S010A100005; 2010 S389A090005A; 2009 S010A090005; 2009

Federal Catalog Number:	93.575, 93.596
Federal Program Title:	CCDF Cluster
Federal Award Number and Years:	7CA300CA3; 2011 7CA300CA3; 2010 7CA300CA3; 2009

Criteria

TITLE 31 – MONEY AND FINANACE, SUBTITLE V – GENERAL ASSISTANCE ADMINISTRATION, CHAPTER 75 – REQUIREMENTS FOR SINGLE AUDITS, Section 7502 – Audit Requirements

(f)(2) Each pass-through entity shall –

(B) Monitor the subrecipient's use of federal awards through site visits, limited scope audits, or other means.

(C) Review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the Director, pertaining to federal awards provided to the subrecipient by the pass through entity

Condition

Education lacks adequate controls over monitoring of local educational agencies participating in Title I grants and Child Care and Development Grant programs. Federal Program Monitoring Unit (FPM) consultants perform on-site monitoring over assigned subrecipients. However, Education lacks evidence of review by a Regional Team Lead over the on-site monitoring visit and related findings. In addition, Education lacks adequate controls to ensure subrecipients implement proposed corrective actions in a timely manner on deficiencies its consultants identified. Education does not have a sufficient tracking mechanism to determine when subrecipients are approaching the due date for corrective action so that Education can perform follow-up. Education requires subrecipients to resolve findings within 45 calendar days after the date of the notification of findings. However, Education can grant subrecipients a resolution agreement period which allows for a reasonable amount of time to resolve findings. The local education agency must resolve the finding within 225 calendar days from date of the notification of findings. We tested 18 of 120 subrecipients that were reviewed by FPM and found one had not responded by the required 45 days, and four had findings with an unresolved status of more than 225 days. Education's failure to determine whether corrective action was implemented on deficiencies noted in the on-site reviews increases the risk of noncompliance with federal requirements.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Education should strengthen controls over the department's on-site monitoring process to include evidence of reviews by Regional Team Leads over the on-site monitoring visits and related findings. In addition, Education should implement procedures to ensure subrecipients respond to findings within the timeline outlined in the department's policy.

Department's View and Corrective Action Plan

Education plans to update the Federal Program Monitoring Protocols to include documentation of Regional Team Lead review of findings by program reviewers. Education continues to expand the use of automatic notifications in the California Accountability and Improvement System, a Web-based monitoring system, to inform program reviewers and local educational agency (LEA) staff of the deadlines for resolving items. Corrective action deadlines will also be reiterated during program reviewer and LEA training.

Contact

Cindy Kazanis, Education Administrator, Federal Program Monitoring Office

Implementation Date

August 2013

Reference Number:	12-20
Federal Catalog Number:	84.011
Federal Program Title:	Migrant Education – State Grant Program
Federal Award Number and Years:	S010A110005; 2011 S010A100005; 2010 S010A090005; 2009
Category of Finding:	Reporting and Special Tests and Provisions
Type of Finding:	Significant Deficiency
State Administering Department:	California Department of Education (Education)

Criteria

OMB CIRCULAR A-133 COMPLIANCE SUPPLEMENT – CONSOLIDATED STATE PEFORMANCE REPORT, Part II, EDUCATION OF MIGRANT CHILDREN (Title I, Part C)

A state education agency (SEA) must annually report population and program performance data that includes the unduplicated number of migrant children who were identified within the State as eligible to be served by the MEP, and who were identified within the State as having priority for services as defined in Title I, Part C, Section 1304(d) of ESEA (20 USC 6394(d).

34 CFR 200.89, MEP ALLOCATIONS; REINTERVIEWING; ELIGIBILITY DOCUMENTATION; AND QUALITY CONTROL

(d) Responsibilities of an SEA to establish and implement a system of quality controls for the proper identification and recruitment of eligible migratory children. An SEA must establish and implement a system of quality controls for the proper identification and recruitment of eligible migratory children on a statewide basis.

Condition

Education uses the Migrant Student Information Network (MSIN) to collect child count data which is submitted on the Consolidated State Performance Report (CSPR) to the U.S. Department of Education. MSIN is owned by, and the data collection process is managed by, a nonprofit organization on behalf of Education. Education relies on the nonprofit organization to establish the system of quality controls

required by federal regulation and ensure an accurate count of migrant students. Education lacks adequate controls to review and evaluate the information obtained by the nonprofit organization. As a result, Education may not report accurate information to the federal government.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Education should implement policies and procedures to evaluate the system of quality controls established by the nonprofit organization and review the information obtained through the MSIN to ensure it is accurate and complete.

Department's View and Corrective Action Plan

To ensure an accurate count of migrant students, Education has enhanced its quality control procedures. On a quarterly basis, Education will meet with the Migrant Student Information Network (MSIN) subcontractor and review the reports comparing the data presented in the reports with the MSIN source to verify that the counts match to the sum of individual records and the information reported therein. Based on the subject matter of the report, additional items may be audited based on content (e.g., services). Each report reviewed will be checked for consistency and selected items will be verified against the Regional eOEstar systems to verify completeness and accuracy. Additionally, the MSIN database, its source queries, and copies of the Regional databases are available to Education staff for subsequent verification.

California is largely an electronic Certificate of Eligibility (eCOE) state where Migrant recruiters use tablet-personal computers installed with a migrant student information system to complete and transmit data to Regional offices for review. The paper COEs are created by recruiters. Regional data clerks enter the COE data into COEstar (Desk top application). The Regional COEstar databases are the source information for the migrant student information network (MSIN) the statewide consolidated database.

To verify that the eOE and additional migrant student information in the MSIN matches the Regional data in COEstar, each quarter, six Regions will be selected at random (five in the fourth quarter for a total of 23 Regions) for audit. Twenty-five randomly selected eOEs created in the current academic year for each Region will be printed from the MSIN database. These original paper COEs are then compared against the Regional COEstar COE and the MSIN COE. Any discrepancies noted are investigated. Education will maintain the records of COEs compared and the findings by the Region.

Contact

Karen Cadiero-Kaplan, Director of the English Learner Support Division
Marcos Sanchez, Education Program Consultant in the English Learner Support Division

Implementation Date

July 2013

Reference Number:	12-21
Federal Catalog Number:	84.027, 84.391 (ARRA)
Federal Program Title:	Special Education Cluster (IDEA)

Federal Award Number and Years:	H027A110116; 2011 H173A110120; 2011 H391A110116A; 2011 H391A090116A; 2009 H027A090116; 2009
Category of Finding:	Level of Effort – Maintenance of Effort
Type of Finding:	Significant Deficiency and Instance of Noncompliance
State Administering Department:	California Department of Education (Education)

Criteria

TITLE 20 – EDUCATION, CHAPTER 33 – EDUCATION OF INDIVIDUALS WITH DISABILITIES, SUBCHAPTER II – ASSISTANCE FOR EDUCATION OF ALL CHILDREN WITH DISABILITIES, Section 1412 – State Eligibility

(a) In general – A State is eligible for assistance under this subchapter for a fiscal year if the State submits a plan that provides assurances to the Secretary that the State has in effect policies and procedures to ensure that the State meets each of the following conditions:

(18) Maintenance of State financial support

(A) In general – The State does not reduce the amount of State financial support for special education and related services for children with disabilities, or otherwise made available because of the excess costs of educating those children, below the amount of that support for the preceding fiscal year.

(B) Reduction of funds for failure to maintain support

The Secretary shall reduce the allocation of funds under section 1411 of this title for any fiscal year following the fiscal year in which the State fails to comply with the requirement of subparagraph (A) by the same amount by which the State fails to meet the requirement.

(C) Waivers for exceptional or uncontrollable circumstances

The Secretary may waive the requirement of subparagraph (A) for a State, for one fiscal year at a time, if the Secretary determines that—

(i) granting a waiver would be equitable due to exceptional or uncontrollable circumstances such as a natural disaster or a precipitous and unforeseen decline in the financial resources of the State; or

(ii) the State meets the standard in paragraph (17)(C) for a waiver of the requirement to supplement, and not to supplant, funds received under this subchapter.

(D) Subsequent years

> If, for any year, a State fails to meet the requirement of subparagraph (A), including any year for which the State is granted a waiver under subparagraph (C), the financial support required of the State in future years under subparagraph (A) shall be the amount that would have been required in the absence of that failure and not the reduced level of the State's support.

Condition

Education lacks adequate controls to ensure maintenance of effort (MOE) requirements are met. Education's MOE expenditures for the 2009/2010 federal fiscal year totaled $3,541,343,038, which was $83,464,446 less than its 2008/2009 federal fiscal year expenditures. Unless a waiver is received from the federal government, Education could be subject to a reduction of federal funding.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Education should apply for a waiver of MOE requirements from the U.S. Department of Education. Education should also develop procedures to monitor compliance throughout the grant period to ensure MOE requirements are being met.

Department's View and Corrective Action Plan

In accordance with Section 300.163(a) of Title 34 of the Code of Federal Regulations (CFR):

"A State must not reduce the amount of State financial support for special education and related services for children with disabilities, or otherwise made available because of the excess costs of educating those children, below the amount of that support for the preceding fiscal year."

Because CFR 300.163(a) focuses on the amount of financial support made available by the State, Education has revised its state level maintenance of effort (MOE) calculation methodology using legislative appropriations, not expenditures. It should be noted that the Legislature controls the appropriations that provide financial support for services to students with disabilities across state agencies, not Education. Education is exercising full control over the distribution and expenditures of the allocations it receives, but has no control over the financial support appropriated by the Legislature and approved by the Governor. Furthermore, Education does monitor the budget process to enable us to alert the Legislature should the proposed budget threaten the State's ability to meet federal MOE for the Individuals with Disabilities Education Act (IDEA). If there is an issue in meeting the State's MOE, Education notifies the Legislature of the potential shortfall. However, only the Legislature has the power to determine the amount of funds that are appropriated for the Special Education program.

Education will provide information regarding the funding shortfall cited by the auditors to the California Legislature. Education will petition for additional state funds. If necessary, Education will submit a State MOE waiver request to the Office of Special Education Programs of the U.S. Department of Education.

Contact

Fred Balcom, Director, Special Education Division

Implementation Date

February 7, 2013

Reference Number:	12-22
Federal Catalog Number:	84.048
Federal Program Title:	Career and Technical Education – Basic Grants to States
Federal Award Number and Years:	V048A110005; 2011 V048A100005, 2010
Category of Finding:	Level of Effort – Maintenance of Effort
Type of Finding:	Significant Deficiency and Instance of Noncompliance
State Administering Department:	California Department of Education (Education)

Criteria

TITLE 20 – EDUCATION – CHAPTER 44 – CAREER AND TECHNICAL EDUCATION, Section 2391 Fiscal Requirements.

(b) Maintenance of effort

(1) Determination

(A) In general

Except as provided in subparagraphs(B) and (C), no payments shall be made under this chapter for any fiscal year to a State for career and technical education programs or tech prep programs unless the Secretary determines that the fiscal effort per student, or the aggregate expenditures of such State for career and technical education programs for the fiscal year preceding the fiscal year for which the determination is made, equaled, or exceeded such effort or expenditures for career and technical education programs for the second fiscal year preceding the fiscal year for which the determination is made.

Condition

Education lacks adequate controls over evaluation of the maintenance of effort (MOE) requirements of the Career and Technical Education Program. Local educational agencies and community college districts submit state expenditures to Education which are used in the MOE calculation; however, Education cannot ensure the completeness and accuracy of reported amounts. Without accurate amounts from subrecipients, Education cannot ensure compliance with MOE requirements.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Education should implement policies and procedures to ensure expenditures used to perform the maintenance of effort calculations are accurate and complete. In addition, Education should develop a corrective action plan to ensure subrecipients properly track the Career and Technical Education state expenditures.

Department's View and Corrective Action Plan

To ensure that the maintenance of effort (MOE) could be met, the State appropriated and Education allocated the same level of non-federal Career and Technical Education (CTE) program funding for use by local educational agencies (LEAs) in fiscal years 2009-10 and 2010-11.

California Education Code, Section 42605, allows local educational agencies flexibility in how to use a broad range of categorical program funds, including some CTE program funding. Education exercised an appropriate level of control and oversight to calculate and assess MOE. Education worked diligently to accurately account for all funds expended for the CTE program. However, due to the funding flexibility and resulting greater complexity of comparing total expenditures for fiscal year 2009-10 and fiscal year 2010-11, Education's MOE calculations had not yet been finalized at the time of the auditors' fieldwork. Therefore, to ensure appropriate data is reported and gathered more timely, Education will enhance its efforts in working with the LEAs when calculating maintenance of effort.

Contact

Julie Parr, Staff Services Manager

Implementation Date

July 2013

Reference Number:	12-23
Federal Catalog Number:	84.048
Federal Program Title:	Career and Technical Education – Basic Grants to States
Federal Award Number and Years:	V048A110005; 2011 V048A100005, 2010 V048A090005, 2009
Category of Finding:	Subrecipient Monitoring
Type of Finding:	Material Weakness and Material Instance of Noncompliance
State Administering Department:	California Community Colleges Chancellor's Office (CCCCO)

Criteria

TITLE 31 – MONEY AND FINANACE, SUBTITLE V – GENERAL ASSISTANCE ADMINISTRATION, CHAPTER 75- REQUIREMENTS FOR SINGLE AUDITS, Section 7502 – Audit Requirements

(f)(2) Each pass-through entity shall –

(A) provide such subrecipient the program names (and any identifying numbers) from which such assistance is derived, and the federal requirements which govern the use of such awards and the requirements of this chapter;

(D) monitor the subrecipient's use of federal awards through site visits, limited scope audits, or other means;

(E) review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the Director, pertaining to federal awards provided to the subrecipient by the pass-through entity

Condition

The Career and Technical Education (CTE) program is managed by the California Department of Education (Education). Education executed an interagency agreement with the California Community Colleges Chancellor's Office (CCCCO) and CCCCO expended $64 million, or 54 percent of the total CTE grant, in fiscal year 2011-12. CCCCO awards a majority of its portion of the CTE grant to community college districts throughout the state to implement the CTE program. In fiscal year 2011-12, CCCCO passed approximately $60 million through to the community college districts, which are considered to be subrecipients.

CCCCO lacks adequate controls to monitor subrecipients and is not in compliance with federal requirements. Failure to properly monitor subrecipients increases the risk that federal funds may be spent for unallowable purposes.

- CCCCO does not provide the Catalog of Federal Domestic Assistance (CFDA) number for the CTE grant to the community college districts in grant awards or other communication.

- CCCCO lacks adequate controls to monitor the use of federal awards through site visits, limited-scope audits, or other means. CCCCO relies on its review of quarterly expenditure reports submitted by community college districts to determine if expenditures are allowable; however, these reports contain summarized data submitted and do not include other backup such as invoices or receipts. CCCCO does not have a documented risk-based plan, including an approach to selecting community college districts for site visits or desk reviews to ensure costs charged to the program were allowable. In fiscal year 2011-12, CCCCO performed four desk reviews, covering less than 2 percent of monies disbursed by CCCCO. CCCCO did not review invoices or payroll support for expenditures charged to the program as part of its desk reviews.

- CCCCO lacks adequate controls to obtain and review the OMB A-133 audits of community college districts and follow up on findings related to federal CTE grant. CCCCO obtained the OMB A-133 audits for all 72 community college districts and reviewed the reports and issued follow-up but only for the findings related to state funds. CCCCO was not aware that they were also responsible for reviewing findings related to federal awards, which they passed through to community college districts, and issuing appropriate follow-up.

Questioned Costs

No specific questioned costs were identified.

Recommendations

CCCCO should implement policies and procedures to ensure the agency properly monitors its subrecipients. CCCCO should:

1. Communicate relevant award information, including the CFDA number in writing to community college districts.

2. Review the federal portion of community college district OMB A-133 reports and implement policies and procedures to follow-up and ensure appropriate corrective action has been taken by the subrecipients with respect to audit findings.

3. Establish, document, and implement a risk-based monitoring plan, including the selection process for site visits and desk reviews.

Department's View and Corrective Action Plan

In response to the Audit finding, the California Community Colleges Chancellor's Office agrees to implement policies and procedures to ensure the agency properly monitors its subrecipients. The following Corrective Action Plan (CAP) will be implemented July 1, 2013.

1. The CCCCO will communicate relevant award information, including the CFDA number, in writing to community college districts. The CCCCO will implement a corrective action plan to include the CFDA title and number, the name of the federal awarding agency, and if the grant is research and development as information to be included in Article I of all grants that districts receive. The award name and number is currently located on the grant face sheet. The Corrective Action Plan has been developed in coordination with the CCCCO contracts unit. Staff development and training will take place in February, and implementation will begin by March 4, 2013 for all Carl D. Perkins grants and contracts grants issued by the CCCCO.

2. The CCCCO has taken action to review the portion of community college district OMB A-133 reports and to implement policies and procedures to follow-up and ensure appropriate corrective action has been taken by the sub-recipients with respect to federal audit findings.

3. The CCCCO will establish, document, and implement a risk-based monitoring system, including the selection process for site visits and desk reviews, to monitor the use of federal awards through a risk-based review of the community college districts that receive Carl D. Perkins funding. The review will include a desk monitor review, limited-scope audits, and site-visits for those districts that meet the risk criteria. For the remainder of FY 2012-13, the CCCCO will continue to review the quarterly expenditure reports submitted by community college districts to expenditures that are allowable. Additionally, the CCCCO will request backup documents such as invoices, receipts, or payroll support for expenditures charged to the program.

The Corrective Action Plan is to establish, document, and implement a risk-based monitoring plan, including the selection process for site visits and desk reviews. The CCCCO will review monitoring instruments used by California Department of Education and other states, and create an instrument specific to the CCCCO by June 30, 2013. The monitoring system will be implemented July 1, 2013 for all districts that receive Carl D. Perkins grants for the 2013-14 and subsequent years.

Contact

Debra Jones, Dean, Workforce and Economic Development Division, California Community Colleges Chancellor's Office

Implementation Date

July 1, 2013

Reference Number:	12-24
Federal Catalog Number:	84.126, 84.390 (ARRA)
Federal Program Title:	Vocational Rehabilitation Cluster
Federal Award Number and Years:	H126A120005-12A; 2012 H126A1100005-11B; 2011 H126A100005C; 2010

Category of Finding:	Eligibility
Type of Finding:	Material Weakness and Material Instance of Noncompliance
State Administering Department:	Department of Rehabilitation (Rehabilitation)

Criteria

TITLE 29 – LABOR, CHAPTER 16 – VOCATIONAL REHABILITATION AND OTHER REHABILITAITON SERVICES, SUBCHAPTER I – VOCATIONAL REHABILITATION SERVICES, Part A, General Provisions, Section 722 – Eligibility and Individualized Plan for Employment

(a)(6) Time frame for making an eligibility determination

The designated state unit shall determine whether an individual is eligible for vocational rehabilitation services under this subchapter within a reasonable period of time, not to exceed 60 days, after the individual has submitted an application for the services unless

(A) Exceptional and unforeseen circumstances beyond the control of the designated state unit preclude making an eligibility determination within 60 days and the designated state unit and the individual agree to a specific extension of time; or

(B) The designated state unit is exploring an individual's abilities, capabilities, and capacity to perform in work situations under paragraph (2)(B).

TITLE 34 – EDUCATION – PART 361 – STATE VOCATIONAL REHABILITATION SERVICES PROGRAM – Subpart B – State Plan and Other Requirements for Vocational Rehabilitation Services, Section 361.45 – Development of the individualized plan for employment

(a) General requirements. The State plan must assure that –

(1) An individualized plan for employment (IPE) meeting the requirements of this section and § 361.46 is developed and implemented in a timely manner for each individual determined to be eligible for vocational rehabilitation services or, if the designated State unit is operating under an order of selection in accordance with § 361.36, for each eligible individual to whom the State unit is able to provide services.

CALIFORNIA CODE OF REGULATIONS TITLE 9 – REHABILITATIVE AND DEVELOPMENTAL SERVICES, ARTICLE 5 – THE INDIVIDUALIZED PLAN FOR EMPLOYMENT (IPE), § 7128 – General Requirements.

(a) An Individualized Plan for Employment (IPE) shall be developed and implemented consistent with the requirements of this Article. Services shall be provided in accordance with the provisions of the IPE.

(b) Once an individual with an application date of October 1, 2006 or later has been determined eligible to receive services from the Department and is in a priority category being served under an Order of Selection implemented pursuant to Section 7053 of these regulations, the IPE must be developed within 90 days from the date of the eligibility determination, if the eligibility determination is made on or after the effective date of this subsection, which is August 27, 2007. For individuals with an application date of October 1, 2006 or later who are on a waiting list to receive services, an IPE must be developed within 90 days from the date the individual is removed from the waiting list, if that date is on or after the effective date of this subsection, which is August 27, 2007. The following exceptions apply:

(1) If exceptional and unforeseen circumstances beyond the control of the Department arise, and the individual and the Department agree to a specific extension of time for IPE development, a rationale and date for the extension, signed by the individual and the Senior Vocational Rehabilitation Counselor (SVRC), must be entered into the record of services for that individual.

Condition

Rehabilitation lacks adequate controls to determine applicant eligibility for services within the required 60-day time period. We tested 65 applicant cases and found six cases were not determined eligible within the 60-day time period. For three of the six cases, Rehabilitation provided documentation supporting an agreement with the applicant to extend the 60-day time period; however, the extension period expired prior to final eligibility determination.

In addition, Rehabilitation lacks adequate controls to develop an IPE within 90 days of eligibility determination. For 6 of the 65 applicant cases, Rehabilitation did not develop an IPE within the 90-day time period. Failure to determine an applicant's eligibility and develop an IPE within the required time period prohibits applicants from receiving timely vocational rehabilitation services.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Rehabilitation should strengthen its controls to assist caseworkers in managing and meeting eligibility determination and IPE deadlines.

Department's View and Corrective Action Plan

The Department of Rehabilitation acknowledges this finding and will implement the following steps to meet these requirements:

- At the beginning of every month, Districts will generate Accessible Web-based Activity Reporting Environment (AWARE) report(s) to identify consumers who have eligibility and IPE's due in the next 30 days.
- Team Managers/Rehabilitation Supervisors will provide counselors with their respective caseload report/list of consumers requiring eligibility determination and IPE development. Team managers will take appropriate action to ensure that eligibility and IPE timelines have been met, including the meeting of timelines for applicable extensions.
- Monthly AWARE report(s) for consumers with overdue eligibilities or IPE's will be generated for each District by the Customer Service Unit and provided to the District Administrators.
- As appropriate, the Customer Service Unit Manager will provide technical assistance and guidance to the District Administrators to rectify specific District/Unit/counselor issues related to timely eligibility determination and IPE development.
- The District Administrators will work with the Personnel Services Section to implement corrective actions, as appropriate.
- The Customer Service Unit Manager will provide the Vocational Rehabilitation Employment Division Deputy Director with a monthly summary report on District timely eligibility determination and IPE development progress.

Responsible Person

Conan Petrie, Customer Service Unit Manager

Implementation Date

July 1, 2013

Reference Number:	12-25
Category of Finding:	Reporting
Type of Finding:	Significant Deficiency and Instance of Noncompliance
State Administering Department:	Department of Education (Education)
Federal Catalog Number:	84.388 (ARRA)
Federal Program Title:	School Improvement Grants Cluster
Federal Award Number and Years:	S388A090005A; 2009

Federal Catalog Number:	84.389 (ARRA)
Federal Program Title:	Title I, Part A Cluster
Federal Award Number and Years:	S010A110005A; 2011 S010A100005A; 2010 S389A090005A; 2009 S010A090005A; 2009

Federal Catalog Number:	84.391 (ARRA), 84.392 (ARRA)
Federal Program Title:	Special Education Cluster (IDEA)
Federal Award Number and Years:	H391A090116A; 2009 H392A090120A; 2009

Criteria

OMB memorandum M-09-21, Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009, Section 4.2, prime recipients, as owners of the data submitted, have the principal responsibility for the quality of the information submitted. Prime recipient:

- Owns recipient data and sub recipient data
- Initiates appropriate data collection and reporting procedures to ensure that Section 1512 reporting requirements are met in a timely and effective manner
- Implements internal control measures as appropriate to ensure accurate and complete information

- Performs data quality reviews for material omissions and/or significant reporting errors, making appropriate and timely corrections to prime recipient data and working with the designated sub recipient to address any data quality issues.

Section 4.3, federal agency, recipients, and sub recipients should establish internal controls to ensure data quality, completeness, accuracy and timely reporting of all amounts funded by the ARRA. Possible approaches to this include:

- Establishing control totals (e.g., total number of projects subject to reporting, total dollars allocated to projects) and verify that reported information matches the established control totals;

- Creating an estimated distribution of expected data along a "normal" distribution curve and identifying outliers;

- Establishing a data review protocol or automated process that identifies incongruous results (e.g., total amount spent on a project or activity is equal to or greater than the previous reporting); and

- Establishing procedures and/cross validation of data to identify and/or eliminate potential "double counting" due to delegation of reporting responsibility to sub recipient.

Condition

Education lacks adequate controls to ensure accuracy of the quarterly Section 1512 report for the School Improvement Grant, Title I Grants to Local Educational Agencies, and the Special Education Cluster. Education prepares the report from information maintained by program personnel. This information is not reconciled to the accounting records, such as the general ledger. In addition, the School Improvement Grant understated the disbursed amount for one local educational agency in the June Section 1512 report by $344,781 due to one payment which was excluded from the program spreadsheet. Education's failure to implement adequate controls over Section 1512 reports increases the risk that inaccurate or incomplete information will be reported.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Education should strengthen the department's process over preparation of Section 1512 Reports to ensure the reports are based on expenditures in the general ledger and it is reviewed for accuracy prior to submission.

Department's View and Corrective Action Plan

American Recovery Reinvestment Act (ARRA) disbursements and expenditures are reported on a cumulative basis. Ultimately, when the grant is closed, Education performs a detailed reconciliation and the final report submitted to the federal government reconciles with Education's accounting records. However, Education will further strengthen the process over Section 1512 quarterly reporting by reviewing the data for accuracy prior to submission.

Education will correct the understated School Improvement Grant amount of $344,781 in the next reporting period.

Contact

Carol Bingham, Senior Fiscal Policy Advisor, Government Affairs Division

Implementation Date

February 25, 2013

Reference Number:	12-26
Federal Catalog Number:	84.377; 84.388 (ARRA)
Federal Program Title:	School Improvement Grants Cluster
Federal Award Number and Years:	S388A110005; 2011 S388A100005; 2010 S388A090005; 2009
Category of Finding:	Subrecipient Monitoring
Type of Finding:	Significant Deficiency and Instance Noncompliance
State Administering Department:	California Department of Education (Education)

Criteria

TITLE 31 – MONEY AND FINANACE, SUBTITLE V – GENERAL ASSISTANCE ADMINISTRATION, CHAPTER 75 – REQUIREMENTS FOR SINGLE AUDITS, Section 7502 – Audit Requirements

(f)(2) Each pass-through entity shall –

(B) Monitor the subrecipient's use of federal awards through site visits, limited scope audits, or other means.

(C) Review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the Director, pertaining to federal awards provided to the subrecipient by the pass-through entity.

Condition

Education lacks adequate controls over monitoring of local educational agencies participating in the School Improvement Grant program. Consultants perform on-site monitoring over assigned local educational agencies. However, Education lacks evidence of review by a supervisor over the on-site monitoring visit and related findings. In addition, Education lacks adequate controls to ensure local educational agencies implement proposed corrective actions in a timely manner on deficiencies noted. Education does not have a tracking mechanism to determine when local educational agencies are approaching the due date for corrective action so that Education can perform follow-up. Education requires local educational agencies to resolve findings within 35 calendar days after the date of the notification of findings. However Education can grant local educational agencies a Resolution Agreement period which allows for a reasonable amount of time to resolve findings. The local education agency must resolve the finding within 225 calendar days from date of the notification of findings. We tested nine of the 23 local educational agencies that were reviewed by the School Improvement Grant program and found one had not responded by the required 35 days, and one had findings with an unresolved status of more than 225 days. Education's failure to determine whether corrective action was implemented on deficiencies noted in the on-site reviews increases the risk of noncompliance with federal requirements.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Education should strengthen controls over the department's on-site monitoring process to include evidence of review by a supervisor over the on-site monitoring visits and related findings. In addition, Education should implement procedures to ensure local education agencies respond to findings within the timeline outlined in the department's policy.

Department's View and Corrective Action Plan

Education plans to update the Federal Program Monitoring Protocols to include documentation of managerial review of findings by program reviewers. Education continues to expand the use of automatic notifications in the California Accountability and Improvement System, a Web-based monitoring system, to inform program reviewers and local educational agency (LEA) staff of the deadlines for resolving items. Corrective action deadlines will also be reiterated during program reviewers and LEA training.

Contact

Christine Swenson, Division Director, Improvement and Accountability Division

Implementation Date

August 2013

Reference Number:	12-27
Federal Catalog Number:	10.553, 10.555,
Federal Program Title:	Child Nutrition Cluster
Federal Award Number and Year:	7CA300CA3; 2011
Category of Finding:	Procurement, Subrecipient Monitoring
Type of Finding:	Significant Deficiency and Instance of Noncompliance
State Administering Department:	California Department of Education (Education)

Criteria

U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133 – AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS (OMB CIRCULAR A-133) – Subpart C – Auditees, Section 300 – Auditee Responsibilities

(b) Maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.

TITLE 7 – AGRICULTURE, CHAPTER II – FOOD AND NUTRITION SERVICE, DEPARTMENT OF AGRICULTURE, PART 210 NATIONAL SCHOOL LUNCH PROGRAM – Table of Contents, Subpart D – Requirements for State Agency Participation, Section 210.19 – Additional Responsibilities

(a) General Program management

(6) Food service management companies.

Each state agency shall annually review each contract (including all supporting documentation) between any school food authority and food service management company to ensure compliance with all the provisions and standards set forth in this part before execution of the contract by either party. When the state agency develops a prototype contract for use by the school food authority that meets the provisions and standards set forth in this part, this annual review may be limited to changes made to that contract. Each state agency shall review each contract amendment between a school food authority and food service management company to ensure compliance with all the provisions and standards set forth in this part before execution of the amended contract by either party. The state agency may establish due dates for submission of the contract or contract amendment documents. Each state agency shall perform an on-site review of each school food authority contracting with a food service management company, at least once during each five-year period. The state agency is encouraged to conduct such a review when performing reviews in accordance with Section 210.18. Such reviews shall include an assessment of the school food authority's compliance with Section 210.16 of this part. The state agency may require that all food service management companies that wish to contract for food service with any school food authority in the state register with the state agency. State agencies shall provide assistance upon request of a school food authority to assure compliance with program requirements.

Condition

Education did not implement appropriate internal controls and monitoring procedures to ensure that the approval of food service management company contracts was documented within the Child Nutrition Information and Payment System (CNIPS) prior to reimbursing subrecipients. Education's failure to properly approve food service contracts increases the risk such contracts may not comply with federal regulations.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Education should strengthen the process over reviewing food service management company contracts to ensure compliance with federal requirements. In addition, Education should ensure the contracts are properly approved prior to the approval of the annual renewal application and subsequent reimbursement of federal funds to subrecipients.

Department's View and Corrective Action Plan

To ensure that food service management company contracts are in compliance with federal requirements and are properly approved, Education has established a new School Food Services Contract Unit. This new unit will review and pre-approve contracts prior to the annual renewal application and reimbursement of federal funds to sub-recipients.

Contact

Chris Kavooras, School Nutrition Program Unit Manager, Nutrition Services Division

Implementation Date

July 2013

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Reference Number:	12-28
Federal Catalog Number:	93.044, 93.045, 93.053
Federal Program Title:	Aging Cluster
Federal Award Number and Years:	M11-SG060100; 2011 M10-SG060100; 2010 M09-SG060100; 2009
Category of Finding:	Reporting
Type of Finding:	Significant Deficiency and Instance of Noncompliance
State Administering Agency:	Department of Aging (Aging)

Criteria

FEDERAL FUNDING ACCOUNTABILITY TRANSPARENCY ACT; TITLE 2 – GRANTS AND AGREEMENTS – Appendix A to Part 170 – Award Term

Reporting subaward and executive information compensation:

(a) Reporting of first tier subawards.

(1) Applicability. Unless you are exempt as provided in paragraph d. of this award term, you must report each action that obligates $25,000 or more in federal funds that does not include Recovery funds (as defined in section 1512(a)(2) of the American Recovery and Reinvestment Act of 2009, Pub. L. 111 5) for a subaward to an entity.

Condition

Aging did not have adequate controls to ensure information required by the Federal Funding Accountability Transparency Act (FFATA) was properly reported. Aging did not review FFATA information prior to submission. In addition, Aging did not submit reporting for any 2011 subawards until January 2013. Failure to implement adequate controls over FFATA increases the risk that inaccurate or incomplete information will be reported.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Aging should implement controls to ensure FFATA reporting information is submitted in a timely manner.

Department's View and Corrective Action Plan

Aging agrees with this finding. The department has procedures in place that will be updated by April 15, 2013 to reflect supervisor review of the information being reported prior to posting to the federal website and ensure timely reporting. Aging's reporting is currently up to date on the FFATA website.

Contact

Karyn Lehmann, Chief Human Resources and Administrative Services Branch

Implementation Date

April 2013

Reference Number:	12-29
Federal Catalog Number:	93.268, 93.712 (ARRA)
Federal Program Title:	Immunization Grants Cluster
Federal Award Number and Years:	5H23IP922507-10; 2012 5H23IP922507-09; 2011
Category of Finding:	Reporting
Type of Finding:	Significant Deficiency and Instance of Noncompliance
State Administering Department:	Department of Public Health (Public Health)

Criteria

TITLE 45 – PUBLIC WELFARE, SUBTITLE A – DEPARTMENT OF HEALTH AND HUMAN SERVICES, PART 92 – UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE, LOCAL AND TRIBAL GOVERNMENTS – Subpart C – Post Award Requirements, Section 92.20 – Standards for Financial Management Systems

(b)(1) Financial reporting. Accurate, current, and complete disclosure of financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

(b)(2) Accounting records. Grantees and subgrantees must maintain records, which adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

Condition

Public Health does not have proper controls in place to ensure accuracy and completeness of the Federal Financial Reports (SF-425) submitted for the Immunization Grants Cluster. Public Health submits the SF-425 quarterly, including cumulative expenditures. Public Health tracks information using an Excel® spreadsheet, which is populated from the general ledger. However, we found that cumulative expenditures did not agree to the Excel spreadsheet by $841,883 for the two reports we tested in fiscal year 2011-12. Failure to reconcile spreadsheets to final submission increases the risk of errors in information reported to the federal government.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Public Health should strengthen the department's process over preparation of SF-425 reports to ensure the reports are based on expenditures in the general ledger and they are reviewed for accuracy and completeness prior to submission.

Department's View and Corrective Action Plan

CDPH agrees that Public Health should strengthen the department's process over preparation of SF-425 reports to ensure the reports are based on expenditures in the general ledger and they are reviewed for accuracy and completeness prior to submission.

CDPH will implement two levels of review (manager I and II) to confirm that the SF-425 reports agree with the expenditures in our general ledger. We will create a checklist for the reviewers to ensure that the preparer of the SF-425 report confirmed its accuracy and completeness and provide signature evidence that the SF-425 report agrees with our general ledger. Accounting will revise SF-425 procedures to document this process and will train all federal reporting unit staff on the new procedure.

Contact

Annemarie Reno, CDPH Accounting Section Chief

Implementation Date

February 25, 2013

Reference Number:	12-30
Federal Catalog Number:	93.268; 93.712 (ARRA)
Federal Program Title:	Immunization Grants Cluster
Federal Award Number and Years:	5H23IP922507-10; 2012 5H23IP922507-09; 2011
Category of Finding:	Special Tests and Provisions—Control, Accountability, and Safeguarding of Vaccine
Type of Finding:	Significant Deficiency and Instance of Noncompliance
State Administering Department:	Department of Public Health (Public Health)

Criteria

OMB CIRCULAR A-133 COMPLIANCE SUPPLEMENT. Effective control and accountability must be maintained for all vaccines under the Vaccines for Children (VFC) program. Vaccines must be adequately safeguarded and used solely for authorized purposes (42 USC 1396s). This includes administration only to VFC program-eligible children, as defined in 42 USC 1396s(b)(2)(A)(i) through (A)(iv), regardless of the child's parent's ability to pay (42 USC 1396s(c)(2)(C)(iii)).

Condition

Public Health monitors vaccinating providers through its Quality Assurance Reviews (QAR). Vaccinating providers received $433 million worth of vaccinations during the fiscal year 2011-12. Public Health does not have adequate policies and procedures to review QAR results. We identified 10 QAR reports of 40

reports tested that were incomplete, including missing responses to procedures performed during the review. Failure to appropriately complete and document results for the QAR increases the risk that Public Health may not properly follow up on deficiencies noted during the review.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Public Health should improve its policies and procedures for the QAR process to ensure all procedures are performed and properly documented.

Department's View and Corrective Action Plan

CDPH agrees that Public Health should improve its policies and procedures for the QAR process to ensure all procedures are performed and properly documented.

Site Visit Monitoring – The VFC Program quality assurance coordinator and senior field representatives will monitor and review field staff site visits. The monitoring will include supervisors accompanying each field staff on at least one site visit a year. The supervisory reviews will evaluate the quality of the site visit reports and determine if additional guidance or training are needed. Supervisors will complete site visits in every region by December 31, 2013.

Training Updates – The VFC Program Coordinator will continue to provide monthly training and updates to all field staff. Beginning in February 2013, this training will address any changes in program policies or site visit tools to help field staff more fully understand the QAR questions and improve the quality of the site visit reports.

Enhanced Review of Site Visit Reports – Beginning March 1, 2013, senior field representatives will review all QARs and site visit reports to providers to ensure that all documents are complete and spot check them for accuracy. These reviews will occur monthly.

Improving Availability of Provider Staff during VFC Site Visits – Beginning March 1, 2013, field staff will call providers a day ahead of site visits to ensure that appropriate provider staff is present to reduce the likelihood of unanswered questions on the QAR.

Improving Forms – The VFC Program is developing a database that will allow field staff to use tablets to enter QAR responses during the site visit. Based on the entered responses, the database will generate an electronic written report to the provider outlining results of the visit and a standardized corrective action plan. The direct linkage between the data entered on-site and the written report will reduce errors in summarizing visit observations and results. The database will also generate follow up reminders to the field staff of any unimplemented corrective actions. CDPH will implement this electronic entry of site visit results in fall 2013.

Contact

James Watt, MD, Immunization Branch Chief

Implementation Date

See implementation dates in the narratives above.

Reference Number:	12-31
Federal Catalog Number:	93.558, 93.714 (ARRA)
Federal Program Title:	Temporary Assistance for Needy Families (TANF) Cluster
Federal Award Number and Years:	G-1201CATANF; 2012 G-1102CATANF; 2011
Category of Finding:	Subrecipient Monitoring
Type of Finding:	Material Weakness and Material Instance of Noncompliance
State Administering Department:	Department of Social Services (Social Services)

Criteria

TITLE 31 – MONEY AND FINANCE, SUBTITLE V – GENERAL ASSISTANCE ADMINISTRATION, Sec. 7502 – Audit requirements; exemptions

(f)(2) Each pass-through entity shall:

(A) Provide such subrecipient the program names (and any identifying numbers) from which such assistance is derived, and the federal requirements, which govern the use of such awards and the requirements of this chapter;

(B) Monitor the subrecipient's use of federal awards through site visits, limited-scope audits, or other means; and,

(C) Review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the director, pertaining to federal awards provided to the subrecipient by the pass-through entity.

Condition

Social Services provides services under the TANF program through various subrecipients. Monies are primarily passed through to counties, which are responsible for implementing the programs, including eligibility determination and other administrative and program activities. In addition, monies are passed through to counties for reimbursement of expenditures for beneficiary payments. Social Services monitors its subrecipients through various mechanisms including monthly desk reviews of summary expenditure information and review of county OMB Circular A-133 reports. In addition, Social Services policy requires that one county site visit be conducted every quarter. Social Services disbursed approximately $3.17 billion to subrecipients in fiscal year 2011-12.

Our audit revealed that Social Services does not have adequate policies and procedures to monitor subrecipients in accordance with federal requirements. Failure to properly monitor subrecipients increases the risk that federal monies will be paid for unallowable costs.

- Social Services does not have a documented risk-based audit plan, including an approach to selecting counties for site visits as well as what compliance requirements in addition to allowable costs should be covered. Current policy requires only four site visits per year. Social Services informed us that

a county will not have another site visit until all counties have been reviewed. As a result, counties with a higher risk profile, such as those receiving a large percentage of the State's funding, will not be subject to audit more than once every 10 years or more.

- Due to limited resources, Social Services was unable to perform all planned site visits during fiscal year 2011-12. As a result only three site visits were performed, covering less than 5 percent of monies disbursed by Social Services.

- Social Services does not evaluate or test as part of its monitoring plan TANF eligibility determinations, redeterminations, and termination of benefits made by the counties. In addition, Social Services does not evaluate as part of its monitoring plan federal requirements related to child support noncooperation, penalty for refusal to work, child under the age of 6 when child care is not available, and penalty for failure to comply with work verification plan. Each of these requirements is the responsibility of the counties.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Social Services should implement policies and procedures to ensure that the agency properly monitors its subrecipients. Social Services should:

1. Establish and document a risk-based monitoring plan, including the selection process for site visits compliance requirements to be addressed, and plan for performing site visits to those counties receiving a large portion of the State's funding. If Social Services elects to continue to perform four site visits per year, it should obtain written approval of its plan from Administration for Children and Families (ACF).

2. Complete all scheduled site visits in accordance with the risk-based audit plan.

3. Develop policies and procedures to assess TANF eligibility determinations, redeterminations, and termination of benefits made by the counties as well as other special test and provisions as part of the risked-based monitoring plan.

Department's View and Corrective Action Plan

Social Services agrees with the first two recommendations above. See the Department's response to Finding 12-5. With regard to the third finding, the Department acknowledges that the audit recommendation would enhance its existing monitoring efforts, described below, and will be working on a review tool and determining the best monitoring strategy for document review during the remainder of 2013. However, California Department of Social Services (CDSS) also believes that its existing efforts, policies, practices, and information technology infrastructure adequately assess TANF eligibility determinations, redeterminations, and terminations of benefits made by counties. For the TANF program, much of an eligibility determination is made by the rules programmed into the Statewide Automated Welfare Systems (SAWS). These rules are established by state law and regulatory action, and are disseminated as policy via All County Letters (ACLs), the development of which includes a stakeholder consultation process. These rules are robustly tested in SAWS for numerous scenarios before they are put into production. The CDSS also has robust and ongoing communication with counties and other stakeholders, as well as due process procedures for persons inappropriately denied eligibility, such that the Department would quickly be aware of any such problems. On the side of inappropriately granting eligibility, during 2011-12, California's TANF program required quarterly reporting for recipients, meaning that recipient eligibility was reassessed and their benefit level recalculated every three months. In addition, various program integrity measures are ongoing, including fingerprinting, investigation, and data matching through the Income and

Eligibility Verification System (IEVS). For cases determined to have inappropriately received benefits, overpayments are established to commence collection activities. Lastly, CDSS conducts county onsite case reviews as part of the federal Work Participation Rate validation process, and these reviews include obtaining and reviewing county written procedures and real-time documentation that ensures work hours are appropriately verified and reported in TANF cases.

In terms of further enhancements consistent with the audit recommendation, two possible options being considered are county surveys and desk review tools. CDSS will work with its county partners to determine the most effective means of developing these options by the end of the calendar year. In addition, the Department will send written notification to counties reminding them to augment the A-133 reviews by including the following components in their current testing and evaluation of cases:

- compliance requirements related to child support noncooperation;
- application of penalties for refusal to work; and
- proper assessment of children under the age of six when child care is not available.

As noted above, although the Department will take additional steps beyond current efforts, with regard to the third finding and recommendation that the Department monitor TANF eligibility requirements, Social Services believes that the Department is in compliance with federal requirements. The discussion below of "other means" besides site visits or limited scope audits is intended to supplement and further elaborate on this response. A description of how the Department meets the federal requirements through "other means" follows.

Monitoring through "Other Means":

The Department works closely with its county welfare departments (CWDs), using a multi-tiered approach to ensure they are properly administering the TANF program and correctly issuing benefits. CDSS' multi-tiered approach includes CWD involvement in the upfront development and implementation of new policies, monthly meetings with CWD program specialists, ongoing technical assistance with county staff, and one-on-one communication with each CWD that has been identified as requiring corrective action plans through the A-133 process.

1. The Department routinely involves CWD representatives in discussions during the development of new policies prior to issuing written implementing instructions to ensure the instructions will be comprehensive and clear and will meet the needs of CWDs in order to properly implement all changes. The instructions are not only used by CWDs to develop their training and procedures, but also by each of the three automation consortia to program their automated eligibility systems to comport with the policy changes. CWD representatives who participate in the upfront discussions and review of draft implementing ACLs include consortia representatives and program technicians/specialists.

2. In addition to upfront discussions with CWD representatives, CDSS also meets monthly with CWD program specialists to provide technical assistance and address CWD questions regarding TANF policies. The Department also meets quarterly with welfare advocates to address problems they encounter when working with TANF applicants and recipients.

3. The Department provides ongoing technical assistance in the form of written policy interpretations (PIs) that address direct inquiries from CWD program staff. These PIs address actual, individual case circumstances, and in addition to responding to the inquiring CWD, CDSS shares its responses with the CWD program specialists routinely.

4. CWD staff rely on automated eligibility systems in the determination of eligibility for TANF benefits, as well as determining the proper benefit amount for each family.

5. Once implementing ACLs are issued, the Department relies heavily on automation systems being properly programmed and CWDs following CDSS instructions and performing case reviews to ensure accuracy in eligibility and benefit determination.

6. In addition, each CWD is required to contract with a third-party vendor to perform A-133 single audit reviews that are designed to identify non-compliance with federal requirements. CDSS reviews all A-133 findings to determine if the findings are appropriate and to ensure the CWD has corrected all errors; established a corrective action plan (CAP) to adequately address the findings and minimize future errors; and, implemented the CAP. CDSS staff communicate with county program specialists to follow up regarding the CWD's CAP and evaluate its effectiveness in reducing the number of errors in the identified deficiency. Finally, CDSS documents the findings and issues a management decision letter to address the audit finding.

The A-133 process requires that trained, licensed auditors perform in-depth case reviews to determine compliance with federal requirements. The Department contends that our staff's follow-up review and communication with the CWDs regarding the A-133 findings, in conjunction with our multi-tiered approach to policy development and implementation, that includes all affected stakeholders, including CWDs, as well as our ongoing, frequent meetings with CWDs and advocates, and technical assistance with CWD staff, are sufficient to ensure compliance with federal requirements under Title 31, Sec. 7502 (f)(2)(B), through use of "other means" besides site visits.

As mentioned earlier, the Department will also begin efforts to develop an effective monitoring strategy that will enhance its current monitoring efforts and will remind counties of the additional A-133 review components.

Additionally, the Department will, as noted in Finding 12-2, issue a letter to the SAWS consortia and CWDs to formally communicate the specific federal laws and regulations related to their responsibility to monitor their eligibility determination systems.

Contact

Elisa Tsuijihara, Chief, Fiscal Policy Bureau
Cora Myers, Chief, CalWORKs Eligibility Bureau

Implementation Date

Recommendations One and Two: July 1, 2013.
Recommendation Three: January 1, 2014.

Auditors' Conclusion

We acknowledge actions taken by Social Services to address prior year findings and components of its risk-based approach. However, given the amount of TANF federal funding passed through to subrecipients, the significance of eligibility requirements to the program, and the frequency with which on-site monitoring is planned, we believe Social Services should obtain a management decision from ACF as to the sufficiency of its monitoring plan, including whether Social Services should perform its own review of eligibility determinations made by the counties instead of relying on communication of policy and review of county OMB Circular A-133 reports.

Reference Number:	12-32
Federal Catalog Number:	93.659
Federal Program Title:	Adoption Assistance – Title IV-E

Federal Award Number and Years:	7CA4004CA; 2012 7CA430CA; 2012 7CA4004CA; 2011 7CA430CA; 2011
Category of Finding:	Eligibility
Type of Finding:	Significant Deficiency and Instance of Noncompliance
State Administering Department:	Department of Social Services (Social Services)

Criteria

TITLE 42 – THE PUBLIC HEALTH AND WELFARE – CHAPTER VII – SOCIAL SECURITY, Part 673 – Adoption Assistance Program

(a)(3) The amount of the payments to be made in any case under clauses (i) and (ii) of paragraph (1)(B) shall be determined through agreement between the adoptive parents and the State or local agency administering the program under this section, which shall take into consideration the circumstances of the adopting parents and the needs of the child being adopted, and may be readjusted periodically, with the concurrence of the adopting parents (which may be specified in the adoption assistance agreement), depending upon changes in such circumstances. However, in no case may the amount of the adoption assistance payment made under clause (ii) of paragraph (1)(B) exceed the foster care maintenance payment which would have been paid during the period if the child with respect to whom the adoption assistance payment is made had been in a foster family home.

Condition

Social Services district offices make eligibility determinations for certain small counties. A supervisor reviews eligibility determinations on-site at the district office and documents the determination on the Benefit Determination Form (Form AAP6), which also includes the approved benefit amount. Social Services uses a Nonrecurring Adoption Expenses agreement for reimbursement of certain one-time only costs incurred by the adoptive family. We tested 65 cases with benefit payments totaling $469,087 for fiscal year 2011-12. Benefit payments for the Adoption Assistance program totaled $410 million for fiscal year 2011-12.

We found Social Services did not have adequate controls to ensure eligibility determinations were appropriate and benefits paid were accurate.

- The AAP6 form could not be located for one case.
- The benefit amount was incorrectly entered in the system for one case. As a result, the beneficiary received $108 more than allowable.
- The termination date entered into the system was incorrect for one case. This error did not result in incorrect benefit payments.
- The Nonrecurring Adoption Expenses agreement for one case could not be located.

Questioned Costs

$108

Recommendations

Social Services should strengthen the district offices' policies and procedures for eligibility to ensure all documentation is included in the case file and benefit amounts and termination dates are properly entered into the system.

Department's View and Corrective Action Plan

Social Services has addressed the finding and the recommendation has been partially implemented as of January 16, 2013. Full implementation is expected by March 29, 2013. The Adoptions Assistance Program (AAP) benefit amount is entered on the Payment Instructions Adoption Assistance Program (AAP 2) form and sent to the financially responsible county, which sends the Notice of Action (NOA) to the adoptive parent. The AAP 2 and NOA reflect the most current and accurate activities related to the AAP case. The Access Database is an internal database specific to the Adoptions Service Bureau (ASB) district office, used for caseload tracking and for bureau management reports. It is not used to generate the AAP payment. The benefit amount in question was the accurate rate as stated on the AAP 2 and NOA, therefore an overpayment did not occur. The termination date entered in the system was a typographical error and the AAP case was not terminated in error. It is at the adoptive parent's discretion to file a Nonrecurring Adoption Expenses Reimbursement claim and to sign the Nonrecurring Adoption Expenses agreement, but they are not required to do so. Also, there is no statutory time limit to submit the claim which could account for the claim and agreement not being found in the case file at the time of the recent audit.

In order to strengthen the policies and procedures to ensure eligibility determinations are appropriate and benefit amounts are accurate, the ASB central office is implementing the following actions: a policy is already in place for the adoptions specialist to complete a closing case summary checklist. This is reviewed and signed off by the adoptions supervisor. Training will be provided to the managers and supervisors at the quarterly managers' meeting to ensure policy is understood and protocol is followed. Another case summary checklist form will be developed and will be required at each reassessment to be completed by staff and signed off by their supervisor. A memo that will review policy and update these procedures will be sent out by the ASB central office to the managers and supervisors. Additional training will be scheduled during the quarterly managers' meetings and will become a standing agenda item.

At the quarterly managers' meetings, a sampling of AAP cases from each district office is monitored. Training for database accuracy and staying current will be provided by the ASB central office at the managers' quarterly meetings. This will become a standing agenda item.

Contact

Richard Smith, Chief, Adoption Services Bureau

Implementation Date

March 29, 2013

Reference Number:	12-33
Category of Finding:	Reporting
Type of Finding:	Significant Deficiency and Instance of Noncompliance
State Administering Department:	Department of Social Services (Social Services)
Federal Catalog Number:	93.658

Federal Program Title:	Foster Care – Title IV-E
Federal Award Number and Years:	1201CA1401; 2012 1201CA1404; 2012 1101CA1401; 2011 1101CA1404; 2011

Federal Catalog Number:	93.659
Federal Program Title:	Adoption Assistance – Title IV-E
Federal Award Number and Years:	1201CA1405; 2012 1201CA1407; 2012 1101CA1405; 2011 1101CA1407: 2011

Federal Catalog Number:	93.558
Federal Program Title:	Temporary Assistance for Needy Families (TANF) Cluster
Federal Award Number and Years:	G-1201CATANF: 2012 G-1101CATANF; 2011

Federal Catalog Number:	93.667
Federal Program Title:	Social Services Block Grant
Federal Award Number and Years:	1201CASOSR; 2012 1101CASOSR; 2011

Criteria

FEDERAL FUNDING ACCOUNTABILITY TRANSPARENCY ACT; TITLE 2 – GRANTS AND AGREEMENTS, Appendix A to Part 170 – Award Term

Reporting subaward and executive information compensation:

(a) Reporting of first tier subawards.

(1) Applicability. Unless you are exempt as provided in paragraph d. of this award term, you must report each action that obligates $25,000 or more in federal funds that does not include Recovery funds (as defined in section 1512(a)(2) of the American Recovery and Reinvestment Act of 2009, Pub. L. 111 5) for a subaward to an entity.

Condition

Social Services did not comply with reporting requirements of the Federal Funding Accountability Transparency Act (FFATA) for its federally funded programs. Social Services was not aware FFATA requirements were applicable for its federal programs and therefore did not report the required subaward information.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Social Services should implement policies and procedures to report subaward information under the FFATA and implement controls to ensure information is accurate and complete.

Department's View and Corrective Action Plan

Social Services agrees that more clarification is needed. The Department received an exemption from the Administration for Children and Families (ACF) for FFATA reporting of mandatory grants in federal FY 2011. Although the terms and conditions for federal FY 2012 grants included language regarding FFATA reporting, Social Services continued the exemption due to clarification needed to report mandatory grants. Social Services will work with ACF to clarify the appropriate methodology for reporting of mandatory and entitlement grants and, going forward, adhere to the ACF requirements for FFATA reporting. ACF Region IX has directed Social Services to Washington to address the Department's questions.

Contact

Didi Okamoto, Chief, Fiscal Systems and Accounting Branch

Implementation Date

To be determined based on discussions with ACF.

Reference Number:	12-34
Federal Catalog Number:	93.959
Federal Program Title:	Block Grants for Prevention and Treatment of Substance Abuse (SAPT)
Federal Award Number and Years:	2B08T1010005-11; 2012 3B08T1010005-11; 2012 2B08T1010005-10; 2011 3B08T1010005-10; 2011
Category of Finding:	Subrecipient Monitoring
Type of Finding:	Material Weakness and Material Instance of Noncompliance
State Administering Department:	Department of Alcohol and Drug Programs (ADP)

Criteria

TITLE 31 – MONEY AND FINANCE, SUBTITLE V – GENERAL ASSISTANCE ADMINISTRATION, Sec. 7502. Audit requirements; exemptions:

(f)(2) Each pass-through entity shall:

(A) Provide such subrecipient the program names (and any identifying numbers) from which such assistance is derived, and the federal requirements which govern the use of such awards and the requirements of this chapter;

(B) Monitor the subrecipient's use of federal awards through site visits, limited-scope audits, or other means; and,

(C) Review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the Director, pertaining to federal awards provided to the subrecipient by the pass-through entity.

Condition

ADP provides services under the SAPT program through various subrecipients. Monies are primarily passed through to counties, which are responsible for implementing the programs, including administrative and program activities. ADP monitors its subrecipients through various mechanisms including county on-site and desk audits covering programmatic requirements and review of county OMB A-133 audits.

Our audit revealed that ADP does not have sufficient on-site monitoring of subrecipients to ensure that federal awards are used for authorized purposes in accordance with federal requirements. Instead, ADP relies heavily on the county OMB Circular A-133 audit. ADP's documented risk-based audit plan does not emphasize selection of counties receiving a large portion of the State's funding. ADP planned to increase the number of on-site audits in fiscal year 2011-12 over previous years, but did not have a clear policy stating how many audits would be performed during each fiscal year. Due to limited resources, ADP performed only three site visits during fiscal year 2012, which covered less than 5 percent of monies disbursed by ADP. ADP disbursed approximately $230 million to subrecipients in fiscal year 2011-12. Failure to properly monitor subrecipients increases the risk the federal monies will be paid for unallowable costs.

Questioned Costs

No specific questioned costs were identified.

Recommendations

ADP should implement policies and procedures to ensure the agency properly monitors its subrecipients. ADP should:

1. Revise its risk-based monitoring plan, including fiscal monitoring, the selection process for site visits, and plan for performing site visits to those counties receiving a large portion of the State's funding. If ADP elects to continue to perform three site visits per year, it should obtain written approval of its plan from the Substance Abuse and Mental Health Services Administration (SAMHSA).

2. Complete all scheduled site visits in accordance with the risk-based audit plan.

Department's View and Corrective Action Plan

<u>Fiscal policies and procedures to monitor subrecipients</u>

The Department of Alcohol and Drug Programs (ADP) respectfully disagrees with the KPMG audit finding indicating that ADP does not have adequate fiscal policies and procedures to monitor subrecipients to ensure that federal awards are used for authorized purposes in accordance with federal requirements.

ADP believes it has adequate, documented fiscal policies and procedures to monitor subrecipents that meet the requirements in 45 CFR 96.31(b)(2). This regulation permits the review of OMB Circular A-133 audits, or use of other means (e.g., program reviews) if the subgrantee has not had such an audit, in determining whether the subgrantee spent federal funds in accordance with applicable laws and regulations.

Furthermore, this specific reference is a repeat finding from at least two prior years' Single State Audit findings (SFY 2007-08 and SFY 2008-09) that were disputed by ADP and forwarded to the Substance Abuse and Mental Health Services Administration (SAMHSA) for resolution.

In regards to the SFY 2007-08 audit finding, SAMHSA issued a Determination Letter indicating that based on ADP's responses to the auditor's findings in the audit report and additional information ADP sent in response to SAMHSA's audit resolution letters, SAMHSA considered ADP's audit report satisfactorily resolved and no further actions were required. Therefore, ADP's existing monitoring procedures to review and resolve county A-133 audit findings meets the requirement to determine whether subgrantees spent SAPT Block Grant funds in accordance with applicable laws and regulations (45 CFR 96.31(b)).

For the SFY 2008-09 audit finding, SAMHSA issued a Determination Letter indicating that based on ADP's responses to the auditor's findings in the audit report and additional information ADP sent in response to SAMHSA's audit resolution letters, SAMHSA considered ADP's existing monitoring procedures to review and resolve county A-133 audit findings meets the requirement to determine whether subgrantees spent SAPT Block Grant funds in accordance with applicable laws and regulations (45 CFR 96.31(b)). However, for this specific SFY audit period, SAMHSA agreed with the auditor in that ADP did not carry out its established procedures to ensure completion of audits in accordance with its annual county audit plan. SAMHSA requested a corrective action plan (CAP) to address deficiencies in carrying out ADP's established procedures, completion of audits in accordance with its annual county audit plan, and an anticipated completion date. ADP's Audit Branch immediately implemented a corrective action plan that included additional procedures and checks and balances to enhance the already existing county OMB A-133 audit process and to address the deficiencies associated with the prior year's audit finding. ADP continues to monitor and follow up on the annual county OMB A-133 audits for timely resolution.

In addition, the KPMG audit team initially reviewed and verified ADP's county OMB A-133/SAPT Block Grant audit processes and did not identify any issues or concerns. At the audit team's request, ADP provided a county SAPT Block Grant audit program, and an audit report with the supporting audit work papers. The KPMG audit team also conducted an interview with ADP Audit Branch staff that included further discussion on ADP's in-house processes, procedures, scope of audits and selection methodology. The KPMG audit team commented on the volume of audit work papers and detail submitted to them for a single county audit and subsequently, based on their review, indicated that ADP's county audit was very thorough and detail oriented.

Risk-based audit plan audit selection methodology

The assertion made in the audit finding that ADP's documented risk-based audit plan does not emphasize selection of counties receiving a large portion of the State's funding is not completely accurate. The criterion used in our audit selection methodology and outlined in ADP's documented risk-based audit plan includes "Funding Received" as a consideration.

At the beginning of each fiscal year, ADP's Audit Branch prepares an annual audit plan that identifies all anticipated audits to be conducted for that fiscal year. The plan includes both Drug Medi-Cal (DMC) and Non-DMC audits. The Non-DMC audits are the County SAPT Block Grant audits. The audit plan is developed based on risks analysis e.g., A-133 findings, claims and billing data and in-house referrals from ADP's County Monitoring staff. Once the counties have been identified, they are assigned to audit staff at the beginning of the fiscal year. The County SAPT Block Grant audits are specifically designed to audit any of the pass through costs associated with the federal awards administered by ADP. That process includes the authorization, verification, and testing of costs associated with those federal funds. This can be substantiated by fiscal disallowances resulting from audits performed. While the amount of funding received is a consideration in ADP's overall selection process, it has not been emphasized over other criterion in ADP's risk analysis e.g., A-133 findings, claims and billing data, and in-house referrals from County Monitoring staff.

Response to recommendations

The audit recommendations propose a revision of ADP's risk-based audit plan to include site visits to those counties receiving a large portion of the State's funding and the quantity of County SAPT Block Grant audits performed each state fiscal year. It was communicated to both the KPMG on-site audit team and the senior audit manager that the quantity of County SAPT Block Grant audits performed by ADP in any given year is impacted by the amount of time and effort it takes to complete a county audit and limited resources.

Corrective Action Plan

1. ADP agrees with the KPMG recommendation that ADP should enhance its risk-based monitoring plan audit selection process by placing more emphasis on the amount of funding received. ADP will also plan to perform site visits to a sampling of those counties receiving a large portion of the State's funding as resources permit. However, in order to ensure the integrity of ADP's risk analysis process other criterion (e.g., A-133 audit findings, claims and billing data, and in-house referrals from County Monitoring staff) will still be considered in the selection process.

2. The Governor's FY 2013-14 Budget proposes the elimination of ADP and the transfer of all substance use disorder (SUD) programs and functions of ADP to the Department of Health Care Services (DHCS) by July 1, 2013. DHCS will be designated as the Single State Agency for the purpose of receiving and administering the SAPT Block Grant. This reorganization is designed to create increased efficiencies within state and local programs and offers numerous benefits to the SUD system including enhanced oversight of SUD programs. ADP is participating with DHCS in the development of a transition plan and providing input to address key concerns. ADP will discuss the possibility of increasing position authority to address the impact to the quantity of county audits performed each year due to limited resources.

ADP would like to reiterate that 45 CFR 96.31(b)(2) permits the review of OMB Circular A-133 audits, or use of other means (e.g., program reviews) if the subgrantee has not had such an audit, in determining whether the subgrantee spent federal funds in accordance with applicable laws and regulations.

As referenced above, this is a repeat finding from previous year's audits (SFY 2007-08 and SFY 2008-09). In response to these findings, SAMHSA issued Audit Resolution/Determination Letters indicating that based on ADP's responses to the auditor's findings in the audit report and additional information ADP sent in response to SAMHSA's audit resolution letters, SAMHSA considered ADP's audit report satisfactorily resolved and no further actions were required. Therefore, ADP's existing monitoring procedures to review and resolve county A-133 audit findings meets the requirement to determine whether subgrantees spent SAPT Block Grant funds in accordance with applicable laws and regulations.

These SAMHSA Audit Resolution Letters or Audit Determination Letters in regards to the SFY 2007-08 and SFY 2008-08 audits are management decisions from SAMHSA as to the sufficiency of ADP's monitoring plan.

Contact

Lanis Clark, Audit Branch Manager

Implementation Date

April 2, 2013
To be determined by DHCS by July 1, 2013

Auditors' Conclusion

We acknowledge actions taken by ADP to address prior year findings and parts of its risk-based approach. However, ADP did not provide to us the SAMHSA Audit Resolution Letters or Audit Determination Letters. In addition, ADP's response states that we "did not identify any issue or concerns" related to ADP's audit process. We have not commented on the audit program used by ADP during its site visits; however, given the significance of federal funding passed through to subrecipients and the frequency with which on-site monitoring has been performed, we believe ADP should obtain a management decision from SAMHSA as to the sufficiency of its monitoring plan or provide SAMHSA's management decisions on this matter to us during the fiscal year 2012-13 audit.

Reference Number:	12-35
Category of Finding:	Activities Allowed/Allowable Costs
Type of Finding:	Material Weakness
State Administering Department:	Department of Health Care Services (Health Care Services)
Federal Catalog Number:	93.720, 93.775, 93.777, 93.778
Federal Program Title:	Medicaid Cluster
Federal Award Number and Years:	05-1205CA5MAP; 2012 1205CAARRA; 2012 05-1105CA5MAP; 2011 1105CAARRA; 2011

Federal Catalog Number:	93.767
Federal Program Title:	Children's Health Insurance Program
Federal Award Number and Years:	05-11A5CA5021; 2012

Criteria

45 CFR Part 95, General Administration – Grant Programs (Public Assistance, Medical Assistance and State Children's Health Insurance Programs, Sec. 95.621 ADP Reviews (f) ADP System Security Requirements and Review Process

ADP System Security Requirement. State agencies are responsible for the security of all ADP projects under development, and operational systems involved in the administration of HHS programs. State agencies shall determine the appropriate ADP security requirements based on recognized industry standards or standards governing security of federal ADP systems and information processing.

ADP Security Program. State ADP Security requirements shall include the following components: (i) Determination and implementation of appropriate security requirements as specified in paragraph (f)(1) of this section. (ii) Establishment of a security plan and, as appropriate, policies and procedures to address the following area of ADP security: (A) Physical security of ADP resources; (B) Equipment security to protect equipment from theft and unauthorized use; (C) Software and data security; (D) Telecommunications security; (E) Personnel security; and (F) Contingency plans to meet critical processing needs in the event of short or long-term interruption of service.

Condition

Health Care Services utilizes a third-party fiscal intermediary to adjudicate fee-for-service (FFS) claims and effective October 1, 2011, a new fiscal intermediary (FI) was engaged. We found that certain information security and change management controls over the California Medicaid Management System (CA-MMIS) were not operating effectively. The failure of these controls was due in part to the transition from the prior FI to the new FI as well as lack of adequate implementation of CA-MMIS policies and procedures during the entire year. We tested FFS claims and found one exception related to the CA-MMIS application; however, IT general controls over the information technology environment, including access and change management, should be operating effectively to help ensure proper functioning of CA-MMIS edits checks and other application controls.

- We found 39 of 198 terminated employees' access had not been removed.
- We identified 17 individuals with system administrator privileges in CA-MMIS. While each individual's access was approved by management, we found that for 15 users, the employee's job responsibilities did not require all of the system administrative privileges assigned to them.
- We selected 40 users with access to CA-MMIS and found that the FI could not provide evidence of approval authorizing four of the individuals' access. We also found that three users were granted access to CA-MMIS prior to proper authorization.
- The approval process for new users requires the user's manager to approve access. However, the process does not limit what access managers can approve for their direct reports, resulting in a risk that access that is not commensurate with the individual's role could be granted.
- The FI does not perform periodic user access reviews to confirm ongoing appropriateness of user access.
- We selected 40 standard changes and found that two were approved by an analyst who was not on the approved Health Care Services analyst list. The FI and Health Care Services put in place a new process in late 2012 for approving program changes.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Health Care Services should work with the FI to ensure IT general controls are operating effectively. Health Care Services should ensure access is properly approved, removed upon termination, evaluated and limited to the level required by job responsibilities, and reviewed on a periodic basis. Health Care Services should also ensure program changes are approved by authorized individuals prior to implementation.

Department's View and Corrective Action Plan

Upon initial notification of the concerns identified for the execution of information security and change management controls on September 24, 2012, DHCS directed Xerox (FI Letter A-1899) to complete an Account Management Corrective Action Plan (CAP). This CAP is in direct response to findings identified in the first five (5) bullets noted above. In parallel with this formal request to Xerox, DHCS continues to work with Xerox and internal DHCS staff to utilize the KPMG findings to make improvements. The following corrective actions are identified in response to each bullet point referenced in the KPMG audit report:

Finding #1: "We found 39 of 198 terminated employee's access had not been removed."

Response: DHCS agrees with this finding. There are, and have been since Xerox assumed Operations in October of 2012, several protocols and security barriers in place that mitigate the potential impact of lags in system access termination: (1) Physical access to a secure CA-MMIS location is required to access CA-MMIS applications; access badges, along with secure tokens, are immediately recovered and deactivated when an employee is terminated, and (2) Mainframe accounts are automatically suspended after sixty days of inactivity and automatically deleted after ninety days by the system. These added physical and technical safeguards reduce risk in the event user access is not immediately removed upon separation, i.e. physical access to the CA-MMIS location is required so remote access by unauthorized users with an active account will not work.

These steps are supported by the CA-MMIS Parent Security and Confidentiality Plan (SCP) which contains the policy for Account Management which states that "ACS must ensure that account management documentation includes: Procedures to remove, disable, or otherwise secure accounts to occur within 24 hours of notification of a change in user status." In addition, the Mainframe SCP indicates: "Quarterly Employment Verification (QEV) is performed to verify that an ID owner is still an employee and for Job Termination: The Manager executes an Exit Checklist immediately, which includes requesting ID removal within 24 hours." The CA-MMIS ID Management Procedures are the current procedures in place for Xerox. DHCS has instructed Xerox that these procedures must be refined and followed for account management activities. On January 15, 2013, Xerox responded to the DHCS direction for a CAP, via FI Letter T-2668, and has confirmed immediate action was taken, including, but not limited to, the following:

- Xerox has already begun to address DHCS' greatest concern by immediately reviewing the list of employees no longer working on the CA-MMIS account and confirming their access has been removed.

- Xerox has already improved the existing off-boarding process with Human Resources (HR) by providing required Management training on November 15, 2012 and updating the SharePoint site with updated forms and instructions.

These immediate steps, coupled with a more comprehensive monitoring plan required in the CAP, will address this area of concern. DHCS will continue to meet with and monitor Xerox on this issue.

Finding #2: "We identified 17 individuals with system administrator privileges in CA-MMIS. While each individual's access was approved by management, we found that for 15 users the employee's job responsibilities did not require all of the system administrative privileges assigned to them."

Response #2: DHCS agrees with this finding and has held corrective action meetings with Xerox, which include the need for refined operating procedures as well as better conformance with the DHCS approved CA-MMIS Parent SCP. The SCP contains the policy for Account Management, Separation of Duties and Least Privilege which states in part that:

- ACS shall ensure information system accounts are reviewed periodically. The system accounts reviews shall be conducted no less frequently than quarterly and shall be recommended on a monthly basis.

- ACS shall ensure that Moderate and High-impact information systems enforce the concept of least privilege, allowing only authorized accesses for users (and on behalf of users) that are necessary to accomplish assigned tasks in accordance with applicable missions and business functions.

Xerox responded to DHCS' request for a CAP on January 15, 2013 (FI Letter T-2668) and has confirmed immediate action on a number of points which include, but are not limited to, the following:

- Running appropriate application access reports

- Posting reports to a secured area on the SharePoint site
- Performing quarterly management review of the reports
- Taking immediate corrective action on any discrepancies

As part of these periodic reviews, which are required to occur at least quarterly, Xerox is to assess user access rights under the guiding principles of Account Management, Separation of Duties, and Least Privilege. As an outcome of this recent audit finding, DHCS has required that these reviews occur immediately, resulting in a formal commitment from Xerox in the form of FI Letter T-2668. DHCS will continue to meet with and monitor Xerox on this issue.

Finding #3: "We selected 40 users with access to CA-MMIS and found that the FI could not provide evidence of approval authorizing four of the individual's access. We also found that three users were granted access to CA-MMIS prior to proper authorization."

Response #3: DHCS agrees with this finding and has already discussed corrective action with Xerox. DHCS has confirmed that the DHCS-approved CA-MMIS Parent SCP contains the policy for Audit and Accountability which states "Access requests must be signed by individuals and approved by management. Access is not granted until requests receive appropriate approvals. Copies of completed requests are stored by ACS." Xerox has responded to DHCS' request for a CAP on this item acknowledging the need for correction in this area. A Xerox and DHCS monitoring plan is being constructed to ensure compliance with this documented requirement. DHCS will continue to meet with and monitor Xerox on this issue.

Finding #4: "The approval process for new users requires the user's manager to approve access. However, the process does not limit what access managers can approve for their direct reports resulting in a risk that access that is not commensurate with the individual's role could be granted."

Response #4: DHCS agrees with this finding and firmly reiterated our expectations with Xerox, which are already contained in the CA-MMIS Parent SCP. Principles for Least Privilege exist in the SCP and state in part "ACS shall ensure that Moderate and High-impact information systems enforce the concept of least privilege, allowing only authorized accesses for users (and processes acting on behalf of users) that are necessary to accomplish assigned tasks in accordance with applicable missions and business functions." DHCS has directed Xerox to ensure that the monthly or quarterly application access review by authorized approvers includes validating that the user access is appropriate for their current job function. Xerox's response confirms that review of these roles is occurring and will be repeated at least quarterly. DHCS will continue to meet with and monitor Xerox on this issue.

Finding #5: The FI does not perform periodic user access reviews to confirm ongoing appropriateness of user access.

Response #5: DHCS agrees with this finding. The DHCS approved CA-MMIS Parent SCP contains the policy for Account Management and states in part "The system accounts reviews shall be conducted no less frequently than quarterly and shall be recommended on a monthly basis." DHCS has ordered Xerox to ensure the monthly and quarterly application access reviews are completed timely and documented appropriately. Xerox's response to DHCS' request for CAP has resulted in confirmation that these activities are in place. DHCS will continue to meet with and monitor Xerox on this issue.

Finding #6: "We selected 40 standard changes and found that two were approved by an analyst who was not on the approved Health Care Services analyst list. The FI and Health Care Services put in place a new process in late 2012 for approving program changes."

Response #6: DHCS agrees that at the time of audit, approval was given by an analyst that was not on the approved Health Care Services list. However, this first-level approval did not serve as the single and final level of approval. As part of documented governance processes, all changes receiving first-level DHCS analyst approval are subsequently elevated to the Change Control Board for senior management (second-level) approval. Although DHCS is confident that a multi-level approval processes mitigates the risks associated with this finding, changes have been implemented as result of this finding. DHCS has already modified its procedures to require first-level DHCS approval of all production changes by specific, named management or senior analyst staff (12 in total). DHCS analysts will continue to recommend approvals, but will no longer have the authority to provide the first-level approval. The Second-level approval process remains intact as an added assurance of quality program changes. These revised procedures have been communicated to Xerox and are fully implemented.

Contact

Renee Holland, Chief Enhancement Section

Implementation Date

See implementation dates throughout the response above.

Reference Number:	12-36
Federal Catalog Number:	93.720, 93.775, 93.777, 93.778
Federal Program Title:	Medicaid Cluster
Federal Award Number and Years:	1205CAARRA; 2012 05-1205CA5MAP; 2012 05-1105CA5MAP; 2011 1105CAARRA; 2011
Category of Finding:	Subrecipient Monitoring
Type of Finding:	Material Weakness and Material Instance of Noncompliance
State Administering Department:	Department of Health Care Services (Health Care Services)

Criteria

California has a county-administered system where local county welfare departments (CWDs) bear the responsibility for making eligibility determinations and redeterminations of beneficiaries. Attachment 1.2-D, Description of Staff Performing Eligibility Determinations, states that, Health Care Services is the single state agency for administration of the Title XIX (Medicaid) program and may make eligibility determinations for programs under Title XIX State plan and waivers. Under the administrative guidance of Health Care Services and the supervision of the California Department of Social Services (Social Services), county welfare departments make most Title XIX eligibility determinations.

OMB Circular A-133 Section 400(d) requires a pass-through entity to advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.

OMB Circular A-133, Compliance Supplement provides guidance on Split Eligibility Determination Functions.

(1) Background – Some nonfederal entities pay the federal benefits to the eligible participants but arrange with another entity to perform part or all of the eligibility determination. For example, a State arranges with local government social services agencies to perform the "intake function" (e.g., the meeting with the social services client to determine income and categorical eligibility) while the State maintains the computer systems supporting the eligibility determination process and actually pays the benefits to the participants. In such cases, the State is fully responsible for federal compliance for the eligibility determination, as the benefits are paid by the State. Moreover, the State shows the benefits paid as federal awards expended on the State's Schedule of Expenditures of Federal Awards. Therefore, the auditor of the State is responsible for meeting the internal control and compliance audit objectives for eligibility. This may require the auditor of the State to perform, coordinate, or arrange for additional procedures to ensure compliant eligibility determinations when another entity performs part of the eligibility determination functions. The responsibility of the auditor of the State for auditing eligibility does not relieve the auditor of the other entity (e.g., local government) from responsibility for meeting those internal control and compliance audit objectives for eligibility that apply to the other entity's responsibilities. An exception occurs when the auditor of the other entity confirms with the auditor of the State that certain procedures are not necessary.

Condition

California counties implemented state automated welfare systems (SAWS) to manage various county welfare processes, including Medicaid, Supplemental Nutrition Assistance Program (SNAP), and Temporary Assistance for Needy Families (TANF). In California, the State does not maintain the computer systems supporting the eligibility determination process but the State does pay the benefits to the participants for Medicaid and SNAP.

All 58 counties aligned themselves into one of three consortia. Each county consortium is responsible for the design, development, implementation, maintenance, and operation of its SAWS. As a result of setting up these consortia, counties are thereby responsible for ensuring these systems meet the federal requirements necessary to ensure compliance, including federal compliance related to eligibility determination and redetermination. In addition, CWDs perform the intake function, including meeting with the client to determine income and categorical eligibility.

Health Care Services communicates to county welfare departments information required by federal regulations through the State Plan, alert letters, and other agreements. However, Health Care Services did not evaluate that the use of county-owned systems for eligibility determination rather than a state-owned system created the need for additional communication to CWDs as to how federal compliance requirements related to eligibility were to be addressed in the county single audit. In other words, the county auditor is responsible for meeting the internal control and compliance objectives for eligibility. As a result, county single audits have not addressed eligibility compliance for all Medicaid beneficiaries.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Health Care Services should work with relevant parties, including CWDs, to ensure federal requirements related to internal control and compliance objectives for Medicaid eligibility are properly addressed in county single audits.

Department's View and Corrective Action Plan

Department of Health Care Services (DHCS) agrees with the recommendation.

DHCS agrees that the automated welfare systems (SAWS) are owned, operated, and maintained by the respective 58 counties throughout the state. DHCS further agrees that the county single audits have not addressed eligibility compliance. DHCS will work with county welfare departments to ensure federal requirements related to eligibility are properly addressed.

Contact

Alicia Enriquez, Chief, Internal Audits

Implementation Date

July 1, 2015

Reference Number:	12-37
Federal Catalog Number:	93.720, 93.775, 93.777, 93.778
Federal Program Title:	Medicaid Cluster
Federal Award Number and Year:	05-1205CA5MAP; 2012 1205CAARRA; 2012 1105CAARRA; 2011 05-1105CA5MAP; 2011
Category of Findings:	Subrecipients Monitoring
Type of Finding:	Material Weakness and Material Instance of Non-Compliance
State Administering Department:	Department of Health Care Services (Health Care Services)

Criteria

TITLE 31 – MONEY AND FINANCE, SUBTITLE V – GENERAL ASSISTANCE ADMINISTRATION – Sec. 7502 – Audit requirements; exemptions:

(f)(2) Each pass-through entity shall:

(B) Monitor the subrecipient's use of federal awards through site visits, limited-scope audits, or other means; and,

(C) Review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the Director, pertaining to federal awards provided to the subrecipient by the pass-through entity.

SOCIAL SECURITY ACT, TITLE XIX – GRANTS TO STATES FOR MEDICAL ASSISTANCE PROGRAMS – SECTION 1902, STATE PLANS FOR MEDICAL ASSISTANCE – SECTION (e) (12), CONTINUOUS ELIGIBILTY FOR CHILDREN

(12) At the option of the State, the plan may provide that an individual who is under an age specified by the State (not to exceed 19 years of age) and who is determined to be eligible for benefits under a State plan approved under this title under subsection (a)(10)(A) shall remain eligible for those benefits until the earlier of—

(A) the end of a period (not to exceed 12 months) following the determination; or

(B) the time that the individual exceeds that age.

Condition

Health Care Services contracts with the counties to perform eligibility determinations for Medicaid beneficiaries. Three county consortium systems are used to assist in the determination of Medicaid eligibility: California Work Opportunity and Responsibility to Kids Information Network (CALWIN); Los Angeles Eligibility, Automated Determination, Evaluation and Reporting (LEADER); and Consortium IV (C-IV). An aid code is generated for each beneficiary which details the beneficiary's scope of benefits as well as if a share of cost is required. Share of cost represents the amount a beneficiary must provide for health care services received prior to receiving benefits funded by Medicaid, and is similar to a monthly deductible. The consortium systems interface with the Medicaid Eligibility Database System (MEDS), which is the State system that holds eligibility information. The State uses aid code information in MEDS to determine the allowability of claims submitted by confirming the beneficiary's eligibility.

We selected 100 eligibility case files and reperformed the counties' eligibility determinations and redeterminations and found that counties did not have adequate controls to ensure eligibility determinations and redeterminations were appropriate. As a result, we determined that Health Care Services' procedures may not be sufficient to ensure proper eligibility determinations. Specifically, we found the following:

- Redeterminations were not performed for three cases.
- The aid code as listed in the county consortium system did not agree to the aid code in MEDS for one case.
- Aid codes were improperly assigned for four cases.
- Income was calculated from incorrect pay stubs for one case.
- The original application could not be located for one case.
- Property and income support could not be located for one case.

Of the 100 case files selected, we selected 25 that had been reviewed by Health Care Services' Medicaid Eligibility Quality Control (MEQC) unit. We noted one instance in which MEQC staff identified that the county had incorrectly determined the aid code; however, the aid code determined by the county was appropriate.

Total direct federal Medicaid expenditures made by the State for provider payments and managed care amounted to $26 billion for the fiscal year ended June 30, 2012.

Questioned Costs

$9,010 for fee-for-service claims. Undetermined for managed care claims.

Recommendations

Health Care Services should improve policies, procedures, and monitoring for county eligibility determinations. Health Care Services should:

1. Reissue guidance to counties to ensure that redeterminations are made in a timely manner and that application, income, and other documentation is maintained to evidence eligibility determinations.

2. Strengthen policy and procedures guidance for aid codes issued to counties to ensure beneficiaries are assigned proper aid codes.

3. Improve the reconciliations of MEDS and consortium systems for Medicaid beneficiaries to ensure information is properly reflected for beneficiaries on each system.

Department's View and Corrective Action Plan

Department of Health Care Services (DHCS) agrees with this recommendation.

DHCS is strongly committed to an effective and comprehensive quality control program that minimizes errors in Medi-Cal eligibility determinations performed by counties to the greatest extent possible. We appreciate the efforts of KPMG in reviewing the 100 eligibility case files and providing us with constructive feedback on the results of the review, which included 9 cases where it appears the county did not correctly follow eligibility guidelines.

However, in response to the request for a Corrective Action Plan and in consideration of the recommendations, DHCS proposes the following actions to address the findings noted in this report:

- DHCS will re-issue an All County Welfare Director's Letter (ACWDL) that reminds counties of federal and state requirements associated with performing timely redeterminations of Medi-Cal cases.

- DHCS will re-issue an ACWDL that reiterates the need for counties to retain in case files and/or imaged files, necessary documentation such as the original application, income and resource verifications.

- DHCS will issue an ACWDL that addresses the specific issues that resulted in the assigning of improper aid codes as identified in the KPMG review once adequate case detail regarding the errors are provided by KPMG.

- DHCS will continue to work with counties when similar errors are found during quality control reviews and require a county corrective action plan when appropriate.

Contact

Robert Sugawara, Chief Program Review Branch

Implementation Date

DHCS will implement the corrective actions cited above prior to the end of the 2012-13 Fiscal Year.

Reference Number:	12-38
Federal Catalog Number:	93.720, 93.775, 93.777, 93.778
Federal Program Title:	Medicaid Cluster
Federal Award Number and Years:	05-1205CA5MAP; 2012 1205CAARRA; 2012

	1105CAARRA; 2011 05-1105CA5MAP; 2011
Category of Finding:	Subrecipient Monitoring
Type of Finding:	Material Weakness and Material Instance of Noncompliance
State Administering Department:	Department of Health Care Services (Health Care Services)

Criteria

TITLE 31 – MONEY AND FINANCE, SUBTITLE V – GENERAL ASSISTANCE ADMINISTRATION – Sec. 7502. Audit requirements; exemptions:

(f)(2) Each pass-through entity shall:

(A) provide such subrecipient the program names (and any identifying numbers) from which such assistance is derived, and the federal requirements which govern the use of such awards and the requirements of this chapter;

(B) monitor the subrecipient's use of federal awards through site visits, limited scope audits, or other means; and,

(C) review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the Director, pertaining to federal awards provided to the subrecipient by the pass-through entity.

OMB CIRCULAR A-133 – *AUDITS OF STATES, LOCAL GOVERMENTS, AND NON PROFIT ORGANIZATIONS*

§___.210 Subrecipient and vendor determinations

a) General. An auditee may be a recipient, a subrecipient, and a vendor. Federal awards expended as a recipient or a subrecipient would be subject to audit under this part. The payments received for goods or services provided as a vendor would not be considered federal awards. The guidance in paragraphs (b) and (c) of this section should be considered in determining whether payments constitute a federal award or a payment for goods and services.

Condition

Health Care Services provides services under the Medi-Cal program through various subrecipients. For example, monies are passed through to counties, or local government agencies, which are responsible for eligibility determination and other administrative activities. In addition, monies are passed through to counties for reimbursement of expenditures for Medi-Cal services. Monies are also disbursed to local education consortiums and other nonprofit organizations for reimbursement of expenditures of Medi-Cal services and administration costs. Health Care Services disbursed approximately $2.5 billion to subrecipients in fiscal year 2011-12.

Health Care Services monitors its subrecipients through various mechanisms. For example, Health Care Services policy requires that a site visit be conducted for each county or local government agency once every four years and once every three years for school-based organizations.

Our audit revealed that Health Care Services does not have adequate policies and procedures to monitor subrecipients in accordance with federal requirements.

- Health Care Services does not have policies and procedures in place to ensure award information is communicated to subrecipients. Contractual agreements executed between Health Care Services and its subrecipients do not include the identifying CFDA number of the Medicaid program. Failure to inform subrecipients of relevant award information increases the risk that these organizations may not comply with regulations, including obtaining the required audit.

- In April 2011, Health Care Services implemented travel restrictions and analysts were unable to perform all planned site visits. The school-based unit performs desk reviews when unable to travel which are equivalent in scope to a site visit. However, for county-based activities, we identified 8 local government agencies out of 50 that had no site visit or desk review within the last four years. We also identified 7 out of 28 local government agencies or local education consortium that are part of the school-based program that had no site visit or desk review within the last three years. Lack of adequate monitoring increases the risk that Medicaid funds may not be spent for the intended purpose.

- Health Care Services is unable to identify the total amount of dollars passed through to subrecipients. In addition, Health Care Services has no written policies to determine whether a recipient is a vendor or a subrecipient. As a result, the agency may not obtain and review all necessary OMB Circular A-133 reports and may not properly identify entities that require such audits and those that do not.

- Health Care Services receives OMB Circular A-133 audit reports from the State Controller's Office (SCO) and reviews the audits for findings related to the Medicaid program. However, we determined that Health Care Services does not have a process in place to ensure all subrecipient audit reports have been received. We identified three counties whose audit report was not received and reviewed for the year ended June 30, 2011, the most recent audit report available. In addition, the SCO obtains and submits to Health Care Services OMB Circular A-133 reports for local government agencies but not for local education consortiums and nonprofit organizations, and Health Care Services does not have its own process in place to obtain these A-133 reports. As a result, Health Care Services does not determine whether prompt and appropriate corrective action has been taken with respect to audit findings.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Health Care Services should implement policies and procedures to ensure that the agency properly monitors its subrecipients. Health Care Services should:

1. Include all relevant award information, including the CDFA number, in contractual agreements.

2. Ensure that site visits are performed in accordance with department policy.

3. Develop mechanisms to identify the amounts passed through to subrecipients.

4. Develop and implement policies and procedures to identify which organizations are subrecipients and which may be considered vendors.

5. Develop policies and procedures to ensure OMB Circular A-133 reports for all subrecipients claiming amounts more than $500,000 are received and reviewed for corrective action plans.

Department's View and Corrective Action Plan

1. Health Care Services agrees with the recommendation.

The Health Care Services' Medi-Cal Administrative Activities (MAA) program contract agreements currently contain the following relevant award information language:

> Title 31 – Money and Finance, Subtitle V – General Assistance Administration, Chapter 75 – Requirements for Single Audits, Section 7502 requires the designation of an identifying number for passing funds through contract agreements to subrecipients (local governmental agencies). That number for this contract agreement is 93.778.

However, Health Care Services will revise the MAA program contract language as follows:

> Title 31 – Money and Finance, Subtitle V – General Assistance Administration, Chapter 75 – Requirements for Single Audits, Section 7502 requires each pass-through entity provide the subrecipient program names and any identifying numbers from which such assistance is derived. The Catalog of Federal Domestic Assistance (CFDA) number for this federal program is 93.778, Medical Assistance Program (Medi-Cal).

Health Care Services will also revise contract language to require Local Governmental Agencies (LGAs)/ Local Education Consortia (LECs) to include this language in contracts with their subrecipients and/or vendors. LGA/LEC compliance with this directive will be monitored and verified during on-site visits.

2. Health Care Services agrees with the recommendation.

   In April 2011, Health Care Services imposed travel restrictions and all site visits were halted. During Fiscal Year 2011-12, the MAA programs instituted desk review processes that are equitable to the site visit process to ensure that adherence to the requirement to conduct LGA/ LEC reviews every four years. In Fiscal Year 2012-13, Health Care Services rescinded the travel restrictions and site visits were resumed. MAA progam site vists will be in accordance with agency policy by June 30, 2013.

3. Health Care Services agrees with the recommendation.

   Health Care Services will develop an attachment to the MAA programs invoice requiring LGA/ LEC claiming units to identify the amounts passed through to subrecipients. This requirement will be implemented by Health Care Services by June 30, 2013 and will be monitored as a part of the invoice review process. Health Care Services MAA programs will not process LGA/LEC invoices that do not comply with this requirement, when applicable.

4. Health Care Services agrees with the recommendation.

   Health Care Services will revise the MAA program contract language to include the definitions for vendors and subrecipients. Health Care Services will also revise contract language to require LGAs/LECs to include this language in contracts with their subrecipients and/or vendors. LGA/ LEC compliance with this directive will be monitored and verified during on-site visits.

5. Health Care Services partially agrees with the recommendation.

   The Audits & Investigations Division (A&I) has procedures to track, monitor, and review the corrective action plan(s) to address the audit finding(s) contained in the A-133 single audit report. We agree that while A&I noted that the A-133 reports for four counties (El Dorado, Glenn, Imperial County Public Health Department, and Kings) were not received, we did not follow up with the SCO to ascertain the delinquent reports. Since the SCO has single audit oversight responsibility, A&I obtained the reports for the four counties from the SCO. The four counties received Medi-Cal Assistance Program funds (Medi-Cal) from Health Care Services. Imperial County also received Medi-Cal Administrative Activities (MAA) and Targeted Case Management

(TCM). There were no findings identified in the single audit reports for the four counties. A&I will establish procedures to ensure that it contacts the SCO in a timely manner to secure A-133 reports that are not received.

Regarding the LEAs who receive Medi-Cal Billing Option Program funds (Medi-Cal Billing Option), the SCO is the single state oversight agency and conducts the annual LEA audits. Currently, SCO does not send the LEA reports to other state agencies. A&I will request Single Audits reports of the LEA who received Medi-Cal Billing Option funds from the SCO starting with the fiscal year ended June 30, 2012, and include the reports in our tracking, monitoring, and follow-up system.

Contact

Recommendations 1-4: Geri Baucom, Chief, Administrative Claiming, Local & School Service Branch
Recommendation 5: Evie Correa, Chief, Audit Review & Analysis Section

Implementation Date

June 30, 2013

Reference Number:	12-39
Federal Catalog Number:	93.720, 93.775, 93.777, 93.778
Federal Program Title:	Medicaid Cluster
Federal Award Number and Years:	05-1205CA5MAP; 2012 1205CAARRA; 2012 05-1105CA5MAP; 2011 1105CAARRA; 2011
Category of Finding:	Special Tests and Provisions – Provider Eligibility
Type of Finding:	Material Weakness and Material Instance of Noncompliance
State Administering Department:	Department of Health Care Services (Health Care Services)

Criteria

TITLE 42 PUBLIC HEALTH, Part 431 – STATE ORGANIZATION AND ADMINISTRATION, Subpart C – Administrative Requirements: Provider Relations, Section 431.107, Required provider agreement

(b) Agreements. A State plan must provide for an agreement between the Medicaid agency and each provider or organization furnishing services under the plan in which the provider or organization agrees to:

(1) Keep any records necessary to disclose the extent of services the provider furnishes to recipients;

(2) On request, furnish to the Medicaid agency, the Secretary, or the State Medicaid fraud control unit (if such a unit has been approved by the Secretary under §455.300 of this chapter), any information maintained under paragraph (b)(1) of this section and any information regarding payments claimed by the provider for furnishing services under the plan;

(3) Comply with the disclosure requirements specified in part 455, subpart B of this chapter; and

(4) Comply with the advance directives requirements for hospitals, nursing facilities, providers of home health care and personal care services, hospices, and HMOs specified in part 489, subpart I, and §417.436(d) of this chapter.

(5)(i) Furnish to the State agency its National Provider Identifier (NPI) (if eligible for an NPI); and

(ii) Include its NPI on all claims submitted under the Medicaid program.

Condition

Prior to November 1999, the Provider Enrollment Division (PED) of Health Care Services did not require its Medicaid providers to submit a provider agreement with the application package. PED has since updated its enrollment process to require provider agreements. However, due to a lack of resources, not all providers prior to 1999 have been re-enrolled as of fiscal year 2011-12, and as such do not have the required re-enrollment package, including the required provider agreement, on file with PED. Out of 34,120 active providers as of fiscal year 2011-12 that were enrolled prior to 1999, 11,972 providers were not re-enrolled subsequent to 1999. Additionally we noted that 1 of 40 providers selected for provider eligibility testing did not have the provider agreement and supporting documentation on file.

Questioned Costs

Not determined.

Recommendations

Health Care Services should continue to strengthen and complete its efforts to re-enroll all active providers in order to ensure that all providers have a provider agreement in place. Additionally, Health Care Services should strengthen policies and procedures to ensure that the required provider agreements are maintained.

Department's View and Corrective Action Plan

DHCS agrees with this recommendation.

DHCS continues its plan to re-enroll all Medi-Cal providers as a continuous process as resources are available. Re-enrolled providers are required to submit a re-enrollment application package updated to current federal standards to retain Medi-Cal eligibility. DHCS also requires that all providers must submit a new application package to report additional, or change of service location as well as a change in ownership. DHCS continually verifies provider information to ensure compliance with state and federal requirements in its ongoing re-enrollment efforts. The 2010 Patient Protection and Affordable Care Act created a new requirement that state Medicaid programs revalidate provider enrollment information, regardless of provider type, every five years so DHCS will work toward completing the re-enrollment of all providers every five years to the extent that resources allow.

DHCS also concurs that it strengthens its policies and procedures to ensure that the required provider records are maintained. PED continues to examine its procedures so that documents are stored and maintained properly in its document management system.

Contact

Tanya Homman, Chief, Provider Enrollment Division

Implementation Date

Ongoing

Reference Number:	12-40
Federal Catalog Number:	93.720, 93.775, 93.777, 93.778
Federal Program Title:	Medicaid Cluster
Federal Award Number and Years:	05–1205CA5MAP; 2012 1205CAARRA; 2012 05–1105CA5MAP; 2011 1105CAARRA; 2011
Category of Finding:	Activities Allowed/Allowable Costs
Type of Finding:	Significant Deficiency and Instance of Noncompliance
State Administering Department:	Department of Health Care Services (Health Care Services)

Criteria

SOCIAL SECURITY ACT, TITLE XIX – GRANTS TO STATES FOR MEDICAL ASSISTANCE PROGRAMS

Medicaid expenditures include medical assistance payments for eligible recipients for such services as hospitalization, prescription drugs, nursing home stays, outpatient hospital care, and physicians' services, and expenditures for administration and training. In order for a medical assistance payment to be considered valid, it must comply with the requirements of Title XIX, as amended (42 USC 1396 et seq.), and implementing federal regulations. Determinations of payment validity are made by individual states in accordance with approved state plans under broad federal guidelines.

To be allowable, Medicaid costs for medical services must be (1) covered by the state plan and waivers; (2) for an allowable service rendered (including supported by medical records or other evidence indicating that the service was actually provided and consistent with the medical diagnosis); (3) properly coded; and (4) paid at the rate allowed by the state plan. Additionally, Medicaid costs must be net of applicable credits (e.g., insurance, recoveries from other third parties who are responsible for covering the Medicaid costs, and drug rebates), paid to eligible providers, and only provided on behalf of eligible individuals.

Condition

Health Care Services' Provider Manual policy states that Computed Tomography (CT) Angiography (CTA) codes may not be reimbursed on the same date of service as CT codes. We tested 100 fee-for-service (FFS) claims totaling $468,850 (federal share $234,425) and found one claim was not flagged for review by the Medicaid Management Information System (MMIS) and was reimbursed to the provider for both the CTA and CT. Health Care Services paid approximately $10 billion of federal FFS claims in fiscal year 2011-12. Based on current policy, this claim should have been denied for one of the procedures. Health Care Services was unable to provide an explanation as to why the MMIS did

not flag the claim for review. However, subsequently Health Care Services has started the process of updating its policy to provide for exceptions that would allow for payment of the second procedure when deemed medically necessary and when performed at a different time of the day.

Questioned Costs

$445

Recommendations

Health Care Services should work with the fiscal intermediary to determine why the identified claim was not flagged for review and implement system changes to ensure claims are reimbursed in accordance with policy.

Department's View and Corrective Action Plan

Health Care Services agrees to the recommendation.

Based on this finding, DHCS has taken the following steps: 1) A thorough review of Medi-Cal policy 2) Research of root-cause and 3) Analysis of paid claims data.

Review of Medi-Cal policy surfaced the opportunity to amend current policy as it pertains to payment of multiple scans on the same date of service. Current policy stipulates that no more than one scan can be reimbursed on the same day. However, there are specific circumstances where medical necessity justifies the need to conduct multiple scans; therefore payment of multiple scans is permissible in some cases. As a result, DHCS is working to amend its policy.

DHCS has researched the cause of this problem, resulting in the discovery that this claim did not stop for manual review, nor did it deny systematically as it should have. DHCS has identified a technical solution to implement the revised policy discussed above. Rather than fix the system to conform to existing policy, DHCS will implement the modified policy no later than June 30, 2013. The new technical solution will result claims suspending for human review to determine medical necessity of multiple scans on the same day.

As part of the discovery process, DHCS generated an ad hoc report to identify the number of instances where a payment was made in error. While the claim identified by KPMG is not isolated, DHCS did confirm that the frequency of errors is quite low at less than one-hundred sixty-five claims over the past thirteen (13) months.

Contact

Vicky Sady, Deputy Director

Implementation Date

June 30, 2013

Reference Number:	12-41
Federal Catalog Number:	93.720, 93.775, 93.777, 93.778
Federal Program Title:	Medicaid Cluster
Federal Award Number and Years:	05–1205CA5MAP; 2012 1205CAARRA; 2012 05–1105CA5MAP; 2011

	1105CAARRA; 2011
Category of Finding:	Eligibility
Type of Finding:	Significant Deficiency and Instance of Noncompliance
State Administering Department:	Department of Health Care Services (Health Care Services)

Criteria

SOCIAL SECURITY ACT, TITLE XIX – GRANTS TO STATES FOR MEDICAL ASSISTANCE PROGRAMS, Section 1920 – Presumptive Eligibility for Pregnant Women

(a) State plan approved under section 1902 may provide for making ambulatory prenatal care available to a pregnant woman during a presumptive eligibility period

(c)(1) The State agency shall provide qualified providers with:

(A) Such forms as are necessary for a pregnant woman to make application for medical assistance under the State plan, and

(B) Information on how to assist such women in completing and filing such forms.

(2) A qualified provider that determines under subsection (b)(1)(A) that a pregnant woman is presumptively eligible for medical assistance under a State plan shall:

(A) Notify the State agency of the determination within 5 working days after the date on which determination is made, and

(B) Inform the woman at the time the determination is made that she is required to make application for medical assistance under the State plan by not later than the last day of the month following the month during which the determination is made.

Condition

The presumptive eligibility component of the Medicaid program grants immediate and temporary Medi-Cal coverage for California residents who are pregnant but do not have health insurance or Medi-Cal coverage for prenatal care. Health Care Services grants the right to enroll recipients under this program to qualified providers. Because the program provides immediate and temporary care prior to the approval of Medi-Cal eligibility, recipients enrolled in presumptive eligibility are not considered Medi-Cal eligible, and therefore are not entered into county eligibility systems.

Recipients presumed to be eligible are assigned a prenumbered identification card (obtained from Health Care Services by the provider) that begins with a county identification number and presumptive eligibility aid code. The paper documentation, including the application, is retained by the provider. The provider is required by the State plan to submit to Health Care Services a weekly enrollment summary of all presumptive eligibility identification numbers issued to Health Care Services for retention. Health Care Services is required to retain the documents for a period of three years.

The California Medicaid Management Information System (CA-MMIS) does not perform edit checks over the presumed eligible recipients. CA-MMIS is set to bypass the eligibility check if it recognizes the special sequencing of the presumptive eligibility identification number.

Consistent with the prior year, Health Care Services is unable to reconcile the presumptive eligibility number against the enrollment listing filed with Health Care Services at this time because of staffing limitations. However, Health Care Services is pursuing an automated process to post the presumptive eligibility identification numbers to the Medi-Cal eligibility system so records for these recipients can be accessed to authenticate, reconcile, and prevent duplicate issuances of the presumptive eligibility number during the claims adjudication process. In addition, in November 2011, Health Care Services engaged a new print vendor which automated the process of issuing presumptive eligibility identification numbers. This process reduced the risk of issuing duplicate identification numbers. However, the new process does not address identification numbers that were previously issued. As such, there continues to be a risk that duplicate numbers have been issued or unauthorized use may occur as the existence of the recipient is not authenticated. The lack of reconciliation of presumptive eligibility numbers to the enrollment listing may result in federal funding being expended on individuals who do not meet Medicaid eligibility requirements.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Health Care Services should strengthen their internal controls process to obtain and track the enrollment presumptive eligibility identification numbers issued to prevent unauthorized use of identification numbers. Further, Health Care Services should perform procedures to authenticate the existence of the recipient, prevent duplicate issuances, and reconcile the presumptive eligibility number against the recipient enrollment listing filed at Health Care Services during the claims adjudication process.

Department's View and Corrective Action Plan

Health Care Services lacks the necessary resources needed to develop and implement automation of the enrollment of patients into the PE program.

The Patient Protection and Affordable Care Act (PPACA) of 2010 provides an ideal opportunity to implement a solution to this problem as we implement the requirements of federal health care reform. As required by the PPACA and with the passage of Senate Bill 900 (Chapter 659, Statutes of 2010) and Assembly Bill 1602 (Chapter 655, Statutes of 2010), California is required to develop the California Health Benefit Exchange (Exchange). A component of the Exchange is the ability to screen for and enroll eligible individuals into the Medi-Cal program, utilizing a web-based enrollment portal and streamlined eligibility processes. Under the PPACA, for purposes of Medi-Cal eligibility, Health Care Services is required to develop and implement streamlined eligibility determinations and enrollment processes for individuals seeking Medi-Cal covered services. The Exchange could provide an opportunity for Presumptive Eligibility (PE) Qualified Providers to complete the PE enrollment for eligible pregnant women using an internet-based application that will provide real-time validation with the Statewide Medi-Cal Eligibility Data System (MEDS).

A combination of manual and automated quality assurance steps were established for the Presumptive Eligibility (PE) for Pregnant Women ordering process implemented by DHCS in November 2011.

Qualified PE providers fax or email orders for the MC 263 PE form directly to DHCS distribution vendor, MAXIMUS using a standardized order form MC 285. During the week, MAXIMUS accepts orders and electronically forwards the orders to DHCS staff every Friday for review/approval.

DHCS staff reviews the orders and checks the order request against two databases, Affiliated Computer Services Network (ACSNET) and Provider Eligibility System (PES), to verify the provider status and verify that all provider information is valid/accurate prior to approval of the order. As needed, DHCS

staff confirms orders with providers and performs other quality assurance to ensure accuracy of the order being submitted and authenticate the provider. DHCS staff electronically sends the approved orders to MAXIMUS.

MAXIMUS enters the approved provider orders into the Health Care Options (HCO) Material/Product database and alerts DHCS staff by email that orders are ready to post. Each provider has a separate record containing unique data elements as follows:

National Provider Identifier Number (primary key for record keeping), PE Provider Number (assigned upon enrollment), Provider Name, Office Name, Contact Person, Street Address, City, State, Zip Code, Phone Number, Fax Number, Provider Authorization Code (also assigned upon enrollment), Provider Last Order Date, and Provider Last Form Number.

DHCS reviews the orders entered into the HCO database for accuracy and staff then posts the approved orders as valid. MAXIMUS retrieves and inputs the approved orders into the HCO ordering system. From the base table that defines each provider's records, there is an entry for the last used form number value for the provider. MC 263 forms orders are then released for printing and shipping by KP Enterprises, a MAXIMUS sub-contractor.

Contact

Clarrisa Pool-Sims, Chief, Policy Development Branch

Implementation Date

None applicable: It is unknown at this time if the Exchange (2014) will provide access to Qualified Providers allowing the enrollment of eligible pregnant women into the program.

U.S. DEPARTMENT OF HOMELAND SECURITY

Reference Number:	12-42
Federal Catalog Number:	97.067
Federal Program Title:	Homeland Security Grant Program
Federal Award Number and Years:	HSGP-EMW-SS-00077-S01; 2011
Category of Finding:	Reporting
Type of Finding:	Significant Deficiency and Instance of Noncompliance
State Administering Department:	California Emergency Management Agency (Cal EMA)

Criteria

TITLE 2 – GRANTS AND AGREEMENTS, PART 170 – REPORTING SUBAWARD AND EXECUTIVE INFORMATION COMPENSATION, APPENDIX A TO PART 170 – AWARD TERM

Reporting subaward and executive information compensation:

(a) Reporting of first tier subawards.

(1) Applicability. Unless you are exempt as provided in paragraph d. of this award term, you must report each action that obligates $25,000 or more in federal funds that does not include Recovery funds (as defined in section 1512(a)(2) of the American Recovery and Reinvestment Act of 2009, Pub. L. 111 5) for a subaward to an entity (see definitions in paragraph e. of this award term).

Condition

The Cal EMA did not have adequate controls in place to ensure information required by the Federal Funding Accountability Transparency Act (FFATA) was properly reported. The Cal EMA did not review FFATA information prior to submission. In addition, the Cal EMA did not submit reporting for 10 agency subawards obligated in November 2011 until August 2012. While the Cal EMA initially made attempts to submit subaward information, once the system was fixed to accept the information, the Cal EMA did not go back into the system to resubmit the information until eight months later. Failure to implement adequate controls over FFATA increases the risk that inaccurate or incomplete information will be reported.

Questioned Costs

No specific questioned costs were identified.

Recommendation

Cal EMA should implement a review process over FFATA reporting information and ensure information is reported in a timely manner.

Department's View and Corrective Action Plan

The Cal EMA agrees with this finding and acknowledges the 30-day reporting rule was not adhered to at all times. To ensure this is corrected, the Cal EMA will develop written FFATA policy and procedures to assist staff in navigating throughout the numerous first-tier reporting of subawards. The procedures will also include the addition of a management review and approval process.

Contact

Stacy Mason-Vegna, Chief, Grants Processing

Implementation Date

March 20, 2013

AUDITEE'S SECTION

Schedule of Expenditures of Federal Awards

STATE OF CALIFORNIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Federal Agency/Program Title/Pass-Through Entity or Program	Federal Catalog Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed Through to Subrecipients
U.S. Department of Agriculture				
Plant and Animal Disease, Pest Control, and Animal Care	10.025		$ 24,631,086	$ 22,614,901
Pass-Through from California Citrus Manual		11-0787-AR	237,658	
Wildlife Services	10.028		1,383	
2009 Aquaculture Grant Program	10.103		1,308	
Market Protection and Promotion	10.163		2,308,537	
Specialty Crop Block Grant Program - Farm Bill	10.170		98,381	
Organic Certification Cost Share Programs	10.171		724,049	
Farm Labor Housing Loans and Grants	10.405		3,196,124	
Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	10.475		396,813	
Meat, Poultry, and Egg Products Inspection	10.477		62,441	48,716
Food Safety Cooperative Agreements	10.479		128,101	
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	10.557		1,249,815,437	147,994,512
Child and Adult Care Food Program	10.558		279,872,153	277,632,559
State Administrative Expenses for Child Nutrition	10.560		23,401,373	
Commodity Supplemental Food Program	10.565		4,366,955 *	3,691,517
WIC Farmers' Market Nutrition Program (FMNP)	10.572		1,943,613	100,000
Team Nutrition Grants	10.574		193,603	
Senior Farmers Market Nutrition Program	10.576		602,842	
ARRA - WIC Grants To States (WGS)	10.578		843,518	
Child Nutrition Discretionary Grants Limited Availability	10.579		216,192	70,139
Fresh Fruit and Vegetable Program	10.582		9,530,489	7,507,616
Cooperative Forestry Assistance	10.664		4,425,546	1,533,003
National Forest - Dependent Rural Communities	10.670		(2,143)	
Urban and Community Forestry Program	10.675		1,762,932	
Forest Legacy Program	10.676		5,341,602	6,917
Forest Stewardship Program	10.678		1,319,454	391,085
Forest Health Protection	10.680		460,765	288,470
ARRA - Recovery Act of 2009: Wildland Fire Management, Recovery Act Funded	10.688		4,068,268	
Environmental Quality Incentives Program	10.912		60,492	
Long Term Standing Agreements For Storage, Transportation and Lease	10.999		49,338,378	
Total Excluding Clusters			1,669,347,350	461,879,435
SNAP Cluster				
ARRA - Supplemental Nutrition Assistance Program, Recovery Act Funded	10.551		6,980,733,153	
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561		688,027,636	541,486,107
Total SNAP Cluster			7,668,760,789	541,486,107

Federal Agency/Program Title/Pass-Through Entity or Program	Federal Catalog Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed Through to Subrecipients
Child Nutrition Cluster				
School Breakfast Program	10.553		$ 387,315,414	$ 387,315,414
National School Lunch Program	10.555		1,372,897,484 *	1,372,897,484
Special Milk Program for Children	10.556		411,601	411,601
Summer Food Service Program for Children	10.559		20,136,315	19,355,299
Total Child Nutrition Cluster			1,780,760,814	1,779,979,798
Emergency Food Assistance Cluster				
Emergency Food Assistance Program (Administrative Costs)	10.568		9,528,981	9,528,981
Emergency Food Assistance Program (Food Commodities)	10.569		*	
Total Emergency Food Assistance Cluster			9,528,981	9,528,981
Forest Service Schools and Roads Cluster				
Schools and Roads - Grants to States	10.665		39,325,918	
Total Forest Service Schools and Roads Cluster			39,325,918	
Research & Development Cluster				
Plant and Animal Disease, Pest Control, and Animal Care	10.025		187,282	
Total Research and Development Cluster			187,282	
Total U.S. Department of Agriculture			11,167,911,134	2,792,874,321
Department of Commerce				
Interjurisdictional Fisheries Act of 1986	11.407		118,660	
Coastal Zone Management Administration Awards	11.419		2,712,200	
Coastal Zone Management Estuarine Research Reserves	11.420		908,452	564,181
Pacific Fisheries Data Program	11.437			
Pass-Through from Pacific States Marine Fisheries		R1070003/R1070002	786,932	
Pacific Coast Salmon Recovery-Pacific Salmon Treaty Program	11.438		12,077,652	
Regional Fishery Management Councils	11.441			
Pass-Through from Pacific Fisheries Management Councils		R1070004	398,676	
Unallied Management Projects	11.454		630,356	
Habitat Conservation	11.463		3,245,130	3,122,806
Meteorologic and Hydrologic Modernization Development	11.467		916,661	13,628
Applied Meteorological Research	11.468		303,285	54,326
Unallied Science Program	11.472		(11,308)	
Public Safety Interoperable Communications Grant Program	11.555		40,956,586	40,184,560
ARRA - State Broadband Data and Development Grant Program, Recovery Act Funded	11.558		1,252,884	
Other - U.S. Department of Commerce	11.999		171,393	
Total Excluding Cluster			64,467,559	43,939,501

Federal Agency/Program Title/Pass-Through Entity or Program	Federal Catalog Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed Through to Subrecipients
Research & Development Cluster				
Coastal Zone Management Estuarine Research Reserves	11.420		$ 76,714	
Unallied Science Program	11.472		6,049	
Total Research and Development Cluster			82,763	
Total Department of Commerce			64,550,322	43,939,501
Department of Defense				
Planning Assistance to States	12.110		817,031	195,717
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113		15,237,053	5,610,034
Electronic Absentee Systems for Elections	12.217		159,702	
National Guard Military Operations and Maintenance (O&M) Projects	12.401		62,580,387	
ARRA - National Guard Military Operations and Maintenance (O&M) Projects, Recovery Act Funded	12.401		238,856	
Total National Guard Military Operations and Maintenance (O&M) Projects			62,819,243	
National Guard Challenge Program	12.404		10,237,831	
Other - U.S. Department of Defense	12.999		1,466,284	
Total Excluding Cluster			90,737,144	5,805,751
Research & Development Cluster				
Planning Assistance to States	12.110		1,798,216	
Basic and Applied Scientific Research	12.300		44,672	
Air Force Defense Research Sciences Program	12.800		13,075	
Total Research and Development Cluster			1,855,963	
Total Department of Defense			92,593,107	5,805,751
Department of Housing and Urban Development				
Manufactured Home Dispute Resolution	14.171		137,352	
Emergency Solutions Grant Program	14.231		6,551,627	4,690,729
Home Investment Partnerships Program	14.239		70,115,754 **	65,251,669
Housing Opportunities for Persons with AIDS	14.241		5,059,085	3,696,915
Pass-Through from CID/OA Department of Housing and Urban Development (Housing Opportunities for Persons with AIDS)		CA-H11-F999	4,451,194	
ARRA - Homelessness Prevention and Rapid Re-Housing Program, Recovery Act Funded	14.257		12,889,820	
ARRA - Tax Credit Assistance Program, Recovery Act Funded	14.258		62,345,494	
Equal Opportunity in Housing	14.400		2,479,657	
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900		9,114	
Total Excluding Clusters			164,039,097	73,639,313

Federal Agency/Program Title/Pass-Through Entity or Program	Federal Catalog Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed Through to Subrecipients
Section 8 Project-Based Cluster				
Section 8 Housing Assistance Payments Program	14.195		$ 70,767,374	$ 70,767,374
Total Section 8 Project-Based Cluster			70,767,374	70,767,374
CDBG - State Administered CDBG Cluster				
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228		62,185,690 **	47,691,410
ARRA - Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii, Recovery Act Funded	14.255		3,559,141	
Total CDBG - State Administered CDBG Cluster			65,774,831	47,691,410
Housing Voucher Cluster				
Section 8 Housing Choice Vouchers	14.871		3,052,472	
Total Housing Voucher Cluster			3,052,472	
Lead Hazard Control Cluster				
ARRA - Lead-Based Paint Hazard Control in Privately-Owned Housing, Recovery Act Funded	14.907		870,799	730,350
Total Lead Hazard Control Cluster			870,799	730,350
Total Department of Housing and Urban Development			304,474,573	192,828,447
Department of Interior				
Distribution of Receipts to State and Local Governments	15.227		97,293,984	
National Fire Plan - Wildland Urban Interface Community Fire Assistance	15.228		12,210	
Fish, Wildlife and Plant Conservation Resource Management	15.231		302,824	302,824
Environmental Quality and Protection Resource Management, Recovery Act Funded	15.236		52,800	
ARRA - Environmental Quality and Protection Resource Management, Recovery Act Funded	15.236		507,081	
Coastal Impact Assistance Program (CIAP)	15.426		4,475,674	382,684
Federal Oil and Gas Royalty Management	15.427		1,017,789	
Providing Water to At-Risk Natural Desert Terminal Lakes	15.508		134,914	
Central Valley Project Improvement Act, Title XXXIV	15.512		2,064,886	
Fish and Wildlife Coordination Act	15.517		140,542	
ARRA - Fish and Wildlife Coordination Act, Recovery Act Funded	15.517		(724,649)	
Total Fish and Wildlife Coordination Act			(584,107)	
Central Valley Project, Trinity River Division, Trinity River Fish and Wildlife Management	15.532		200,549	
California Water Security and Environmental Enhancement	15.533		324,209	
Lake Tahoe Regional Wetlands Development Program	15.543		27,608	
Fish and Wildlife Management Assistance	15.608		57,030	
Coastal Wetlands Planning, Protection and Restoration Act	15.614		2,816,519	1,925,729
Cooperative Endangered Species Conservation Fund	15.615		18,346,134	18,346,134
Clean Vessel Act	15.616		2,300,938	163,367

Federal Agency/Program Title/Pass-Through Entity or Program	Federal Catalog Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed Through to Subrecipients
Sportfishing and Boating Safety Act	15.622		$ 73,565	$ 73,565
Wildlife Conservation and Restoration	15.625		827	
Coastal Program	15.630		368	
Landowner Incentive Program	15.633		155,840	
Challenge Cost Share	15.642		74,898	
Research Grants (Generic)	15.650		47,877	
Earthquake Hazards Reduction Program	15.807		95,560	
U.S. Geological Survey - Research and Data Collection	15.808		112,665	
National Spatial Data Infrastructure Cooperative Agreements Program	15.809		31,416	
National Cooperative Geologic Mapping Program	15.810		261,905	
National Geological and Geophysical Data Preservation Program	15.814		24,627	
ARRA - Volcano Hazards Program Research and Monitoring	15.818		(887)	
Historic Preservation Fund Grants-In-Aid	15.904		1,316,271	353,506
Outdoor Recreation - Acquisition, Development and Planning	15.916		2,662,832	2,006,503
ARRA - Abandoned Mine Hazard Mitigation, Recovery Act Funded	15.934		682,575	
ARRA - Redwood National Park Cooperative Management with the State of California, Recovery Act Funded	15.937		908,246	
Other - U.S. Department of the Interior	15.999		5,545,761	
Total Excluding Clusters			141,345,388	23,554,312
Fish and Wildlife Cluster				
Sport Fish Restoration Program	15.605		878,128	
Total Fish and Wildlife Cluster			878,128	
Research & Development Cluster				
Challenge Cost Share	15.238		27,585	
ARRA - Central Valley Project Improvement Act, Title XXXIV, Recovery Act Funded	15.512		1,742,598	
San Luis Unit, Central Valley Project	15.527		12,594	
Sport Fish Restoration Program	15.605		13,307,993	
Fish and Wildlife Management Assistance	15.608		70,964	
Wildlife Restoration and Basic Hunter Education	15.611		12,449,379	
Cooperative Endangered Species Conservation Fund	15.615		3,742,941	
State Wildlife Grants	15.634		2,990,613	
Migratory Bird Conservation	15.647		484,578	
Central Valley Project Improvement (CVPI) Anadromous Fish Restoration Program (AFRP)	15.648		235,834	
Research Grants (Generic)	15.650		29	
Technical Preservation Services	15.915		60,580	
Total Research and Development Cluster			35,125,688	
Total Department of Interior			177,349,204	23,554,312

Federal Agency/Program Title/Pass-Through Entity or Program	Federal Catalog Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed Through to Subrecipients
Department of Justice				
Law Enforcement Assistance - Narcotics and Dangerous Drugs - Laboratory Analysis	16.001		$ 66,495	
Sexual Assault Services Formula Program	16.017		471,007	471,007
Prisoner Reentry Initiative Demonstration (Offender Reentry)	16.202		493,354	
Juvenile Accountability Block Grants	16.523		4,203,886	
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540		3,557,946	
Title V - Delinquency Prevention Program	16.548		67,885	
National Criminal History Improvement Program (NCHIP)	16.554		247,991	
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560		303,591	
Crime Victim Assistance	16.575		47,098,448	45,064,005
Crime Victim Compensation	16.576		30,247,389	
Edward Byrne Memorial Formula Grant Program	16.579		2,026	
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580		115,680	77,060
Drug Court Discretionary Grant Program	16.585		108,837	
Violence Against Women Formula Grants	16.588		13,320,869	12,380,578
ARRA - Violence Against Women Formula Grants, Recovery Act Funded	16.588		906,341	906,341
Pass-Through from Grant to Encourage Arrest (GTEA)		2004-WEAX-0058	23,035	
Pass-Through from Grant to Encourage Arrest (GTEA)		2004-WEAX-0058	5,140	
Pass-Through from County-Community Defined Solutions		2011-WEAX-0053	30,419	
Total Violence Against Women Formula Grant			14,285,804	13,286,919
Residential Substance Abuse Treatment for State Prisoners	16.593		1,956,239	1,775,485
Bulletproof Vest Partnership Program	16.607		948,740	948,740
Project Safe Neighborhoods	16.609		946,004	870,709
ARRA - Public Safety Partnership and Community Policing Grants, Recovery Act Funded	16.710		791,193	
Enforcing Underage Drinking Laws Program	16.727		74,246	
Statewide Automated Victim Information Notification (SAVIN) Program	16.740		274,518	
DNA Backlog Reduction Program	16.741		2,498,860	1,363,191
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742		2,866,980	2,703,487
Convicted Offender and/or Arrestee DNA Backlog Reduction Program	16.748		366,778	
Edward Byrne Memorial Competitive Grant Program	16.751		8,250	
Congressionally Recommended Awards	16.753		182,015	
Harold Rogers Prescription Drug Monitoring Program	16.754		12,291	
ARRA - Recovery Act - State Victim Assistance Formula Grant Program, Recovery Act Funded	16.801		24,376	12,918
ARRA - Recovery Act - Edward Byrne Memorial Competitive Grant Program, Recovery Act Funded	16.808		612,165	
ARRA – Recovery Act - Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program, Recovery Act Funded	16.810		488,858	
John R. Justice Prosecutors and Defenders Incentive Act	16.816		1,321,814	
Total Excluding Clusters			114,643,666	66,573,521

Federal Agency/Program Title/Pass-Through Entity or Program	Federal Catalog Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed Through to Subrecipients
JAG Program Cluster				
Edward Byrne Memorial Justice Assistance Grant Program	16.738		$ 28,120,638	$ 26,144,924
ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories, Recovery Act Funded	16.803		49,827,165	48,935,907
Total JAG Program Cluster			77,947,803	75,080,831
Total Department of Justice			192,591,469	141,654,352
Department of Labor				
Labor Force Statistics	17.002		7,681,886	
Compensation and Working Conditions	17.005		830,767	
Unemployment Insurance	17.225		16,468,669,613	
ARRA - Unemployment Insurance, Recovery Act Funded	17.225		14,531,133	
Total Unemployment Insurance			16,483,200,746	
Senior Community Service Employment Program	17.235		8,527,521	7,524,652
ARRA - Senior Community Service Employment Program, Recovery Act Funded	17.235		(3,587)	
Total Senior Community Service Employment Program			8,523,934	7,524,652
Trade Adjustment Assistance	17.245		17,141,052	
WIA Dislocated Workers	17.260		9,098,049	8,339,983
ARRA - WIA Dislocated Workers, Recovery Act Funded	17.260		85,876	
Total WIA Dislocated Workers			9,183,925	8,339,983
Work Opportunity Tax Credit Program (WOTC)	17.271		1,773,428	
Temporary Labor Certification for Foreign Workers	17.273		1,190,931	
ARRA - Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors, Recovery Act Funded	17.275		89,324	
Workforce Investment Act (WIA) National Emergency Grants	17.277		16,576,036	16,275,685
Occupational Safety and Health - State Program	17.503		27,226,770	
ARRA - Occupational Safety and Health - State Program, Recovery Act Funded	17.503		1,178	
Total Occupational Safety and Health			27,227,948	
Consultation Agreements	17.504		5,602,835	
Mine Health and Safety Grants	17.600		308,527	
Total Excluding Clusters			16,579,331,339	32,140,320
Employment Service Cluster				
Employment Service/Wagner-Peyser Funded Activities	17.207		98,631,494	2,426,910
ARRA - Employment Service/Wagner-Peyser Funded Activities, Recovery Act Funded	17.207		979,218	979,218
Disabled Veterans' Outreach Program (DVOP)	17.801		11,979,626	
Local Veterans' Employment Representative Program	17.804		6,466,401	
Total Employment Service Cluster			118,056,739	3,406,128

Federal Agency/Program Title/Pass-Through Entity or Program	Federal Catalog Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed Through to Subrecipients
WIA Cluster				
WIA Adult Program	17.258		$ 76,234,203	$ 66,742,866
ARRA - WIA Adult Program, Recovery Act Funded	17.258		70,642	
WIA Youth Activities	17.259		5,890,180	
WIA Dislocated Worker Formula Grants	17.278		94,502,822	86,561,710
Total WIA Cluster			176,697,847	153,304,576
Total Department of Labor			16,874,085,925	188,851,024
Department of Transportation				
Highway Training and Education	20.215		133,173	
Motor Carrier Safety	20.217		694,900	
National Motor Carrier Safety	20.218		13,714,922	
Performance and Registration Information Systems Management	20.231		12,994	
Commercial Driver's License Program Improvement Grant	20.232		683,427	
Fuel Tax Evasion - Intergovernmental Enforcement Effort	20.240		146,306	
Capital Assistance to States - Intercity Passenger Rail Service	20.317		1,078,637	
High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants	20.319		25,727,650	
ARRA - High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants, Recovery Act Funded	20.319		41,303,995	
Total High Speed Rail Corridors and Intercity Passenger Rail Service			67,031,645	
Metropolitan Transportation Planning	20.505		68,801,297	
Formula Grants for Other Than Urbanized Areas	20.509		38,231,491	
ARRA - Formula Grants for Other Than Urbanized Areas, Recovery Act Funded	20.509		9,614,939	
Total Formula Grants for Other Than Urbanized Areas			47,846,430	
State Planning and Research	20.515		281,568	
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608		47,397,577	
E-911 Grant Program	20.615		1,931,000	
Pipeline Safety Program State Base Grant	20.700		2,460,402	
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703		1,437,125	248,391
Total Excluding Clusters			253,651,403	248,391

Federal Agency/Program Title/Pass-Through Entity or Program	Federal Catalog Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed Through to Subrecipients
Highway Planning and Construction Cluster				
Highway Planning and Construction	20.205		$ 3,403,400,204	$ 1,046,636,671
Pass - Through from Metropolitan Transportation Commission		SFBC 10-04	330,253	
ARRA - Highway Planning and Construction, Recovery Act Funded	20.205		638,314,738	193,900,855
Recreational Trails Program	20.219		4,402,764	
Total Highway Planning and Construction Cluster			4,046,447,959	1,240,537,526
Federal Transit Cluster				
ARRA -Federal Transit - Capital Investment Grants, Recovery Act Funded	20.500		842,486	
Total Federal Transit Cluster			842,486	
Transit Services Programs Cluster				
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513		913,403	
Job Access - Reverse Commute	20.516		80,168	
Total Transit Services Programs Cluster			993,571	
Highway Safety Cluster				
State and Community Highway Safety	20.600		23,197,107	
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601		14,125,833	
Occupant Protection Incentive Grants	20.602		2,591,580	
Safety Belt Performance Grants	20.609		2,496,169	
State Traffic Safety Information System Improvement Grants	20.610		3,686,551	
Incentive Grant Program to Increase Motorcyclist Safety	20.612		41,393	
Total Highway Safety Cluster			46,138,633	
Research and Development Cluster				
ARRA - Highway Planning and Construction, Recovery Act Funded	20.205		1,510,864	
Formula Grants for Other Than Urbanized Areas	20.509		267,799	
Total Research and Development Cluster			1,778,663	
Total Department of Transportation			4,349,852,715	1,240,785,917
Department of Treasury				
National Foreclosure Mitigation Counseling	21.000		2,643,997	2,643,997
Equal Opportunity Employment Commission				
Employment Discrimination - Title VII of the Civil Rights Act of 1964	30.001		1,952,653	
General Services Administration				
Election Reform Payments	39.011		292,991	

Federal Agency/Program Title/Pass-Through Entity or Program	Federal Catalog Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed Through to Subrecipients
National Endowment for the Arts				
Promotion of the Arts - Partnership Agreements	45.025		$ 1,262,662	
Promotion of the Humanities - Division of Preservation and Access	45.149		6,000	
Grants to States	45.310		15,289,817	8,975,850
Total National Endowment for the Arts			16,558,479	8,975,850
Small Business Administration				
State Trade and Export Promotion Pilot Grant Program	59.061		374,357	
Department of Veterans Affairs				
Grants to States for Construction of State Home Facilities	64.005		103,426,278	
Burial Expenses Allowance for Veterans	64.101		191,500	
All-Volunteer Force Educational Assistance	64.124		1,148,936	
Total Department of Veterans Affairs			104,766,714	
Environmental Protection Agency				
Air Pollution Control Program Support	66.001		6,738,802	
State Indoor Radon Grants	66.032		78,286	
Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	66.034		494,680	
National Clean Diesel Emissions Reduction Program	66.039		14,133,414	4,152,980
ARRA - National Clean Diesel Emissions Reduction Program, Recovery Act Funded	66.039		885,550	109,111
Total National Clean Diesel Emissions Reduction Program			15,018,964	4,262,091
State Clean Diesel Grant Program	66.040		2,060,957	352,941
The San Francisco Bay Water Quality Improvement Fund	66.126		729,322	
State Environmental Justice Cooperative Agreement Program	66.312		24,060	
Water Pollution Control State, Interstate, and Tribal Program Support	66.419		7,461,883	
Pass-Through from San Jose State University Foundation		R0975005	1,460,993	
State Public Water System Supervision	66.432		6,313,513	
State Underground Water Source Protection	66.433		564,649	
Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements - Section 104(b)(3) of the Clean Water Act	66.436			
Pass-Through from Association of Bay Area Governments		SFBC 09-22	12,089	
Water Quality Management Planning	66.454		564,220	
ARRA - Water Quality Management Planning, Recovery Act Funded	66.454		120,316	
Total Water Quality Management Planning			684,536	

Federal Agency/Program Title/Pass-Through Entity or Program	Federal Catalog Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed Through to Subrecipients
Nonpoint Source Implementation Grants	66.460		$ 9,394,921	
Regional Wetland Program Development Grants	66.461		10,817	
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	66.471		668,633	
Beach Monitoring and Notification Program Implementation Grants	66.472		467,871	454,000
Water Protection Grants to the States	66.474		184,060	
Surveys, Studies, Investigations and Special Purpose Grants	66.606		924,337	924,337
Environmental Information Exchange Network Grant Program and Related Assistance	66.608		355,505	
Consolidated Pesticide Enforcement Cooperative Agreements	66.700		1,366,735	
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707		382,761	
Pollution Prevention Grants Program	66.708		77,043	
Hazardous Waste Management State Program Support	66.801		7,357,335	
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.802		852,662	
Underground Storage Tank Prevention, Detection and Compliance Program	66.804		325,158	
Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805		2,737,448	
ARRA - Leaking Underground Storage Tank Trust Fund Corrective Action Program, Recovery Act Funded	66.805		492,114	
Total Leaking Underground Storage Tank Trust Fund Corrective Action Program			3,229,562	
Brownfields Training, Research, and Technical Assistance Grants and Cooperative Agreements	66.814		319,191	
State and Tribal Response Program Grants	66.817		1,155,485	
Brownfields Assessment and Cleanup Cooperative Agreements	66.818		146,980	88,000
ARRA - Brownfields Assessment and Cleanup Cooperative Agreements, Recovery Act Funded	66.818		109,885	109,714
Total Brownfields Assessment and Cleanup Cooperative Agreements			256,865	197,714
Environmental Education Grants	66.951		40,000	
Total Excluding Cluster			69,011,675	6,191,083
Research and Development Cluster				
Pollution Prevention Grants Program	66.708		100,415	
ARRA - Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements, Recovery Act Funded	66.802		32,240	
Total Research and Development Cluster			132,655	
Total Environmental Protection Agency			69,144,330	6,191,083
Department of Energy				
State Energy Program	81.041		2,488,728	
ARRA-State Energy Program, Recovery Act Funded	81.041		140,299,393	114,262,440
Total State Energy Program			142,788,121	114,262,440

Federal Agency/Program Title/Pass-Through Entity or Program	Federal Catalog Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed Through to Subrecipients
Weatherization Assistance for Low-Income Persons	81.042		$ 5,778,820	$ 5,033,933
ARRA - Weatherization Assistance for Low-Income Persons, Recovery Act Funded	81.042		73,532,385	68,208,851
Total Weatherization Assistance for Low-Income Persons			79,311,205	73,242,784
Office of Science Financial Assistance Program	81.049		(1,260)	
ARRA - Conservation Research and Development, Recovery Act Funded	81.086		896,252	758,088
Renewable Energy Research and Development	81.087		503,630	
Fossil Energy Research and Development	81.089		1,513,775	
Office of Environmental Waste Processing	81.104		247,953	
State Energy Program Special Projects	81.119		354,653	
ARRA - Electricity Delivery and Energy Reliability, Research, Development and Analysis, Recovery Act Funded	81.122		3,501,153	
Pass-Through from Sacramento Municipal Utility District (SMUD)	81.122		2,361,316	
Total ARRA -Electricity Delivery and Energy Reliability, Research, Development and Analysis, Recovery Act Funded			5,862,469	
ARRA - Energy Efficient Appliance Rebate Program (EEARP), Recovery Act Funded	81.127		448,540	
ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG), Recovery Act Funded	81.128		21,338,875	
Long-Term Surveillance and Maintenance	81.136		12,921	
Total Department of Energy			253,277,134	188,263,312
Department of Education				
Adult Education - Basic Grants to States	84.002		87,019,975	42,823,973
Migrant Education - State Grant Program	84.011		112,649,166	93,335,455
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013		1,620,026	1,606,558
International Research and Studies	84.017		35,201	
Career and Technical Education - Basic Grants to States	84.048		126,106,887	113,930,452
Fund for the Improvement of Postsecondary Education	84.116		55,788	
Rehabilitation Services - Client Assistance Program	84.161		1,499,879	
Independent Living - State Grants	84.169		5,136,636	
Rehabilitation Services - Independent Living Services for Older Individuals Who are Blind	84.177		3,696,382	
Safe and Drug-Free Schools and Communities - National Programs	84.184		8,879,726	4,162,500
Byrd Honors Scholarships	84.185		266,778	
Safe and Drug-Free Schools and Communities - State Grants	84.186		(2,303,559)	
Supported Employment Services for Individuals with the Most Significant Disabilities	84.187		3,041,182	
Education for Homeless Children and Youth	84.196		6,725,698	2,711,008
Even Start - State Educational Agencies	84.213		1,759,357	950,288
Assistive Technology	84.224		916,748	
Tech-Prep Education	84.243		972,330	972,330
Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	84.265		345,358	
Charter Schools	84.282		35,405,929	11,130,346
Twenty-First Century Community Learning Centers	84.287		169,619,493	166,961,639
Special Education - State Personnel Development	84.323		1,206,434	945,603

Federal Agency/Program Title/Pass-Through Entity or Program	Federal Catalog Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed Through to Subrecipients
Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	84.330		$ 7,210,763	$ 7,210,763
Grants to States for Workplace and Community Transition Training for Incarcerated Individuals	84.331		1,049,978	
Reading First State Grants	84.357		(422,310)	
Rural Education	84.358		1,308,543	1,288,664
English Language Acquisition State Grants	84.365		160,050,008	154,658,612
Mathematics and Science Partnerships	84.366		20,765,792	7,887,839
Improving Teacher Quality State Grants	84.367		286,040,088	281,691,909
Grants for State Assessments and Related Activities	84.369		29,658,415	17,663,805
Striving Readers	84.371		210,424	
College Access Challenge Grant Program	84.378		14,821,791	4,758,599
ARRA - Education Technology State Grants, Recovery Act Funded	84.386		10,354,111	
ARRA - Education for Homeless Children and Youth, Recovery Act Funded	84.387		(3,729)	
ARRA - Independent Living - State Grants, Recovery Act Funded	84.398		528,276	
ARRA - Independent Living Services for Older Individuals Who are Blind, Recovery Act Funded	84.399		1,388,395	
Education Jobs Fund	84.410		93,671,087	17,789,529
Race to the Top - Early Learning Challenge	84.412		10,840	
Total Excluding Clusters			1,191,297,886	932,479,872
Title I, Part A Cluster				
Title I Grants to Local Educational Agencies	84.010		1,737,269,287	1,718,649,149
ARRA - Title I Grants to Local Educational Agencies, Recovery Act Funded	84.389		66,753,256	66,753,256
Total Title I, Part A Cluster			1,804,022,543	1,785,402,405
Special Education Cluster (IDEA)				
Special Education - Grants to States (IDEA, Part B)	84.027		1,160,310,118	1,128,526,402
Special Education - Preschool Grants (IDEA Preschool)	84.173		34,390,719	33,008,179
ARRA - Special Education - Grants to States (IDEA, Part B), Recovery Act Funded	84.391		131,152,940	131,152,940
ARRA - Special Education - Preschool Grants (IDEA Preschool), Recovery Act Funded	84.392		8,217,165	8,217,165
Total Special Education Cluster (IDEA)			1,334,070,942	1,300,904,686
Vocational Rehabilitation Cluster				
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126		268,191,250	
ARRA - Rehabilitation Services - Vocational Rehabilitation Grants to States, Recovery Act Funded	84.390		12,321,866	
Total Vocational Rehabilitation Cluster			280,513,116	
Early Intervention Services (IDEA) Cluster				
Special Education - Grants for Infants and Families	84.181		54,793,256	36,985,529
Total Early Intervention Services (IDEA) Cluster			54,793,256	36,985,529
Educational Technology State Grants Cluster				
Educational Technology State Grants	84.318		7,172,752	518,367
Total Educational Technology State Grants Cluster			7,172,752	518,367

Federal Agency/Program Title/Pass-Through Entity or Program	Federal Catalog Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed Through to Subrecipients
School Improvement Grants Cluster				
School Improvement Grants	84.377		$ 20,379,901	$ 19,892,078
ARRA - School Improvement Grants, Recovery Act Funded	84.388		102,372,233	102,372,233
Total School Improvement Grants Cluster			122,752,134	122,264,311
State Fiscal Stabilization Fund Cluster				
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants (Education Stabilization Fund), Recovery Act Funded	84.394		37,370,002	37,370,002
Total State Fiscal Stabilization Fund Cluster			37,370,002	37,370,002
Total Department of Education			4,831,992,631	4,215,925,172
U.S. Election Assistance Commission				
Help America Vote Act Requirements Payments	90.401		8,867,077	5,277,532
U.S. Election Assistance Commission Research Grants	90.403		77,395	34,234
Total U.S. Election Assistance Commission			8,944,472	5,311,766
Department of Health and Human Services				
State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	93.006		106,550	
Strengthening Public Health Services at the Outreach Offices of the U.S.-Mexico Border Health Commission	93.018		349,341	
Special Programs for the Aging - Title VII, Chapter 3 - Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041		505,087	500,236
Special Programs for the Aging - Title VII, Chapter 2 - Long Term Care Ombudsman Services for Older Individuals	93.042		1,868,234	1,658,686
Special Programs for the Aging - Title III, Part D - Disease Prevention and Health Promotion Services	93.043		2,189,060	2,115,648
Special Programs for the Aging - Title IV - and Title II - Discretionary Projects	93.048		461,296	
ARRA -Special Programs for the Aging - Title IV - and Title II - Discretionary Projects, Recovery Act Funded	93.048		113,277	2,320
Total Special Programs for the Aging - Title IV - and Title II - Discretionary Projects			574,573	2,320
Alzheimer's Disease Demonstration Grants to States*	93.051		312,848	312,848
National Family Caregiver Support, Title III, Part E	93.052		15,917,820	14,921,593
Public Health Emergency Preparedness	93.069		47,511,841	29,309,404
Environmental Public Health and Emergency Response	93.070		36,182	
Medicare Enrollment Assistance Program	93.071		85,875	
Emergency System for Advance Registration of Volunteer Health Professionals	93.089		174,422	
ARRA - Guardianship Assistance, Recovery Act Funded	93.090		5,282,111	5,282,111

Federal Agency/Program Title/Pass-Through Entity or Program	Federal Catalog Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed Through to Subrecipients
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092		$ 521,663	
Food and Drug Administration - Research	93.103		1,519,694	
Maternal and Child Health Federal Consolidated Programs	93.110		334,415	159,000
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116		8,123,335 *	3,747,913
Emergency Medical Services for Children	93.127		172,991	
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	93.130		273,399	
Centers for Research and Demonstration for Health Promotion and Disease Prevention	93.135		589,009	
Injury Prevention and Control Research and State and Community Based Programs	93.136		3,744,057	
Projects for Assistance in Transition from Homelessness (PATH)	93.150		11,381,661	
Health Program for Toxic Substances and Disease Registry	93.161		605,743	
Grants to States for Loan Repayment Program	93.165		639,338	
Disabilities Prevention	93.184		279,978	
Grants to States to Support Oral Health Workforce Activities	93.236		2,034,679	
State Rural Hospital Flexibility Program	93.241		541,914	
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243		1,557,707	1,387,227
Pass-Through from Substance Abuse and Mental Health Services Administration	93.243		210,183	
Pass-Through from Office of Juvenile Justice and Delinquency Prevention	93.243		106,707	
Total Substance Abuse and Mental Health Services - Projects			1,874,597	1,387,227
Universal Newborn Hearing Screening	93.251		222,895	75,000
Substance Abuse and Mental Health Services - Access to Recovery	93.275		1,255,090	1,255,090
The Affordable Care Act: Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283		16,403,904	
Small Rural Hospital Improvement Grant Program	93.301		416,514	
ARRA – State Loan Repayment Program, Recovery Act Funded	93.402		826,084	
ARRA – Equipment to Enhance Training for Health Professionals, Recovery Act Funded	93.411		275,338	
ARRA – State Primary Care Offices	93.414		147,240	
Food Safety and Security Monitoring Project	93.448		459,755	
ARRA – Pregnancy Assistance Fund Program	93.500		2,295,777	1,444,000
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505		14,411,780	9,051,000
ACA Nationwide Program for National and State Background Checks for Direct Patient Access Employees of Long Term Care Facilities and Providers	93.506		4,569	
PPHF 2012 National Public Health Improvement Initiative	93.507		924,974	
Affordable Care Act (ACA) State Health Care Workforce Development Grants	93.509		320,964	
Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	93.511		897,687	
Affordable Care Act (ACA) Personal and Home Care Aide State Training Program (PHCAST)	93.512		925,154	
Affordable Care Act – Aging and Disability Resource Center	93.517		220,478	
Affordable Care Act - Medicare Improvements for Patients and Providers	93.518		1,212,480	913,496
Affordable Care Act (ACA) – Consumer Assistance Program Grants	93.519		1,197,385	
The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements; PPHF	93.521		545,807	

Federal Agency/Program Title/Pass-Through Entity or Program	Federal Catalog Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed Through to Subrecipients
The Affordable Care Act: Human Immunodeficiency Virus (HIV) Prevention and Public Health Fund Activities	93.523		$ 91	
Pre-existing Condition Insurance Program (PCIP)	93.529		8,632,937	
PPHF 2012: Community Transformation Grants and National Dissemination and Support for Community Transformation Grants - financed solely by 2012 Prevention and Public Health Funds				
Pass-Through from Public Health Institute	93.531	1017721	126,176	
PPHF 2012 - Prevention and Public Health Fund (Affordable Care Act) - Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by 2012 Prevention and Public Health Funds	93.539		108,424	
The Patient Protection and Affordable Care Act of 2010 (Affordable Care Act) authorizes Coordinated Chronic Disease prevention and Health Promotion Program	93.544		62,287	
Promoting Safe and Stable Families	93.556		35,805,779	35,805,779
Child Support Enforcement	93.563		433,912,913	300,479,762
Pass-Through from County-Department of Child Support Services	93.563		32,435	
Total Child Support Enforcement			433,945,348	300,479,762
Child Support Enforcement Research	93.564		14,038	
Refugee and Entrant Assistance - State Administered Programs	93.566		27,847,054	18,596,936
Low-Income Home Energy Assistance	93.568		184,108,702	178,071,841
Refugee and Entrant Assistance - Discretionary Grants	93.576		1,143,822	911,672
U.S. Repatriation	93.579		5,999	5,999
Refugee and Entrant Assistance - Targeted Assistance Grants	93.584		4,242,122	4,242,122
State Court Improvement Program	93.586		2,958,676	
Community-Based Child Abuse Prevention Grants	93.590		3,859,488	3,859,488
Grants to States for Access and Visitation Programs	93.597		173,360	
Chafee Education and Training Vouchers Program (ETV)	93.599		7,288,823	7,288,823
Adoption Incentive Payments	93.603		1,199,033	1,199,033
Mentoring Children of Prisoners	93.616		609	
Voting Access for Individuals with Disabilities Grants to States	93.617		629,495	373,896
Developmental Disabilities Basic Support and Advocacy Grants	93.630		6,972,351	
Children's Justice Grants to States	93.643		1,948,799	1,705,992
Stephanie Tubbs Jones Child Welfare Services Program	93.645		30,632,435	30,632,435
Child Welfare Research Training or Demonstration	93.648		2,419,867	2,419,867
Foster Care - Title IV-E	93.658		1,103,355,265	1,054,572,757
ARRA - Foster Care - Title IV-E	93.658		(826,687)	(826,687)
Total Foster Care - Title IV-E			1,102,528,578	1,053,746,070
Adoption Assistance	93.659		416,283,956	411,688,911
ARRA - Adoption Assistance	93.659		1,337,107	1,337,107
Total Adoption Assistance			417,621,063	413,026,018

Federal Agency/Program Title/Pass-Through Entity or Program	Federal Catalog Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed Through to Subrecipients
Social Services Block Grant	93.667		$ 524,775,373	$ 266,025,884
Child Abuse and Neglect State Grants	93.669		3,554,440	3,554,440
Family Violence Prevention and Services/Grants for Battered Women's Shelters - Grants to States and Indian Tribes	93.671		7,265,374	6,985,030
Chafee Foster Care Independence Program	93.674		20,143,299	20,143,299
ARRA – Child Care and Development Block Grant	93.713		382,870	
ARRA - State Grants to Promote Health Information Technology	93.719		209,661	
ARRA - Prevention and Wellness-State, Territories and Pacific Islands	93.723		2,002,558	
ARRA - Prevention and Wellness – Communities Putting Prevention to Work Funding Opportunities Announcement (FOA)	93.724		343,422	
ARRA - Communities Putting Prevention to Work: Chronic Disease Self-Management Program	93.725		384,829	351,463
Children's Health Insurance Program	93.767		1,291,396,314	24,606,506
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779		5,934,336	4,700,458
Money Follows the Person Rebalancing Demonstration	93.791		2,871,816	
National Bioterrorism Hospital Preparedness Program	93.889		23,994,462	16,217,737
Grants to States for Operation of Offices of Rural Health	93.913		175,727	
HIV Care Formula Grants	93.917		151,740,369	26,554,885
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938		755,954	
HIV Prevention Activities Health Department Based	93.940		12,205,261	10,451,697
Pass-Through from CID/OA Centers for Disease Control and Prevention (NHBS)	93.940	1U1BPS003279-02	459,000	
Pass-Through from CID/OA Centers for Disease Control and Prevention (Prev)	93.940	1U62PS-01	17,504,189	
Total HIV Prevention Activities Health Department Based			30,168,450	10,451,697
ARRA - Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	93.943		$ 418,549	$ 418,549
ARRA Pass-Through from CID/OA Centers for Disease Control and Prevention (Exp Testing)	93.943	5U62PS003195-02	1,945,000	
Total ARRA - Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups			2,363,549	418,549
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944		3,582,948	
Pass-Through from CID/OA Centers for Disease Control and Prevention (MMP)	93.944	5U62PS001606-04	696,296	
Pass-Through from CID/OA Centers for Disease Control and Prevention (Surv)	93.944	5U62PS001024-05	2,428,423	
Total Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance			6,707,667	

Federal Agency/Program Title/Pass-Through Entity or Program	Federal Catalog Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed Through to Subrecipients
Tuberculosis Demonstration, Research, Public and Professional Education	93.947		$ 13,033	
Block Grants for Community Mental Health Services	93.958		65,382,363	
Block Grants for Prevention and Treatment of Substance Abuse	93.959		244,815,611	229,597,628
National All Schedules Prescription Electronic Reporting Grant	93.975		222,078	
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977		6,865,042 *	5,114,200
Pass-Through from County of Los Angeles (STD)	93.977	PH-001505	57,035	
Total Preventive Health Services - Sexually Transmitted Diseases Control Grants			6,922,077	5,114,200
Preventive Health Services - Sexually Transmitted Diseases Research, Demonstrations and Public Information and Education Grants	93.978		692,700	393,340
Preventive Health and Health Services Block Grant	93.991		4,714,304	
Maternal and Child Health Services Block Grant to the States	93.994		40,673,840	38,186,000
Other - Department of Health and Human Services	93.999		2,554,535	
ARRA - Other-Department of Health and Human Services, Recovery Act Funded	93.999		222,735	
Total Other-Department of Health and Human Services			2,777,270	
Total Excluding Clusters			4,866,173,394	2,777,802,421
Aging Cluster				
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044		39,777,650	37,686,073
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045		65,678,473	63,831,336
Nutrition Services Incentive Program	93.053		12,162,467	12,162,467
Total Aging Cluster			117,618,590	113,679,876
Immunization Cluster				
Immunization Cooperative Agreements	93.268		34,741,321 *	
ARRA - Immunization, Recovery Act Funded	93.712		339,246	
Total Immunization Cluster			35,080,567	
TANF Cluster				
Temporary Assistance for Needy Families (TANF) State Programs	93.558		3,235,655,159	3,171,844,677
ARRA – Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program, Recovery Act Funded	93.714		(536,181)	(536,181)
Total TANF Cluster			3,235,118,978	3,171,308,496
CSBG Cluster				
Community Services Block Grant	93.569		61,071,264	58,842,683
ARRA - Community Services Block Grant, Recovery Act Funded	93.710		129,106	
Total CSBG Cluster			61,200,370	58,842,683

Federal Agency/Program Title/Pass-Through Entity or Program	Federal Catalog Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed Through to Subrecipients
CCDF Cluster				
Child Care and Development Block Grant	93.575		$ 229,047,171	$ 221,521,850
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		296,260,414	290,833,365
Total CCDF Cluster			525,307,585	512,355,215
Head Start Cluster				
Head Start	93.600		160,381	
ARRA - Head Start, Recovery Act Funded	93.708		3,639,751	412,255
Total Head Start Cluster			3,800,132	412,255
Medicaid Cluster				
ARRA - Survey and Certification Ambulatory Surgical Center Healthcare-Associated Infection (ASC-HAI) Prevention Initiative, Recovery Act Funded	93.720		(5,402)	
State Medicaid Fraud Control Units	93.775		20,409,244	
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	93.777		38,575,487	
Medical Assistance Program	93.778		26,067,674,106	4,565,183,673
Total Medicaid Cluster			26,126,653,435	4,565,183,673
Research and Development Cluster				
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116		249,711	
Substance Abuse and Mental Health Services-Projects of Regional and National Significance	93.243		6,000	
Total Research and Development Cluster			255,711	
Total Department of Health and Human Services			34,971,208,762	11,199,584,619
Corporation for National and Community Service				
State Commissions	94.003		1,148,481	
Learn and Serve America - School and Community Based Programs	94.004		166,958	75,000
ARRA - AmeriCorps, Recovery Act Funded	94.006		24,584,100	22,842,553
Volunteer Generation Fund	94.021		345,490	
Total Excluding Clusters			26,245,029	22,917,553
Foster Grandparent/Senior Companion Cluster				
Foster Grandparent Program	94.011		1,830,639	463,472
Total Foster Grandparent/Senior Companion Cluster			1,830,639	463,472
Total Corporation for National and Community Service			28,075,668	23,381,025

Federal Agency/Program Title/Pass-Through Entity or Program	Federal Catalog Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed Through to Subrecipients
Executive Office of the President				
High Intensity Drug Trafficking Areas Program	95.001			
Pass-Through from LA Clear/LA Police Chief's Association/City of Monrovia		G11LA0006A	$ 936,075	
Pass-Through from INCH/LA Police Chief's Association/Riverside County		G10LA0007A	35,774	
Pass-Through from INCH/LA Police Chief's Association/Riverside County		G11LA0007A	35,778	
Pass-Through from CV HIDTA/LA Police Chief's Association/Sacramento County		G09CV0002A	557,696	
Pass-Through from CV HIDTA/LA Police Chief's Association/Sacramento County		G10CV0002A	312,469	
Pass-Through from CV HIDTA/LA Police Chief's Association/Sacramento County		G11CV0002A	56,103	
Pass-Through from NV HIDTA/LA Police Chief's Association/Las Vegas Metro PD		G10NV0001A	32,041	
Pass-Through from NV HIDTA/LA Police Chief's Association/Las Vegas Metro PD		G11NV0001A	12,872	
Pass-Through from CA Border Alliance Group/City of San Diego/San Diego Police Dept (BNE)		G11SC0001A	1,005,271	
Pass-Through from CA Border Alliance Group/City of San Diego/San Diego Police Dept (BNE)		G12SC0001A	167,417	
Total Executive Office of the President			3,151,496	
Social Security Administration				
Disability Insurance/SSI Cluster				
Social Security - Disability Insurance	96.001		218,940,147	
Total Social Security Administration			218,940,147	
Department of Homeland Security				
Non-Profit Security Program	97.008		1,629,456	1,616,306
Boating Safety Financial Assistance	97.012		7,295,176	2,190,438
Community Assistance Program State Support Services Element (CAP-SSSE)	97.023		510,185	
Flood Mitigation Assistance	97.029		1,125,865	1,054,426
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		109,258,511	108,214,914
Hazard Mitigation Grant	97.039		16,640,438	15,228,779
National Dam Safety Program	97.041		1,815	
Emergency Management Performance Grants	97.042		22,603,548	12,810,878
Assistance to Firefighters Grant	97.044		17,078	
Cooperating Technical Partners	97.045		(269,321)	
Fire Management Assistance Grant	97.046		20,746,788	20,536,779
Pre-Disaster Mitigation	97.047		4,226,117	3,230,792
Emergency Operations Center	97.052		3,062,942	3,062,942
Interoperable Emergency Communications	97.055		4,407,064	3,804,420
Homeland Security Grant Program	97.067		238,238,117	204,030,314
Pass-Through from Sacramento County Sheriff's Department		08.18PCVP502Z	21,144	

Federal Agency/Program Title/Pass-Through Entity or Program	Federal Catalog Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed Through to Subrecipients
Pass-Through from San Diego County Sheriff's Department		2011-1077	$ 709,570	
Pass-Through from San Diego County Sheriff's Department		R0995008/R0995007	87,311	
Pass-Through from Imperial County		2010-1004	720,447	
Pass-Through from Imperial County		R1095002	130,096	
Total Homeland Security Grant Program			239,906,685	204,030,314
Map Modernization Management Support	97.070		(2,741)	
Rail and Transit Security Grant Program	97.075		28,809,432	28,603,432
Buffer Zone Protection Program (BZPP)	97.078		5,764,741	5,681,776
Earthquake Consortium	97.082		252,094	
Driver's License Security Grant Program	97.089		3,164,053	
Severe Repetitive Loss Program	97.110		1,992,360	1,903,117
Regional Catastrophic Preparedness Grant Program (RCPGP)	97.111		9,611,131	9,611,131
Border Interoperability Demonstration Project	97.120		4,299	3,520
Radiological/Nuclear Detection Pilot Evaluations Program	97.121		241,843	241,843
Gulf of Mexico US Coast Guard PRFA	97.999		1,151	
Total Excluding Cluster			481,000,710	421,825,807
Research and Development Cluster				
National Dam Safety Program	97.041		88,112	
Total Research and Development Cluster			88,112	-
Total Department of Homeland Security			481,088,822	421,825,807
Miscellaneous Grants and Contracts				
Shared Revenue - Grazing Land	99.004		72,753	
U.S. Department of the Interior - Fire Prevention/Suppression Agreement	99.014		634,000	
U.S. Department of the Interior - Fire Prevention/Suppression Agreement	99.015		(1,975)	
U.S. Department of Agriculture and Various Other U.S. Department - Fire Prevention/Suppression	99.016		6,179,976	
Miscellaneous Expenditures of Federal Awards	99.099		49,212	
Miscellaneous Federal Receipts	99.999		54,151,211 **	10,683,955
Pass-through from Miscellaneous Entities	Unknown		1,736,044	
Total Miscellaneous Grants and Contracts			62,821,221	10,683,955
Total Expenditures of Federal Awards			**$ 74,278,642,322**	**$ 20,713,080,212**

* This program has noncash federal assistance, which may include a variety of items such as commodities, vaccines, or federal excess property. For the value of the assistance, see Note 5.

** This program has loans and/or loan guarantees outstanding as of June 30, 2012. See Note 6.

*** This program has insurance in effect as of June 30, 2012. See Note 6.

Notes to the Schedule of Expenditures of Federal Awards

STATE OF CALIFORNIA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2012

1. GENERAL

The accompanying Schedule of Expenditures of Federal Awards (Schedule) presents the expenditures for all federal award programs received by the State of California (State) for the fiscal year ended June 30, 2012, except for federal awards received by the University of California and California State University systems, the California Department of Public Health's Safe Drinking Water State Revolving Fund, the California State Water Resources Control Board Water Pollution Control Revolving Fund, and the California Housing Finance Agency, a component unit of the State. These entities engaged other auditors to perform an audit 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).

2. BASIS OF ACCOUNTING

The federal award expenditures reported in the Schedule are prepared from records maintained by each State department. All expenditures for each program are net of applicable program income and refunds. Expenditures for the Highway Planning and Construction Cluster, Child Support Enforcement program, and Medicaid Cluster are reported on a cash basis. The remaining expenditures included in the Schedule are presented on a cash basis plus accruals for vendor invoices.

State departments' records are periodically reconciled to State Controller Office's records for federal receipts and department expenditures. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

3. UNEMPLOYMENT INSURANCE

The Employment Development Department (EDD) administers the Unemployment Insurance program (federal catalog number 17.225). EDD was not able to differentiate all federal funds received and expended under the American and Reinvestment Recovery Act (Recovery Act) for this program. Thus, the Recovery Act amount of $14,531,133 shown on the Schedule is an estimate of what EDD believes it expended from the Recovery Act for Emergency Unemployment Compensation, Federal Additional Compensation, Federal-State Extended Benefits, and administrative costs.

4. RECOVERY ACT FUNDING OF SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM BENEFITS

The reported receipts for benefits under the Supplemental Nutrition Assistance Program (SNAP) (CFDA No. 10.551) are supported by both regularly appropriated funds and incremental funding made available under section 101 of the Recovery Act. The portion of total expenditures for SNAP benefits supported by Recovery Act funds varies according to fluctuations in the cost of the Thrifty Food Plan, and to changes in participating households' income, deductions, and assets. This condition prevents the U.S. Department of Agriculture (USDA) from obtaining the regular and Recovery Act components of SNAP benefits expenditures through normal program reporting processes. As an alternative, USDA has computed a weighted average percentage to be applied to the national aggregate SNAP benefits provided to households in order to allocate an appropriate portion thereof to Recovery Act funds. This methodology generates valid results at the national aggregate level but not at the individual State level. Therefore, we cannot validly disaggregate the regular and Recovery Act components of our reported receipts for SNAP benefits. At the national aggregate level, however, Recovery Act funds account for approximately 10.95 percent of USDA's total expenditures for SNAP benefits in the federal fiscal year ended September 30, 2012.

STATE OF CALIFORNIA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2012

5. NONCASH FEDERAL AWARDS

The State is the recipient of federal award programs that do not result in cash receipts or disbursements. These noncash federal awards include a variety of items, such as commodities, vaccines, or federal excess property. Noncash awards for the fiscal year ended June 30, 2012 are as follows:

FEDERAL CATALOG NUMBER	PROGRAM	NONCASH AWARDS FOR THE YEAR ENDED JUNE 30, 2012
10.555	National School Lunch Program	$ 127,701,098
10.565	Commodity Supplemental Food Program	16,695,265
10.569	Emergency Food Assistance Program (Food Commodities)	48,200,163
15.648	Central Valley Project Improvement (CVPI) Anadromous Fish Restoration Program (AFRP)	99,350
93.116	Project Grants and Grants for Tuberculosis Control Programs	423,081
93.268	Immunization Grants	432,997,824
93.977	Preventive Health Services - Sexually Transmitted Diseases Control Grants	380,693
94.013	Volunteers in Service to America	313,176
None *	Upper Truckee River Sunset Stables Reach 5	100,000
	Total	**$ 626,910,650**

* 08-CS-11051900-018 Participating Agreement with USDA Forest Service

6. LOANS, LOAN GUARANTEES OUTSTANDING, AND INSURANCE IN EFFECT

Loans, loan guarantees outstanding, and insurance in effect at June 30, 2012 are summarized below:

FEDERAL CATALOG NUMBER	PROGRAM	LOANS/LOAN GUARANTEES OUTSTANDING AT JUNE 30, 2012	INSURANCE IN EFFECT AT JUNE 30, 2012
14.228	Community Development Block Grants- State's Program and Non-Entitlement Grants in Hawaii	$ 34,088,211	$
14.235	Supportive Housing Program	998,291	
14.239	Home Investment Partnerships Program	124,749,788	
99.999	State Small Business Credit Initiative Program	33,508,926	1,318,515
64.114	Veterans Housing - Guaranteed and Insured Loans		88,103,214
	Total	**$193,345,216**	**$ 89,421,729**

7. PASS-THROUGH

Federal awards received by the State from a pass-through entity are included in the Schedule and are italicized.

8. SUBRECIPIENTS

Amounts provided to subrecipients from each federal program are included in a separate column on the Schedule.

STATE OF CALIFORNIA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2012

9. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

The regulations and guidelines governing the preparation of federal financial reports vary by federal agency and among programs. Accordingly, the amounts reported in the federal financial reports do not necessarily agree with the amounts reported in the accompanying Schedule which is prepared on the basis explained in Note 2.

Summary Schedule of Prior Audit Findings

Prepared by Department of Finance

Reference Number:	2011-7-6
Federal Program:	94.006
State Administering Department:	CaliforniaVolunteers
Fiscal Year Initially Reported:	2003–04
Audit Finding:	Matching. CaliforniaVolunteers has not fully implemented its corrective action plan to ensure its established policies and procedures for fiscal desk reviews are followed by verifying the allowability of grantee match contributions. In addition, CaliforniaVolunteers has not yet eliminated its backlog of fiscal desk reviews.
Status of Corrective Action:	Fully Corrected. Beginning with 2009-10 fiscal monitoring, CaliforniaVolunteers verifies the allowability of grantee match contributions. In addition, CaliforniaVolunteers has eliminated the backlog of fiscal desk reviews from 2007-08 and 2008-09. The last closure letter will be issued by August 17, 2012.

Reference Number:	2011-13-11
Federal Program:	10.561 93.558 93.658 93.659 93.667
State Administering Department:	Department of Social Services (Social Services)
Fiscal Year Initially Reported:	2010–11
Audit Finding:	Subrecipient Monitoring. Social Services did not inform its county subrecipients of the federal award information and relevant laws, regulations, and terms of conditions governing the programs in its annual county fiscal letters to ensure subrecipients are aware of and following all program requirements imposed on them.
Status of Corrective Action:	Fully Corrected. An annual County Fiscal Letter (CFL) including federal award information was not issued to the counties in fiscal year 2010–11. The annual CFL for 2011-12 (CFL 11/12-09) was issued on August 12, 2011. Social Services revised its procedures to ensure an annual letter is sent. The County Expense Claim (CEC) Time Study and Claiming Instructions' quarterly claiming letters provide instructions in advance of the next quarter. The first quarterly reminder regarding federal awards was issued for the January through March 2012 quarter. The CFL for 2012-13 (CFL 11/12-53) was issued to the counties on June 29, 2012.

Beginning in 2012–13, the annual CFL will be issued every October to coincide with the start of the new federal fiscal year. Reminders to ensure an annual letter is sent will be placed in the CEC Time Study and Claiming Instructions' quarterly claiming letters. Social Services will continue to update its federal grant internet link with updated terms and conditions information on a monthly basis. A link to this website will be included in the annual quarterly CFL issued to the counties.

Reference Number:	2011-1-3
Federal Program:	93.958
State Administering Department:	Department of Mental Health (Mental Health)
Fiscal Year Initially Reported:	2006–07
Audit Finding:	Activities Allowed, Allowable Costs. Mental Health did not complete its efforts to establish a process to verify its subgrantees' expenditures of federal grant funds are for allowable activities and costs.
Status of Corrective Action:	Partially Corrected. In March 2011, the workgroup prepared and distributed a draft recommendation to Mental Health's management. The recommendation included three possible solutions to meet the allowability of costs requirement for fiscal year 2011–12. This new process will ensure that only allowable activities and costs are paid for with the block grant funds. Mental Health plans to finalize the proposal and adopt an option to verify that counties' actual expenditures of federal grant funds are for allowable activities and costs. Mental Health plans to implement the process during fiscal year 2011–12. Mental Health finalized the proposal. However, because of time constraints and the Department's transition, Mental Health was unable to conduct the site reviews in accordance with federal regulations. The plan is to conduct site reviews of three counties prior to the end of fiscal year 2012–13.
Auditors' Comment:	We will review any corrective action in the subsequent audit.

Reference Number:	2011-5-6
Federal Program:	93.568
State Administering Department:	Department of Community Services and Development (CSD)
Fiscal Year Initially Reported:	2010–11
Audit Finding:	Eligibility. CSD is not ensuring local agencies obtain appropriate documentation to substantiate their eligibility determinations for Low-Income Home Energy Assistance (LIHEAP) applicants.

Status of Corrective Action:	Partially Corrected. Activities outlined in CSD's corrective action plan are currently in progress. CSD will contact subrecipients to advise them of eligibility discrepancies identified through audits and provide training and technical assistance to ensure understanding. Additionally, CSD will host annual training workshops and webinars on eligibility, income, and intake requirements. CSD will also continue to verify client eligibility during monitoring reviews.
Auditors' Comment:	This finding is fully corrected. Although the Department of Community Services and Development plans to take additional actions to strengthen its processes, the actions it has taken sufficiently addressed the prior year finding.

Reference Number:	2011-7-3
Federal Program:	93.958
State Administering Department:	Department of Mental Health (Mental Health)
Fiscal Year Initially Reported:	2006–07
Audit Finding:	Earmarking. Mental Health still has not completed written policies and procedures to ensure it consistently and properly applied administrative costs to the Substance Abuse and Mental Health Service Administration's Block Grants for Community Mental Health Services (CMHS). Mental Health stated it formed a workgroup in February 2010 to develop written policy, processes, and procedures to ensure only allowable costs are used to meet the earmarking requirement.
Status of Corrective Action:	Fully Corrected. Mental Health approved the Administrative Cost Policy in February 2012 with an effective date of January 31, 2012 to adhere to the earmarking requirement. In March 2012, Mental Health finalized its Grant Programs Management Desk Manual and will continue to update the Desk Manual as needed in order to improve Mental Health's administration of its federal program.

Reference Number:	2011-7-4
Federal Program:	93.958
State Administering Department:	Department of Mental Health (Mental Health)
Fiscal Year Initially Reported:	2006–07

Audit Finding:	Level of Effort – Maintenance of Effort. Mental Health still has not implemented a process to comply with the maintenance of effort (MOE) requirements. All the conditions reported since 2006–07 continued to exist during 2010–11. Specifically, Mental Health has not finalized and implemented its methods to determine the percentages used to support the realignment dollars used in its MOE calculation and retain the supporting documentation. Mental Health also has not finalized a methodology for calculating the community mental health services MOE requirements to ensure it accurately captures and reports all state expenditures for adults with serious mental illness (SMI) and children with serious emotional disturbance (SED).
Status of Corrective Action:	Partially Corrected. Mental Health developed a methodology to determine the total amount spent on mental health services to children with SED and adults with SMI by funding source, and is currently in the process of finalizing the results of the calculations. Also, Mental Health has determined that MHSA expenditures should be included in the calculation of the MOE in addition to realignment and Managed Care dollars. However, because of the time constraints and the Department's transition, Mental Health was unable to finalize the methodology and results of the calculations. The plan is to complete the process prior to the end of fiscal year 2012–13.
Auditors' Comment:	We will review any corrective action in the subsequent audit.

Reference Number:	2011-7-7
Federal Program:	93.568
State Administering Department:	Department of Community Services and Development (CSD)
Fiscal Year Initially Reported:	2008–09
Audit Finding:	Earmarking. CSD continues to lack sufficient internal controls to ensure it can effectively track and monitor its progress towards meeting its earmarking requirements. Specifically, although CSD implemented a mechanism to track expenditures related to one of its earmarking requirements, it still does not track expenditures related to two others.

Status of Corrective Action:	Fully Corrected. Activities outlined in CSD's corrective action plan are currently in progress. CSD implemented the automated tracking system for Low-Income Home Energy Assistance (LIHEAP) in January 2012. Staff are currently testing the system to ensure it successfully meets all requirements. In January 2012, CSD implemented the automated tracking system for LIHEAP in the Expenditure Activity Reporting System.

Reference Number:	2011-12-7
Federal Program:	93.568
State Administering Department:	Department of Community Services and Development (CSD)
Fiscal Year Initially Reported:	2006–07
Audit Finding:	Reporting. CSD continues to lack sufficient internal controls to ensure it meets reporting requirements. Specifically, CSD's written procedures do not include steps to reconcile the federal share of program outlays shown in its internally developed spreadsheets to its accounting records. In addition, CSD failed to report subawards greater than $25,000 to the Federal Funding Accountability Transparency Act (FFATA) Subaward Reporting System as required.
Status of Corrective Action:	Fully Corrected. Accounting staff reconciled program outlays in financial status reports prior to July 2010. Additionally, CSD has fully implemented its corrective action plan related to FFATA. CSD now posts all subawards greater than $25,000 to FFATA Reporting System. CSD will reconcile the federal share of program outlays prior to July 2010 and will continue to work with the U.S. Department of Health and Human Services to post subawards greater than $25,000 to the FFATA Reporting System.

Reference Number:	2011-13-12
Federal Program:	93.658
State Administering Department:	Department of Social Services (Social Services)
Fiscal Year Initially Reported:	2010–11
Audit Finding:	Subrecipient Monitoring. Social Services did not follow its procedures to ensure counties addressed issues identified during on-site reviews performed by the Judicial Council of California (Judicial Council). Specifically, Social Services did not issue letters to the 23 counties reviewed nor did it perform any other follow-up procedures related to the Judicial Council's recommendations.

Status of Corrective Action:	Fully Corrected. Social Services fully corrected the issue on December 23, 2011. Social Services issued Judicial Review and Technical Assistance Project Site Visit letters to the applicable counties identified in the 2010-11 on-site reviews. This ongoing responsibility is now assigned to a specific staff person to ensure timely and consistent compliance.

Reference Number:	2011-13-13
Federal Program:	93.044 93.045 93.053 93.705 93.707
State Administering Department:	Department of Aging (Aging)
Fiscal Year Initially Reported:	2007–08
Audit Finding:	Subrecipient Monitoring. Aging does not ensure it complies with its 75 working day requirement for issuing final reports for all onsite comprehensive assessments it performs annually. Aging also does not ensure subgrantees respond to its final reports within the required 30 working days.
Status of Corrective Action:	Fully corrected. Aging updated its “Monitoring Award Activities of Sub-Recipients” procedures and developed a Monitoring Report-Corrective Action Plan tracking log. The new procedures state Aging will issue final reports for all on-site comprehensive assessments within 75 working days of the exit conference and take steps to ensure subgrantees respond to final on-site comprehensive assessment reports within 30 working days of their receipt. Although new procedures have been implemented as of December 1, 2011, the backlog continues due to staffing issues.

Reference Number:	2011-13-16
Federal Program:	93.568
State Administering Department:	Department of Community Services and Development (CSD)
Fiscal Year Initially Reported:	2010–11
Audit Finding:	Subrecipient Monitoring. CSD lacks procedures to ensure its subrecipients obtained Data Universal Numbering System (DUNS) numbers before providing them Low-Income Home Energy Assistance Program funds (LIHEAP).
Status of Corrective Action:	Fully corrected. CSD has fully implemented its corrective action plan as of January 31, 2012. CSD included language in its 2012 LIHEAP contracts that subrecipients shall provide to CSD its DUNS number. CSD now collects DUNS numbers for all LIHEAP agencies.

Reference Number:	2011-3-2
Federal Program:	81.042 93.568
State Administering Department:	Department of Community Services and Development (CSD)
Fiscal Year Initially Reported:	2010–11
Audit Finding:	Cash Management. CSD does not always follow its procedures when advancing cash to subrecipients to maintain adequate separation of duties over separate transactions. CSD also lacks procedures to verify subrecipients deposit cash advances into interest-bearing accounts and comply with the federal requirements for returning or using excess interest earnings as appropriate.
Status of Corrective Action:	Fully corrected. CSD has fully implemented its corrective action plan as of April 30, 2012. CSD implemented a supervisory review of the cash advance payment process. CSD also developed and implemented procedures as part of the on-site monitoring review process to ensure cash advances are deposited in interest-bearing accounts and are in compliance with federal requirements for returning or using interest earned.

Reference Number:	2011-13-17
Federal Program:	81.042 93.568
State Administering Department:	Department of Community Services and Development (CSD)
Fiscal Year Initially Reported:	2010–11
Audit Finding:	Subrecipient Monitoring. CSD did not always follow its monitoring policies to ensure subrecipients are expending the Weatherization program and Low-Income Home Energy Assistance Program (LIHEAP) funds appropriately. Specifically, assessments were not performed in a timely manner as required by its policies, steps were not taken to resolve any expenditure issues found as a result of these assessments, and not all assessments were reviewed by a supervisor.
Status of Corrective Action:	Fully corrected. CSD has fully implemented its corrective action plan as of September 30, 2011. CSD implemented a tracking system to ensure timely assessments, timely resolution of issues identified, and supervisory review.

Reference Number:	2011-12-4
Federal Program:	14.239
State Administering Department:	Department of Housing and Community Development (HCD)
Fiscal Year Initially Reported:	2007–08
Audit Finding:	Reporting. HCD did not completed the reconciliation of its accounting records to its loan records for the HOME Investment Partnerships Program in order to identify the accurate amount of outstanding loans reported for 2010-11.
Status of Corrective Action:	Partially Corrected. Although significant progress has been made, the reconciliation has not yet been completed. The reconciliation work continues to be a high priority task and the target completion date is estimated for September 30, 2012 to obtain, review, and reconcile six years of CALSTARS microfiche data.
Auditors' Comment:	This finding is fully corrected. Although the Department of Housing and Community Development plans to take additional actions to strengthen its processes, the actions it has taken sufficiently addressed the prior year finding.

Reference Number:	2011-12-5
Federal Program:	14.239
State Administering Department:	Department of Housing and Community Development (HCD)
Fiscal Year Initially Reported:	2010–11
Audit Finding:	Reporting. HCD did not ensure the accuracy and completeness of the Section 3 Summary Report for 2009–10 it submitted to the U.S. Department of Housing and Urban Development (HUD). Specifically, HCD understated the total dollar amount of construction contracts awarded in the summary report by $19.3 million related to three subgrantees and it incorrectly classified construction contracts totaling $2.0 million as a non-construction contract for one of these subgrantees.
Status of Corrective Action:	Fully Corrected. The HOME Investment Partnerships Program implemented improvements during 2011 to ensure the accurate collection and compiling of data and the accuracy of the 2010–11 report to HUD. Although the primary issue in this finding has been resolved, HCD will consult with HUD to determine whether it should submit a corrected summary report for 2009–10. To allow more time to coordinate this discussion, the discussion was scheduled for September 30, 2012.

Reference Number:	2011-13-15
Federal Program:	14.228
State Administering Department:	Department of Housing and Community Development (HCD)
Fiscal Year Initially Reported:	2007–08
Audit Finding:	Subrecipient Monitoring. HCD has not developed a risk-based site-visit monitoring schedule to ensure subrecipients are complying with federal laws, regulations, and provisions of grant agreements.
Status of Corrective Action:	Fully Corrected. The Community Development Block Grant Program has completed a risk-based review of all active jurisdictions (those who have active contracts) and identified the 15 highest risk jurisdictions as of June 15, 2012.

Reference Number:	2011-1-4
Federal Program:	16.606
State Administering Department:	Department of Corrections and Rehabilitation (Corrections)
Fiscal Year Initially Reported:	2007–08
Audit Finding:	Activities Allowed, Allowable Costs. Corrections has not revised its procedures for submitting the application for the State Criminal Alien Assistance Program (SCAAP) funding to ensure it includes eligible inmate data.
Status of Corrective Action:	Partially Corrected. In an ongoing effort to comply with the Bureau State Audits' (BSA) recommendation to seek the guidance from the federal government, staff of the CDCR's Office of Legislation (OOL) and Offender Information Services Branch has attended training provided by the Department of Homeland Security (DHS). The training familiarized staff with the DHS Secured Communities Program. A program created by DHS to assist law enforcement agencies in obtaining immediate citizenship status of offenders. The CDCR is also working with the DHS/ICE to develop an electronic process for obtaining information pertaining to the findings of ICE investigations. These findings would be provided to CDCR on a routine basis and would assist CDCR in validating alien numbers and citizenship status. The BSA findings that characterized the CDCR of falsely submitting the 2,000 additional records are misleading. After several discussions with DHS/ICE it has been confirmed that the 2,000 additional records are a valid representation of the California alien population. The DHS/ICE has informed CDCR that there are individuals with

multiple alien numbers. For those individuals whose alien numbers can be consolidated, the DHS/ICE is in the process of consolidating these multiple alien registration numbers into one master alien number. The DHS has not yet completed this process.

Auditors' Comment: This finding is fully corrected. Although the Department of Corrections and Rehabilitation plans to take additional actions to strengthen its processes, the actions it has taken sufficiently addressed the prior year finding.

Reference Number: 2011-1-5

Federal Program: 17.225
17.258
17.259
17.260

State Administering Department: Employment Development Department (EDD)

Fiscal Year Initially Reported: 2010–11

Audit Finding: Activities Allowed, Eligibility, Reporting. EDD had weak general controls over its information systems for 2010–11. Specifically, EDD's entity-wide information security policy was outdated, risk management program was insufficient, and there was no incident response plan prior to January 2012.

Status of Corrective Action: Partially Corrected. Since January 2012, EDD has released thirteen Information Security policies that reflect changes in the direction of the EDD Information Security program that more closely aligns our program with federal and State guidelines. EDD is in the process of fully implementing all policies released. The following policies are currently in executive clearance: Data Handling Policy, Security Incident Management Policy, and Security System Maintenance Policy. Policies mentioned above do not include current and still relevant Information Security Policies.

Auditors' Comment: We reported a similar finding in the 2012 audit. Please refer to reference number 12-8.

Reference Number: 2011-14-6

Federal Program: 17.225

State Administering Department: Employment Development Department (EDD)

Fiscal Year Initially Reported: 2008–09

Audit Finding:	Special Tests and Provisions. EDD is still in the process of updating its financial management systems so it can separately identify Recovery Act expenditures from non-Recovery Act expenditures. Specifically, the Unemployment Insurance (UI) Program expended $21 billion during 2010–11 which included both Recovery Act and non-Recovery Act Funds.
Status of Corrective Action:	Partially Corrected. EDD has partially completed programming changes to revise the 58 different financial reports needed to correct this finding. EDD can and has been reporting all the benefits paid by each federal extension. This finding only pertains to the current inability to identify which federal extension payments should be charged to the different federal accounts. Because of the complexity of the reports and the other extension-related work, the programming is not yet complete. In addition, the federal Department of Labor's clarification of the reporting requirements for Federal Additional Compensation (FAC) funds required additional programming to separate Recovery Act funds and "post-Recovery Act" funds. FAC funds were initially identified as 100 percent Recovery Act funds. Half of the reports went into production in December 2010 with plans to complete the remainder by mid-2012. However, the completion date for all programming was changed due to the additional programming required to accurately report on FAC funds/expenditures, the need to share Information Technology Branch resources with other priority UI automation projects, work needed for the implementation of HR 3630, Middle Class Tax Relief and Job Creation Act of 2012 (Public Law 112-96) changes, and project schedules that require a "code freeze" such as the Disability Insurance Automation to ensure the proper deployment of EDD's new systems. After release, the remaining financial reports will be rerun beginning with 2008-2009 and reviewed to identify proper adjusting entries to the accounting records. EDD expects this effort will take an additional few months to complete after the code freeze has been lifted.
Auditors' Comment:	We reported a similar finding in the 2012 audit. Please refer to reference number 12-10.

Reference Number:	2011-13-14
Federal Program:	20.205
State Administering Department:	California Department of Transportation (Caltrans)
Fiscal Year Initially Reported:	2009–10

Audit Finding:	Subrecipient Monitoring. Caltrans did not fully implement policies and procedures to ensure subrecipients submit audit reports as required under the Office of Management and Budget (OMB) Circular A-133 and impose sanctions on those that do not. We identified 12 subrecipients as having no record of an audit submission to the federal government for 2009–10.
Status of Corrective Action:	Partially Corrected. Caltrans is implementing policies and procedures to ensure subrecipients promptly submit required audit reports. Sanctions are imposed on subrecipients that do not comply with OMB Circular A-133. For 2009-10, Caltrans imposed sanctions on all but one subrecipient that received $500,000 or more of federal funds during 2009-10, and did not submit a Single Audit Report (SAR) by March 31, 2011. Sanctions have been imposed to the final recipient. Subrecipients who receive $500,000 or more of federal funds passed through Caltrans during the previous year, as required by OMB Circular A-133, are notified as being delinquent and sanctions are imposed. For 2010–11, Caltrans expects to identify all delinquent subrecipients and impose sanctions by October 1, 2012. By July 30, 2012, Caltrans planned to notify all subrecipients that receive pass-through federal funds of the SAR requirements and the corresponding sanctions for failing to comply.
Auditors' Comment:	This finding is fully corrected. Although Caltrans plans to take additional actions to strengthen its processes, the actions it has taken sufficiently addressed the prior year finding.

Reference Number:	2011-12-6
Federal Program:	64.114
State Administering Department:	California Department of Veterans Affairs (Veterans Affairs)
Fiscal Year Initially Reported:	2008–09
Audit Finding:	Reporting. Veterans Affairs has not completed its automation process for reporting credit bureau notifications to the U.S. Department of Veterans Affairs (VA). We reviewed 24 delinquent loans reported to the credit bureaus during 2010-11 and found Veterans Affairs failed to report 7 delinquent loans to the VA and reported another 11 others between 1 and 5 days after the reporting deadline.
Status of Corrective Action:	Fully Corrected. The VA's credit bureau reporting moved to a weekly reporting schedule which eliminated the issue of late reporting. The 7 unreported loans were a one-time occurrence at the end of 2010–11. This finding has had no impact on the department's ability to collect claim funds and no violations have been cited by the VA.

Reference Number:	2011-13-1
Federal Program:	10.557
State Administering Department:	Department of Public Health (Public Health)
Fiscal Year Initially Reported:	2010–11
Audit Finding:	Subrecipient Monitoring. Public Health lacks controls for following up on findings related to the program evaluations that take place for all local agencies every two years. Specifically, for 1 of 25 reviews selected, we noted the corrective action plan (CAP) was submitted by the local agency 69 days after the receipt of the letter of finding which was not within the required 60 days.
Status of Corrective Action:	Fully Corrected. Public Health agrees with the finding. Following a Letter of Finding (LOF) in a program evaluation, a Women, Infants and Children (WIC) lead analyst coordinates with Regional Advisors (RA) within the Local Agency Support Branch to flag the date when the Program Evaluation and Policy Branch sends the LOF to the subrecipient agency. Using a tracking spreadsheet, the RA sends a 30-day reminder email to all local agencies that have not submitted a CAP. If an agency does not submit a CAP two weeks prior to the 60-day due date, the RA calls the local agency director to reinforce the federal requirement. In addition, the RA notifies the local agency director's supervisor and/or the parent agency director as needed to ensure compliance. The RA notes all communication and actions taken in the tracking log.

Reference Number:	2011-14-1
Federal Program:	10.557
State Administering Department:	Department of Public Health (Public Health)
Fiscal Year Initially Reported:	2010–11
Audit Finding:	Special Tests and Provisions – Authorization of Above-50-Percent Vendors. Public Health lacks sufficient internal controls to ensure vendors are appropriately classified to the correct peer group and the vendor's peer group assignment is reviewed before the information is entered into the Women, Infants, and Children's (WIC) information system (ISIS).

Status of Corrective Action:	Fully Corrected. Public Health agrees with the finding. WIC has procedures to assign a vendor to the correct peer group. In the instance noted in the audit, an analyst did not follow the procedures, resulting in conducting the Vendor Price Analysis (VPA) using an incorrect peer group. Further, staff did not identify the error during the routine file review. However, since Vendor Management Branch staff conducts an onsite review prior to finalizing a store's authorization, staff corrected the peer group assignment in ISIS prior to the vendor becoming authorized to submit food instruments for reimbursement. Staff has modified the vendor authorization checklists to include a check-off box that requires the vendor analyst to recheck the peer group when performing VPA analysis and when conducting on-site vendor authorization visits. WIC trained staff and fully implemented this corrective action during November 2011.

Reference Number:	2011-1-1
Federal Program:	93.778
State Administering Department:	Department of Health Care Services (Health Care Services)
Fiscal Year Initially Reported:	2005–06
Audit Finding:	Activities Allowed/Allowable Costs. The fourth Medi-Cal Payment Error Study (MPES) completed during the calendar year 2009 noted 5.45 percent of the total dollars paid had some indication they contained a provider payment error. The 5.45 percent equates to $1.07 billion of the total $16 billion in annual payments made for Medi-Cal fee-for-service (FFS) medical and dental services in calendar year 2009, and represents the percentage of payment error attributable to Medi-Cal program dollars "at risk" of being paid inappropriately due to findings related to such factors as a lack of medical necessity, abuse, or fraud. Based on the error percentage related to Medi-Cal payments, the risk of noncompliance with allowable costs and activities is considered material. The total Federal and American Recovery and Reinvestment Act of 2009 expenditures for FFS claims during the fiscal year ended June 30, 2011 were $14.4 billion and $2.5 billion, respectively.
Status of Corrective Action:	Partially Corrected. The Medical Review Branch has continued to refine data mining and research techniques to detect and recoup Medi-Cal fraud, waste, and abuse. The 2009 MPES led to field audit reviews (FAR) and audits for recovery (ARF) which resulted in 210 ARFs, 316 FARs, and 242 pre-enrollment reviews. Recoveries were $31.2 million and cost avoidance totaled $88.2 million.
Auditors' Comment:	The finding was not repeated in the 2012 audit as the finding was based on Health Care Services' internal audit results. A current year finding was issued over activities allowed/allowable costs as reference number 12-40.

Reference Number:	2011-1-2
Federal Program:	93.778
State Administering Department:	Department of Health Care Services (Health Care Services)
Fiscal Year Initially Reported:	2006–07
Audit Finding:	Activities Allowed/Allowable Costs. A sample of fee-for-service (FFS) claims was selected to ascertain if each expenditure was for an allowable service rendered and was supported by medical records or other evidence, which indicates the service was actually provided and consistent with the medical diagnosis. In the sample of 50 FFS claims reviewed, 6 did not appear to be for an allowable service.
Status of Corrective Action:	Partially Corrected. Audits were conducted on the detected overpayments to confirm these findings and recovery demands were issued.
Auditors' Comment:	We reported a similar finding in the 2012 audit. Please refer to reference 12-40.

Reference Number:	2011-2-1
Federal Program:	93.778
State Administering Department:	Department of Health Care Services (Health Care Services)
Fiscal Year Initially Reported:	2006–07
Audit Finding:	Allowable Costs. Health Care Services did not provide the drug utilization data to drug manufacturers/labelers timely for the third quarter of 2010 and first quarter of 2011. The lack of timely submission of the drug rebates potentially causes a missed opportunity to earn interest on these funds.
Status of Corrective Action:	Fully Corrected. Health Care Services proactively monitors and diligently works towards ensuring the drug utilization reports are mailed to the drug manufacturers within 60 days after the end of each quarter. Health Care Services has modified the Rebate Accounting and Information System to allow the invoicing process to be more efficient and require less manual reviewing, thus allowing for timely mailing of the invoices. Health Care Services delivered the utilization reports timely for the last three quarters of 2011.

Reference Number:	2011-3-1
Federal Program:	93.268
State Administering Department:	Department of Public Health (Public Health)
Fiscal Year Initially Reported:	2010–11

Audit Finding:	Cash Management. Public Health lacks adequate policies and procedures to ensure payments to contractors are issued within the three-day requirement of the federal draws per the Cash Management Improvement Act. In a sample of 65 drawdowns, 17 drawdowns were issued up to 21 days after the drawdown request.
Status of Corrective Action:	Fully Corrected. Public Health agrees with the finding and fully implemented a corrective action plan. Accounting matches a signed claim schedule to a CALSTARS H07 report (Letter of Credit Drawdown Remittance Advice Worksheet) before drawing down the money. Once the money is drawn, Public Health submits the claim schedule to the State Controller's Office to cut the check within three days from the draw. Public Health implemented these new procedures on October 20, 2011.

Reference Number:	2011-5-1
Federal Program:	93.917
State Administering Department:	Department of Public Health (Public Health)
Fiscal Year Initially Reported:	2006–07
Audit Finding:	Eligibility, Activities Allowed/Allowable Costs. Public Health needs to strengthen its internal controls over the eligibility process and enhance training for local enrollment workers to ensure payments are only made to eligible recipients and all required documentation to verify eligibility is maintained in the recipient's file.
Status of Corrective Action:	Partially Corrected. Public Health agrees with the finding. The AIDS Drug Assistance Program (ADAP) continues to work with the pharmacy benefits manager (PBM) to ensure controls on client eligibility determinations are implemented and payments are only made for eligible recipients. Effective July 1, 2010, Public Health site visits that identified deficient client eligibility files/documentation resulted in immediate notification to the PBM. If the site/enrollment worker/client does not provide the missing documentation within 60 days, Public Health suspends the client's ADAP eligibility until compliance is achieved. Public Health now conducts ADAP site visits every three years (formerly every five years) and will visit all 180 ADAP enrollment sites by June 30, 2013. Public Health has completed one year of this accelerated site visit/technical assistance cycle. When the initial three-year cycle is completed by June 30, 2013, the next site visit cycle will reflect improved program compliance, including client eligibility documentation. To strengthen the technical assistance staff provides during all site visits, Public Health has modified mandatory annual enrollment worker training to enhance the effectiveness of all aspects of the eligibility determination training.

Additionally, Public Health is working with the Department of Health Care Services and the PBM to enhance ADAP data systems to identify clients with Medi-Cal eligibility in a more timely and accurate manner to ensure ADAP is the payer of last resort. Public Health is finalizing an interagency data use agreement to allow Public Health to access the Medi-Cal eligibility database monthly to identify ADAP clients with Medi-Cal eligibility. Public Health will then work with the PBM to ensure proper billing, including potential back-billing to Medi-Cal.

Auditors' Comment: The finding was not repeated in the 2012 audit as the finding was based on Public Health's internal audit results.

Reference Number: 2011-5-2

Federal Program: 93.778

State Administering Department: Department of Health Care Services (Health Care Services)

Fiscal Year Initially Reported: 2008–09

Audit Finding: Eligibility. Health Care Services lacks adequate internal controls over its redetermination requirements for Medi-Cal beneficiaries to ensure benefits are discontinued when annual redetermination forms are not provided. Also, Health Care Services' Medicaid Eligibility Quality Control process has a 5.5 percent error rate which indicates there is a material risk of noncompliance related to eligibility.

Status of Corrective Action: Fully Corrected. Health Care Services will discuss each of the audit findings with the affected counties. These discussions will include a review of the specific findings with each affected county, possible corrective actions, and best practices referrals. If warranted, Health Care Services will conduct focused reviews in specific counties to address potential Medi-Cal redetermination performance issues. Health Care Services will continue to reinforce expectations that the counties must complete Medi-Cal redeterminations on a timely basis and reiterate to the counties the pertinent documentation must be available for review in county case files and automated systems as required by state policies.

Auditors' Comment: We reported a similar finding in the 2012 audit. Please refer to reference 12-37.

Reference Number: 2011-5-3

Federal Program: 93.778

State Administering Department: Department of Health Care Services (Health Care Services)

Fiscal Year Initially Reported: 2010–11

Audit Finding:	Eligibility. Health Care Services lacks controls to ensure beneficiary eligibility information is accurately reflected in the consortium systems that interface with the Medicaid Eligibility Database System (MEDS). The state uses the aid code information in MEDS to determine the allowability of claims submitted by confirming the beneficiary's eligibility. Of the 130 cases sampled from 10 different counties, 1 case had beneficiaries where there was a discrepancy in aid code between the consortium system and MEDS, which may have an impact on future beneficiary eligibility.
Status of Corrective Action:	Fully Corrected. As part of the corrective action process, Health Care Services will reemphasize through county guidance that when an individual moves to a new county, the new county is required to review the prior months' eligibility for individuals to ensure the appropriate aid code is established. Because this child moved from one county to another, the appropriate entries to generate the Continuous Eligibility Coverage (CEC) aid code was not automatically triggered in the new county. Additional actions by the new county should have been taken in the county system to guarantee the correct CEC aid code was generated. Additionally, Health Care Services conducts monthly quarterly control reviews which evaluate counties' eligibility determinations. When Health Care Services identifies discrepancies in aid codes, it immediately informs the county in which the error occurred to correct the aid codes, although aid code discrepancies generally do not result in eligibility or share of cost errors. However, if the quality control reviews indicate a particular county is having a significant problem with performing accurate aid code assignments, a meeting can be held with the county's Medi-Cal program staff to discuss the issue and possible corrective action measures. In some cases, the county may be required to provide Health Care Services with a formal corrective action plan with a subsequent focused review to ensure the corrective action plan has been implemented.
Auditors' Comment:	We reported a similar finding in the 2012 audit. Please refer to reference 12-37.

Reference Number:	2011-5-4
Federal Program:	93.778
State Administering Department:	Department of Health Care Services (Health Care Services)
Fiscal Year Initially Reported:	2005–06

Audit Finding:	Eligibility. Health Care Services lacks adequate internal controls to obtain and track the enrollment presumptive eligibility identification numbers issued to prevent unauthorized use of identification numbers. However, Health Care Services is pursuing an automated process to post the presumptive eligibility identification numbers to the Medi-Cal eligibility system so records for these recipients can be accessed to authenticate, reconcile, and prevent duplicate issuances of the presumptive eligibility number during the claims adjudication process.
Status of Corrective Action:	Partially Corrected. Health Care Services lacks the necessary resources needed to develop and implement automated systems to address this finding. However, they believe the Patient Protection and Affordable Care Act (PPACA) of 2010 provides an ideal opportunity to implement a solution to this problem. As required by PPACA and with the passage of Senate Bill 900 (Chapter 659, Statutes of 2010) and Assembly Bill 1602 (Chapter 655, Statutes of 2010), California is required to develop a Health Benefits Exchange (Exchange). A component of the Exchange is the ability to screen for and enroll eligible individuals into the Medi-Cal program, utilizing a web-based enrollment portal and streamlined eligibility processes. Under PPACA, for purposes of Medi-Cal eligibility, Health Care Services is required to develop and implement streamlined eligibility and enrollment processes for individuals seeking Medi-Cal covered services. The Exchange provides an opportunity to allow Presumptive Eligibility (PE) Qualified Providers to complete the PE enrollment for eligible pregnant women using an internet-based application that will provide real-time validation with the Statewide Medi-Cal Eligibility Data System (MEDS). Health Care Services is working in collaboration with the Health Benefit Exchange Board in the development of the Exchange, which is required to be operational by 2014. As an interim measure, Health Care Services will begin using a new print vendor as of November 15, 2011 for purposes of automating the process of issuing the presumptive eligibility identification numbers. The new vendor will automate the ordering process to validate presumptive eligibility identification numbers issued to providers. This quality assurance effort reduces the chance of duplicating presumptive eligibility identification numbers issued to providers.
Auditors' Comment:	We reported a similar finding in the 2012 audit. Please refer to reference 12-41.

Reference Number:	2011-13-2
Federal Program:	93.778
State Administering Department:	Department of Health Care Services (Health Care Services)
Fiscal Year Initially Reported:	2009–10

Audit Finding:	Subrecipient Monitoring. Health Care Services did not conduct site visits of local government agencies (LGAs) and local education consortiums (LECs) as required. Specifically, there were 18 LGAs/LECs that had not had a site visit within the last three or four years.
Status of Corrective Action:	Partially Corrected. It was the initial intent of the County-based and School-based Medi-Cal Administrative Activities Units (CMAA and SMAA) to conduct the 18 site visits during 2010-11 and 2011-12 to comply with Medicaid funding requirements, which indicates site visits must be conducted at least once every four years. However, due to the delayed passage of the State Budgets in 2010 and 2011 and a Governor's order restricting non-essential travel in May 2011, the CMAA and SMAA Units were unable to reach compliance. Without the ability to travel, the CMAA and SMAA Units developed a desk review process to meet the Medicaid funding requirements without requiring travel. Through the desk review process, the Units have conducted and completed the oversight responsibilities for a major portion of the non-compliance during 2011-12. However, due to the aforementioned non-essential travel restriction, the remainder of the issues will not be resolved until the end of the 2012. The CMAA and SMAA Units have received exemptions from the travel restriction and began conducting on-site reviews as of July 1, 2012. As a result of this exemption, the CMAA and SMAA Units will complete all outstanding site visits issues by December 31, 2012.
Auditors' Comment:	We reported a similar finding in the 2012 audit. Please refer to reference 12-38.

Reference Number:	2011-13-3
Federal Program:	93.778
State Administering Department:	Department of Health Care Services (Health Care Services)
Fiscal Year Initially Reported:	2010–11
Audit Finding:	Subrecipient Monitoring. Health Care Services lacks policies and procedures to ensure the identifying number of the federal program is included in each of its subgrant agreements.
Status of Corrective Action:	Partially Corrected. Beginning with the 2012-2013 School-based Medi-Cal Administrative Activities (SMAA) agreements, Exhibit B, Budget Detail and Payment Provisions (Page 5) was modified to include the following information:

> Title 31 – Money and Finance, Subtitle V – General Assistance Administration, Section 7502 requires each pass-through entity to provide the subrecipient program names and any identifying numbers from which such

assistance is derived. The Catalog of Federal Domestic Assistance (CFDA) number for this federal program is 93.778, Medical Assistance Program.

The SMAA Unit still has current and pending contracts that have not been fully executed with the amended language. As the SMAA agreements expire, the new agreements will be modified to contain the revised language.

Auditors' Comment: We reported a similar finding in the 2012 audit. Please refer to reference 12-38.

Reference Number: 2011-14-2

Federal Program: 93.268

State Administering Department: Department of Public Health (Public Health)

Fiscal Year Initially Reported: 2009–10

Audit Finding: Special Tests and Provisions – Control, Accountability, and Safeguarding of Vaccine. Public Health lacks adequate oversight policies and procedures over vaccinating providers. Based on a sample of quality assurance reviews (QAR), Public Health's QAR procedures did not include a review of inventory records to ensure vaccines are properly accounted for.

Status of Corrective Action: Corrected. Public Health disagrees with the finding that it should include an inventory record review and risk of loss from theft during QARs. Public Health uses other inventory measures outside of QARs. However, to address the audit's concern, Public Health is developing an on-line training for providers that focus on inventory control for proper accounting of publicly purchased vaccines. Providers whose vaccine accounting practices do not meet program requirements may be required to complete the training. Local providers are currently conducting user testing of the training. Public Health is also implementing a "Shipment Verification Checklist/Discrepancy Report" that providers will complete to verify they received all ordered doses and to report any discrepancies to Public Health. Public Health implemented use of the document by August 2012. Public Health included the document in all Vaccines for Children (VFC) Provider Enrollment packets and posted it on the VFC Program's website. Public Health will review use of the document with clinic vaccine management personnel during QARs.

Reference Number: 2011-14-3

Federal Program: 93.778

State Administering Department: Department of Health Care Services (Health Care Services)

Fiscal Year Initially Reported:	2006–07
Audit Finding:	Special Tests and Provisions – Provider Eligibility. Health Care Services has not completed re-enrollment of Medicaid providers prior to 1999 and does not have the required re-enrollment package, including the required provider agreement, on file with the Provider Enrollment Division.
Status of Corrective Action:	Partially Corrected. Provider Enrollment Division is currently planning the implementation of the 2010 Affordable Care Act (ACA) requirement to revalidate provider enrollment information every five years. Implementation is scheduled to begin on January 1, 2013.
Auditors' Comment:	We reported a similar finding in the 2012 audit. Please refer to reference 12-39.

Reference Number:	2011-13-4
Federal Program:	10.553 10.555
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2009–10
Audit Finding:	Subrecipient Monitoring. Education lacks adequate internal controls to ensure approval of subrecipient contracts with food service companies within its Child Nutrition Information and Payment System is documented prior to funding reimbursements.
Status of Corrective Action:	Partially Corrected. By September 2012, Education planned to fill the newly approved positions to maintain the Food Safety Manager Certification (FSMC) pre-approval process. The FSMC registry is currently on hold pending regulations development.
Auditors' Comment:	We reported a similar finding in the 2012 audit. Please refer to reference 12-27.

Reference Number:	2011-5-5
Federal Program:	84.126 84.390
State Administering Department:	Department of Rehabilitation (Rehabilitation)
Fiscal Year Initially Reported:	2008–09

Audit Finding:	Eligibility. Rehabilitation lacks procedures to assist caseworkers in managing and meeting eligibility determination deadlines. For 6 of the 60 applicant cases reviewed, Rehabilitation did not always determine applicant eligibility for services within the required period due to limitations with its case management system.
Status of Corrective Action:	Partially Corrected. The Accessible Web-based Activity Reporting Environment (AWARE) implementation was completed. Rehabilitation implemented procedures designed to assist caseworkers in managing and meeting eligibility determination deadlines. Rehabilitation emphasized the importance of manually tracking eligibility timelines and extensions. Counselors and Managers were oriented to the most effective tools available. With post-implementation AWARE enhancements, Counselors and Rehabilitation Supervisors receive automated "Activity Due" reminder notices in the system 20 days before the expiration of the 60 days allowed for eligibility determination. The AWARE system contains ad hoc and managed layout reporting features that allow easily attainable reports produced by each user, facilitating increased monitoring at the local level.
Auditors' Comment:	We reported a similar finding in the 2012 audit. Please refer to reference 12-24.

Reference Number:	2011-7-1
Federal Program:	84.010 84.287 84.365 84.367
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2005–06
Audit Finding:	Level of Effort – Maintenance of Effort. Education continues to lack sufficient policies and procedures to ensure compliance with maintenance of effort (MOE) requirements. Specifically, Education uses unaudited local education agency (LEA) expenditure figures to calculate compliance with the MOE requirements instead of using the final audited expenditures.
Status of Corrective Action:	Partially Corrected. Education is awaiting the U.S. Department of Education's determination on its most recent MOE corrective action plan.

Auditors' Comment:	This finding is fully corrected. Although Education plans to take additional actions to strengthen its processes, the actions it has taken sufficiently addressed the prior year finding.

Reference Number:	2011-7-2
Federal Program:	84.048
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2010–11
Audit Finding:	Level of Effort – Maintenance of Effort. Education lacks adequate internal controls over record retention to ensure student count used to determine its 2010-11 maintenance of effort (MOE) is supported.
Status of Corrective Action:	Partially Corrected. All documentation for determining MOE will be organized and stored both electronically and hard copy. All electronic documents will be clearly identified and stored in one folder on the unit's shared drive. Additionally, all documents will be printed and stored in an organized and labeled binder.
Auditors' Comment:	We reported a similar finding in the 2012 audit. Please refer to reference 12-22.

Reference Number:	2011-7-5
Federal Program:	84.027 84.173
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2010-11
Audit Finding:	Level of Effort – Maintenance of Effort. Education lacks procedures to monitor compliance throughout the grant period to ensure maintenance of effort (MOE) requirements are being met and to determine whether it needs to apply for a waiver if those requirements are not met. The state's MOE expenditures for its 2008-09 federal fiscal year grants were $8,231,743 less than its 2007-08 federal fiscal year grants, which could result in reduction of federal funding in any following fiscal year by $8,231,743.
Status of Corrective Action:	Partially Corrected. As part of the 2012-13 budget process, the Legislature passed Senate Bill (SB) 1016 (Chapter 38, Statutes of 2012) on June 27, 2012. Section 90 of SB 1016 allocated in Schedule (1) of Item 6110-161-0001 of Section 2.00 of the Budget Act of 2011, $12,133,000 to fully fund the 2008-09 MOE in the special education program.
Auditors' Comment:	We reported a similar finding in the 2012 audit. Please refer to reference 12-21.

Reference Number:	2011-12-2
Federal Program:	84.388
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2010-11
Audit Finding:	Reporting. Education lacks adequate subrecipient monitoring procedures to ensure accuracy of data in Section 1512 reporting to conform with the Office of Management and Budget memorandum M-09-21. Specifically, Education's fourth quarter Section 1512 reporting reflected $67,540,741 being passed-through to subrecipients from inception to June 30, 2011, which represents 19 percent of Education's total Recovery Act award.
Status of Corrective Action:	Partially Corrected. Education's Fiscal Monitoring Unit (FMU) reviews selected local educational agencies' (LEA) reporting of Section 1512 data. Although not specific to the school improvement grant (SIG), the FMU assesses the accuracy of an LEA's compliance with Section 1512 reporting requirements. The implementation of on-site monitoring of SIG funds commenced in December 2011 through Education's federal program monitoring process.
Auditors' Comment:	We reported a similar finding in the 2012 audit. Please refer to reference 12-25.

Reference Number:	2011-12-3
Federal Program:	84.126 84.390
State Administering Department:	Department of Rehabilitation (Rehabilitation)
Fiscal Year Initially Reported:	2010-11
Audit Finding:	Reporting. Rehabilitation did not submit four of five required financial reports on a timely basis. Although Rehabilitation was proactive in notifying the federal contact of the delay, it did not receive a waiver/extension on the required report submittals.
Status of Corrective Action:	Partially Corrected. Rehabilitation reviewed its federal reporting staff assignments to ensure financial reports are submitted in a timely manner. Rehabilitation dedicated one full-time Associate Accounting Analyst and one part-time Senior Accounting Officer (Specialist) to federal reporting. Rehabilitation completed revisions to past federal reports required by a Rehabilitation Services Administration Program Review. This delayed the timely submission of current year reports. Rehabilitation expects to be fully compliant in this area by the end of 2012-13.

Auditors' Comment:	This finding is fully corrected. Although Rehabilitation plans to take additional actions to strengthen its processes, the actions it has taken sufficiently addressed the prior year finding.

Reference Number:	2011-13-7
Federal Program:	84.010 84.389 84.365 84.394 84.410
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2005-06
Audit Finding:	Subrecipient Monitoring. Education lacks adequate monitoring procedures to ensure local educational agencies (LEAs) promptly implement proposed corrective actions on deficiencies noted during monitoring reviews. Of the 45 reviews tested, 5 had an unresolved status for more than 225 days. In addition, four of those five LEAs had either not submitted their corrective actions or submitted insufficient corrective actions for all deficiencies noted during the review.
Status of Corrective Action:	Partially Corrected. The new functionalities were implemented in the California Accountability and Improvement System in December 2011. Training for Education staff occurred in November 2011. Since July 2011, the Federal Programming Monitoring Office continues to send monthly updates on the resolution of findings to program managers and began posting the report to Education's Intranet in January 2012.
Auditors' Comment:	We reported a similar finding in the 2012 audit for CFDA Nos. 84.010 and 84.389. Please refer to reference 12-19.

Reference Number:	2011-13-8
Federal Program:	84.010 84.389 84.011 84.048 84.287 84.365 84.367 84.394 84.410
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2010-11

Audit Finding:

Subrecipient Monitoring. The current change controls over WestEd Tracker (Tracker) system used by the Federal Program Monitoring (FPM) give rise to a higher risk of noncompliance with established FPM Protocols and therefore, to Education's ability to properly monitor subrecipients in accordance with federal regulations. The FPM uses the Program Monitoring module on Tracker, referred to as CAIS (California Accountability and Improvement System), to facilitate federal and state program monitoring. The controls over application change management were assessed as there have been multiple changes to the program code since its implementation during the 2009-10. Education does not have a contract or service level agreement with WestEd over the management of Tracker. Education also has little say in how Tracker is managed or what functionality it has or will have. Further, Education is not generally aware of changes or updates to the application that are being considered or developed by WestEd.

Status of Corrective Action:

Fully Corrected. In December 2011, Education requested WestEd to conduct a Service Organization Review on their management controls over Tracker. The CAIS Technical Advisory Group began meeting in December 2011. During the April 2012 CAIS Technical Advisory Group meeting, the agenda included a discussion of the development of a department-wide enhancement list for CAIS. A representative from the Technology Services Division at Education serves as a member of the CAIS Steering Committee. This person continues to assist with technical issues related to CAIS.

The CAIS Steering Committee received additional information from WestEd related to pending changes and updates to Tracker. The CAIS Technical Assistance Group is proactively engaged with WestEd on upcoming releases by WestEd. In addition to the information technology presence on the CAIS Steering Committee, there is also a representative from the Technology Services Division on the CAIS Technical Assistance Group. This team member provides input on best practices and is assisting with the development of a department-wide enhancement (change request) document. The designated points of contact within WestEd and Education continue to meet monthly to discuss these ongoing issues. In fall of 2011, Education engaged with the Arizona Department of Education to assist with the development of best practices related to enhancements to Tracker. The CAIS Technical Advisory Committee continues to discuss these matters with the Steering Committee and WestEd staff.

Reference Number: 2011-13-9

Federal Program: 84.048

State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2009-10
Audit Finding:	Subrecipient Monitoring. Education has not implemented monitoring procedures to ensure subrecipient and vendor relationships are properly identified and all subrecipients are included in subaward monitoring activities. Specifically, Education added a monitoring clause to interagency contracts with the Board of Governors of the California Community Colleges (CCC). However, it has not yet begun monitoring the CCC's use of the program funds.
Status of Corrective Action:	Fully Corrected. Education has enhanced its policies and procedures by adding a monitoring clause to its interagency contracts with the CCC. CCC submits a narrative report of activities for each invoice which is reviewed by Education's contract monitor who contacts CCC if additional information and/or clarification are needed.

Reference Number:	2011-13-10
Federal Program:	84.377 84.388
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2010-11
Audit Finding:	Subrecipient Monitoring. Education did not design or implement a subrecipient monitoring process for the School Improvement Grant (SIG) program. Specifically, Education does not monitor subrecipients for their use of program funds through site visits, limited scope audits, or other means to ensure subrecipients administer federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements; and that performance goals are achieved.
Status of Corrective Action:	Partially Corrected. Education's monitoring process for SIG subgrantees includes fiscal and programmatic monitoring. As part of the Cohort 1 (FY 2009) year one monitoring process, and to inform the decision for renewal of year two funding, Education staff has conducted conference calls with each of the 41 local educational agencies (LEAs) funded. Each call averaged 90–120 minutes initially with some follow-up calls. Any LEA that had not fully implemented a required component of the SIG was required to complete and submit to Education a "corrective plan" addressing specific areas that have not been fully implemented, timeline and evidence of full implementation, and resolution to any fiscal concerns identified by Education staff.

As a result of a follow-up conference call with the U.S. Department of Education where additional clarification was provided about the increased learning time requirement for the Turnaround and Transformation models, a secondary rigorous review was completed during the summer of 2011. Education staff reviewed applications submitted by all 41 Cohort I LEAs. A thorough review of the implementation charts and budget documents was completed to ensure activities fully address and increase the three areas discussed in the guidance (core, enrichment, and teacher collaboration) and are available to all students. Areas of concern identified, such as lack of clarity, inappropriate activities, and budget concerns, were documented on a summary sheet for each LEA/school, and follow-up calls are being conducted with those districts to develop a corrective plan or revision to the application as appropriate.

On-site monitoring of SIG subgrantees has been occurring since December 2011. Education has conducted on-site monitoring of approximately one-half of SIG Cohort 1 LEAs during the 2011–12 school year and anticipates monitoring the other one-half in the 2012–13 school year. Education staff conducted a minimum of one site visit, over the three-year grant period, to SIG-funded LEAs and schools in order to verify implementation. LEAs are required to upload evidence of compliance with grant requirements in the California Accountability and Improvement System (CAIS). Documents that have been uploaded in the CAIS are reviewed by Education staff prior to the on-site visit. The monitoring visit includes interviews with LEA staff, school staff, students (for grades 6–12), and parents. In addition, LEA and school plans and financial documents are reviewed by Education staff to ensure proper management of SIG funds.

Education staff specifically request the following fiscal items: a report of expenditures of SIG funds to date for LEA and schools that indicate major object and sub codes for the 3180 and 3181 resource codes; job descriptions and duty statements for all LEA- and school-level employees funded with SIG and a personnel list for the whole LEA that indicates position, title, resource code, and location; time-accounting records; personnel activity reports for all SIG funded employees; and a description of its process for ensuring district-level activities are directed toward SIG schools.

Auditors' Comment: We reported a similar finding in the 2012 audit. Please refer to reference 12-26.

Reference Number: 2011-14-5

Federal Program: 84.388

State Administering Department: Department of Education (Education)

Fiscal Year Initially Reported:	2010-11
Audit Finding:	Special Tests and Provisions. Education is not identifying and documenting the federal award number to each of its subrecipients at the time of subaward. In addition, at the time of disbursement of Recovery Act funds, Education is not informing subrecipients of the federal award number, Catalog of Federal Domestic Assistance (CFDA) number, and amount of Recovery Act funds.
Status of Corrective Action:	Fully Corrected. Effective September 2011, Education revised its AO-400 grant award form and instructions to ensure conformance with the requirements set forth in 2 CFR, Section 176.210, including the identification of the federal award numbers, CFDA numbers, and the amount of Recovery Act funds. The U.S. Department of Education found Education's internal controls of tracking grant award allocations separately, and the reporting of Recovery Act 1512 data using its Standardized Account Code Structure resource codes adequate to avoid confusion when accounting between Recovery Act and regular funds. In addition, effective June 2012, Education provides School Improvement Grant Recovery Act subrecipients with the federal award number and CFDA number in its payment schedule at the time of disbursement.

Reference Number:	2011-14-7
Federal Program:	84.391 84.392
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2009-10
Audit Finding:	Special Tests and Provisions. Education did not identify and document the federal award number to each of its Recovery Act subrecipients at the time of subaward. In addition, Education did not take action to subsequently notify existing subrecipients of the required information.
Status of Corrective Action:	Fully Corrected. Given the fact all Individuals with Disabilities Education Act Part B Recovery Act funds have already been distributed, the U.S. Department of Education's program determination letter found no compelling reason to require Education to make further changes to its Grant Award Notification in order to comply with Recovery Act reporting requirements under this program.

Reference Number:	2011-7-8
Federal Program:	93.959

State Administering Department:	Department of Alcohol and Drug Programs (ADP)
Fiscal Year Initially Reported:	2010-11
Audit Finding:	Level of Effort – Maintenance of Effort. ADP did not maintain the required level of aggregate state expenditures in 2010-2011. Specifically, ADP reported a maintenance of effort (MOE) shortfall of $37,426,500 based on an MOE level calculated as the average expenditures from 2008-09 and 2009-10. ADP submitted the waiver request in October 2011 and the U.S. Department of Health and Human Services Substance Abuse and Mental Health Services Administration (SAMHSA) has 120 days to make a waiver determination.
Status of Corrective Action:	Fully corrected. As a result of the budget shortfall, and in compliance with federal regulations, ADP submitted an MOE waiver request, for reason of extraordinary economic conditions, to SAMHSA on October 18, 2011. ADP would like to emphasize that they have no direct control over the state's budgetary process or the reduction of ADP's state general fund annual allocations. SAMHSA approved ADP's MOE waiver request in the amount of $37,426,500, for reason of extraordinary economic conditions on June 26, 2012. ADP's inability to maintain the required level of aggregate state expenditures for the MOE in 2010-11 was a direct result of the previous year's budget reductions due to the elimination of Proposition 36 funding and the previous year's MOE waiver. This is an example of how an MOE shortfall and waiver in a previous year can impact future years' MOE calculation.

Reference Number:	2011-13-5
Federal Program:	93.575 93.596 93.713
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Subrecipient Monitoring. A sample of support for the follow-up by the Federal Program Monitoring Unit (FPM) was reviewed to ensure corrective action on deficiencies noted during FPM's reviews of local educational agencies (LEAs). One LEA was delinquent in submitting its Proposed Resolution of Findings on Noncompliance (PRFN); however, there was no communication from Education to the LEA regarding the delinquency of its PRFN. Also, two LEAs had unresolved deficiencies beyond the allowed period. Delayed resolution of outstanding monitoring deficiencies appears to be due to a combination of delayed follow-up and ineffective sanctions imposed by Education on the LEAs for belated implementation of corrective action plans.

Status of Corrective Action:	Fully Corrected. The new functionalities were implemented in the California Accountability and Improvement System in December 2011. Training for Education staff occurred in November 2011. Since July 2011, the FPM continues to send monthly updates on the resolution of findings to program managers and in January 2012, began posting the report to Education's Intranet.
Auditors' Comment:	We reported a similar finding in the 2012 audit for CDFA Nos. 93.575 and 93.596. Please refer to reference 12-19.

Reference Number:	2011-13-6
Federal Program:	93.575 93.596 93.713
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2010-11
Audit Finding:	Subrecipient Monitoring. The current change controls over WestEd Tracker (Tracker) system used by the Federal Program Monitoring (FPM) give rise to a higher risk of noncompliance with established FPM Protocols and therefore, to Education's ability to properly monitor subrecipients in accordance with federal regulations. The FPM uses the Program Monitoring module on Tracker, referred to as CAIS (California Accountability and Improvement System), to facilitate federal and State program monitoring. The controls over application change management were assessed as there have been multiple changes to the program code since its implementation during the fiscal year ended June 30, 2010. Education does not have a contract or service level agreement with WestEd over the management of Tracker. Education also has little say in how Tracker is managed or what functionality it has or will have. Further, Education is not generally aware of changes or updates to the application being considered or developed by WestEd.
Status of Corrective Action:	Fully Corrected. In December 2011, Education requested WestEd to conduct a service organization review on their management controls over Tracker. The CAIS Technical Advisory Group began meeting in December 2011. During the April 2012 CAIS Technical Advisory Group meeting, the agenda included a discussion of the development of a department-wide enhancement list for CAIS. A representative from the Technology Services Division at Education serves as a member of the CAIS Steering Committee. This person continues to assist with technical issues related to CAIS.

The CAIS Steering Committee received additional information from WestEd related to pending changes and updates to Tracker. The CAIS Technical Assistance Group is proactively engaged with WestEd on upcoming releases by WestEd. In addition to the information technology presence on the CAIS Steering Committee, there is also a representative from the Technology Services Division on the CAIS Technical Assistance Group. This team member provides input on best practices and assists with the development of a department-wide enhancement (change request) document. The designated points of contact within WestEd and Education continue to meet monthly to discuss these ongoing issues. In Fall of 2011, Education engaged with the Arizona Department of Education to assist with the development of best practices related to enhancements to Tracker. The CAIS Technical Advisory Committee continues to discuss these matters with the Steering Committee and WestEd staff.

Reference Number:	2011-14-4
Federal Program:	93.713
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2009-10
Audit Finding:	Special Tests and Provisions. Education is not identifying and documenting the federal award number to each of its subrecipients at the time of subaward. In addition, at the time of disbursement of Recovery Act funds, Education is not informing subrecipients of the federal award number, Catalog of Federal Domestic Assistance number, and amount of Recovery Act funds.
Status of Corrective Action:	Fully Corrected. Education does not disagree with this finding. However, given the fact all Recovery Act funds for this program have already been distributed, it would not be cost beneficial to make changes to its Recovery Act direct service agreements and standard agreements.

Reference Number:	2011-4-1
Federal Program:	14.258
State Administering Department:	Office of the State Treasurer (Treasurer)
Fiscal Year Initially Reported:	2010-11
Audit Finding:	Davis-Bacon. The Treasurer needs to revise its current practice to require certified payrolls be submitted to them on a weekly basis per the Davis-Bacon requirement.

Status of Corrective Action: Fully Corrected. The Tax Credit Allocation Committee (TCAC) was awarded the Tax Credit Assistance Program (TCAP) grant in July 2009 through the American Recovery and Reinvestment Act of 2009. TCAP funds are subject to Davis-Bacon federal prevailing wage requirements. To ensure proper oversight and monitoring of the prevailing wage requirements, TCAC entered into a contract with an outside firm with expertise in Davis-Bacon laws. TCAC developed and discussed the monitoring and oversight strategy for Davis-Bacon prevailing wage compliance with the Department of Housing and Urban Development (HUD). HUD agreed the monitoring strategy was acceptable. TCAC required each project owner to maintain copies of the weekly certified payroll reports for three years. However, TCAC did not require each owner to send copies of the payroll to TCAC weekly. TCAC agrees the reports should have been collected weekly from the project owners and maintained copies of the reports for three years. TCAC revised its practice and collected the payroll reports on a weekly basis. TCAC awarded 52 TCAP loans, of which 49 were subject to Davis-Bacon laws. As of November 2011, all required payrolls were collected by TCAC. TCAC will keep the payroll reports on file for a period of three years.

Response to the Audit – Department of Finance

EDMUND G. BROWN JR. • GOVERNOR
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March 25, 2013

KPMG LLP
500 Capitol Mall, Suite 2100
Sacramento, CA 95814

Ladies and Gentlemen:

Thank you for the opportunity to respond to the federal compliance audit report for the fiscal year ended June 30, 2012. This report was the result of your examination of the state's administration of federal programs for the fiscal year ended June 30, 2012, and will be part of the Single Audit Report covering this period. We accept the reported findings and recommendations and recognize the compliance findings resulted in 24 unqualified opinions and 10 qualified findings for the 34 major programs audited. We also recognize there are areas where internal controls and administration of federal awards need to be improved.

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. Moreover, such operations must exist within a system of internal and administrative controls 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 (Finance) leadership.

In meeting our responsibility for financial leadership and oversight, Finance provides education and training to departments as well as oversight of departmental internal audit units by issuing audit guidelines and conducting quality assurance reviews. Further, we have an ongoing process of issuing statewide policy and providing technical advice to departments on various issues. The results of the fiscal year 2011-12 Single Audit will be disseminated to all departments and Finance will remind departments of their responsibility for implementing corrective action plans. The state is committed to sound and effective fiscal oversight.

The head of each state department is responsible for establishing and maintaining a system of internal accounting and administrative controls within their department. This responsibility includes documenting the system, communicating system requirements to employees, and assuring the system is functioning as prescribed and is modified for changing conditions.

Moreover, all levels of state management must be involved in assessing and strengthening their systems of internal accounting and administrative controls to minimize fraud, errors, abuse, and waste of government funds. The Financial Integrity and State Manager's Accountability Act (FISMA) requires each department to conduct an internal review of its controls and report the results. Finance will continue to provide education and guidance to assist departments in meeting the FISMA requirements.

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Individual departments have separately responded to the 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.

Finance is committed to ensuring proper financial operations and business practices of the state, as well as ensuring internal controls exist for the safeguarding and effective use of assets and resources. We will take the findings into consideration during the performance of audit work in those departments that received a qualified opinion on a major program.

If you have any questions concerning this letter, please contact David Botelho, Chief, Office of State Audits and Evaluations, at (916) 322-2985.

Sincerely,

ANA J. MATOSANTOS
Director

cc: Members of the Legislature
Office of the Lieutenant Governor
Little Hoover Commission
Department of Finance
Attorney General
State Controller
State Treasurer
Legislative Analyst
Senate Office of Research
California Research Bureau
Capitol Press