

California State Auditor

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

State of California:

**Internal Control and State and
Federal Compliance Audit Report
for the Year Ended June 30, 1997**



June 1998
97002

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CALIFORNIA STATE AUDITOR

KURT R. SJOBERG
STATE AUDITOR

MARIANNE P. EVASHENK
CHIEF DEPUTY STATE AUDITOR

June 30, 1998

97002

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 the California Government Code, Section 8542 et seq., the Bureau of State Audits presents its audit report concerning our review of the State of California's internal controls and compliance with state and federal laws and regulations for the year ended June 30, 1997. This report concludes that the State continues to experience certain problems in accounting and administrative practices that affect its internal control system over financial reporting and over compliance with federal requirements. Furthermore, these problems result in noncompliance with some state and federal regulations. Although these weaknesses are not individually significant, they have a cumulative effect on the accuracy of reported financial information and on the efficiency, effectiveness, and propriety of the State's operations.

Respectfully submitted,

KURT R. SJOBERG
State Auditor

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Summary

The State continues to experience certain problems in accounting and administrative practices that affect its internal control system over financial reporting and over compliance with federal requirements. Furthermore, these problems result in noncompliance with some state and federal regulations. Although these weaknesses are not individually significant, they have a cumulative effect on the accuracy of reported financial information and on the efficiency, effectiveness, and propriety of the State's operations.

Status of Year 2000 Compliance

Currently the State is not yet Year 2000 compliant and is rushing to ensure that over 2,700 of its computer systems recognize the year 2000. Many hardware and software applications cannot properly recognize the year 2000 because they were programmed to identify a year using two digits, such as 98, to represent 1998, rather than using a four-digit field. Therefore, when the calendar reaches January 1, 2000, these systems may produce nonsensical results or fail to operate because they will read the date 00 as 1900 rather than 2000. The governor issued an executive order requiring all state agencies to make Year 2000 solutions a priority and to identify and fix Year 2000 problems in their essential computer systems no later than December 31, 1998. However, according to the April 1998 Quarterly Report issued by the Department of Information Technology regarding the State's Year 2000 progress, state agencies have reported fixing only 176 of the 787 systems identified as "mission critical".

Compliance and Internal Control Issues Applicable to the Financial Statements

Inadequacies in various departments' compliance with state requirements and internal controls resulted in miscellaneous problems which affect financial statement amounts. Specifically, we found:

- The State did not ensure that the Statewide Real Property Inventory incorporated all real property transactions as recorded in state agency accounting records.
- The Department of General Services did not account for all its telecommunications microwave fixed asset equipment in its 1996-97 financial statements.
- The State Controller's Office and the Department of Finance do not ensure that departments reconcile fund balance differences before issuing reports on the budgetary basis fund balances.

***Compliance and Internal Control Issues of
General Concern Related to Federal Grant Requirements***

We found issues of general concern in the State's internal controls and compliance with federal requirements for major programs. For example, weaknesses exist in the State's compliance with federal requirements and internal controls regarding cash management, cost allocation and subrecipient monitoring for federal grant programs administered by many departments. We noted the following specific conditions:

Cash Management

The State did not always comply with federal regulations for the Cash Management Improvement Act. As a result, for certain federal programs governed by default procedures, the State understated the interest it owed to the federal government by approximately \$388,500.

Cost Allocation

Many departments did not fully comply with the federal requirements to certify or document personal service costs, such as salaries and benefits, charged to the federal grant programs that they administer. For example, several of the departments that we reviewed failed to require or correctly use personal activity reports, such as certified time sheets, for those employees who worked on multiple projects. These departments allocated at least some personal service costs based on budget estimates rather than on actual time worked.

Subrecipient Monitoring

The State does not always adequately monitor audit reports submitted by certain subrecipients of federal grant moneys. These subrecipients include cities, community college districts, special districts, and nonprofit organizations. The State also does not ensure that nonprofit subrecipients and community college districts promptly resolve instances of noncompliance with federal regulations addressed in the audit reports.

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

We found weaknesses in several state departments regarding their compliance with federal requirements and internal controls in the administration of individual federal programs. We noted the following specific conditions under the related federal departments:

***U.S. Department of Housing
and Urban Development***

The State's Department of Housing and Community Development's (HCD) system of internal administrative controls is not sufficient to assure that the fiscal information the HCD reports to the federal Department of Housing and Urban Development is complete, accurate and adequately supported. For example, some of the supporting documentation

for the Community Development Block Grant program's fiscal data contained mathematical errors, which resulted in HCD understating the amount of total funds leveraged from other sources by \$7.2 million. In addition, it understated the total utilization of small and minority-owned businesses by \$2.8 million. Similarly, for the Home Investment Partnerships Program, the HCD overstated the amount of other matching funds by \$5 million and overstated the amount of other funds leveraged from other sources by \$30.5 million.

U.S. Department of Justice

The State's Office of Criminal Justice Planning (OCJP) did not comply with the federal period of availability requirements for its 1994 and 1995 Byrne Formula Grants. Specifically, the OCJP spent \$28,600 of 1994 grant funds and \$329,000 of 1995 grant funds after those funds should have reverted to the U.S. Department of Justice. In addition, the OCJP did not maintain accurate accounting records, nor did it properly track and report its financial activities related to several of its Byrne Formula Grants. For example, for one of its final financial status reports, the OCJP reported expenditures totaling \$258,000 that it did not spend.

U.S. Department of Education

The State's Department of Education (CDE) may have inappropriately used federal funds for the Special Education—Grants to States program. Specifically, it used these funds to pay approximately \$810,000 of costs associated with the CDE's administration of state, rather than federal, special education funds by its Education Finance Division. Although the CDE contends that using federal funds for this purpose is allowable, we believe the law does not authorize the State to use federal funds in this manner.

The State's California Student Aid Commission (CSAC) did not have a system to provide adequate oversight of the activities of its auxiliary organization during the period from the creation of its auxiliary organization on January 2, 1997, through June 30, 1997. Specifically, the CSAC did not retain sufficient staff to adequately protect the Federal Family Education Loan funds entrusted to it and paid invoices submitted by the auxiliary organization without reviewing them for propriety. The CSAC paid over \$4.8 million to the auxiliary organization for invoices that were unsupported. The auxiliary organization, not the CSAC, detected and corrected the error months later.

U.S. Department of Health and Human Services

The State's Department of Community Services and Development (DCSD) does not have a system to track its expenditures and encumbrances for the Low-Income Home Energy Assistance program (LIHEAP) to determine funds available for carry-over from one fiscal year to the subsequent fiscal year. Although the department asserts that it has had spreadsheets to determine the amount of carry-over, the spreadsheets the department refers to are not specifically related to calculating the amount of carry-over for a particular LIHEAP grant year.

***Corporation for National
and Community Service***

The State's California Conservation Corps (CCC) did not have adequate controls over subgrantee activities. For example, it did not always review the invoices from a subgrantee under the AmeriCorps program. Furthermore, the CCC made payments on invoices that were based on estimates and were not supported by documentation. Amended invoices, prepared at our request, disclosed an overpayment of \$14,000. In addition, the CCC did not sufficiently monitor its subgrantees' fiscal activities, resulting in inaccurate financial status reports for the AmeriCorps program.

Introduction

As part of our examination of the general purpose financial statements of the State of California and the State's administration of federal grants for the fiscal year ended June 30, 1997, we evaluated the State's internal controls. This evaluation was necessary for the following three reasons:

- To express an opinion on the State's general purpose financial statements, on compliance with requirements applicable to each major program, and on the Schedule of Federal Assistance.
- To determine compliance with federal grant requirements, laws, and regulations and the effect of noncompliance on the general purpose financial statements.
- To determine compliance with state laws and regulations that affect the general purpose financial statements.

During our audit, we reviewed fiscal controls at various state agencies and selected items from numerous departments for centralized testing of important transaction cycles. For example, we selected and tested a sample of payroll warrants the State processed through its payroll system and a sample of other warrants the State processed through its claims payments system.

We reviewed the compliance of these agencies with state laws and regulations that materially affect the State's financial statements. These laws and regulations help to ensure that the State maintains sufficient control over the budgeting, investing, collecting, and disbursing of state money and accurately reports the results of its financial activities.

Finally, we reviewed the State's compliance with federal regulations for all high-risk federal grants exceeding \$38.38 million. We also reviewed 8 grants between \$7.7 million and \$38.38 million. Of the approximately 350 federal grants the State administers, we reviewed 42. We excluded federal grants administered by the California State University and the University of California because other independent auditors review them.

The specific scope of our audit is stated in the following reports that the federal Office of Management and Budget, Circular A-133, requires the State to issue each year.

- The report on compliance and internal controls that affect the general purpose financial statements (begins on page 7).
- The report on compliance with requirements for each major federal program and on internal control over compliance in accordance with the federal Office of Management and Budget, Circular A-133 (begins on page 9).

- The report on the accuracy of the supplementary schedule of federal assistance (begins on page 133).

Between July 1, 1996, and December 31, 1997, the Bureau of State Audits issued 64 individual audit reports, many of which discussed needed improvements in the State's operations. These reports are listed in Appendix A and are available to the public through the Bureau of State Audits.

Status of the State's Solutions for the Year 2000 Computer Problems

The new millenium is fast approaching, and the State has not yet ensured more than 2,700 of its computer systems will recognize the year 2000. Specifically, many of the State's computer hardware and software applications identify a year as two digits, such as 98, to represent 1998, rather than as four digits. When the calendar reaches January 1, 2000, these systems, like many of those worldwide, may produce nonsensical data or fail to operate because the computers will read the date 00 as 1900 rather than 2000. Unless the State identifies, corrects, and tests the computer systems susceptible to this problem by December 31, 1999, the effects on California's operations and financial reporting could range from minor errors to catastrophic system failures. The State's failure to address adequately the Year 2000 problem could result in multiple problems for Californians, ranging from malfunctioning traffic lights to erroneous tax notices for California's taxpayers to interruptions in assistance payments for families with dependent children.

The Department of Information Technology (DOIT) is responsible for planning and overseeing the State's efforts to fix its computer systems. Because of the magnitude of the problem, the governor issued an executive order in October 1997 requiring all state agencies to make Year 2000 solutions a priority and to identify and fix Year 2000 problems in their essential computer systems no later than December 31, 1998.

According to the April 1998 Quarterly Report issued by the DOIT (quarterly report) on California's Year 2000 progress, state agencies reported fixing only 176 (or 22 percent) of the 787 systems or projects identified as "mission critical," defined by the State Administrative Manual as those with applications so important to the State that the failure or unavailability of the applications is unacceptable. Such critical applications include those for which even the short-term interruption of information would have significant negative consequences on the health and safety of the public, the fiscal or legal integrity of state operations, or the continuation of essential agency programs. DOIT's quarterly report also indicated that more than 42 percent of the remaining 611 critical systems that state agencies reported on are not scheduled to be completed until the last quarter of 1998, with an additional 57, or 7 percent, of the systems scheduled for completion after the December 31, 1998, deadline established by the governor.

Moreover, until now most agencies have been reporting and focusing on the routine information technology (IT) systems used by their departments. The State is significantly deficient in addressing non-routine IT areas. For example, most state agencies are just now beginning to inventory and focus on Year 2000 problems associated with embedded technology, which involves the use of "chips" or microprocessors to control or operate equipment. Some examples of systems using embedded technology include telecommunications, traffic control, security systems, elevators, and medical equipment. According to the quarterly report, the process of determining which of the State's systems have this Year 2000 problem and replacing the date-sensitive chips is a major technical and management challenge.

Desktop computing and the State's dependence on linked databases pose additional risks to California's state agencies as the year 2000 approaches. For example, many state agencies rely heavily on personal computers connected to other mainframe systems, local area networks, and software that relate one computer application to other applications. However, if any one of these components fails to recognize the year 2000, use of the integrated systems could slow or fail altogether. Also, most state agencies share and rely on information gathered from local entities, other states, and federal data exchange partners. For instance, through INTERPOL, state law enforcement agencies exchange electronic data containing dates among systems belonging to different state and local agencies, other states, the federal government, and the governments of other countries. Such exchanges of data containing dates has the potential to undermine California's efforts to comply with the governor's executive order. Unless *all* entities sharing data fix their systems by the year 2000, a single agency's or entity's system could prevent the exchange of data throughout the integrated system and even cause linked systems to "crash."

While it is unlikely that the state government can take actions to compensate for all Year 2000 issues potentially impacting Californians, we believe the situation warrants diligent attention. As a result, the California State Auditor will continue to monitor departmental progress and will issue periodic reports.

**Independent Auditor's Reports on
Compliance and Internal Control**

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CALIFORNIA STATE AUDITOR

KURT R. SJOBERG
STATE AUDITOR

MARIANNE P. EVASHENK
CHIEF DEPUTY STATE AUDITOR

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

The Governor and Legislature of
the State of California

We have audited the general purpose financial statements of the State of California as of and for the year ended June 30, 1997, and have issued our report thereon dated November 21, 1997. These general purpose financial statements are the responsibility of management of the State of California. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the pension trust funds, which reflect total assets constituting 86 percent of the fiduciary funds. We also did not audit the financial statements of certain enterprise funds, which reflect total assets and revenues, constituting 89 percent and 90 percent, respectively, of the enterprise funds. In addition, we did not audit the University of California funds. Finally, we did not audit the financial statements of certain component unit authorities, which reflect total assets and revenues, constituting 97 percent and 93 percent, respectively, of the component unit authorities. The financial statements of the pension trust funds, certain enterprise funds, the University of California funds, and certain component unit authorities referred to above were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these funds and entities, is based solely upon the reports of the other auditors. We conducted our audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States and generally accepted auditing standards.

Compliance

As part of obtaining reasonable assurance about whether the State of California's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of California's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State of California's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 97-19-1, 97-19-2, and 97-19-3.

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

This report is intended for the information of the governor and Legislature of the State of California and the management of the executive branch. However, this report is a matter of public record and its distribution is not limited.

BUREAU OF STATE AUDITS



PHILIP J. JELICICH, CPA
Deputy State Auditor

Date: November 21, 1997



CALIFORNIA STATE AUDITOR

KURT R. SJOBERG
STATE AUDITOR

MARIANNE P. EVASHENK
CHIEF DEPUTY STATE AUDITOR

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

The Governor and Legislature of
the State of California

Compliance

We have audited the compliance of the State of California with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 1997. The State of California's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State of California's management. Our responsibility is to express an opinion on the State of California's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; 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, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 on the State of California's compliance with those requirements.

In our opinion, the State of California complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 1997. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs. See the attachment for a list of these issues.

Internal Control Over Compliance

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

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended for the information of the governor and Legislature of the State of California and the management of the executive branch. However, this report is a matter of public record and its distribution is not limited.

BUREAU OF STATE AUDITS



PHILIP J. JELICICH, CPA
Deputy State Auditor

April 15, 1998

Attachment

ATTACHMENT

The compliance issues are:

97-1-1	97-12-1
97-1-2	97-12-2
97-1-3	97-12-4
97-2-2	97-13-1
97-2-3	97-13-3
97-3-1	97-13-4
97-3-2	97-13-5
97-5-1	97-13-6
97-7-2	97-14-1
97-7-3	97-14-2
97-7-4	97-14-4
97-7-5	97-14-6
97-8-2	97-14-7

The internal control over compliance issues are:

97-2-1	97-13-4
97-7-1	97-13-6
97-8-1	97-14-3
97-12-3	97-14-5
97-13-2	

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Schedule of Findings and Questioned Costs

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**State of California
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 1997**

Summary of Auditor's Results

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Reportable conditions identified that are not considered to be material weaknesses?	Yes
Type of report the auditor issued on compliance for major programs:	Unqualified
Type of report the auditor issued on the Schedule of Federal Assistance:	Qualified
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:	\$38.38 million
Auditee qualified as low-risk auditee?	No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
10.550	Food Distribution
10.551/10.561	Food Stamps Cluster
10.557	Special Supplemental Food Program for Women, Infants and Children
10.558	Child and Adult Care Food Program
10.570	Nutrition Program for the Elderly (Commodities)
14.228	Community Development Block Grants/State's Program
14.239	Home Investment Partnerships Program
16.572	State Criminal Alien Assistance Program
16.575	Crime Victim Assistance
16.576	Crime Victim Compensation
16.579	Byrne Formula Grant Program
17.225	Unemployment Insurance
17.246	Employment and Training Assistance—Dislocated Workers
17.250	Job Training Partnership Act
20.205	Highway Planning and Construction
83.516	Disaster Assistance
84.010	Title I Grants to Local Educational Agencies
84.027	Special Education—Grants to States
84.032	Federal Family Education Loans
84.048	Vocational Education—Basic Grants to States
84.126	Rehabilitation Services—Vocational Rehabilitation Grants to States
84.186	Safe and Drug Free Schools and Communities—State Grants
84.276	Goals 2000—State and Local Education Systemic Improvement Grants
93.044	Special Programs for the Aging—Title III, Part B—Grants for Supportive Services and Senior Centers
93.045	Special Programs for the Aging—Title III, Part C—Nutrition Services
93.268	Childhood Immunization Grants
93.558	Temporary Assistance for Needy Families
93.560	Family Support Payments to States—Assistance Payments
93.561	Job Opportunities and Basic Skills Training
93.563	Child Support Enforcement
93.566	Refugee and Entrant Assistance—State Administered Programs
93.568	Low-Income Home Energy Assistance
93.569	Community Services Block Grant
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund
93.658	Foster Care—Title IV-E
93.659	Adoption Assistance
93.667	Social Services Block Grant
93.775/93.777/	
93.778	Medical Assistance Program Cluster
93.917	HIV Care Formula Grants
93.959	Block Grants for Prevention and Treatment of Substance Abuse
93.994	Maternal and Child Health Services Block Grant to the States
94.006	AmeriCorps

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

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Various State Departments

Reference Number: 97-19-1

Condition

During fiscal year 1996-97, the State had inadequate procedures to ensure that the Department of General Services' (DGS) Statewide Real Property Inventory incorporated all real property transactions as recorded in state agency accounting records. Specifically, state agencies were not required to reconcile the amount reported in the Statewide Real Property Inventory to the amount reported in their Statement of Changes in General Fixed Assets. Unless the agencies reconcile the cost information in the two documents, the State may not maintain a complete and accurate inventory of all its real property, and the amounts reported in the State's financial statements may not agree with the Statewide Real Property Inventory.

Criteria

The California Government Code, Section 11011.15, requires the DGS to maintain a complete and accurate inventory of all real property held by the State. It also requires each agency to furnish the DGS with a record of each parcel of real property that it possesses and to update its real property holdings by July 1 each year. Further, the State Administrative Manual, Sections 7977 and 8660, requires agencies to report all additions and improvements to real property funded by governmental resources.

Recommendation

Because of the need for accurate financial information, the State should require agencies to reconcile their real property inventory to their annual Statement of General Fixed Assets.

Department's View and Corrective Action Plan

We have previously reported this issue, and the Department of Finance stated that it would consider the feasibility of requiring departments to reconcile the amounts reported in the Statewide Real Property Inventory with their Statement of General Fixed Assets. The Department of Finance considered the feasibility of this idea and issued Audit Memo 98-01 in November 1997, requiring state agencies to prepare corrective action plans for identified internal control weaknesses. This memo also included the specific requirement for agencies to reconcile their real property inventory as reported on their Statement of General Fixed Assets to the amount reported to the DGS on the Statewide Real Property Inventory. The Department of Finance states that it continues to receive and review agency corrective action plans and will evaluate needed changes in the year-end reporting process as appropriate.

Department of General Services

Reference Number: 97-19-2

Condition

The Department of General Services (department) did not account for all its telecommunications microwave fixed asset equipment in its 1996-97 financial statements. Specifically, the department's Office of Fiscal Services (OFS) omitted approximately \$1.4 million of microwave equipment.

The department's OFS accounts for telecommunications microwave fixed assets in its Asset Administrator database system and reports them in the Service Revolving Fund's (SRF) capital asset account for financial statement purposes. The Division of Telecommunications maintains a separate management database for internal management decisions. In our review of telecommunications microwave fixed assets, we noted differences between the Division of Telecommunications' database and the capital asset account of the SRF.

Specifically, we found that the department reported approximately \$1.2 million in microwave fixed assets that it purchased between August 1995 and April 1997 as expenditures on the operating statements for those years rather than capitalizing them as assets on the balance sheet as required. According to the department, the omissions occurred because the Division of Telecommunications or OFS staff miscoded several items on the original purchase orders as expendable equipment. As a result, staff also miscoded the payments and did not record the items as capitalized assets. In addition, the department inadvertently excluded approximately \$200,000 in microwave fixed assets when, in 1995, it converted its method of tracking microwave equipment from recording the assets as components of each microwave tower to recording individual items with a value greater than \$5,000. After we brought this matter to its attention, the department adjusted its fiscal year 1997-98 accounting records to reflect the \$1.4 million of equipment that it previously omitted.

Criteria

The California Government Code, Sections 13401 and 13403, requires agencies to maintain an effective system of internal control, which includes accurate recordkeeping procedures for assets, liabilities, revenues, and expenditures.

Recommendation

The department should ensure that it appropriately records all microwave fixed assets in its accounting records.

Department's View and Corrective Action Plan

The department agrees with the finding and provided the following comments. In May 1998, the department implemented a formal memorandum of understanding between the OFS and the Division of Telecommunications. This memorandum clarifies the requirements for capitalizing fixed asset equipment, includes procedures for reporting when items should begin depreciating, and discusses the timing for conducting inventories. The memorandum lays out a plan to complete an annual inventory of items located in the warehouse and an inventory

on a rotating three-year cycle of equipment placed in service. In addition, the memorandum requires that the department complete an annual reconciliation between OFS' financial records and those of the Division of Telecommunications.

Finally, the department recently contracted with a firm to implement a new financial system database program that is expected to be ready for use on July 1, 1998. The new database program will include a function that will alert accounting personnel if items that should be capitalized as fixed assets are miscoded as expendable equipment.

**State Controller's Office
Department of Finance**

Reference Number: 97-19-3

Condition

The State Controller's Office (SCO) and Department of Finance (DOF) report on the State's budgetary basis financial condition using inconsistent amounts that result in different fund balances for many of the State's funds. This occurs because neither the SCO nor the DOF identifies these differences and ensures that departments reconcile them before reporting on the State's financial condition and budget, respectively. According to information the SCO provided to the DOF, fund balance discrepancies exceeded \$100,000 for fiscal year 1996-97 in each of 119 separate funds that remained unreconciled as of February 1998. The table below provides a breakdown of these discrepancies.

**Schedule of Fund Balance Discrepancies
Between SCO and DOF**

Number of Funds	Dollar Range of Differences
10	More than \$25 million
6	\$15 million to \$25 million
17	\$ 5 million to \$15 million
30	\$ 1 million to \$ 5 million
56	\$100,000 to \$ 1 million
Total	119

Financial decision makers receive conflicting information about the State's true financial condition because of the differences in fund balances. For example, because the DOF's records are used in the State's budgeting process, the inability to adequately account for the differences may impair the integrity of the State's budget.

The SCO believes that a major factor causing these differences is that a lack of communication exists between agency accounting staff, who submit financial reports to the SCO, and budget staff, who submit budget reports to the DOF. In addition, the DOF believes that each

individual agency, rather than the SCO or DOF, is responsible for reconciling any differences in fund balances. While we agree that individual agencies bear some responsibility for providing accurate financial information, the SCO and DOF have overall responsibility for reporting on the State's financial condition and budget, respectively.

Criteria

The California Government Code, Section 13403, discusses the importance of a satisfactory system of internal accounting and administrative controls to reasonably ensure the accuracy of accounting data. In addition, the State Administrative Manual, Section 7900, discusses the importance of preparing regular reconciliations.

Recommendation

Because of the need for accurate and consistent financial information, the SCO and DOF should ensure that departments reconcile fund balance differences before issuing reports of the budgetary basis fund balances. For example, the SCO and DOF could require agencies to certify that budgetary information they submit to the DOF agrees with financial information submitted to the SCO.

Department's View and Corrective Action Plan

We reported this issue in previous years. For the General Fund, the DOF works closely with the SCO to reconcile differences between its budget documents and the SCO's financial reports. Typically, departments prepare DOF fund condition and SCO financial statements for special funds and are, therefore, responsible for reconciling any SCO/DOF differences. However, the DOF has instructed departments to reconcile major differences, identified by the SCO, prior to submission of their 1997-98 financial statements. Reconciled differences must be reported to the DOF budget analyst and the SCO. This requirement was communicated to departments via e-mail, CALSTARS News, and the SCO year-end training.

**Compliance and Internal Control Issues
of General Concern Related to
Federal Grant Requirements**

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Cost Allocation

Recipients of grant moneys, including state departments, must ensure that the costs they incur meet federal grant objectives. Circular A-87 Revised, a publication of the federal Office of Management and Budget, itemizes types of costs grant recipients can charge to federal grants and outlines the acceptable methods for demonstrating the propriety of those costs. Circular A-87 specifically guides recipients on the cost of providing services funded by grants and on allocating costs that indirectly benefit grant recipients. In the following section, we discuss instances of noncompliance with Circular A-87 found during our audit.

Noncompliance With Requirements to Certify or Document Personal Service Costs

Reference Number: 97-2-3

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

Criteria

In our review of the federal programs, we determined that the following were among the compliance requirements related to cost allocation:

The federal Office of Management and Budget (OMB), Circular A-87 Revised, Attachment B, Section 11.h(4), requires salaries and wages charged to a federal grant for employees working on multiple cost objectives or programs to be supported by documentation such as personal activity reports. Additionally, Section 11.h(5), states, among other things, personal activity reports must reflect an after-the-fact distribution of the actual activity of each employee, must account for the total activity of each employee, and must be signed by the employee. Section 11.h(3), states employees working solely on one project, or their supervisors, must periodically certify their charges for salaries. The certifications will be prepared at least semiannually. Finally, Section 11.h(5)(e), states that prior budget estimates or other distribution percentages do not qualify as support for charges to a federal grant.

Condition

Many departments do not fully comply with federal requirements to certify or document personal service costs, such as salaries and benefits, charged to the federal grant programs they administer. These requirements became effective for all grants awarded after September 1, 1995. In our reviews of the cost allocation system at 17 departments, we found instances in which the departments failed to keep or correctly use personal activity reports for employees working on multiple programs. For employees who work exclusively on one program, some departments also failed to obtain the required semiannual certifications. Without such documentation, the likelihood of under- or over-charges to federal grants increases. We have the following specific concerns:

- Employees of 10 of the 17 departments worked on a single program or award and charged the related personal service costs to grants awarded after September 1, 1995. The departments should have prepared periodic certifications to support these personal service costs. However, two departments, the Department of Health Services and the Department of Rehabilitation, did not prepare the certifications.

In addition, while the Department of Aging began preparing certifications as of October 1, 1996, for employees who worked solely on one federal program, these certifications did not correspond to the personal service costs actually charged in the accounting system. Specifically, for the period October 1, 1996, through December 31, 1996, the department continued to charge these employees' time according to its cost-allocation plan, which allocated personal service costs to 18 other accounting codes based on budget estimates. Consequently, there is inadequate supporting documentation for the personal service costs charged to those programs.

- Employees from 12 of the 17 departments worked on multiple activities after September 1, 1995. However, 8 of the 12 departments failed to require or correctly use personal activity reports, such as certified time sheets, for these employees. Specifically, the departments allocated at least some personal service costs to activities based on budget estimates rather than on actual time worked. These departments included the Departments of Aging, Alcohol and Drug Programs, Education, Health Services, Mental Health; the Employment Development Department; the Office of Criminal Justice Planning; and the California Community Colleges, Chancellor's Office.

Recommendation

Each grant recipient should establish an adequate time reporting system that uses activity reports or certifications to document and account for the total activity of each employee. Further, the departments should use the activity reports as the basis for allocating personnel costs to each project/grant.

Departments' Views and Corrective Action Plans

Department of Aging

The department agrees with our finding that it failed to require or use personal activity reports for employees who worked on multiple federal programs during fiscal year 1996-97. Commencing October 1, 1997, the department required monthly time sheets for employees.

In addition, the department acknowledges that, even though it certified certain employees working on single federal programs from October 1, 1996 to June 30, 1997, it continued to allocate time to federal programs based on budget estimates. At year end, the department corrected the allocations to reflect actual time for the period January 1, 1997 to June 30, 1997.

Department of Health Services

The department agrees with our finding that it does not prepare certifications for employees who work 100 percent on a single federal program. Semiannual certification of time spent by employees working on a single federal program was instituted in January 1998.

In addition, although the department believes that its managers are responsible for verification of position funding and adjustments to budgets and accounting records, it does not dispute our finding that it allocated time to federal programs based on budget estimates. During fiscal year 1997-98, the department instructed staff working on multiple federal and state projects to prepare time sheets and their program units to forward the funding percentages to the labor distribution unit. However, the department stated that, while some programs have implemented a time reporting system, more time is needed to develop a reporting system that meets federal and state requirements. Finally, it plans to request of the federal cognizant agency approval for substitute systems of allocating personal service costs to some programs.

Department of Alcohol and Drug Programs

The department agrees with our finding. For fiscal year 1997-98, it instituted a process to ensure that employees prepare and submit time records for input into the automated payroll cost distribution system. Further, the department stated that it will remind employees of the need to record on their time sheets the actual time worked and the correct federal program charge codes.

Office of Criminal Justice Planning

The department does not contest our finding. However, because of its lack of resources, it has not been able to effectively track employee time reporting. For fiscal year 1998-99 the department requested budget authority for additional staff resources to develop more effective budgetary oversight.

California Community Colleges, Chancellor's Office

The Chancellor's Office agrees with our finding. For fiscal year 1997-98 the Chancellor's Office developed its vocational education budget based on actual time worked by employees in 1996-97. Furthermore, the Chancellor's Office plans to require that time sheets be submitted monthly and analyzed semi-annually. Significant discrepancies between actual time worked and the percentage of time allocated to a federal program will be adjusted accordingly.

California Department of Education

The department stated that personal time charges are supported by signed and approved time sheets. Furthermore, the department requires all staff to charge actual time worked on federal programs. Finally, the department stated that employees of its Agricultural Education Unit will ensure that they record actual time worked on their time sheets for all time worked on federal programs.

Department of Rehabilitation

The department stated it implemented a monthly certification process in December 1997 for employees working on a single federal award. Notwithstanding its compliance with OMB Circular A-87, the department argues that the intent of the circular is not served by the creation of such a system when 99 percent of the department's employees work on a single federal award.

Department of Mental Health

The department agrees with the finding and has implemented procedures to correct this weakness effective during fiscal year 1997-98. Specifically, in March 1998, the department notified all supervisors of the requirements necessary to properly report employees' time. The department's accounting staff will also ensure that time sheets are being maintained and the data reflected is accurate.

Employment Development Department

The department agrees with our finding. The department's Fiscal Programs Division will work with the Audits and Evaluations Division and the Legal Office to develop corrective action to ensure personal service costs are accurately charged to federal programs.

Department of Agriculture

Federal Catalog Number:	10.557
Federal Program Title:	Special Supplemental Food Program for Women, Infants, and Children
Federal Award Number and Calendar Year Awarded:	7W1005; 1996
State Administering Department:	Department of Health Services

Department of Labor

Federal Catalog Number:	17.250
Federal Program Title:	Job Training Partnership Act
Federal Award Number and Calendar Year Awarded:	A58336008750; 1996
State Administering Department:	Employment Development Department

Department of Justice

Federal Catalog Number: 16.579
Federal Program Title: Byrne Formula Grant (Formerly the Drug Control and Systems Improvement Block Grant)
Federal Award Number and Calendar Year Awarded: 96-BD-MU-0006, 1996
State Administering Department: Office of Criminal Justice Planning

Department of Education

Federal Catalog Number: 84.048
Federal Program Title: Vocational Education—Basic Grants to States
Federal Award Number and Calendar Year Awarded: V048A60005; 1996
State Administering Department: Department of Education
California Community Colleges,
Chancellor’s Office

Federal Catalog Number: 84.126
Federal Program Title: Rehabilitation Services—Vocational Rehabilitation Grants to States
Federal Award Number and Calendar Year Awarded: H126A70005; 1996
State Administering Department: Department of Rehabilitation

Federal Catalog Number: 84.186
Federal Program Title: Safe and Drug Free Schools and Communities—State Grant
Federal Award Number and Calendar Year Awarded: S186A60136; 1996
State Administering Department: Department of Alcohol and Drug Programs

Department of Health and Human Services

Federal Catalog Number: 93.044

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

Federal Award Number and
Calendar Year Awarded: 01AACA1320; 1996

State Administering Department: Department of Aging

Federal Catalog Number: 93.045

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

Federal Award Number and
Calendar Year Awarded: 01AACA1712; 1996

State Administering Department: Department of Aging

Federal Catalog Number: 93.268

Federal Program Title: Childhood Immunization Grants

Federal Award Number and
Calendar Year Awarded: H23/CCH904423-07; 1996

State Administering Department: Department of Health Services

Federal Catalog Number: 93.566

Federal Program Title: Refugee and Entrant Assistance—State
Administered Programs

Federal Award Numbers and
Calendar Year Awarded: G97AACA9100;1996
G97AACA9110;1996

State Administering Department: Department of Health Services

Federal Catalog Number: 93.777
Federal Program Title: State Survey and Certification of Health Care
Providers and Supplies
Federal Award Number and
Calendar Year Awarded: 059705CA5000; 1996
State Administering Department: Department of Health Services

Federal Catalog Number: 93.778
Federal Program Title: Medical Assistance Program
Federal Award Number and
Calendar Year Awarded: 05-9705CA5028; 1996
State Administering Department: Department of Health Services
Department of Mental Health

Federal Catalog Number: 93.917
Federal Program Title: HIV Care Formula Grants
Federal Award Number and
Calendar Year Awarded: BRX 070041-96-1; 1996
State Administering Department: Department of Health Services

Federal Catalog Number: 93.959
Federal Program Title: Block Grants for Prevention
and Treatment of Substance Abuse
Federal Award Number and
Calendar Year Awarded: 97B1CASAPT-04; 1996
State Administering Department: Department of Alcohol and Drug Programs

Federal Catalog Number: 93.994

Federal Program Title: Maternal and Child Health Services Block Grant
to the States

Federal Award Number and
Calendar Year Awarded: 97B1CAMCHS-01; 1996

State Administering Department: Department of Health Services

Cash Management

The federal government enacted the Cash Management Improvement Act (CMIA) of 1990 to ensure greater efficiency, effectiveness, and equity in the exchange of funds between the federal government and the states. The CMIA requires the calculation of a liability due to the federal government for interest charges when states request and receive federal funds in advance of disbursement to vendors, subrecipients, or program participants. Similarly, in instances in which the states incur costs for federal programs before receiving federal reimbursements, the CMIA allows the states to calculate interest charges due from the federal government. To implement the CMIA, the federal government prescribed regulations for the transfer of funds for federal programs between the federal government and the states. The regulations differentiate between the requirements for most federal programs for which the State receives more than \$20 million annually and those for other federal programs.

The CMIA requires the federal government to enter into an agreement with the State that covers applicable federal programs and establishes the procedures and requirements for the transfer of funds. The procedures require the State to calculate federal and state interest liabilities for each applicable program and to report these interest liabilities to the federal government annually.

However, since fiscal year 1994-95, the State and the federal government have been unable to agree on all of the procedures to implement the requirements of the CMIA. Therefore, in lieu of an agreement, in 1994 the federal government issued the CMIA Default Procedures (default procedures), which it amended in 1995 and 1997, for the State to follow in implementing the CMIA. The default procedures assigned to the Department of Finance (DOF) the responsibility for implementing the procedures for tracking and calculating the state and federal interest liabilities for the federal programs affected by the CMIA. This responsibility includes reporting in the CMIA Annual Report the interest liability to the federal government.

For federal programs that are not subject to an agreement or the default procedures, the regulations require only that the State ensure that both the timing of a request for a cash advance and the amount requested come as close as administratively feasible to the actual cash disbursements.

We have identified the following issues related to the CMIA.

Noncompliance With Federal Regulations or Default Procedures

Department of the Treasury

Reference Number:	97-3-1
Federal Catalog Number:	Refer to Table 1
Federal Program Title:	Refer to Table 1
Federal Award Number and Calendar Year Awarded:	Various
State Administering Department:	Department of Finance

Criteria

During our review, we determined that the following requirements relate to compliance with the federal default procedures:

The Code of Federal Regulations, Title 31, Section 205.14(b)(1), does not allow the State to be reimbursed for the direct costs of implementing the Cash Management Improvement Act (CMIA) when the State does not have an agreement with the United States Department of the Treasury.

The Code of Federal Regulations, Title 31, Section 205.15(a)(2), requires that the annual report submitted by the State include the state interest liability for each program subject to the regulations. The CMIA Default Procedures, Sections 7.2.1 and 7.6.1, established requirements for calculating federal and state interest liabilities, respectively. Further, the CMIA Default Procedures, Section 7.2.2(c) and Section 7.6.2(c), provide the methods for calculating these liabilities.

These default procedures require that the time between when the State issues warrants to recipients and when the bank clears the warrants be determined by the clearance patterns specified in the default procedures. Exhibit A of the default procedures lists by program the average days to clearance that the State must use for calculating state and federal interest liabilities.

Condition

The State could not or did not always comply with the federal regulations or the default procedures required by the federal government when implementing the CMIA for fiscal year 1996-97. As a result, the interest liability the State calculated and reported to the federal government for the fiscal year 1996-97 CMIA was understated by a net amount of approximately \$388,500.

Table 1 identifies the instances in which the State's noncompliance with the federal regulations or default procedures had an effect on the interest liability calculated and reported to the federal government. We also describe these instances of noncompliance below:

- The Department of Finance (DOF) understated the State's interest liability because the DOF did not include in the annual report approximately \$477,200 of state interest liability it calculated for federal funds advanced to the State for payroll expenditures. The DOF required departments to track and report the advance payroll expenditure information, and the DOF calculated the resulting state interest liability as required by the default procedures. However, the DOF believes it is not equitable to include such information in the annual report because the State cannot efficiently and effectively calculate the federal interest liability to the State when the State uses its own funds to cover payroll and operating costs for applicable federal programs. Specifically, the departments do not track payroll and operating expenditures initially paid by the State and later reimbursed by the federal government. Therefore, the DOF did not include these expenditures in the interest liability calculation. The DOF believes that if the State could track and calculate the interest liability resulting from these payroll and operating expenditures, the federal government would owe the State for interest liabilities. Additionally, in fiscal year 1994-95, we conducted a review of the DOF's State Administrative Cost Study related to federal programs subject to the CMIA. Our review confirmed the DOF's conclusion that

the amount of interest due from the federal government would exceed interest the State owes the federal government for federally funded state administrative costs. We reported a similar finding for our audit of fiscal year 1995-96.

- The DOF overstated the State's interest liability due to the federal government for local assistance, payroll expenditures, and refunds by approximately \$281,500, \$24,500, and \$9,400, respectively, because the State used clearance patterns in the calculations that did not comply with the default procedures. The clearance patterns represent the average number of days from warrant issuance to redemption. For local assistance, payroll expenditures, and refunds the State used clearance patterns that generally required more days than those specified in the default procedures. We reported a similar finding for our audit of fiscal year 1995-96.
- The DOF understated the State's interest liability due to the federal government by approximately \$62,700 for other errors we identified. For the Community Development Block Grant and the Block Grant for Prevention and Treatment of Substance Abuse, the DOF did not use the correct amount of transferred funds in its calculation. For the Home Investment Partnerships Programs the DOF did not use in the calculation the correct number of days the federal funds were in the state treasury before a warrant was issued. In addition, for 2 of the 15 programs we audited, we found errors in the information that departments reported to the DOF. Specifically, we found that one department omitted eight transfers of funds for the Vocational Education—Basic Grants to States and another department did not correctly report for the Disaster Assistance program the refunds of local assistance funding.
- The State understated its interest liability by \$164,000 because it offset the liability by the direct cost of implementing the CMIA even though the offset is not allowed when the State does not have an agreement with the U. S. Department of the Treasury. We reported a similar finding for our audit of fiscal year 1995-96.

Table 1

**Interest Liability Effect of the State's Noncompliance with
Federal Cash Management Regulations and Procedures**

Federal Catalog Number	Program Name	Overstated (Understated)						Direct Cost of Implementing the CMIA	Total
		Incorrect Clearance Patterns				Refunds	Other		
		Omission of Advanced Payroll Liability	Advance Payroll	Local Assistance					
10.557	Special Supplemental Nutrition Program for Women, Infants and Children			\$ 10,922				\$ 10,922	
10.558	Child and Adult Care Food Program			(49,441)				(49,441)	
17.207	Employment Services	\$ (60,765)	\$ 3,534	-				(57,231)	
17.225	Unemployment Insurance	(261,622)	15,214					(246,408)	
83.516	Disaster Assistance			123,837		\$ (3,570)		120,267	
84.002	Adult Education—State Administrative Basic Grant			38,151				38,151	
84.010	Chapter I Program—Local Educational Agencies			(151,890)				(151,890)	
84.011	Migrant Education—Basic State Grant Program			12,505				12,505	
84.027	Special Education—Grants to States			(158,273)				(158,273)	
84.048	Vocational Education—Basic Grants to States			62,298		(1,960)		60,338	
93.045	Special Programs for the Aging— Title III-C			(13,649)		(312)		(13,961)	
93.560	Family Support Payments to States Assistance Payments	(4,012)	206	105,677				101,871	
93.561	Job Opportunity and Basic Skill Training	(449)	22	(43,945)		(1,288)		(45,660)	
93.563	Child Support Enforcement	(3,404)	187	15,711				12,494	
93.575	Payment to States for Day Care Assistance			40,264				40,264	
93.658	Foster Care—Title IV-E	(7,850)	420	22,776				15,346	
93.778	Medical Assistance Program			266,060				266,060	
93.959	Block Grants for Prevention and Treatment of Substance Abuse	(7,300)	596	(17,862)		(27,410)		(51,976)	
96.001	Social Security—Disability Insurance	(94,884)	5,017					(89,867)	
	Direct cost of implementing the CMIA						\$(164,000)	(164,000)	
	Other Programs	(36,914)	(696)	18,359	\$9,400	(28,160)		(38,011)	
		\$(477,200)	\$24,500	\$281,500	\$9,400	\$(62,700)	\$(164,000)	\$(388,500)	

In addition, we identified the following instances in which the State's noncompliance with the federal regulations or default procedures had an effect on the interest liability calculated and the amounts remitted to the federal government:

- The State changed its method for billing the federal government for its 1995-96 direct costs of implementing the CMIA and did not communicate this change to all affected departments. As a result, the State may have billed the federal government twice for a portion of the State's direct cost of implementing the CMIA in 1995-96. Specifically, the State may have offset its interest liability to the federal government by \$57,397 for its direct cost of implementing the CMIA in 1995-96. In addition, the State included these amounts in its 1996-97 Statewide Cost Allocation Plan (SWCAP).
- The State did not remit its interest liability to the federal government for fiscal years 1995-96 and 1996-97 in the amounts of \$11,185,637 and \$9,442,663, respectively, because it offset those liabilities by an estimated federal interest liability for the State Criminal Alien Assistance Program (SCAAP). As a result, the State may be in violation of its funding agreement with the federal government, which could jeopardize the State's receipt of future federal funding. Specifically, the DOF did not submit payment because it believes paying interest it owes the federal government would not be equitable when the federal government will not reimburse the State for lost interest when the State uses its own funds to cover local assistance and operating costs for the SCAAP. However, because the State did not include the SCAAP in the 1995-96 CMIA agreement and the 1996-97 agreement was not approved, the federal government declined the State's claim for interest on funding.

Recommendation

The State should correct errors that affect the interest liability reported in the annual report. In addition, the State should continue to discuss with the federal government the areas of disagreement in the transfer of funds between the State and the federal government.

Department's View and Corrective Action Plan

The chief of the DOF's Fiscal Systems and Consulting Unit stated that, during fiscal year 1996-97, the DOF continued to negotiate with the federal government about various outstanding issues. The major issues, such as state administrative costs, funding techniques for specific programs, and allowable direct costs, remain unresolved. In addition, the chief stated that, although the U. S. Treasury, Financial Management Services (FMS) incorporated certain provisions from the State's proposed 1996-97 Treasury—State Agreement in amendments to the default procedures, the amended default procedures contained some errors and omissions.

The DOF had the following specific comments:

- As it did in fiscal year 1995-96, the DOF commented that the payment of state interest liability for payroll funds requested in advance and federal interest liability for payroll and operating expenses requested in arrears is one of the outstanding issues still being negotiated with the federal government. Based on a DOF study that was reviewed and reported on in April 1995 by the Bureau of State Audits (BSA), the federal interest liability would exceed the state interest liability by a small amount. Thus, in DOF's opinion, the administrative difficulties for state agencies to track the cash and calculate the federal interest liability cannot be solved effectively. In April 1996, the U. S. General Accounting

Office (GAO) reviewed the BSA report. Although the DOF has received no information on the results of the GAO's review, the DOF believes the GAO will confirm the BSA's findings. If the U. S. Treasury accepts the BSA's findings and agrees to no exchange of interest for the state administrative costs, the State will not owe the federal government any interest for advance funding of payroll expenditures.

- The DOF also reiterated its position that it neither overstated nor understated the interest liability related to the use of different clearance patterns because the clearance patterns it used reflect more accurately the actual warrant redemption activities. The DOF revises the clearance patterns each year based on warrant redemption activities of the prior calendar year. As required by the Code of Federal Regulations, Title 31, Section 205.8(c), the DOF notified the federal government in June 1996 of the changes to the patterns. However, when the federal government amended the default procedures for fiscal year 1996-97, it omitted the most current clearance patterns the DOF provided. Thus, the DOF believes that, if the federal government had included the revised clearance patterns when it amended the default procedures, the findings would not have been made. For future revisions to the default procedures, the DOF will insist that the FMS include updated clearance patterns.
- The \$62,700 understated state interest liability that resulted from two departmental reporting errors and three DOF calculating errors represent a 0.6 percent error rate of the \$9.9 million net state interest liability reported in the 1996-97 annual report. The DOF will continue its ongoing effort to reduce reporting errors by analyzing the information reported by state agencies, providing ongoing consultation and training, and annually reminding state agencies of their responsibilities.
- The DOF also repeated its argument that the State is entitled to direct cost reimbursement even if the State does not have a signed Treasury—State Agreement. The state agencies and the DOF incur costs to track federal funds and to calculate the interest liability. Therefore, all costs associated with CMIA activities should be eligible for reimbursement as an offset against the State's interest liability. The DOF will continue to negotiate with the FMS the issue of direct cost reimbursement.
- The DOF agrees that the State changed its method for billing the federal government for its 1995-96 direct costs of implementing the CMIA. Furthermore, the DOF does not know if the individual state agencies that administer CMIA programs included CMIA costs in their indirect cost rate proposals (ICRP). While the DOF allows that this change may have resulted in an overcharge to the federal government, the DOF plans to investigate prior year billing and correct in the 1997-98 CMIA annual report for any excess amounts. Finally, the DOF will offset only those future direct costs of implementing CMIA not recovered through ICRPs.
- The DOF contends that, because the State advances its own funds for the cost of operating the State Criminal Alien Assistance Program (SCAAP) far ahead of the mandated reimbursement, the federal government incurs an interest liability to the State. The DOF agrees that the State did not include the SCAAP in its proposed 1995-96 Treasury—State Agreement. In addition, although the State did include the SCAAP in the 1996-97 Treasury—State Agreement, the federal government omitted the SCAAP from the revised default procedures. However, even though the SCAAP was not covered in the agreements,

the DOF believes interest payments to the State would be equitable. The DOF will continue to negotiate with the federal government the issue of reimbursement for the SCAAP.

Miscellaneous Federal Cash Management Issues

U. S. Department of the Treasury

Reference Number: 97-3-2

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

Criteria

In our review of federal regulations related to the CMIA, we identified these requirements for compliance with the default procedures:

The CMIA Default Procedures, sections 5.3.17, 5.3.18, 5.3.20, 5.3.22, 5.3.23, and 5.3.25, require that the “in advance of issuance” funding technique be used for payroll expenditures of the Migrant Education—Basic State Grant Program, Special Education—Grants to States program, Vocational Education—Basic Grants to States program, Chapter 2—State Block Grants program, Eisenhower Mathematics and Science Education—State Grants program, and the Safe and Drug-Free Schools and Communities—State Grants program.

The CMIA Default Procedures, Section 5.3.44, require states to draw funds weekly for Maternal and Child Health Services Block Grant to the States program expenditures and require that the requests be based on weekly estimates of expenditures.

Condition

The State did not always comply with the default procedures. Specifically, we noted the following:

- For payroll expenditures in six federal programs, the Department of Education (CDE) used funding techniques different from those required by the default procedures. The DOF proposed to the federal government for both fiscal years 1995-96 and 1996-97 that the CDE use the same funding technique for these six programs as that used by the State for similar programs. However, the federal government did not make the proposed revisions when it amended the default procedures. Nonetheless, the CDE used an after-cost allocation rather than the required advanced funding for the Migrant Education—Basic State Grant Program, Special Education—Grants to States program, Vocational Education—Basic Grants to States program, Chapter 2—State Block Grants program, Eisenhower Mathematics and Science Education—State Grants program, and the Safe and Drug-Free Schools and Communities—State Grants program.

We reported a similar finding in our audit of fiscal year 1995-96. At that time the DOF responded that the State’s proposed agreement with the federal government for fiscal year 1995-96 revised the funding technique for the payroll component of the six federal programs administered by the CDE. However, the federal government did not amend the default procedures for these funding technique changes. The DOF believes that the

after-cost allocation is the correct technique for the six programs. Between 1994-95 and 1995-96, the CDE's method for requesting federal funds for payroll did not change. The proposed revision to the agreement was to correct the funding technique description.

- According to the DOF, for the Maternal and Child Health Services Block Grant to the States program, the Department of Health Services (DHS) was unable to make the required weekly estimate of federal expenditures and the required request for the funds from the federal government in advance of the expenditures. These omissions occurred because the DHS was unable to obtain timely information from the State's accounting system to accommodate the requirements of the default procedures. Therefore, the State advanced its own funds to pay federal program expenditures for this program, and the federal government reimbursed the State. However, the State could not calculate an interest liability for the program even though it would have been fair for it to do so because it advanced its own funds.

We reported a similar finding in our audit of fiscal year 1995-96. At that time, the DOF responded that the funding technique for the Maternal and Child Health Services Block Grant to the States program is one of the outstanding issues that the State is still negotiating with the federal government. The primary area of disagreement is the State's use of a reimbursement funding technique. The DOF argues that the CMIA does not prohibit the use of a reimbursement funding technique. The CMIA indicates that, if a state disburses its own funds for federal program purposes, the State is entitled to interest from the federal government. However, the CMIA regulations contain a specific prohibition against the use of a reimbursement funding technique. The DOF believes that this prohibition is not equitable to the states and that the State should have the option not to calculate the federal interest liability for any reimbursable program or component due to lack of available information and the cost of calculating the liability.

Recommendation

The State should continue to discuss with the federal government the instances in which it cannot comply with the default procedures because the State's systems do not accommodate the requirements of the default procedures. In addition, the State should propose again that the federal government amend the default procedures for certain programs the Department of Education uses so that these procedures reflect the same funding techniques the State uses for other programs.

Department's View and Corrective Action Plan

The chief of the DOF's Fiscal Systems and Consulting Unit provided the DOF's perspectives on the findings:

The funding technique for the Maternal and Child Health Services Block Grant to the States program is one of the outstanding issues still being negotiated with the federal government. The primary area of disagreement continues to be the State's use of a reimbursement (after cost allocation) funding technique. For this program, the default procedures require that the DOF use the weekly draw funding technique. Because the program agency's processes for requesting and disbursing federal funds cannot accommodate this funding technique, the DOF believes the FMS should revise the CMIA regulations to allow the use of a reimbursement funding technique and avoid an unnecessary administrative burden to the State. In addition, the DOF reiterated its position that the State should have the option to not calculate the federal

interest liability for any reimbursable program or component due to lack of available information and the cost of calculating the liability. The DOF will continue to negotiate with the FMS this funding technique issue.

The State's proposed agreement with the federal government for fiscal year 1996-97 revised the funding technique for the payroll component of the six federal programs administered by the Department of Education. However, the federal government did not amend the default procedures for these funding technique changes. Because the DOF believes that the after-cost allocation is the correct technique for the six programs, the DOF will continue to negotiate with the FMS this funding technique issue.

Department of Education

Federal Catalog Number: 84.011
Federal Program Title: Migrant Education—Basic State Grant Program
Federal Award Number and
Calendar Year Awarded: S011A60005; 1996
State Administering Department: California Department of Education

Federal Catalog Number: 84.027
Federal Program Title: Special Education—Grants to States
Federal Award Number and
Calendar Year Awarded: H027A60116; 1996
State Administering Department: California Department of Education

Federal Catalog Number: 84.048
Federal Program Title: Vocational Education—Basic Grants to States
Federal Award Number and
Calendar Year Awarded: V048A60005; 1996
State Administering Department: California Department of Education

Federal Catalog Number: 84.151
Federal Program Title: Chapter 2—State Block Grants
Federal Award Number and
Calendar Year Awarded: S151Z50057; 1994
State Administering Department: California Department of Education

Federal Catalog Number: 84.164
Federal Program Title: Eisenhower Mathematics and Science Education—
State Grants
Federal Award Number and
Calendar Year Awarded: S164A40005; 1994
State Administering Department: California Department of Education

Federal Catalog Number: 84.186
Federal Program Title: Safe and Drug-Free Schools and Communities—
State Grants
Federal Award Number and
Calendar Year Awarded: S186A6005; 1996
State Administering Department: California Department of Education

Department of Health and Human Services

Federal Catalog Number: 93.994
Federal Program Title: Maternal and Child Health Services Block Grant
to the States
Federal Award Number and
Calendar Year Awarded: 97B1CAMCHS-01; 1996
State Administering Department: Department of Health Services

Identifying Program Expenditures

Reference Number: 97-12-4 All Programs
Category of Finding: Reporting Requirements
State Administering Department: Department of Finance

Criteria

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

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

Condition

Because of limitations in its automated accounting systems, the State has not complied with the provision of OMB Circular A-133 requiring a schedule showing total expenditures for each federal program. As a result, the schedule (beginning on page 135) shows total receipts, rather than expenditures, by program. Expenditure information is necessary to identify Type A programs. To ensure that we identified and audited all high risk Type A programs, we reviewed accrual basis expenditures, which are identified manually, for all programs that we did not already plan to audit and that had cash receipts within 10 percent of the Type A program threshold. We identified three such programs; however, our review of the expenditures for these programs verified that they did not exceed the Type A threshold and therefore did not require an audit.

Recommendation

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

Department's View and Corrective Action Plan

We have previously reported on the inadequacies of the State's financial reporting. The Department of Finance has responded that the State's accounting system will require substantial modification to meet all federal and state requirements, and it will address changes in relation to other priorities and costs.

Monitoring of Subrecipients

For many federal programs, the State acts as a pass-through entity to provide federal funds to various subrecipients, such as cities, counties, special districts, school and community college districts, and nonprofit entities. In this capacity, the State must ensure that subrecipients of more than \$25,000 in federal assistance are audited annually. The State must also ensure that subrecipients correct any lack of compliance with federal laws and regulations identified during the audits. The State Controller's Office monitors the annual audit reports of cities, counties, special districts, and school districts while the California Community Colleges, Chancellor's Office monitors those of the community college districts. The state agencies that administer the federal assistance for private, nonprofit agencies monitor those annual audit reports. We have identified issues related to the monitoring of the annual audit reports in each of these areas.

Monitoring of Nonprofit Subrecipients

Reference Number: 97-13-4

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

Criteria

In our review of federal programs, we found that the following were among the compliance requirements related to subrecipient monitoring:

For fiscal year 1995-96 audit reports due during fiscal year 1996-97, the federal Office of Management and Budget (OMB), Circular A-133, required nonprofit subrecipients receiving more than \$25,000 in federal assistance to submit audit reports to the State within 13 months of their fiscal year-end. For instances when subrecipients have failed to comply with federal laws and regulations, OMB Circular A-133 also requires the State to make a management decision regarding audit resolution within six months of receipt of the audit report and to proceed with corrective action as rapidly as possible.

Condition

The State did not always sufficiently monitor the fiscal year 1995-96 audit reports of nonprofit subrecipients, nor did it always ensure that a management decision regarding audit resolution was made within six months after it received the audit reports. Specifically:

- The Department of Aging did not receive the audit reports for two of four subrecipients we tested that received more than \$25,000 in federal assistance for its Special Programs. Additionally, we were not able to determine whether the two audit reports it did receive were obtained within the required time frame because it does not document when it receives the reports.

- The Office of Emergency Services (OES) did not have a system in place to identify nonprofit subrecipients receiving more than \$25,000 in federal assistance for the Disaster Assistance program. Further, the OES did not review the audit reports it received for compliance with the federal requirements. As a result, in at least one instance, it did not reach a management decision regarding resolution of reported audit findings within six months after it received the report.
- The Department of Health Services (DHS) did not have a system in place to monitor nonprofit subrecipients receiving more than \$25,000 in federal assistance for compliance with federal requirements for the HIV Care Formula Grants. For example, in fiscal year 1995-96, 15 subrecipients received federal funds exceeding \$25,000 from the DHS. However, only 3 of the subrecipients submitted the required audit reports.
- The State did not receive all audit reports from emergency feeding organizations receiving more than \$25,000 in federal funds, including commodities, for one of the federal programs receiving commodities under the Food Distribution program. Audit reports for fiscal year 1995-96 were due within 13 months of the subrecipients' fiscal year-ends. Although the California Department of Education was responsible for monitoring these emergency feeding organizations in fiscal year 1995-96, the monitoring responsibility was reassigned to the Department of Social Services in October 1996. However neither department ensured that these organizations submitted the required audit reports.

Without an effective system to identify the subrecipients who must submit audit reports to the appropriate state agency and ensure prompt resolution of audit findings, the State cannot ensure that all nonprofit subrecipients have submitted audit reports and that the nonprofit subrecipients are complying with federal laws and regulations.

Recommendation

The State should identify all nonprofit subrecipients required to submit an audit report. Also, the State should ensure that all audit reports are submitted on time and management decisions regarding the resolution of audit findings are made within six months.

Departments' Views and Corrective Action Plans

Department of Aging

The department agrees with our finding. To ensure proper documentation of the receipt of subrecipient audit reports, it will institute a tracking system. Further, the department will document its review of audit reports and any resolution of audit findings, and management decisions regarding such findings will be issued within the six months allowed by federal regulations.

Office of Emergency Services

The department agrees with our finding. For fiscal year 1997-98 it developed a ledger system to identify and track the amount of funds received by its subrecipients. Further, the department stated that it will commit adequate resources in fiscal year 1998-99 to ensure subrecipient audit reports are reviewed and any findings resolved.

Department of Health Services

The department agrees with our finding and indicated that it has established a process which meets the federal requirements. Specifically, in April 1997, the department notified all contractors of the audit requirements and the process by which audits would be completed and forwarded to department staff for review. In addition, the department established a position to review all program audits and facilitate compliance by subrecipients and has hired a technician to track and monitor subrecipient audits.

California Department of Education

The California Department of Education indicated that it is willing to work with the Department of Social Services to ensure the receipt and review of the required audit reports from emergency feeding organizations receiving more than \$25,000 in federal funds in 1995-96.

Department of Social Services

The department concurs with our recommendation. The department will contact, in writing, the emergency feeding organizations that have not submitted their audit reports and request that they send them to the department immediately. Additionally, the department will review the audit reports upon receipt. The department has also reviewed its fiscal year 1996-97 emergency feeding organization agreements and has identified those subrecipients which received at least \$300,000 in federal assistance. All affected agreements contain a single audit requirement. The department has established internal controls to signal staff when these audit reports are due. Finally, the department will ensure that pertinent findings are resolved within six months after it receives the reports.

Department of Health and Human Services

Federal Catalog Number:	93.044
Federal Program Title:	Special Programs for the Aging—Title III, Part B—Grants for Supportive Services and Senior Centers
Federal Award Number and Calendar Year Awarded:	01-96-AA-CA-1320; 1995
State Administering Department:	Department of Aging

Federal Catalog Number: 93.045
Federal Program Title: Special Programs for the Aging—Title III,
Part C—Nutrition Services
Federal Award Number and
Calendar Year Awarded: 01-96-AA-CA-1712; 1995
State Administering Department: Department of Aging

Federal Catalog Number: 93.917
Federal Program Title: HIV Care Formula Grants
Federal Award Number and
Calendar Year Awarded: BRX-070041-95-0; 1995
State Administering Department: Department of Health Services

Federal Emergency Management Agency

Federal Catalog Number: 83.516
Federal Program Title: Disaster Assistance
Federal Award Number and
Calendar Year Awarded: State Fiscal Year 1995-96
State Administering Department: Office of Emergency Services

Department of Agriculture

Federal Catalog Number: 10.550
Federal Program Title: Food Distribution
Federal Award Number and
Year Awarded: State Fiscal Year 1995-96
State Administering Department: California Department of Education
Department of Social Services

Monitoring of Community College Districts

Reference Number: 97-13-5

Federal Catalog Number: 84.048

Federal Program Title: Vocational Education-Basic Grants to States

Federal Award Number and
Calendar Year Awarded: V048A50005; 1995

State Administering Department: California Community Colleges,
Chancellor's Office

Criteria

In our review of federal programs, we found that the following compliance requirement relates to subrecipient monitoring:

The federal Office of Management and Budget (OMB), Circular A-128, Section 9(c), requires the California Community Colleges, Chancellor's Office (Chancellor's Office) to ensure that community college districts take corrective action within six months after the Chancellor's Office receives audit reports that contain findings of noncompliance with federal laws and regulations.

Condition

The Chancellor's Office did not sufficiently monitor the fiscal year 1995-96 audit reports of the State's 71 community college districts. Because the Chancellor's Office does not have a system to identify and resolve audit findings, it cannot ensure that it will be able to recover any questionable costs or take corrective action quickly. Our review of audit reports of 5 community college districts disclosed that the Chancellor's Office did not ensure that the districts resolved audit findings within six months after it received the audit reports. Findings identified in these five audit reports included inadequate records of time charged to specific programs for multifunded positions, insufficient procedures for safeguarding assets, claims for reimbursement that do not agree with accounting records, and expenditure of grant funds after the grant period.

We reported a similar finding for our audit for fiscal year 1995-96. At that time, the fiscal and business services administrator of the Chancellor's Office stated that, for its review of audit reports received in fiscal year 1996-97, the Chancellor's Office implemented a process to summarize and forward to the appropriate program unit for resolution the audit issues involving federal programs identified in the audit reports.

Recommendation

The Chancellor's Office should implement a system to ensure that appropriate corrective action is taken when failure to comply with federal regulations is identified in community college audits.

Department's View and Corrective Action Plan

The Chancellor's Office agrees with the finding and states that, for its review of the fiscal year 1996-97 audit reports, it implemented procedures to ensure resolution of audit findings. Under these procedures, the fiscal accountability unit reviews audit reports and sends findings to the appropriate program units at the Chancellor's Office for resolution. The program units contact the community districts, obtain corrective action plans, and report back to the Chancellor's Office' fiscal accountability unit.

Monitoring of City, County, and Special District Subrecipients

Reference Number: 97-13-6

The State Controller's Office (SCO) is responsible for monitoring the audit reports of local government subrecipients who receive federal funds from the State. Because the subrecipients may receive funding from one or more of the federal programs listed in the Schedule of Federal Assistance, we did not attempt to identify the individual programs that may be affected by the issue discussed below.

Criteria

In our review of federal programs, we found that the following compliance requirement relates to subrecipient monitoring:

The federal Office of Management and Budget (OMB), Circular A-128, Section 4(b), and the Federal Register, Volume 52, Number 219, require local governments receiving more than \$25,000 in federal assistance to submit audit reports to the State within 13 months of the local government's fiscal year-end.

Condition

The State did not always monitor sufficiently the audit reports of its local government subrecipients. As a result, the SCO could not determine which subrecipients were required to submit audit reports for fiscal year 1995-96. The SCO is responsible for monitoring the annual audit reports of cities, counties, and special districts that receive federal assistance through the State. During our review, we found that the SCO did not update its tracking system to identify additional special districts and incorporated cities (subrecipients) that the federal government required to submit audit reports for fiscal year 1995-96 nor did the SCO remove subrecipients that were not required to submit audit reports. For example, according to its tracking system, the SCO did not receive 130 required audit reports from subrecipients. However, because it did not update its tracking system, the SCO could not determine whether all 130 subrecipients were actually required to submit audit reports for fiscal year 1995-96 or whether additional subrecipients should have submitted audit reports. According to the SCO's Division of Audits, to maintain its tracking system adequately, state agencies must consistently notify the SCO of all subrecipients to which they disburse federal funds and indicate the amount each subrecipient receives. Although the SCO notified the subrecipients of their responsibility to submit audit reports in June 1997, it did not investigate the status of the 130 subrecipients who had not submitted audit reports until February 1998, seven months after 125 of these subrecipients should have submitted audit reports.

Recommendation

The State should identify all cities and special districts required to submit audit reports and ensure that these entities submit the reports on time. Also, the SCO should work with other state agencies to ensure that the data necessary to update its tracking system is provided routinely.

Department's View and Corrective Action Plan

The State Controller's Office (SCO) agrees with our finding. However, the SCO reiterates its position that, because state agencies do not provide the SCO with accurate and timely data concerning funding status of the subrecipients, it has no means of ensuring that the information in the tracking system is accurate and complete.

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

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U.S. Department of Agriculture

Reference Number:	97-5-1
Federal Catalog Number:	10.558
Federal Program Title:	Child and Adult Care Food Program
Federal Award Number and Calendar Year Awarded:	7N1020; 1996
Category of Finding:	Eligibility
State Administering Department:	California Department of Education

Criteria

In our review of the Child and Adult Care Food Program (food program), we determined that the following compliance requirements pertain to eligibility:

The Code of Federal Regulations, Title 7, Sections 226.6(d)(1) and (e), require the State's Department of Education (department) to establish procedures to ensure annually that institutions and facilities participating in the food program meet applicable licensing or approval requirements.

In addition, the federal agency issued All-Points-Bulletin No. CACFP-96-04 in November 1995 that provides federal policy for the revised application and renewal requirements for institutions participating in the food program. This policy provides that the department may establish such documentation procedures as will allow it to fulfill its responsibilities and, at the same time, create administrative efficiencies and limit administrative burden. The policy indicates that such procedures might include obtaining the license status of institutions directly from licensing agencies or maintaining a current computer checklist of licensed institutions in the State. The policy does not require the department to obtain annually a copy of the actual license.

Condition

We found that the department needs to improve its process for ensuring that institutions participating in the food program meet the applicable licensing or approval requirements. If it fails in this responsibility, the department cannot ensure that only eligible institutions participate in the food program. Specifically, the department could not demonstrate that it confirmed annually the license status of participating institutions.

According to the department, to complete the confirmation process, the department requires participating institutions to attest annually the validity of their licenses. Further, the department reviews a periodic listing of revoked licenses provided by the state licensing agency. The department stated it uses the listings to remove food program participants whose licenses have been revoked by the state licensing agency. However, the department indicated that it did not receive the listings for the 1996-97 fiscal year from the state licensing agency.

The department said that, although it did not receive a revocation listing during the 1996-97 fiscal year, it continued to confirm eligible licensed facilities through other means. According to the department, it obtained the annual attestation from participants of the validity of licensed facilities and it verified the eligibility of facilities during its annual audits and administrative reviews. In addition, sponsor agencies verified site licensure during the sponsor agencies' monitoring visits. The department stated that these three steps were its safeguard to ensure that facilities have valid and current licenses.

However, the annual attestations by participants and reviews by sponsors do not provide the department with an independent confirmation that the participating institutions are licensed. Further, the department does not conduct annual audits and administrative reviews of all participants; therefore, it does not confirm annually the license status of all participants in the food program. As a result, because the department could not demonstrate that it ensured all participating institutions met the applicable licensing or approval requirements during the 1996-97 fiscal year, it could not assure that only eligible institutions participated in the food program.

The department affirmed that it is reestablishing its receipt of revocation information from the state licensing agency. The department said it has met with the state licensing agency to arrange for access to the revocation data through an automated process that the department expects to test around June 1, 1998.

Recommendation

The department should continue its efforts to improve its process for ensuring that institutions or facilities participating in the food program meet the applicable licensing or approval requirements.

Department's View and Corrective Action Plan

The department stated that when the state licensing agency stopped providing lists of facilities whose licenses had been revoked, department staff implemented procedures to confirm the eligibility of licensed facilities. At the same time, the department continued to work with the state licensing agency to improve the flow of revocation information between the state licensing agency and the department. The department also said that it worked successfully to obtain the state licensing agency's approval to establish a direct electronic link to the state licensing agency's data bank. This link will enable department staff to directly access and retrieve state licensing agency data for facilities that have been closed. According to the department, the state licensing agency is making the necessary adjustments to its automated database to provide department staff access to the revocation information. The department expects the state licensing agency to make its adjustments and have the system operational as early as June 1, 1998.

U.S. Department of Housing and Urban Development

Reference Number: 97-12-1

Federal Catalog Numbers: 14.228
14.239

Federal Program Titles: Community Development Block Grant—State’s Program
Home Investment Partnerships Program

Federal Award Numbers and
Calendar Years Awarded: CDBG: B 93-DC 060001; 1993
CDBG: B 94-DC 060001; 1994
CDBG: B 95-DC 060001; 1995
CDBG: B 96-DC 060001; 1996

HOME: M 92-SG 060100; 1992
HOME: M 93-SG 060100; 1993
HOME: M 94-SG 060100; 1994
HOME: M 95-SG 060100; 1995
HOME: M 96-SG 060100; 1996

Category of Finding: Reporting Requirements

State Administering Department: Department of Housing and Community Development

Criteria

In our review of the Community Development Block Grant program (CDBG) and the Home Investment Partnerships Program (HOME), we determined the following compliance requirements were necessary for comprehensive annual performance and evaluation reports. The Code of Federal Regulations, Title 24, Section 91.520, requires the State to annually review and report on the progress it has made in carrying out its strategic plan and action plan for the HOME and CDBG programs. In addition to other criteria, the performance report must include a description of the resources made available and the investment of available resources. The section also requires the report to contain the results of on-site inspections of affordable rental housing to determine compliance with housing codes and other applicable regulations, and have data on the amount and use of program income for projects, including the number of projects and owner and tenant characteristics.

Condition

The Department of Housing and Community Development (department) must prepare a comprehensive annual performance and evaluation report on the implementation of its strategic and action plans for the CDBG and HOME programs, and submit the report to the federal Department of Housing and Urban Development (HUD). However, the department’s system of internal administrative controls is not sufficient to assure the reported fiscal information is complete, accurate and adequately supported. In addition, the department did not comply with all of the reporting requirements. We reported a similar finding for our audits

of fiscal years 1994-95 and 1995-96. At that time, the department responded it had designated an employee to maintain the database of the detailed statistical information required for the programs' annual reporting.

We found the CDBG program information in the annual report for fiscal year 1996-97 was not always supported by accurate fiscal data and was not complete. For example, some of the supporting documentation for fiscal data contained mathematical errors. As a result, the department understated the amount of total funds leveraged from other sources by \$7.2 million and understated the total amount of grantee utilization of small and minority-owned businesses by \$2.8 million. Additionally, because some subgrantees did not submit timely performance reports, the department could not include their statistical and fiscal data in the annual report to HUD. The department's annual report acknowledges the CDBG figures are estimates based on incomplete subgrantee reporting and revised figures would be available upon request. However, we found that 94 of 370 subgrantees submitted their Grantee Performance Reports from 2 to 104 days late. Further, as of March 1998, 31 subgrantees had not submitted Grantee Performance Reports that were due on August 15, 1997.

Similarly, we found some of the HOME program information in the annual report for fiscal year 1996-97 contained errors and was not always adequately supported. For example, the department overstated the amount of other matching funds by \$5 million, overstated the amount of other funds leveraged by HOME funds by \$30.5 million, and understated the amount of disencumbered funds by \$2.4 million.

Additionally, the department did not include two required elements in the report. One of the elements is the results of on-site inspection of affordable rental housing assisted under the program to determine compliance with housing codes and other applicable regulations. The other element is data on the amount and use of program income for projects, including the number of projects and owner and tenant characteristics.

Recommendation

The department should ensure information included in annual reports to HUD is supported by accurate detailed data collected by the department. The department should adequately review and reconcile the data to program records and ensure they are mathematically correct. Further, the department should ensure it receives timely activity reports from CDBG subgrantees so it can include complete statistical and fiscal information in its annual performance report to HUD. Finally, the department should report all relevant financial and statistical information to meet program requirements.

Department's View and Corrective Action Plan

The department concurs with the finding and provides the following comments. For future comprehensive annual reports, the department will report for the HOME program the results of on-site inspections and data on the amount and use of program income for projects, including the number of projects and owner and tenant characteristics. In addition, the department will report on the amount of disencumbered funds as of the end of the fiscal year according to information from the City Software program or a replacement program. To address the accuracy and completeness of information for the CDBG program in future comprehensive annual reports, the department will run a tape on each column of the spreadsheet

accumulating data for the report. The tape will be attached to all backup data for future reference. In addition, the department will consider timeliness of reports as a factor in determining whether it awards CDBG funds to an entity.

Reference Number: 97-13-1

Federal Catalog Number: 14.239

Federal Program Title: Home Investment Partnerships Program

Federal Award Numbers and
Calendar Years Awarded: M 92-SG 060100; 1992
M 93-SG 060100; 1993
M 94-SG 060100; 1994
M 95-SG 060100; 1995
M 96-SG 060100; 1996

Category of Finding: Subrecipient Monitoring

State Administering Department: Department of Housing and Community Development

Criteria

In our review of the Home Investment Partnerships Program (HOME), we determined the following compliance requirements relate to the awarding of grants to subrecipients. The Code of Federal Regulations, Title 24, Section 92.504(d), requires the State to conduct on-site reviews of HOME multi-family rental housing projects to determine compliance with property standards and program requirements. We also determined the California Health and Safety Code, Section 50896.3(b), stipulates the Department of Housing and Community Development (department) adopt regulations for the combined use of HOME and state funds that are consistent with both federal and state law.

Condition

We reviewed the department's fiscal year 1996-97 monitoring activities for HOME subrecipients and found the department neither developed written policies and procedures nor performed any monitoring to fulfill the program's long-term, on-site monitoring requirements.

In our fiscal year 1994-95 audit, we reported the department had not fully developed and implemented a strategy to meet the program's monitoring requirements. Included in its response, the department stated it would implement procedures for on-site monitoring of HOME-funded multi-family rental housing by September 30, 1996. Further, the department stated it would monitor HOME subrecipients by reviewing milestone schedules, progress on project set-ups and completion, funds expended, and compliance with periodic report requirements.

In our fiscal year 1995-96 audit, we reported that, although the department had made some improvements in reviewing the performance of HOME subrecipients, it had not developed and implemented adequate written procedures to meet HOME's monitoring requirements.

The on-site monitoring requirements in the Code of Federal Regulations, Title 24, Section 92.504(d), are substantially different from the previous regulations. The new regulations, effective October 16, 1996, require the State to perform on-site inspections of HOME-assisted rental housing to determine property standards compliance and to verify information submitted by the owners within a specified time frame. For tenant-based rental assistance housing, the State must perform annual on-site inspections to determine compliance with property standards. We determined the department did not perform any long-term, on-site reviews of multi-family rental housing projects.

Recommendation

The department should develop written policies and implement the procedures necessary to fulfill the long-term, on-site monitoring requirements of the HOME program.

Department's View and Corrective Action Plan

The department concurs with the finding and provides the following comments. By September 30, 1998, the department will develop written procedures for conducting long-term, on-site monitoring which are, at minimum, consistent with federal regulations and/or written guidance from the U. S. Department of Housing and Urban Development. The department has already developed interim monitoring standards, which will form the basis for the final procedures. Also, by this date the department will develop a monitoring schedule and will implement the procedures.

Reference Number:	97-13-2
Federal Catalog Number:	14.228
Federal Program Title:	Community Development Block Grant—State's Program
Federal Award Numbers and Calendar Years Awarded:	B 93-DC 060001; 1993 B 94-DC 060001; 1994 B 95-DC 060001; 1995 B 96-DC 060001; 1996
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Housing and Community Development

Criteria

In our review of the Community Development Block Grant program (CDBG), we determined the following compliance requirement relates to the awarding of grants to the subrecipients. The Code of Federal Regulations, Title 24, Section 85.40, requires the State to monitor activities supported by the CDBG subgrant to ensure compliance with the requirements of the CDBG program.

Condition

The Department of Housing and Community Development (department) needs to further improve its monitoring activities of CDBG subrecipients to ensure compliance with the program requirements. We reviewed the department's fiscal year 1996-97 monitoring activities for CDBG subrecipients and found the department does not always comply with its own procedures for monitoring subgrantees.

We reported a similar finding for our audits of fiscal years 1994-95 and 1995-96. At that time, the department responded it had strengthened its CDBG monitoring practices by requiring managerial oversight of monitoring reports and by employing a management services technician to maintain a tracking system for CDBG subgrants.

The department uses a tracking system to monitor the status of CDBG subgrants. However, during our fiscal year 1996-97 audit, we found the department did not adequately maintain its tracking system. Specifically, as of February 1998, the department had not updated the CDBG monitoring schedule since September 1997 and, as a result, five grants scheduled for monitoring during fiscal year 1996-97 did not indicate actual monitoring dates. In addition, the monitoring schedule did not indicate the date the department sent monitoring letters for 14 grants that were reviewed in fiscal year 1996-97. Without a complete and current monitoring schedule, the department cannot ensure it knows that CDBG subgrantees are complying with program requirements.

Recommendation

The department should follow its review and follow-up procedures for monitoring CDBG subgrantees and ensure its tracking system is adequately maintained.

Department's View and Corrective Action Plan

The department concurs with the finding and provides the following comments. Lapses in the monitoring schedule occurred because of the vacancy left by the management services technician from December to March. This position has been filled. To prevent this problem in the future, the department is training back-up staff to perform this function. Managers will continually review the monthly report produced by the technician and will ensure through monthly work meetings that program representatives have conducted monitoring visits, written monitoring letters, and cleared findings within the required time frames.

U.S. Department of Justice

Reference Number: 97-1-2

Federal Catalog Number: 16.576

Federal Program Title: Crime Victim Compensation

Federal Award Numbers and
Calendar Year Awarded: 96-VC-GX-0006, 97-VC-GX-0006; 1996

Category of Finding: Activities Allowed

State Administering Department: State Board of Control

Criteria

The State Board of Control (board) administers the Crime Victim Compensation grant to assist the crime victims in their recovery and return to a normal life. Federal guidelines require states to establish their own guidelines and procedures for administering crime victim compensation benefits. The State's Victims of Crime Act for 1996 provides the state laws for compensating victims. The California Government Code, Section 13962 (b), requires the board to either approve or deny a claim for compensation within 180 days from the time the board or its representative accepts the application. If the board does not approve or deny the claim within that time, it must advise the victim and his/her representative, in writing, of the reason for this.

Condition

We found that the board needs to improve its claims processing. Specifically, for 2 of the 15 claims for compensation we reviewed, we found that the board did not approve or deny the claims within the required 180 days. Further, the board did not advise the claimants and their representatives, in writing, of the reasons for the delays. The board sent one claimant a letter stating a denial was pending; however, it did not explain why the hearing was scheduled beyond the 180-day period.

The board did not process the claims on time because it did not follow its written procedures that require it to identify and prioritize those applications that are approaching the 180-day threshold. Further, even though the board has written procedures that require it to provide the claimant with a written explanation for the delay, it failed to follow up to ensure that it sent this explanation.

According to the board, these federal grant funds allow the board to make prompt payments to victims who may otherwise face a delay in receiving assistance. The board considers prompt payments a significant contribution to the successful treatment of victims during their recovery. However, when the board does not approve or deny claims within the 180 days, the victims may face more difficulties in successfully recovering from the crime and returning to a normal life.

Recommendation

The board should implement its procedures to identify those claims that are approaching the 180-day threshold and prioritize its resources to ensure that the claims are processed within this period. Further, the board should implement follow-up procedures to ensure that victims whose claims are not processed within this period receive the required written explanation of why a decision on the claim is delayed.

Department's View and Corrective Action Plan

The board agreed that necessary policies and procedures should be in place to ensure that the program requirements for processing claims are met. Victims of Crime Program Memo 92-06, dated July 3, 1992, was originally issued to inform program staff of the requirements for, and provide direction on, how to ensure that certain processing times are not exceeded. It was anticipated that, in some instances, applications might not be able to be approved within the 180 calendar days time frame.

Victims of Crime Program Memo 92-06 is being updated and will be reissued to program staff. Additionally, each Claims Specialist Supervisor will be instructed to discuss the Program Memo with staff at their next weekly team meeting. It is expected that this will ensure that staff are aware of the policy and procedures in this area, process the vast majority of the applications within the 180 days time frame, and follow the proper notification procedures on those occasions when the timeliness requirement is not met.

Reference Number:	97-7-4
Federal Catalog Number:	16.579
Federal Program Title:	Byrne Formula Grant (formerly the Drug Control and System Improvement Formula Grant)
Federal Award Numbers and Calendar Years Awarded:	94-DB-CX-0006; 1994 95-DB-VX-0006; 1995
Category of Finding:	Earmarking
State Administering Department:	Office of Criminal Justice Planning

Criteria

In our review of the Byrne Formula Grant (Byrne grant), we determined that the following were among the compliance requirements related to the earmarking requirements of the grant:

The United States Code, Title 42, Section 3759, requires the Office of Criminal Justice Planning (office) to allocate no less than 5 percent of its Byrne grant for the improvement of the State's criminal justice records. In addition, it requires the office to request from the

awarding agency, the Bureau of Justice Assistance (BJA) of the U.S. Department of Justice, either a waiver of this requirement or an exception to reduce the amount if it determines that the State's criminal justice records do not warrant expending the required 5 percent allocation.

Condition

The office did not meet the requirement to allocate and spend at least 5 percent of its Byrne grant awards for improving the State's criminal justice records in 1994 and 1995. Specifically, the office allocated and spent only 3.1 percent for the required purpose in 1994 and spent only 4.8 percent for that purpose in 1995.

The total amount of the 1994 Byrne grant award that the office was required to allocate and spend for improving the State's criminal justice records was approximately \$1.86 million. However, the office's grants management information system supports allocations for this purpose of approximately \$1.16 million, or \$700,000 less than required, and its accounting records support expenditures of approximately \$1.15 million, which is \$710,000 less than required. Although the office reduced its allocation and expenditure amounts, it neither requested nor received an exception from the BJA to do so. Rather, it submitted to the BJA a plan that identified the required allocation amount, an amount for which the BJA approved expenditure.

The total amount of the 1995 Byrne grant award that the office was required to allocate and spend for improving the State's criminal justice records was about \$2.4 million. While the office's grants management information system supports the required allocation, its accounting records support expenditures of approximately \$2.3 million. Although the office spent about \$80,000 less than required, it neither requested nor received an exception from the BJA to do so. Again, it received BJA approval to expend the required 5 percent it identified in its allocation plan.

The office maintains that the grant awards stated only that it must allocate 5 percent for the intended purpose; the awards did not state that the office must actually spend 5 percent of the grants for improving the State's criminal justice records. While this is correct, the grant awards do indicate that the United States Code, Title 42, with which the office certified that it would comply, is the statutory authority for the grant. Because Section 3759 requires the office to receive an approved waiver or exception from the BJA to spend less than 5 percent of the required allocation, we believe that it is required to either spend 5 percent of the grant or request and receive a waiver or an exception to spend less. Because the office did not spend the required amounts and has not received waivers or exceptions, we find it out of compliance with the 1994 and 1995 Byrne grant requirements.

Recommendation

To ensure that it complies with the requirements of the Byrne grant, the office should allocate and spend no less than 5 percent of each year's grant award for improving the State's criminal justice records. If the office is unable to spend at least 5 percent, then it should request either a waiver or an exception from the BJA.

Department's View and Corrective Action Plan

The office contests the audit finding. Specifically, it states that the Bureau of State Audits (bureau) did not account for the office's 1994 and 1995 expenditures for its Statewide Integrated Narcotics System (SINS) of \$1,782,037 and \$1,667,223, respectively. According to

the office, the SINS is an information clearinghouse connected to the Western States Information Network and to the Bureau of Criminal Information and Identification (BCII). The office also states that in a 1993 document it identified the BCII and other local projects such as the SINS as projects to which it would allocate Byrne funds. In total, the office claims that it exceeded the 5 percent minimum expenditure requirement, spending \$2,932,683 (7.7 percent) of 1994 Byrne grant funds and \$1,534,660 (8.2 percent) of 1995 Byrne grant funds for improving the State's criminal justice records.

Rebuttal to the Department's Response

Although the office believes that it met the requirement to spend 5 percent of the 1994 and 1995 Byrne grants because of its SINS expenditures, it asserted throughout the audit that it did not have to spend 5 percent, only allocate it. Furthermore, the office was unable to provide documentation when asked to support expenditures other than the \$1,150,646 for 1994 and \$2,272,352 for 1995 identified in the finding. Moreover, during the audit exit meeting on May 8, 1998, the office maintained its assertion that the 1994 and 1995 Byrne grants did not require it to actually spend 5 percent but stated nevertheless that it spent more than the bureau had identified.

The bureau indicated to the office that, while it had given the office opportunities during the audit to provide documentation to support additional expenditures, it would provide another opportunity. The bureau asked to be notified once the office gathered the support so that it could verify the expenditures. The office neither notified the bureau nor accorded it an opportunity to review expenditure documentation before contesting the finding on May 22, 1998. As a result, the bureau does not substantiate the office's claims.

In addition, the office's assertion that the SINS is connected to the BCII is not consistent with its Byrne grant application. Specifically, the application clearly differentiates between the SINS, which is an intensive cooperative effort of four agencies, and the BCII, which is funded with Byrne grant funds. While the application states that the Western States Information Network is one of the four cooperative SINS agencies, it does not state that the SINS is connected to or in any way associated with the BCII. Moreover, the office has been unclear as to the total amount of 1995 Byrne grant funds that it spent for improving the State's criminal justice records. While the bureau substantiated expenditures of \$2,272,352, or 4.8 percent of the grant, the office states that in total it spent \$1,534,660, or 8.2 percent. However, given that the 1995 Byrne grant was \$47,050,072, we find that \$1,534,660 is not 8.2 percent, but rather 3.2 percent. During its fiscal year 1997-98 audit, the bureau will review the office's claims of additional expenditures for the SINS and assess their accuracy.

Reference Number:	97-7-5
Federal Catalog Number:	16.575
Federal Program Title:	Crime Victim Assistance
Federal Award Number and Calendar Year Awarded:	96-VA-GX-0006; 1996
Category of Finding:	Earmarking
State Administering Department:	Office of Criminal Justice Planning

Criteria

In our review of the Crime Victim Assistance Grant (grant), we determined that the following was among the compliance requirements related to the earmarking requirements of the grant. The United States Code, Title 42, Section 10603, gives the U.S. Department of Justice, Office for Victims of Crime (OVC), authority to issue guidelines for implementing the requirements of the grant. These guidelines require the State to allocate at least 10 percent of the grant for assisting underserved victims.

Condition

The Office of Criminal Justice Planning's (office) procedures for allocating grant funds for programs assisting underserved victims are not in accordance with the grant's guidelines. Specifically, rather than basing the 10 percent allocation on the total 1996 grant award of \$14,009,000, the office first subtracted 5 percent, or \$700,000, for its administrative costs. Instead of \$1,400,900, it allocated approximately \$1,330,000, which is \$70,900 less than required. Although this calculation is consistent with the office's grant application, approved by the OVC, it is contrary to the OVC's grant guidelines.

Recommendation

To ensure that it complies with the requirements of the grant and allocates the required percentage for assisting underserved victims, the office should base its calculation on the entire amount of the grant award.

Department's View and Corrective Action Plan

The office agrees that it calculated the 1996 grant allocation for underserved victims in error and, in addition, stated that it calculated the 1997 grant allocation in error. However, to correct the error for the 1997 grant and ensure the minimum 10 percent is allocated, the office will shift funds from other sources to a program that provides services to underserved victims.

Reference Number:	97-8-2
Federal Catalog Number:	16.579
Federal Program Title:	Byrne Formula Grant (formerly the Drug Control and System Improvement Formula Grant)
Federal Award Numbers and Calendar Years Awarded:	94-DB-CX-0006; 1994 95-DB-VX-0006; 1995
Category of Finding:	Period of Availability of Funds
State Administering Department:	Office of Criminal Justice Planning

Criteria

In our review of the Byrne Formula Grant (Byrne grant), we determined that the following were among the compliance requirements related to the period of availability of federal funds:

The Code of Federal Regulations, Title 28, Section 66.23, requires the Office of Criminal Justice Planning (office) to liquidate or expend all obligations incurred under the Byrne grant within 90 days after the end of the funding period. In addition, the U.S. Department of Justice's Federal Financial Guide requires grant funds to be liquidated or expended within 90 days after the end of the grant award period with any remaining funds reverting to the awarding agency.

Condition

The office did not comply with the federal period of availability requirements for the 1994 and 1995 Byrne grants. Specifically, it spent approximately \$28,600 of 1994 grant funds and \$329,000 of 1995 grant funds more than 90 days after the end of the grant periods and after those funds should have reverted to the U.S. Department of Justice.

According to federal regulations and financial guidelines, the office had until 90 days after the 1994 and 1995 Byrne grant award periods ended, or until December 31, 1996, and December 31, 1997, respectively, to spend all obligated funds. However, the office reimbursed with Byrne grant funds the expenditures of one 1994 and three 1995 Byrne subgrants after the deadlines.

In general, the office processes and pays subgrantee expenditure requests up to 120 days after the end of the subgrant award periods. If the office designates the subgrant award periods to end at least 120 days before the Byrne grant's liquidation deadline, it will be able to make these payments before the deadline. However, when entering into the four subgrants noted above, the office designated the award periods to end either on or after the liquidation deadlines. Consequently, the office obligated itself and processed and paid with Byrne grant funds subgrantee expenditure requests after the allowed periods.

Recommendation

To comply with federal regulations and financial guidelines, the office should establish and implement procedures to ensure that it liquidates or expends Byrne grant funds within the period of availability of those funds.

Department's View and Corrective Action Plan

The office stated that it does not contest the audit finding, and while the U.S. Department of Justice, Bureau of Justice Assistance, verbally gave it extensions for both the 1994 and 1995 Byrne grants, the office has asked for formal grant extensions so that these costs may be claimed.

Reference Number: 97-12-2

Federal Catalog Number: 16.579

Federal Program Title: Byrne Formula Grant (formerly the Drug Control and System Improvement Formula Grant)

Federal Award Numbers and Calendar Years Awarded: 94-DB-CX-0006; 1994
95-DB-VX-0006; 1995
96-DB-MU-0006; 1996

Category of Finding: Financial Reporting

State Administering Department: Office of Criminal Justice Planning

Criteria

In our review of the Byrne Formula Grant (Byrne grant), we determined that the following were among the compliance requirements related to financial reporting:

The Code of Federal Regulations, Title 28, Section 66.41, requires the Office of Criminal Justice Planning (office) to submit to the U.S. Department of Justice periodic and final financial status reports to report the status of grant funds. Additionally, Section 66.20 requires the office to expend and account for grant funds in accordance with state laws and procedures. Further, the State Administrative Manual, Section 20014, requires agencies receiving federal funds to reconcile federal financial reports with the official accounting records.

Condition

The office needs to improve its process for reporting financial activities related to the Byrne grant. Specifically, in our review of financial reports submitted by the office to the U.S. Department of Justice, we found the following examples of errors and omissions in the accounting records:

- In its final financial status report for the 1994 Byrne grant, the office incorrectly reported as 1994 grant expenditures approximately \$143,000 of expenditures from prior years' grants. The office also incorrectly reported expenditures of approximately \$258,000 that it did not spend during the period for which it was reporting. Although the office cannot explain the error related to prior years' grant expenditures, it did state that it reported the unspent amount as expended because its procedures were to report subrecipient expenditures for which it had knowledge despite not having source documentation to support them.
- In its final financial status report for the 1995 Byrne grant, the office incorrectly reported expenditures of approximately \$368,000 that it did not spend during the period for which it was reporting. In addition, the office omitted more than \$15.6 million of the State's

matching share of program expenditures even though the expenditures had been made. Again, the office cited its procedures for why it reported the unspent amount as expended and stated that the \$15.6 million omission was an accounting error.

- The office, in preparing its worksheet to summarize and report 1996 Byrne grant program income and expenditures, omitted approximately \$76,000 of expenditures reported to it during the quarter ended December 31, 1997. Consequently, the office did not report this amount on its financial status report for that quarter. This omission occurred because the office lacks internal administrative procedures for receiving and promptly forwarding subrecipient reports to the appropriate accounting personnel.

As a result of these errors and omissions in the accounting records, the office cannot ensure that it reported accurate and complete financial information to the U.S. Department of Justice.

Recommendation

To ensure that it complies with federal and state financial reporting requirements, the office should report only financial information that is supported by source documentation. Additionally, the office should establish and communicate to its staff, internal administrative procedures for receiving and forwarding, in a timely manner, all subrecipient expenditure reports to the appropriate accounting personnel. Finally, the office should reconcile the financial status reports for the 1994, 1995, and 1996 Byrne grants to its accounting records and supporting source documents and submit revised reports to correct any errors, including those we identified and discussed above.

Department's View and Corrective Action Plan

The office stated that it does not contest the audit findings, and that, to claim the questioned costs, it has requested extensions of the 1994 and 1995 grants from the U.S. Department of Justice. The office also indicates that once it receives the extensions, it will submit revised financial status reports. Further, to eliminate future reporting problems, the office stated that it revised the form on which subrecipients report program income and expenditures.

Reference Number:	97-14-7
Federal Catalog Number:	16.579
Federal Program Title:	Byrne Formula Grant (formerly the Drug Control and System Improvement Formula Grant)
Federal Award Number and Calendar Year Awarded:	96-DB-MU-0006; 1996
Category of Finding:	Special Tests and Provisions
State Administering Department:	Office of Criminal Justice Planning

Criteria

In our review of the Byrne Formula Grant (Byrne grant), we determined that the following were among the compliance requirements related to the awarding of grants to subrecipients:

The United States Code, Title 42, Section 3754, restricts Byrne grant funding for the same project to no more than four years (48 months in total) with the exception of multijurisdictional drug task forces, multijurisdictional gang task forces, victims' assistance programs, or projects for the improvement of criminal justice records. The Bureau of Justice Assistance (BJA) of the U.S. Department of Justice has provided the Office of Criminal Justice Planning (office) with written guidance to clarify the funding limitations. Specifically, in a letter dated March 25, 1991, the BJA stated that it will allow a previously funded project to receive funding for more than 48 months if the project undergoes a fundamental change in focus, scope, or approach. For example, the project's goals, objectives, or purpose must change substantially. In addition, on January 12, 1994, the BJA provided the office with instructions for classifying Byrne-funded projects under one of 23 authorized purpose areas. These instructions require the office to categorize under purpose area #2 those drug enforcement programs eligible for exclusion from the four-year rule.

Condition

The office did not comply with the four-year rule of the Byrne grant when it awarded approximately \$1.06 million of its 1996 Byrne grant to five subrecipients. Specifically, the office awarded funds to projects already funded for the allowed 48 months and whose goals, objectives, or purpose had not substantially changed.

In making these awards, the office believed that because each of the projects contained a multijurisdictional component, all were excluded from the four-year rule. Although we determined that the five projects were multijurisdictional, none fit into one of the four exceptions and none were categorized under purpose area #2, as required by the BJA's instructions dated January 12, 1994. Rather, two of the five projects were for drug abatement programs (purpose areas #11 and #21), two were for marijuana eradication or enforcement teams (purpose area #3), and one was an education and training program (purpose area #18). Because the five projects were not excluded from the four-year rule and had not substantially changed, we find the office out of compliance.

The Bureau of State Audits (bureau) reported the same finding for ten subrecipients in fiscal year 1995-96 and for four subrecipients in fiscal year 1994-95; three of the five subrecipients reported this year were also reported in fiscal year 1995-96. In response to our fiscal year 1995-96 audit, the office requested clarification from the BJA as to whether its definitions of a multijurisdictional task force and a significant project change are appropriate.

Recommendation

To ensure that it is complying with the four-year funding limitation of the Byrne grant, the office should cease funding projects for longer than 48 months unless those projects have substantially changed or have been properly excluded from the four-year rule.

Department's View and Corrective Action Plan

The office contests the audit finding. Specifically, it stated that it received written clarification from the BJA in a letter dated April 24, 1998, and, according to the office, the letter confirms its position that because the five projects were multijurisdictional, they were excluded from the four-year rule. Although it contests the audit finding, the office stated that it will do the following:

- Advise subrecipients of the BJA's approved operational requirements and officially move those projects that meet the definition of a multijurisdictional task force into purpose area #2.
- Review all currently funded subrecipient files and notify those out of compliance of needed modifications.
- Develop an internal management process to monitor compliance with the BJA's requirements.

Rebuttal to the Department's Response

The office provided the bureau with a copy of the BJA's letter dated April 24, 1998. While the BJA's response addresses the office's definitions of multijurisdictional task forces and significant project changes, it specifically states that in order to be excluded from the four-year rule, the project must be a multijurisdictional drug task force, a multijurisdictional gang task force, a victims' assistance program, or a program to improve criminal justice records. The letter also reiterates the BJA's instruction that in order to be excluded from the four-year rule, multijurisdictional drug task forces must be categorized under purpose area #2. Further, the BJA stated that it cannot provide a blanket recognition that all projects that have a multijurisdictional component would qualify as a multijurisdictional task force exempt from the four-year rule. Based on the BJA's letter, the bureau maintains that the office was out of compliance when it funded the five projects for longer than 48 months.

U.S. Department of Transportation

Reference Number: 97-14-2

Federal Catalog Number: 20.205

Federal Program Title: Highway Planning and Construction Program

Federal Award Number and Year Awarded: State fiscal year 1996-97

Category of Finding: Special Tests and Provisions

State Administering Department: California Department of Transportation

Criteria

The Code of Federal Regulations, Title 23, Section 637.205, requires the California Department of Transportation (Caltrans) to have a sampling and testing program for projects on the National Highway System to ensure that materials and workmanship generally conform to approved plans and specifications.

Condition

Caltrans did not always comply with the federal requirement for materials sampling and testing. Specifically, Caltrans did not always follow its Construction Manual (manual) for frequency of sampling and testing construction materials. In testing the Caltrans quality assurance program, we selected the Marysville District Office (district 03) and Oakland District Office (district 04) to determine whether the appropriate number of tests was performed in accordance with the sampling program requirements. We did not find any exceptions to our test at district 04. However, of the five construction materials we tested at district 03, two were not in accordance with sampling program requirements. The first item relates to testing of 75,883 tons of asphalt concrete prior to mixing that were used on the project. The material inspection file contained only one test. The second item relates to testing the complete mixture of 93,518 tons of asphalt concrete that were used on the project. The material inspection file contained only four tests. The manual requires one test for every 500 tons, or a minimum of one or a maximum of two tests per workday. The number of tests that should have been performed for the first item as of that date was either 151 (once every 500 tons), or a minimum of 16 or a maximum of 32 tests (per the 16 workdays indicated in the resident engineer's diary). The number of tests that should have been performed for the second item as of that date was either 187 (once every 500 tons), or a minimum of 41 or a maximum of 82 tests (per the 41 workdays indicated in the resident engineer's diary). These conditions indicate noncompliance with the program requirements.

Recommendation

Caltrans should perform sampling and testing necessary to ensure that it complies with federal regulations.

Department's View and Corrective Action Plan

Caltrans concurred with the findings on the frequency of testing of asphalt concrete. Two of the five items reviewed were not tested in accordance with the frequency of testing as required by the Caltrans Construction Manual. Although Caltrans tests did not meet the number of tests required, its tests reflected that materials were in compliance with standards.

According to Caltrans, it did not perform the number of tests because paving operations for Contract Number 03-357804 occurred during the busiest part of the construction season (June to September). At that time, the Materials Laboratory had two vacancies for plant inspectors, due to the back-to-back retirements of two very experienced plant inspectors. Each of the retirees decided to run their vacation out (between 400 and 500 hours each). This precluded backfilling their positions promptly. The contracting-out resources provided were unable to be utilized due to a court ruling. However, Caltrans did bring a plant inspector in from its Redding office on temporary assignment in an attempt to level the workload.

Because of the temporary staff shortage, Caltrans decided to cover critical jobs first, followed by the plants with past histories of problems. Lowest priority became plants with no history of problems. This contract utilized a plant with a strong history of contract compliance and a very strong quality control program. For this reason, inspection at this plant became the lowest priority.

The Marysville Materials Laboratory has backfilled the two vacancies and is currently at budgeted staffing levels. Based on projected workload, testing frequency in accordance with the Caltrans Construction Manual will be provided.

U.S. Department of Education

Reference Number: 97-1-1

Federal Catalog Number: 84.126

Federal Program Title: Rehabilitation Services—Vocational Rehabilitation Grants to States

Federal Award Number and Calendar Year Awarded: H126A70005; 1996

Category of Finding: Services Allowed, Eligibility

State Administering Department: Department of Rehabilitation

Criteria

Various federal regulations dictate the manner in which the Department of Rehabilitation (department) must develop and oversee rehabilitation programs for clients under the federal Rehabilitation Services—Vocational Rehabilitation Grants to States. In certain instances, the federal regulations provide general guidance, while the California Code of Regulations provides the specific guidelines for implementation. The following are some of the federal and state regulations that govern the department’s development and oversight of rehabilitation programs:

- The Code of Federal Regulations, Title 34, Section 361.41(a)(6), requires each individualized written rehabilitation program (IWRP) to include a procedure and schedule for periodic review and evaluation of progress toward achieving rehabilitation objectives, as well as a record of these reviews and evaluations. The California Code of Regulations, Title 9, Section 7132(d), requires the counselor either to complete an evaluation of the client’s progress at least every 90 days or to record a note in the case file stating the reason an evaluation was not completed.
- The Code of Federal Regulations, Title 34, Section 361.40(c), requires the State to assure that the IWRP will be reviewed at least annually. The California Code of Regulations, Title 9, Section 7133(a) requires the counselor to conduct an annual formal review of the IWRP.
- The Code of Federal Regulations, Title 34, Section 361.40(b), requires that the IWRP be initiated after certification of eligibility or certification for extended evaluation to determine rehabilitation potential. The California Code of Regulations, Title 9, Section 7132(a), requires the IWRP to be developed and implemented within 90 days of the intake interview unless the rehabilitation supervisor has authorized a continuation.

- The Code of Federal Regulations, Title 34, Section 361.30, requires the State to establish and maintain written standards and procedures to assure expeditious and equitable handling of referrals and applications for vocational rehabilitation services. The California Code of Regulations, Title 9, Section 7041(b), requires that the counselor process applications within 60 days of receipt certifying the applicant as either eligible or ineligible for vocational rehabilitation services or as eligible for an extended evaluation.

Condition

We noted various instances in the files of the department failing to comply with federal and state regulations by not documenting its evaluation of the client's progress. We also noted instances in which the department's completion and review of the IWRP and determination of the client's eligibility were not in accordance with federal and state regulations. When the department does not ensure that it follows regulations, it reduces assurance that clients receive the required rehabilitative services within an appropriate period.

We reviewed 30 of the department's client files to assess the department's efforts in developing and overseeing the client's rehabilitation programs. For 20 case files opened during fiscal year 1996-97, we assessed department activities that would be performed when a client entered the program, as well as those that would be ongoing. For the remaining 10 case files opened in prior fiscal years, we assessed only ongoing activities.

Specifically, our review of the 30 case files found the following deficiencies in the department's efforts to oversee client rehabilitation programs:

- For 13 of the files, the department did not complete an evaluation of the client's progress within at least 90 days or record a note in the client's file stating why an evaluation was not completed.
- For two of the files, the department did not review the client's IWRP annually.

Additionally, during our review of the 20 case files opened during fiscal year 1996-97, we noted the following deficiencies:

- For six files, the department did not complete the IWRP within 90 days of the initial interview, nor did the rehabilitation supervisor authorize a continuation.
- For four of the files, the counselor did not determine the client's eligibility or extended evaluation status within 60 days of receiving the client's application.

Recommendation

The department should ensure that it develops and oversees rehabilitation programs for clients as required by federal and state regulations and that it appropriately documents in its case files all the activities for clients that it does perform.

Department's View and Corrective Action Plan

The department acknowledges it needs to continue its efforts to meet case processing and documentation time frames and has taken steps to improve its success in meeting the timelines for progress evaluations, annual reviews, eligibility determination and IWRP development. These steps include:

- Developing and implementing new systems for monitoring case processing and review requirements.
- Reducing the average caseload size per case carrier.
- Developing a new Case Recording Handbook which will streamline recording requirements and procedures to assist with the prompt processing of eligibility, plan development and service delivery. The handbook will emphasize compliance requirements and timelines.
- Providing a two-day training seminar on compliance issues at a statewide meeting of Rehabilitation Supervisors and District Administrators on April 22 and 23, 1998.

The department anticipates that by increasing its monitoring efforts, reducing its caseload size, issuing the new Case Recording Handbook, and implementing ongoing training, it will use resources more effectively and streamline its processes. The department believes these actions should improve its success in meeting the timelines for progress evaluations, annual reviews, eligibility determination and IWRP development.

Reference Number:	97-2-2
Federal Catalog Number:	84.027
Federal Program Title:	Special Education—Grants to States
Federal Award Number and Calendar Year Awarded:	H027A60116; 1996
Category of Finding:	Allowable Costs and Cost Principles
State Administering Department:	California Department of Education

Criteria

In our review of the administration by the California Department of Education (department) of the federal Special Education—Grants to States (Special Education) program, we determined that the following were among the compliance requirements related to allowable costs:

The Office of Management and Budget Circular, A-87, Cost Principles for State and Local Governments, Attachment A, establishes the principles for determining allowable costs under grants with the federal government. Section (C) of this attachment states that for a cost to be

allowable under a federal award, the goods or services involved must be chargeable or assignable to the cost objective in accordance with the relative benefits received. Additionally, Section (E) states that direct costs are those that can be identified specifically with a particular final cost objective. Typical direct costs chargeable to a federal award include compensation of employees for the time devoted and identified specifically to the performance of those awards, and the cost of materials, equipment, and travel expenses incurred specifically to carry out the award. Further, Section (B) defines a cost objective as a function, organizational subdivision, contract, grant, or other activity for which cost data are needed and for which costs are incurred.

Condition

We found that the department charged costs to Special Education that are not specific to the performance of the federal grant award. Specifically, in fiscal year 1996-97, the department charged the Special Education grant award approximately \$810,000 in costs associated with the department's allocation of state funds by its Education Finance Division. When it uses federal funds to pay the cost of allocating state funds, the department does not ensure it complies with federal principles for allowable costs.

According to the department, to comply fully with the federal mandates governing Special Education, the department must allocate, in addition to federal funds, state funds to local educational agencies that implement federal special education programs. The department stated that its Education Finance Division is responsible for allocating state funds and for providing technical assistance and guidance to local educational agencies on a wide range of fiscal matters pertaining to implementation of federal Special Education mandates.

However, the allocation of state funds is not an activity specifically identified with the administration of federal Special Education funds. The department's Special Education Division allocates the federal Special Education funds, whereas its Education Finance Division allocates state funds to local educational agencies. Because the activities are distinct and separate divisions perform these activities, the costs associated with the allocation of state funds are not specifically identified with the administration of federal Special Education funds. Consequently, these costs are not allowable direct costs of Special Education.

Recommendation

The department should establish procedures to ensure it obtains advance written approval or authorization from the U.S. Department of Education before using federal Special Education funds for activities or functions not specifically identified with the performance of the federal award.

Department's View and Corrective Action Plan

The department stated that it does not agree with this audit finding; the department believes that it is fully complying with the rules and regulations governing Special Education, including the department's charging of the federal grant for the costs of allocating state funds in support of the federal program. Further, the department does not believe that it needs advance approval from the U.S. Department of Education to continue this practice. For these reasons, the department believes that a corrective action plan is unnecessary.

The department indicated that our finding relates to the department's use of federal grant funds to administer Special Education, including the disbursing of state funds and providing technical assistance and guidance to local agencies on fiscal matters relating to the program. The department views these expenditures as appropriate charges to the federal grant. According to the department, Special Education is a mandated federal program, one that the State is required to support because the program is not fully funded at the federal level. The disbursement of state funds is necessary to comply with the federal mandates underlying the program and therefore activities related to this disbursement can be specifically identified as necessary to the State's performance of the program.

The department stated that consistent with the way it charges all administrative costs associated with Special Education, the department appropriately charges to the administrative component of the federal grant the costs associated with disbursing state funds. The costs associated with administering the federal grant include those associated with disbursing federal local assistance funding, providing technical assistance and fiscal guidance, monitoring compliance, and resolving complaints. The department charges the cost of all administrative activities associated with Special Education to the program, regardless of where the activities take place in the department.

Reference Number:	97-7-2
Federal Catalog Number:	84.186
Federal Program Title:	Safe and Drug-Free Schools and Communities— State Grants
Federal Award Number and Calendar Year Awarded:	S186A40062; 1994
Category of Finding:	Earmarking
State Administering Department:	Department of Alcohol and Drug Programs

Criteria

In our review of the Safe and Drug-Free Schools and Communities—State Grants (Safe and Drug-Free) program, we determined that the following compliance requirement relates to earmarking:

The United States Code, Title 20, Section 3191(a)(2), requires the Department of Alcohol and Drug Programs (department) not to spend more than 2.5 percent of the grant award for administrative costs.

Condition

We found that the department needs to improve its system for monitoring administrative expenditures allocable to the federal Safe and Drug-Free program. Because it did not monitor expenditures by grant award, using the department's methodology for determining

administrative costs allocable to the Safe and Drug-Free program, we found the department exceeded its administrative cost limit by \$210,000. Specifically, the department spent \$3,505,000 in 1994 federal grant award funds to support the Safe and Drug-Free program. Using an employee time study, the department determined that 13.55 percent of its Safe and Drug-Free program activities are administrative in nature and, that the department should therefore classify this percentage of its support costs, except consultant contracts, as administrative expenses. When we applied the department's 13.55 percent to the total support costs, we determined that \$475,000 of these costs represents administrative expenses. However, because federal law limits the administrative costs to 2.5 percent of the \$10,594,000 federal grant award for 1994, the department exceeded the maximum administrative cost limit of \$265,000 by about \$210,000.

According to the department, because each Safe and Drug-Free grant award spans over a 27-month period, the department may have two or three grant awards available for obligation or expenditure at any one time. Therefore, to correct its failure to comply with the administrative cost limit, the department needs to post an adjustment to its accounting records by transferring appropriate expenditures from one grant award to another. However, because the department does not monitor administrative costs charged to each grant award, it did not realize until after we completed this audit that it should record the necessary expenditure adjustment.

Recommendation

The department should establish accounting procedures to ensure it closely monitors the administrative costs charged to each federal grant award. These procedures should include steps for recording the expenditure adjustments necessary to close grant awards and for ensuring the department does not record additional expenditures to the closed grant accounts.

Department's View and Corrective Action Plan

The department said that it evaluates its compliance with the administrative costs limit by state fiscal year, rather than by individual grant. According to the department, it used this evaluation process in the department's two previous positions on this issue, which it has submitted to the federal agency. Further, the department claims that when it uses the fiscal year to measure compliance, the department did not exceed the administrative cost cap. Nonetheless, in addition to monitoring total administrative costs during the state fiscal year, the department will begin monitoring administrative costs for each grant. With respect to the federal fiscal year 1994 grant award, the department stated that it will, where appropriate, transfer obligations and expenditures to a subsequent grant award within the same state fiscal year.

Reference Number: 97-14-3
Federal Catalog Number: 84.032
Federal Program Title: Federal Family Education Loans
Federal Award Number and Year Awarded: State fiscal year 1996-97
Category of Finding: Special Tests and Provisions
State Administering Department: California Student Aid Commission

Criteria

In our review of the Federal Family Education Loans program, we determined the following compliance requirements relate to the administration of loan program funds:

The Code of Federal Regulations, Title 34, Section 682.401(b)(16), allows the program to be administered by one or more private, nonprofit institutions under the supervision of a single state agency. For this purpose, "supervision" includes, but is not limited to, setting policies and procedures, and having full responsibility for the operation of the program.

In addition, the Operating Agreement Between Student Aid Commission and Auxiliary Organization, Section XI, requires the auxiliary organization (auxiliary) to maintain adequate records and to submit periodic reports as required by the California Student Aid Commission (commission) showing the operation and financial status of the auxiliary. The records and reports should cover all activities of the auxiliary.

The California Education Code, Sections 69766, 69766.1, and 69768, continuously appropriates money in the State Guaranteed Loan Reserve Fund to the commission for carrying out the purposes of the loan program. In addition, the California Government Code, Section 13400, et seq., requires each state agency head to establish and maintain an adequate system of internal accounting and administrative controls designed to prevent errors, irregularities, or fraudulent acts.

Condition

During the last half of our audit period, from the creation of the commission's auxiliary organization on January 2, 1997, through June 30, 1997, the commission did not have a system to provide adequate oversight of the activities of its auxiliary. The commission did not retain sufficient staff to adequately protect the public funds entrusted to it, and the commission paid invoices submitted by the auxiliary without reviewing the invoices for propriety.

From January 2, 1997, through June 30, 1997, and continuing into the subsequent fiscal year, the majority of commission staff were assigned to work for the auxiliary under provisions set up in the auxiliary's enabling legislation and the operating agreement. Under the operating agreement, the auxiliary is to provide, among other services, financial and program reporting services. These services include loan reserve fund management and reporting, federal financial and accounting reports, accounting and funds disbursement, financial analysis and forecasting, budgeting, and cash management.

The only commission staff reporting to commission management and assigned to oversee the operating agreement were the chief deputy director, the chief of the commission's Management Services Division, and the commission's internal auditor. These staff members also had other duties. Considering the extent of services provided by the auxiliary organization, the necessity of setting up new organizational structures, and the transfer of workload, this staffing level is too low to protect adequately the public funds entrusted to the commission.

In reviewing the auxiliary's invoices submitted to the commission for January through June 1997, we found that the invoices for May and June overcharged the commission and that the commission paid more than \$4.8 million in unsupported administrative charges. We found no indications that any appropriate commission staff had reviewed these invoices before payment. Approximately four months later, on October 30, 1997, the auxiliary corrected the overcharges.

We also noted that the financial statement audit of the auxiliary, which is required by California Education Code, Section 69527(a), and the provisions of the operating agreement, had not been issued by May 7, 1998. The commission had noted in its management plan for the operating agreement that the annual audit of the auxiliary would be complete by November 15, 1997. Consequently, at the time of our review, the report was nearly six months late. According to the interim executive director, the delay in issuing the report occurred because the auxiliary had not completed reconciliations for certain accounts for the period between July 1, 1997, and September 30, 1997, as a result of the complexity of the auxiliary's conversion to a new accounting system. The interim executive director also noted that the auxiliary had not kept the commission informed of all the issues and the reasons for the delays. Not until February 27, 1998, when we specifically asked about the delays, did the commission begin making inquiries.

According to the commission's interim executive director, staff supported the commission and the auxiliary concurrently through June 30, 1997. The separation of staff and responsibilities took place when the commission and the auxiliary moved to a new building in October 1997. In December 1997, the commission manager responsible for the review of the auxiliary's invoices indicated to us that the commission assumed that the expenditures submitted by the auxiliary were appropriate and that no one from the commission reviewed and approved the expenditures to ensure they complied with federal regulations and laws.

However, the commission's interim executive director also informed us that, beginning February 20, 1998, the appropriate commission manager reviewed the reconciliations for the auxiliary's reimbursement requests for January 2, 1997, through December 31, 1997. Further, the commission's interim executive director asserted that, on March 2, 1998, the responsibility for maintaining the Guaranteed Loan Reserve Fund accounts and preparing reconciliations, reports, and year-end financial statements was transferred from the auxiliary to the commission. Finally, at its meeting on March 27, 1998, the commission authorized commission management to add a Federal Family Education Loan Program Contract Management Division with four staff assigned to ensure the auxiliary's compliance with all provisions of the operating agreement and to perform various analyses and oversight functions.

Recommendation

The commission should establish an adequate system of controls over its auxiliary organization to ensure the auxiliary's compliance with all provisions of the operating agreement.

Department's View and Corrective Action Plan

The commission acknowledges that during the period January 2, 1997, through June 30, 1997, it did not have complete separation of functions between the commission and its auxiliary organization, EdFund. The commission stated it was in a state of enormous transition during this period and was unable to immediately split apart all of its loan functions from its state operations. Consequently, existing civil service staff continued to perform functions for both EdFund and the commission as they had always done. The commission noted that the actual separation of workloads, employees, and budgets occurred with the start of the fiscal year beginning July 1997. This separation was completed with the move to new facilities in October 1997.

In addition, the commission stated that during this period, the staff of the commission and EdFund installed a new accounting system for EdFund that was separate from the State's accounting system. While the commission admits that some errors occurred in the invoicing process between EdFund and the commission, it states these errors were caught and corrected. The commission attributes the reported error and the delay in obtaining the EdFund financial report to this transition period.

The commission commented that it has since implemented many changes to ensure that proper oversight of EdFund and proper separation exists at all levels. Specifically, the commission has implemented or is in the process of implementing the following changes:

1. Separated the positions of executive director of the commission and president/chief executive officer of EdFund.
2. Created an EdFund Oversight Committee to develop recommendations to strengthen and improve oversight over EdFund and the operating agreement with EdFund. Recommendations include:
 - Changing the name of the Federal Family Educational Loan Program Committee to the Federal Loan and EdFund Oversight Committee.
 - Expanding the duties of the Federal Loan and EdFund Oversight Committee to include review of policy and operational issues related to the loan programs and EdFund contract performance.
 - Appointing a liaison to the EdFund board from the membership of the Federal Loan and EdFund Oversight Committee.
 - Suggesting to the EdFund board that they also appoint a liaison to the commission board.
 - Conducting the commission's annual workshop in conjunction with an EdFund annual workshop.
 - Expanding responsibilities of the Audit Committee to include oversight of EdFund.

- The committee also developed a policy paper outlining commission oversight of EdFund and the relationship between the commission and EdFund. The paper clarifies the policy responsibility of the commission versus the operational responsibility of EdFund, the roles of the commission’s executive director and the EdFund chief executive officer, the responsibilities for governmental relations, the reporting schedule including responsibility for completion of the annual report to the legislature, relationships with U.S. Department of Education, and organization charts depicting the relationship between the commission and EdFund, as well as the roles of the standing committees.
3. Requested and received initial budget approval for new positions and resources for the commission to strengthen its loan-related oversight responsibilities:
 - Received approval for a contract manager and a contracts management unit to oversee the operating agreement.
 - Received approval for additional loan-funded staffing resources to cover loan activities of administrative, accounting, and audit personnel.
 - Received approval to fund a full-time executive director and support.
 4. Transferred all accounting positions responsible for the maintenance of the loan reserve fund back to the commission.

Reference Number: 97-14-4

Federal Catalog Number: 84.032

Federal Program Title: Federal Family Education Loans

Federal Award Number and Year Awarded: State fiscal year 1996-97

Category of Finding: Special Tests and Provisions

State Administering Department: California Student Aid Commission

Criteria

In our review of the Federal Family Education Loans program, we determined the following compliance requirement relates to the administration of loan program funds. The Code of Federal Regulations, Title 34, Section 682.404(g)(3), requires a guaranty agency to pay to the federal government the federal share of borrower payments for defaulted student loans. These amounts must be remitted within 45 days of receipt of funds from the borrower.

Condition

The California Student Aid Commission (commission) receives borrower payments for defaulted student loans directly or through collection agencies. The federal government is entitled to receive a share of this money. However, the commission did not report approximately \$10.5 million (11 percent) of the collections owed to the federal government for fiscal year 1996-97 within the required 45 days. Although approximately \$6.9 million of these collections were no more than one month late, over \$2.3 million were more than one year late. According to the vice-president of finance and administration of the commission's auxiliary organization, the majority of these late collections were included on the June 1997 report and were collections the computer system had previously failed to recognize.

We reported a similar finding for our audits of fiscal years 1994-95 and 1995-96. At that time, the commission responded it believed that it could reduce the incidence of late reporting of collections by decreasing by five to seven days the turnaround time for completion and submission of the monthly claims and collections report to the federal government. Because the commission reports collections to the federal government once a month, a decrease of five to seven days in processing time could result in the commission's reporting certain collections within the required time.

Recommendation

The commission should continue its efforts to minimize the time that elapses between receipt of collections and reporting to the federal government of those collections on the monthly claims and collections report.

Department's View and Corrective Action Plan

The commission concurs with the recommendation that it continue its efforts to minimize the time lapsed between the receipt of collections and reporting of those collections to the federal government. The commission stated it greatly improved the processing time during the fiscal year ended June 30, 1998, with 11 percent of the receipts reported after the required 45-day period, compared to 28 percent disclosed the previous year. The commission is committed to further improve its processes that will result in the timely reporting of collections within the 45-day period.

Reference Number:	97-14-5
Federal Catalog Number:	84.032
Federal Program Title:	Federal Family Education Loans
Federal Award Number and Year Awarded:	State fiscal year 1996-97
Category of Finding:	Special Tests and Provisions
State Administering Department:	California Student Aid Commission

Criteria

In our review of the Federal Family Education Loans program, we determined the following compliance requirement relates to the administration of loan program funds. The Code of Federal Regulations, Title 34, Section 682.410(c), requires a guaranty agency to take such measures and establish such controls as are necessary to ensure its vigorous enforcement of all federal, state, and guaranty agency requirements, including agreements, applicable to its loan guaranty program. The contracts between the California Student Aid Commission (commission) and its collection agencies require the contractors to comply with all provisions of the federal Higher Education Act of 1965 and federal regulations in performing due diligence activities to collect defaulted loans.

Condition

The commission uses collection agencies to collect defaulted loans, but the commission is responsible for ensuring that these agencies perform due diligence activities. However, the commission did not conduct contract compliance reviews from July 1995 to January 1998. Additionally, in the contract monitoring reviews conducted in 1994, the commission noted findings regarding due diligence activities performed by the collection agencies. By not conducting reviews of its contractors' due diligence activities, the commission is not fulfilling its responsibility to ensure compliance with federal regulations. This non-compliance could jeopardize the commission's agreement with the federal government that allows the commission to use collection agencies to collect defaulted loans.

Recommendation

The commission should regularly monitor and conduct contract compliance reviews of its collection agency contractors to ensure that the contractors are performing the required due diligence activities.

Department's View and Corrective Action Plan

The commission agrees it should regularly monitor and conduct contract compliance reviews of its collection agency contractors. While the commission also agrees that it did not conduct formal reviews of the collection agencies during the period in question, it stated that it performed numerous contract management activities and information exchanges with the collection agencies to ensure contract compliance.

The commission further notes that it has completed three on-site reviews of collection agencies, which includes a comprehensive review of the required due diligence activities performed by these agencies. The commission anticipates completing the remaining three agencies by the end of the calendar year.

Reference Number: 97-14-6
Federal Catalog Number: 84.032
Federal Program Title: Federal Family Education Loans
Federal Award Number and Year Awarded: State fiscal year 1996-97
Category of Finding: Special Tests and Provisions
State Administering Department: California Student Aid Commission

Criteria

In our review of the Federal Family Education Loans program, we determined the following compliance requirements relate to the administration of loan program funds:

In accordance with the Code of Federal Regulations, Title 34, Section 682.404(a)-(c), the federal government reimburses guarantee agencies, such as the California Student Aid Commission (commission), a percentage of losses on defaulted loan claim payments to lenders. The federal government bases this percentage, called the “reinsurance rate”, on the amount of claims paid during the fiscal year and the reported loans in repayment at the end of the prior fiscal year. If the total amount of claims paid on defaulted loans during the fiscal year exceeds 5 percent of loans in repayment, the federal government pays the guarantee agency less reinsurance for loans. When the total claims paid exceed 9 percent of loans in repayment, the reinsurance rates drop again. Additionally, the federal regulations require guarantee agencies to report complete and accurate data to the federal government so that a correct reinsurance rate can be calculated.

Further, the California Code of Regulations, Title 5, Section 30904, requires lenders to report to the commission any loan transaction within 45 days of the date that a loan transaction occurs or that the lenders learn of the transaction.

Condition

We found the information the commission reports to the federal government for computing the reinsurance rate is not always accurate, and thus, the commission may not be receiving the correct amount of funds from the federal government. Specifically, we tested 30 loans to determine if the commission’s records properly reflected the loans’ status and we found eight instances in which the records were inaccurate. In reviewing 20 loans for the commission’s reporting of the repayment status, we found that 3 loans had been paid in full and 2 loans were for borrowers who had returned to “in-school” status. The commission had reported these 5 loans as being in repayment. Additionally, for 3 of the 10 loans for which we reviewed the status of the student, we found the commission’s records showed the students as being in school when actually 2 of the loans were in repayment and one loan was in forbearance, where the lender has temporarily allowed the borrower to change the terms under which the borrower will repay the loan.

Repayment status and student status are two elements that affect the amount of loans in repayment. The loans in repayment amount is used to calculate the reinsurance rate that determines the extent to which the federal government will reimburse the commission for defaulted loans that it has paid. If the commission does not report accurate information, the federal government may not pay the commission the proper amount of funds.

The commission's records did not reflect accurate information because the commission either did not receive the information on the change in status for the loans from the lenders or the commission's automated system rejected the information because it did not pass the system's edit process. Although the representatives for some lenders stated they had provided the updated information to the commission, we have no reasonable method for verifying these statements because lenders send the majority of the loan update information on magnetic tape.

The commission recognizes that its system does not always reflect accurate information about its loans. The commission is continuing to conduct a reconciliation project for loans guaranteed before January 1, 1995, in order to ensure that the data in the commission's system is accurate and matches that of the lenders. As of March 15, 1998, the commission's reconciliation project was about 70 percent complete. The commission has asked lenders to conduct a final assessment of their unreconciled loans. After processing this information, the commission plans to write off the remaining unreconciled loans as paid-in-full.

We reported a similar finding for our audit of fiscal year 1995-96. At that time, the commission responded that it believed that lenders are primarily responsible for ensuring they properly notify the commission of changes in loan information. Additionally, the commission believes it is doing what it can by notifying its lenders when updated information appears necessary and by working on its reconciliation project.

Recommendation

The commission should continue with its reconciliation project. Additionally, the commission should work with lenders to ensure they promptly report changes in student and loan status so the information the commission reports to the federal government is as accurate as possible.

Department's View and Corrective Action Plan

The commission concurs with the findings and recommendation and provides the following comments. The current portfolio reconciliation project is 82 percent complete with a target completion date of June 30, 1998. The commission believes the final critical deadline will be September 30, 1998, which is the date it intends all research to be concluded. The commission has assured the lenders and the Department of Education that it will take the time necessary to conduct all appropriate research efforts. After conducting all reasonable research, the commission will mark the remaining unreconciled loans as paid-in-full.

Further, the commission stated that the effort on the portfolio reconciliation process has convinced both the commission and the lenders that an on-going reconciliation procedure is necessary to supplement the standard status reporting procedures. The commission has been evaluating various alternatives, and will make a decision on the appropriate on-going and routine reconciliation procedures before September 30, 1998.

U.S. Department of Health and Human Services

Reference Number: 97-1-3

Federal Catalog Number: 93.778

Federal Program Title: Medical Assistance Program

Federal Award Numbers and
Calendar Years Awarded: MAP 05-9605CA5028; 1995
MAP 05-9705CA5028; 1996

Category of Finding: Activities Allowed or Unallowed

State Administering Department: Department of Health Services

Criteria

In our review of the Medical Assistance Program, we determined the following were among the compliance requirements related to activities allowed or unallowed. The Code of Federal Regulations, Title 42, Section 455.18(a) and the California Code of Regulations, Title 22, Section 51502.1(f)(5), require providers to certify the authenticity of all claim document information. This certification can be provided within the claim document itself, on a separate certification statement submitted with the claim, or through a provider agreement that pertains to all claims submitted by the provider or the provider's representative.

Condition

The Department of Health Services (department) does not have adequate controls to ensure that provider claim documents are appropriately certified. For 4 of the 13 provider claims we reviewed that were submitted electronically by providers' representatives, the claim documentation did not contain proper evidence of the authenticity of the claim information. Because it lacks this control, the department cannot be assured that it is paying providers for authentic claims. We reported a similar finding for our audits of fiscal years 1994-95 and 1995-96.

Recommendation

Prior to payment, the department should ensure that all claims are properly certified.

Department's View And Corrective Action Plan

According to the chief of the Provider Enrollment Unit, as of April 1998, the department has obtained current agreements for all provider representatives that submit providers' electronic claims, and it believes that this problem has been resolved.

Reference Number: 97-7-1
Federal Catalog Number: 93.917
Federal Program Title: HIV Care Formula Grants
Federal Award Number and
Calendar Year Awarded: BRX 070041-95; 1995
Category of Finding: Matching, Level of Effort, and Earmarking
State Administering Department: Department of Health Services

Criteria

In our review of the HIV Care Formula Grant, we determined that the following was among the compliance requirements pertaining to matching, level of effort, and earmarking. The United States Code, Title 42, Section 300ff-22(b), requires a state to use not less than 15 percent of grant funds allocated to provide health and support services to infants, children, women, and families with HIV.

Condition

The Department of Health Services (department) did not have sufficient internal controls in place to ensure that not less than 15 percent of HIV Care grant funds were used in this manner. Specifically, the department stated that, although it tracked the amount and percentage of money it spent from three of the four programs it operated, it did not adequately track such expenditures from the fourth. To comply with this earmarking regulation, the department stated that, because the three programs did not collectively meet the 15 percent spending limit, it imposed a 20 percent spending requirement upon the fourth program. Further, the department indicated that its only assurance that the fourth program actually spent sufficient amounts were written and verbal assurances provided by contractors. Because the department acknowledges that the three programs did not collectively meet the 15 percent spending requirement, tracking the amount of expenditures from the fourth program would enable the department to demonstrate that it had complied with applicable federal regulations.

Effective October 1, 1996, federal law concerning this earmarking requirement changed. The amended law eliminated the 15 percent requirement and the requirement that families be included as recipients. The new law now requires states to use a percentage based on the AIDS population ratio. Specifically, each state cannot spend less than the ratio of infants, children, and women with AIDS to the state's general population of AIDS victims. Services must be provided to infants, children, and women and include treatment measures to prevent the perinatal transmission of AIDS. According to its staff, the department has begun tracking its compliance with this new requirement for the April 1997 through March 1998 grant period.

Recommendation

The department should ensure that the method it uses adequately tracks compliance with the new requirement.

Department's View and Corrective Action Plan

The department does not dispute this finding. Further, as noted earlier, the department states that it has begun tracking its compliance with the new requirement in the April 1997 through March 1998 grant period.

Reference Number:	97-7-3
Federal Catalog Number:	93.596
Federal Program Title:	Child Care Mandatory and Matching Funds of the Child Care and Development Fund
Federal Award Numbers and Calendar Year Awarded:	7G999004, 7G999005; 1996
Category of Finding:	Earmarking
State Administering Department:	California Department of Education

Criteria

In our review of the Mandatory and Matching Fund components of the Child Care and Development Fund program, we determined the following compliance requirement pertains to earmarking. The United States Code, Title 42, Section 9858c(c)(3)(D), requires the California Department of Education (department) to expend in each fiscal year a substantial portion of the grant funds, after meeting other specified earmarking requirements, to provide child care assistance to low-income, working families.

Condition

We found that the department did not select an appropriate child care program to meet the requirement. Specifically, to meet this requirement, the department initially expended funds from its Preschool Program. Although expenditures were sufficient, children's eligibility in this program does not require parents to be working. After we expressed our concern to the department of this deficiency, it replaced the expenditures from the Preschool Program with expenditures from a program requiring the majority of the participants to be working parents.

Department information indicates that, historically, child care under this new program is generally provided to parents who are working or seeking work. However, if the department does not ensure it spends grant funds in accordance with federal regulations, it may have to repay any improperly expended amounts.

Recommendation

The department should select an appropriate child care program to meet the requirement.

Department's View and Corrective Action Plan

The department concurs with this finding. As noted above, the department took immediate action to correct the audit finding. In the future, the department will ensure that it expends a "substantial portion" of the grant funds, after meeting all other specified earmarking requirements, to provide child care assistance to families who are low-income and working.

Reference Number:	97-8-1
Federal Catalog Number:	93.568
Federal Program Title:	Low-Income Home Energy Assistance
Federal Award Number and Calendar Years Awarded:	G992201; 1994, 1995, and 1996
Category of Finding:	Period of Availability
State Administering Department:	Community Services and Development

Criteria

In our review of the Low-Income Home Energy Assistance program (LIHEAP), we determined the following compliance requirement relates to the period of availability of grant funds. The United States Code, Title 42, Section 8626(b), allows that the State may request up to 10 percent of its allotted LIHEAP funds to be carried over for use in a second year. In addition, Section 8626(b)(2)(B) states that any unused LIHEAP funds in excess of 10 percent of an allotted amount are subject to reallocation by the federal government.

Condition

The Department of Community Services and Development (department) may carry over 10 percent of total LIHEAP funds from the prior fiscal year to the subsequent fiscal year if those funds have not been spent in the prior year. In our prior-year audit, we determined that the department carried over approximately \$1.8 million in excess of the allowable 10 percent. After additional work, we found that amount to be between \$2.9 million and \$8.8 million. According to the department's chief of fiscal operations, this excess carry-over was the result of the department's lacking a system to track its expenditures and encumbrances for the LIHEAP program and to determine funds available for carry-over. As a result, the department carried over funds from fiscal year 1994-95 that were not allowed and should have been returned to the federal government for reallocation. Instead, the department spent these funds during fiscal year 1995-96. Although the amounts the department carried over from fiscal years 1995-96 and 1996-97 were within the allowed 10 percent, it still does not have a mechanism in place to allow it to identify and support the amount it carries over to subsequent years.

Recommendation

The department should implement a system to track its expenditures and encumbrances for the LIHEAP program to ensure that it can identify and support carry-over amounts. In addition, the department should determine the actual amount of unallowable carry-over it spent and reimburse the federal government.

Department's View and Corrective Action Plan

The department asserts it has always had a process to determine the amount of carry-over for the LIHEAP program. Staff of the department use the State's CALSTARS accounting system and other spreadsheets to ensure the carry-over does not exceed the maximum allowable amount. However, the department agrees that its system is not conducive to being readily audited. The department is redesigning its system to more easily pinpoint actual carry-over amounts. The department is also restructuring its computer system and believes this will also enhance its process to track carry-over.

The department stated that it has determined the excess carry-over from fiscal year 1994-95 was approximately \$2.5 million, caused by its staff failing to properly encumber these funds promptly. The department also stated that during the months of October and November 1995, it spent nearly \$3.4 million in LIHEAP funds for clients who had submitted applications the department had not completely processed by September 30, 1995.

Rebuttal to the Department's Response

The existence of a system to determine the amount of carry-over for the LIHEAP program was not apparent to us during the three-month period in which we worked with the department to determine the particular details to include in the calculation. The spreadsheets the department refers to are not specifically related to calculating the amount of carry-over for a particular LIHEAP grant year. Because the department did not have a specific process for identifying carry-over, we concluded that the department could not support its compliance with federal regulations related to carry-over for fiscal year 1994-95.

During our work, the department was unable to provide us with documentation supporting an exact dollar amount of excess carry-over for fiscal year 1994-95. Consequently, we cite a range from \$2.9 million to \$8.8 million in the condition section.

Reference Number:	97-14-1
Federal Catalog Number:	93.959
Federal Program Title:	Block Grants for Prevention and Treatment of Substance Abuse
Federal Award Number and Calendar Year Awarded:	97B1CASAPT-04; 1996
Category of Finding:	Special Tests and Provisions
State Administering Department:	Department of Alcohol and Drug Programs

Criteria

In our review of the Block Grants for Prevention and Treatment of Substance Abuse (SAPT) program, we determined that the following were among the compliance requirements related to independent peer reviews:

The United States Code, Title 42, Section 300x-53(a)(1)(A) and the Code of Federal Regulations, Title 45, Section 96.136(a), require the Department of Alcohol and Drug Programs (department) to provide for periodic independent peer reviews to assess the quality, appropriateness, and efficacy of services provided by treatment providers receiving SAPT program funds. In addition, these codes require that not fewer than 5 percent of these treatment providers be reviewed.

Condition

We found that the department did not provide for these required independent peer reviews. Specifically, although the department entered into an agreement with a contractor to provide for these reviews, it did not complete the contracting process until June 1997, and the contractor did not conduct the reviews in fiscal year 1996-97. Instead, the contractor began the reviews in fiscal year 1997-98. As a result, in fiscal year 1996-97, the department could not assess the quality, appropriateness, and efficacy of the alcohol and drug treatment services provided to individuals in treatment programs in the State.

Recommendation

To ensure individuals receive quality, appropriate, and effective alcohol and drug treatment services, the department should ensure that it provides for the required independent peer reviews of treatment providers in the fiscal year for which they receive SAPT program funds.

Department's View and Corrective Action Plan

The department agrees with this finding. The department states that during July and August 1997, it trained the contractor on the use of the guidebook and work instruments the department developed to conduct the reviews. Additionally, the department states that the contractor began conducting the reviews in November 1997 and, as of May 28, 1998, had conducted all of the 30 required reviews.

U.S. Department of Health and Human Services
U.S. Department of Agriculture

Reference Number: 97-12-3

State Administering Department: Department of Social Services

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

Criteria

In our review of federal programs, we determined the following sections of the Code of Federal Regulations require the State to maintain accurate accounting records and to properly track and report the financial activities related to federal grants: Title 7, Sections 3016.20(b)(1) and (2); and Title 45, Sections 92.20(a)(1) and (2) and (b)(1) and (2). Further, the State Administrative Manual, Section 20014, requires agencies receiving federal funds to reconcile federal financial reports with the official accounting records. Finally, the Office of Management and Budget, Circular A-133 requires that the federal financial reports be presented fairly in all material respects in relation to the financial statements taken as a whole.

Condition

The Department of Social Services (department) did not reconcile all of its quarterly federal cash transaction reports or its final federal financial status or expenditure reports prepared during fiscal year 1996-97 to the department's accounting records. The following six programs had at least one financial report that was not reconciled to the department's accounting records: State Administrative Matching Grants for Food Stamp Program; Family Support Payments To States—Assistance Payments; Job Opportunities and Basic Skills Training; Child Support Enforcement, Refugee and Entrant Assistance—State Administered Programs; Child Care For Families At-Risk of Welfare Dependency; Foster Care—Title IV-E, Adoption Assistance; and Social Services Block Grant. As a result, we could not determine if the amount of receipts, disbursements, and cash balances reported on quarterly federal cash transaction reports or the amount of total grant expenditures reported on financial status or expenditure reports agreed with the department's accounting records. Therefore, we cannot ensure that the department's federal financial reports are presented fairly in all material respects in relation to the financial statements taken as a whole.

We reported a similar finding for our audits of fiscal years 1993-94 through 1995-96. For fiscal year 1995-96, the department responded that it agreed with the finding and had been making continuous progress to improve its procedures and to implement its reconciliation process.

Recommendation

The department should continue to implement its reconciliation process, reviewing it to determine whether any components of the process can be streamlined or eliminated. Further, the department should retain supporting records of reconciling items and source documentation in the reconciliation files.

Department's View and Corrective Action Plan

The department agrees with the finding. As indicated in the June 1997 audit report for the fiscal year ended June 30, 1996, the department implemented new federal financial report reconciliation procedures beginning July 1, 1997. The department developed procedures to reconcile the federal financial reports to subsidiary accounting records for federal fiscal year 1997 beginning with reports as of October 1, 1996. In addition, the department implemented CALSTARS reconciliations of federal cash transactions as of July 1, 1997. The department will continue to work with the Bureau of State Audits to improve reconciliations and ensure compliance with this finding.

Department of Agriculture

Federal Catalog Number: 10.561
Federal Program Title: State Administrative Matching Grants for Food Stamp Program
Federal Award Number and Calendar Year Awarded: 7S2514; 1996

Department of Health and Human Services

Federal Catalog Number: 93.560
Federal Program Title: Family Support Payments to States— Assistance Payments
Federal Award Number and Calendar Year Awarded: G970CA4007; 1996

Federal Catalog Number: 93.561
Federal Program Title: Job Opportunities and Basic Skills Training
Federal Award Number and Calendar Year Awarded: G9703CAJOBS; 1996

Federal Catalog Number: 93.563
Federal Program Title: Child Support Enforcement
Federal Award Number and Calendar Year Awarded: G9704CA4004; 1996

Federal Catalog Number: 93.566
Federal Program Title: Refugee and Entrant Assistance—State Administered Programs
Federal Award Numbers and Calendar Year Awarded: G97AACA9100; 1996
G97AACA9110; 1996

Federal Catalog Number: 93.574
Federal Program Title: Child Care For Families At-Risk of Welfare Dependency
Federal Award Number and Calendar Year Awarded: G9604CA4012; 1995

Federal Catalog Number: 93.658
Federal Program Title: Foster Care—Title IV-E
Federal Award Numbers and Calendar Year Awarded: 9701CA1401; 1996
9701CA1404; 1996

Federal Catalog Number: 93.659
Federal Program Title: Adoption Assistance
Federal Award Number and Calendar Year Awarded: 9701CA1407; 1996

Federal Catalog Number: 93.667
Federal Program Title: Social Services Block Grant
Federal Award Number and Calendar Year Awarded: G9701CASOSR; 1996

Corporation for National and Community Service

Reference Number: 97-2-1

Federal Catalog Number: 94.006

Federal Program Title: AmeriCorps

Federal Award Number and
Calendar Year Awarded: 94ASCCA005; Amended 1996

Category of Finding: Allowable Costs

State Administering Department: California Conservation Corps

Criteria

In our review of the AmeriCorps program, we determined that the following were among the compliance requirements related to allowability of costs:

The Code of Federal Regulations, Title 45, Section 2541.200, requires the State to maintain a financial management system that provides effective internal control over and accountability for all grant assets. In addition, Section 8 of the interagency agreements between the California Commission on Improving Life Through Service (commission) and the California Conservation Corps (department) for both the Child Abuse Prevention Council and the Sacramento Service Corps programs states that the department shall invoice the commission monthly according to the categories in the budget. Further, the commission's Fiscal Manual states that the commission will reimburse program expenditures that are approved and already incurred. Under no circumstances will the commission advance funds or reimburse programs for unauthorized or unallowable expenditures.

Condition

The department, a state grantee of the commission, entered into an agreement with the Folsom Cordova Unified School District, a subgrantee of AmeriCorps, to administer the Sacramento Service Corps III (SAC Corps III) program. The agreement ran from November 8, 1996, through December 31, 1997.

We found that the department did not always review subgrantee invoices to ensure that they were properly supported. Our review disclosed that the department paid SAC Corps III \$33,000 for staff services and benefits from November 1996 through February 1997 and that the commission reimbursed the department for this amount. However, the department payment to the subgrantee was not valid because the invoices were based on estimates and not supported by documentation. On August 8, 1997, upon our request, the SAC Corps III program coordinator prepared amended invoices for November 1996 through May 1997. However, these invoices had no supporting documents and were not reviewed by the department. Based on the amended invoices for November 1, 1996 through February 28, 1997, the total amount was less than \$19,000. The difference between the \$33,000 payment and the \$19,000 amended invoices represented an overpayment of about \$14,000.

Recommendation

The department should determine and recover the actual amount overpaid to SAC Corps III. In addition, the department should ensure that all charges submitted by subgrantees are for actual expenditures already incurred before making payments for the AmeriCorps program. Finally, the commission should ensure that all subgrantees abide by the terms and conditions of each AmeriCorps agreement.

Department's View and Corrective Action Plan

The department reviewed the supporting documentation and found that the total charges from November 1996 through February 1997 amounted to approximately \$19,000 or an overpayment of \$14,000. The department offset the overpayment to the March 1997 allowable costs of \$7,000 and billed the AmeriCorp Sac Corps III for the remaining net overpayment.

The accounting office at the department headquarters will work more closely with the program manager to ensure compliance with applicable requirements.

Reference Number:	97-13-3
Federal Catalog Number:	94.006
Federal Program Title:	AmeriCorps
Federal Award Number and Calendar Year Awarded:	94ASCCA005; Amended 1996
Category of Finding:	Subrecipient Monitoring
State Administering Department:	California Conservation Corps

Criteria

In our review of the AmeriCorps program, we determined that the following were among the compliance requirements related to the monitoring of subrecipients and preparing accurate financial reports:

The Code of Federal Regulations (CFR), Title 45, Section 2541.400, states that grantees must monitor grant and subgrant activities to ensure compliance with applicable federal requirements. Furthermore, the Office of Management and Budget, Circular A-133, 400.d.3, requires pass-through entities to monitor subgrantees as necessary to ensure that they comply with laws and regulations and the provisions of contracts or grant agreements. In addition, the CFR, Title 45, Section 2541.200, requires the State to maintain a financial management system that provides an accurate, current and complete disclosure of financial results of grant activities. Grantees and subgrantees must maintain records that adequately identify the source and application of funds provided for these activities.

Condition

The California Conservation Corps (department) did not sufficiently monitor its subgrantees' fiscal activities. Specifically, we found that as of August 18, 1997, the Sacramento Service Corps III and Child Abuse Prevention Council programs had not submitted monthly invoices to the department reflecting program costs for April, May, or June 1997. After we requested copies of these invoices, the Sacramento Service Corps III program coordinator prepared amended invoices for November 1996 through May 1997. However, these invoices had no supporting documents and were not reviewed by the department. Because the subgrantees did not submit the invoices on time, the department was unable to properly prepare its financial status report. As a result, the data that the State reported to the federal government did not reflect an accurate financial status of the AmeriCorps program, of which these two programs are subgrantees. In addition, the delays and the lack of proper documentation indicated that there was a lapse in responsibility for monitoring this grant. Further, the system that ensures careful review of invoices appeared to be ineffective.

Recommendation

The department should implement its monitoring procedures to ensure compliance with federal regulations. In addition, the department should develop a system of accountability to ensure that all subgrantees of the AmeriCorps program submit properly supported invoices on time. Further, the department should ensure that it has all the required financial information necessary to prepare the federal financial status reports promptly.

Department's View and Corrective Action Plan

The department agreed with the recommendations and sent out a memorandum to the district offices, dated August 21, 1997, stating that effective immediately all supporting documentation for invoices needs to be submitted to the accounting office at department headquarters. In addition, all project coordinators are responsible for maintaining a filing system for a minimum of five years of all documentation that supports the amounts of charges to project sponsors. In addition, the Accounting Branch has developed two checklists to assist the project coordinators and program managers in determining exactly what needs to be sent in to substantiate all incurred costs. The department will not give financial credit for work completed or make any payments until each district involved submits all the paperwork. The department will disallow any incurred costs that are not substantiated. The accounting office at department headquarters will be working more closely with all program managers to ensure that requirements for invoicing contracts and prompt and accurate reporting are met. Moreover, the skills and abilities of the program manager will be reviewed to determine if levels are adequate for further responsibilities.

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Summary of Prior Audit Findings

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Summary of Prior Audit Findings

Department	Reference Number	Audit Finding	Status of Corrective Action
Department of Education	96-7-1-Variou s	<u>Excessive Federal Cash on Hand</u> . For one of seven cash requests reviewed that were used to pay for local assistance expenditures for the Vocational Education—Basic Grants to States Program, the Department of Education (department) did not minimize the time between the receipt and disbursement of those funds. As a result, the department maintained a cash balance of \$653,800 for at least 38 days.	Corrective action taken.
Department of Developmental Services	96-7-1-Variou s	<u>Excessive Federal Cash on Hand</u> . In paying for support expenditures for the Special Education—Grants for Infants and Families With Disabilities Program, the Department of Developmental Services (department) did not match its receipt of funds with its disbursement of those funds. As a result, the department maintained cash balances that exceeded its immediate needs for approximately six months. The Bureau of State Audits reported a similar issue during the audit for fiscal year 1994-95.	Corrective action taken.
Department of Health Services	96-7-1-Variou s	<u>Excessive Federal Cash on Hand</u> . The Department of Health Services maintained excess cash balances for the HIV Care Formula Grants Program. For five of the eight work phases reviewed, the department maintained cash balances that did not meet its actual immediate needs. The Bureau of State Audits reported a similar issue during the audit for fiscal year 1994-95.	Corrective action taken.
Department of Finance	96-7-2-Variou s	<u>Noncompliance with Federal Regulations or Default Procedures</u> . The interest liability the State calculated and reported to the federal government for the 1995-96 fiscal year did not always comply with federal regulations or Cash Management Improvement Act (CMIA) default procedures.	The State has corrected, to the extent possible, situations that affected the calculation of interest liabilities. The \$15,900 understated interest liability adjustments required were included in the 1996-97 annual report. The Department of Finance continues to negotiate with the federal government on various outstanding issues; however, to date, there is still no Treasury-State Agreement in place.

Department	Reference Number	Audit Finding	Status of Corrective Action
Department of Finance	96-7-3-Variou	<u>Miscellaneous Federal Cash Management Issues.</u> The State did not always comply with Cash Management Improvement Act (CMIA) default procedures. The Bureau of State Audits reported a similar issue during the audit for fiscal year 1994-95.	Funding techniques are still an outstanding issue between the State and the federal government. Negotiations are ongoing and it is hoped that we will resolve most, if not all, of the funding technique issues in the Treasury State Agreement. The Department of Finance continues to work with the Office of Criminal Justice Planning (OCJP) in an effort to reduce the number of days from deposit to disbursement of federal funds. Based on their information, OCJP has reduced by approximately 30 percent the number of days that funds are held before disbursement.
California Community Colleges, Chancellor's Office	96-8-1-Variou	<u>Noncompliance with Requirements to Certify or Document Personal Service Costs.</u> Personal service costs were allocated based on budget estimates rather than actual time worked. As a result, personal service costs for four of five employees who worked on the Vocational Education program were incorrectly allocated to various state and federal programs.	The Chancellor's Office has been analyzing the time sheets quarterly for adjustment to the system. ¹
Department of Aging	96-8-1-Variou	<u>Noncompliance with Requirements to Certify or Document Personal Service Costs.</u> The Department of Aging did not prepare periodic certifications to support personal service costs charged to federal grants.	Corrective action taken. ²
Department of Health Services	96-8-1-Variou	<u>Noncompliance With Requirements to Certify or Document Personal Service Costs.</u> The Department of Health Services (DHS) did not prepare periodic certifications to support personal service costs charged to federal grants. The DHS used Childhood Immunization Grants funds to pay \$87,000 in salaries for two Local Assistance Branch employees without supporting personnel activity reports. The DHS Immunization Branch also used Childhood Immunization Grants funds	The DHS is in the process of implementing certification/timesheet documentation for all personnel working 100 percent on federal projects or working on multiple activities or cost objectives. The 100 percent certification process is completed. However, the timesheet implementation for staff working on multiple work activities is in process. The DHS will need to request approval of the

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Department	Reference Number	Audit Finding	Status of Corrective Action
Department of Rehabilitation	96-8-1-Variou	<p>to pay \$211,000 in salaries for three employees of the Data Systems Branch even though the employees did not work on activities related to the grant program.</p> <p><u>Noncompliance with Requirements to Certify or Document Personal Service Costs.</u> The Department of Rehabilitation did not prepare periodic certifications to support personal service costs charged to federal grants.</p>	<p>federal cognizant agent for a number of different cost proposals. An estimated date for completion of a full timesheet reporting system is the year 2000.</p> <p>Corrective action taken.³</p>
Department of Community Services and Development	96-8-2-Variou	<p><u>Continuing Cost Allocation Problems.</u> The Department of Community Services and Development (department) continues administrative practices that result in improper charges of its operating costs to the program it administers. Specifically, the department does not ensure that the costs of its employees' salaries are correctly charged to the programs it operates based on the actual time the employees worked on the programs. The Bureau of State Audits reported a similar issue during the audit for fiscal year 1994-95.</p>	<p>A department review of the timesheets tested by the Bureau of State Audits found that the majority of errors were clerical, and all were corrected. Department staff have been given training to ensure proper coding of timesheets.</p> <p>The \$110,960 of funds reallocated through the department's normal cost allocation process reflected the actual distribution between programs to the closest extent possible. The funds allocated to nonfederal programs were extremely minor; and any additional time and costs expended to reallocate these funds on a different basis could not be justified. The department believes that all costs have been adequately distributed and that additional training for staff and review processes related to timesheets have considerably reduced the probability of future errors.</p> <p>Concerning the incomplete and inaccurate schedule of administrative costs charged to the Earthquake Disaster Assistance program, at the time the schedule was given to the auditors, errors were noted and corrected. Additionally, the finding noted that the department only documented \$65,000 of \$114,000 of employee time charged to the Earthquake Disaster Assistance program—the remaining balance of \$49,000 has been properly allocated.</p>

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Department	Reference Number	Audit Finding	Status of Corrective Action
Office of Criminal Justice Planning	96-8-2-Variou	<u>Continuing Cost Allocation Problems.</u> The Office of Criminal Justice Planning (OCJP) incorrectly allocated personal service costs for three employees working on the Drug Control and System Improvement—Formula Grant. The Bureau of State Audits reported a similar issue during the audit for fiscal year 1994-95.	Corrective action taken. ³
California Community Colleges, Chancellor's Office	96-9-1-Variou	<u>Federal Financial Reporting.</u> The California Community Colleges, Chancellor's Office did not reconcile its accounting records with the final federal financial status report for the Vocational Education program during fiscal year 1995-96.	Corrective action taken.
Department of Aging	96-9-1-Variou	<u>Federal Financial Reporting.</u> The Department of Aging's federal cash transaction report for the quarter ending June 30, 1996 did not agree with its accounting records.	Corrective action taken. ⁴
Department of Health Services	96-9-1-Variou	<u>Federal Financial Reporting.</u> The Department of Health Services (DHS) did not reconcile its quarterly report of federal cash transactions for June 30, 1996, with its official accounting records. DHS also did not reconcile two of the final federal financial status reports submitted during fiscal year 1995-96.	Corrective action taken.
Department of Social Services	96-9-1-Variou	<u>Federal Financial Reporting.</u> The Department of Social Services did not reconcile all of its quarterly federal cash transaction reports for June 30, 1996, or its final federal financial status reports to the accounting records.	Corrective action taken. ⁵
Department of Finance	96-9-2-All Grants	<u>Identifying Grant Expenditures.</u> The State has not complied with requirements to prepare a schedule showing total expenditures for each federal assistance program. Because of limitations in its automated accounting system, the schedule that is prepared shows total receipts, rather than expenditures, by program. Also, the State lacks complete, centralized records of receipt of federal moneys. This has allowed some federal receipts to be recorded in other funds. Specifically, the Department of Corrections did not deposit State	The Department of Finance (DOF) believes that the finding regarding federal moneys being deposited into the Federal Trust Fund is no longer an issue. The Department of Corrections has deposited all subsequent SCAAP money received into the Federal Trust Fund. The DOF is not aware of any other instances of federal grant money not being deposited into the Federal Trust Fund.

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Department	Reference Number	Audit Finding	Status of Corrective Action
		Criminal Alien Assistance Program (SCAAP) receipts into the Federal Trust Fund, but instead deposited them into the State's General Fund.	Due to other priorities, there have been no resources available to make any major changes to the State's financial reporting system since the 1995-96 Single Audit Report.
Office of Emergency Services	96-10-1-Variou	<u>Monitoring of Nonprofit Subrecipients.</u> The Office of Emergency Services (OES) did not have a system to identify the nonprofit subrecipients receiving more than \$25,000 in federal Disaster Assistance program funds that should have submitted an annual audit report.	The OES Disaster Assistance Division (division) developed, tested, and is now implementing, an Automated Ledger System (ALS) which allows the division to identify all subrecipients that should submit annual audit reports. Subrecipient payment information is currently being entered into the ALS and should be completed by the end of fiscal year 1997-98. The OES is also negotiating a contract with the State Controller's Office to perform all duties necessary to ensure that nonprofit subrecipients submit required annual audit reports.
Department of Health Services	96-10-1-Variou	<u>Monitoring of Nonprofit Subrecipients.</u> The Department of Health Services (DHS) did not receive the audit reports from at least 14 of its nonprofit subrecipients receiving federal funds for the HIV Care Formula Grants that should have submitted audit reports during fiscal year 1995-96.	The DHS issued a Management Memorandum regarding the compliance requirements of state audits. The fiscal agents, governmental and nonprofit, were advised to review the audit requirements contained within their standard agreements. The fiscal agents were required to immediately submit information, e.g., audit reports, to the DHS. The DHS is establishing a process for subrecipients to submit their audit reports and to establish the procedures for reviewing and following-up on the audit findings. ⁶
Department of Community Services and Development	96-10-1-Variou	<u>Monitoring of Nonprofit Subrecipients.</u> The Department of Community Services and Development (CSD) did not always ensure that it had resolved reported audit findings associated with its nonprofit subrecipients within the six-month deadline.	The CSD staff reviewed each of the four subrecipient audits that the auditors reviewed, and none of them had any audit findings related to CSD programs. The audit findings concerned general procedures that the subrecipient's cognizant agency would be responsible for resolving, not the CSD.

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Department	Reference Number	Audit Finding	Status of Corrective Action
California Community Colleges, Chancellor's Office	96-10-2-84.048	<u>Monitoring of Community College Districts.</u> The Chancellor's Office did not sufficiently monitor the audit reports of the State's 71 community college districts due in fiscal year 1995-96, even though the office received and reviewed all the reports. Audit reports for five community college districts disclosed that the Chancellor's Office had not ensured that the community college districts resolved the issues noted in the audit reports within six months of receiving the reports.	The CSD has a system in place to monitor all required audit reports and findings that has never been questioned. Audit report issues concerning federal programs are now being sent to program staff for follow-up and resolution. ⁷
State Controller's Office	96-10-3-Various	<u>Monitoring of City, County, and Special District Subrecipients.</u> The State does not always take steps to ensure that audit findings are resolved within six months of receipt of audit reports.	The State Controller's Office (SCO) has modified the audit report review process by assigning the highest priority to the reports that contain audit findings. As a result, the SCO has noted significant improvement in the turnaround time for the single audit reports with audit findings. For the reports that have been processed during the current year, the average turnaround time is slightly under 40 days, in comparison with an average of 93 days during the 1995-96 fiscal year. As the process is being further refined, processing is expected to take under 30 days.
California Department of Education	96-16-1-10.550	<u>Special Reporting Requirements.</u> The California Department of Education (CDE) was unable to provide records to support data it reported on the FNS-155 Inventory Management Register reports from its Pomona warehouse. Additionally, the CDE was unable to provide supporting records for one of five FNS-155 reports reviewed at its Sacramento warehouse.	Corrective action taken.

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Department	Reference Number	Audit Finding	Status of Corrective Action
California Department of Education	96-18-1-10.558	<p><u>Monitoring.</u> Federal regulations require the Department of Education (CDE) to review 33.3 percent of the participants in the Child and Adult Care Food Program each fiscal year to assess compliance with program provisions. provisions.</p> <p>During fiscal year 1995-96, the CDE completed reviews for only 224 of the 739 participants (30 percent) in its Child and Adult Care Food Program.</p>	Corrective action taken.
Department of Housing and Community Development	96-15-1-14.239	<p><u>Earmarking.</u> To ensure that it complies with the Home Investment Partnerships Program's spending restrictions for administrative and planning costs, the Department of Housing and Community Development needs to improve internal controls. The Bureau of State Audits reported a similar issue during the audit for fiscal year 1994-95.</p>	Corrective action taken.
Department of Housing and Community Development	96-16-2-14.228, 14.239	<p><u>Special Reporting Requirements.</u> The Department of Housing and Community Development's (department) system of internal administrative controls is not sufficient to assure that the statistical and fiscal information reported to the federal Department of Housing and Urban Development for the Community Development Block Grant and Home Investment Partnerships Program is complete and supported by accurate statistical data. In addition, the department did not comply with all of the reporting requirements. The Bureau of State Audits reported a similar issue during the audit for fiscal year 1994-95.</p>	Corrective action taken. ⁸
Department of Housing and Community Development	96-17-1-14.228, 14.239	<p><u>Special Tests and Provisions.</u> The Department of Housing and Community Development (department) needs to further improve its monitoring of Home Investment Partnerships Program (HOME) and Community Development Block Grant (CDBG) subrecipients to ensure compliance with requirements of their respective programs. The Bureau of State Audits reported a similar issue during the audit for fiscal year 1994-95.</p>	The department is on track to implement a revised HOME monitoring strategy by June 30, 1998, including on-site monitoring for HOME-funded multi-family rental housing.

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Department	Reference Number	Audit Finding	Status of Corrective Action
Department of Housing and Community Development	96-11-1-14.228, 14.239	<u>Administrative Requirements.</u> Although the Department of Housing and Community Development has improved its procedures for reporting information for the HOME and CDBG, improvement is still needed in some of its accounting methods to avoid errors and omissions. The Bureau of State Audits has reported a similar issue since the audit for fiscal year 1992-93.	Corrective action taken.
Department of Housing and Community Development	96-11-2-14.228, 14.239	<u>Administrative Requirements.</u> As reported in the 1993-94 audit, the Department of Housing and Community Development (department) had commingled approximately \$258 million from nine federal housing assistance programs in its Federal Trust Fund since at least fiscal year 1989-90. As a result of its commingling funds, the department could not determine actual cash balances for specific federal grants.	Corrective action taken.
Department of Housing and Community Development	96-11-3-14.228	<u>Administrative Requirements.</u> As in previous years, the Department of Housing and Community Development lacks adequate monitoring of its CDBG subrecipients to ensure that they meet the federal cash management requirements. The Bureau of State Audits reported a similar issue during the audit for fiscal year 1994-95.	Corrective action taken.
Office of Criminal Justice Planning	96-17-2-16.579	<u>Special Tests and Provisions.</u> The Office of Criminal Justice Planning (OCJP) awarded approximately \$1 million and \$6.3 million of federal Drug Control and System Improvement—Formula Grant funds in fiscal years 1994-95 and 1995-96, respectively, to subrecipients who had already received funds for the allowed maximum of four years. In making these awards, the OCJP believed the Bureau of Justice Assistance (BJA) allowed continued funding if a change occurred in target population, program strategy, or target location. The Bureau of State Audits reported a similar issue during the audit for fiscal year 1994-95.	This finding is in the process of being resolved, pending federal approval. Because multijurisdictional task forces are exempt from the four-year rule, the OCJP is seeking clarification from the BJA of the definition of a multijurisdictional task force. When a subrecipient's program experiences a significant change in scope, focus, or target on or before the allowed maximum of four years, the subrecipient can receive funding beyond the four-year limit. Therefore, the OCJP is also seeking direction from the BJA on what constitutes a significant change in scope, focus, or target. ⁹

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Department	Reference Number	Audit Finding	Status of Corrective Action
Employment Development Department	96-14-1-17.225	<p><u>Eligibility.</u> The Employment Development Department (EDD) did not meet the federal standard for the Unemployment Insurance program that requires it to pay an average of 70 percent of first payments for interstate unemployment claims within the required time frame.</p>	<p>Interstate unemployment claims are now fully mainstreamed. Interstate claims are filed while the claimant is on the phone and able to provide all the necessary information.</p> <p>The Unemployment Insurance Division completed a pilot project addressing the issue of timely first payments. The tools and procedures developed by the project will enable EDD to identify and correct controllable error situations leading to untimely first payments.</p> <p>Mail delivery time for out-of-state claimants is a long-standing issue in timely receipt of claim certification. To assist in timely mail delivery, the EDD has placed bar codes on envelopes containing certification for benefits which improves delivery time by one to three days.¹⁰</p>
Employment Development Department	96-16-3-17.225	<p><u>Special Reporting Requirements.</u> During fiscal year 1995-96, the Employment Development Department (EDD) did not properly reconcile or explain two sections of the quarterly report it submits to the Department of Labor showing the expenditures of federal funds for unemployment compensation paid to federal employees and ex-service members. The Bureau of State Audits reported a similar issue in its audits for fiscal years 1991-92 and 1993-94.</p>	<p>Steps have been taken to determine the discrepancies between Section A and Section B of the Employment Training Administration (ETA 191) report. Also, 9 of 11 Data Processing Service Requests (DPSR) to correct the programming errors were completed in April 1996. Due to other critical programming commitments, the EDD decided to use a personal computer (PC) to complete the remaining two DPSRs. One of the DPSRs was completed in August 1997; the remaining DPSR required an additional accounting report being created on the mainframe. The new report was created and released in November 1997. The PC application was completed in December 1997, and EDD expects to use the new program for the quarter ended December 31, 1997.¹¹</p>

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Department	Reference Number	Audit Finding	Status of Corrective Action
Employment Development Department	96-18-2-17.246 to 17.250	<u>Monitoring.</u> The Employment Development Department has not completed the resolution of long-outstanding cost-compliance issues related to subrecipients that receive Job Training Partnership Act funds. The Bureau of State Audits reported a similar finding in its audit for fiscal year 1994-95.	Corrective action taken.
California Department of Transportation	96-12-1-20.205	<u>Relocation Assistance and Real Property Acquisition.</u> The Department of Transportation did not conduct required acquisition and relocation assistance compliance reviews during fiscal year 1995-96.	Corrective action taken.
Office of Emergency Services	96-13-1-83.516	<u>Services Allowed.</u> The Office of Emergency Services did not ensure that all projects funded under the Hazard Mitigation Grant Program met the basic project eligibility requirements.	Corrective action taken.
Office of Emergency Services	96-16-4-83.516	<u>Special Reporting Requirements.</u> During fiscal year 1995-96, the Office of Emergency Services failed to prepare and submit 22 of the 36 required quarterly Disaster Assistance program progress reports to the Federal Emergency Management Agency.	Corrective action taken. ¹²
California Department of Education	96-13-2-84.027	<u>Allowable Costs.</u> The Department of Education (department) used funds from the Special Education Grants to States to pay attorney fees of the parents or guardians of disabled children suing the State. Specifically, the department used federal program and administrative funds to pay plaintiff attorney fees of nearly \$464,000 for the <i>Lacayo, et al. v. Honig, et al.</i> case, and \$270,000 for the <i>Crawford, et al. v. Honig, et al.</i> case. Although it believes these costs are allowable under the grant, the department's use of federal funds to pay these costs may be unallowable.	The department has no additional information to report with respect to the view of the department reported in the fiscal year 1995-96 Single Audit Report.
Department of Rehabilitation	96-13-3-84.126	<u>Services Allowed.</u> Thirty files were reviewed to assess the Department of Rehabilitation's (department) efforts in developing and overseeing rehabilitation programs.	(a) The Code of Federal Regulations (CFR) does not require 90-day evaluations of progress. While the department continues to instruct counselors to evaluate progress every 90 days, the department is currently working on

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Department	Reference Number	Audit Finding	Status of Corrective Action
California Department of Education	96-13-4-84.162	<p>(a) For 8 of the 30 client files, the department did not complete an evaluation of the client's progress within the required 90 days or record an explanation of the delay.</p> <p>(b) For 1 of the 30 client files, the client remained in extended evaluation for nearly 6 months past the maximum allowable period of 18 months.</p> <p>(c) For 1 of the 14 client files that were started during fiscal year 1995-96, we found that the department did not complete the individualized written rehabilitation program (IWRP) within 90 days after being approved to receive services nor was a continuation authorized by the rehabilitation supervisor.</p> <p><u>Allowable Costs.</u> The California Department of Education did not allocate excess program funds based on the proportion of immigrant children and youth enrolled in the local educational agencies throughout the State, resulting in some local educational agencies not receiving the entire amount of funds for which they were eligible.</p>	<p>modifications to the existing California Code of Regulations (CCR) to be consistent with the Code of Federal Regulations requirements.</p> <p>(b) Counselors will continue to receive guidance and instruction on time limits for extended evaluations. In addition, Rehabilitation Supervisors were instructed to continually monitor caseload movement to assure timely processing of cases and status changes during recent mandatory training.</p> <p>(c) The CFR does not require states to develop IWRPs within a 90 day period. The department is currently working on modifications to the existing CCR to ensure consistency with the CFR requirements. These new regulations would provide flexibility for the development of IWRPs based on the needs of the client. The amount of time necessary to develop the IWRP will be based on the individual circumstances, which should result in a greater level of compliance. Pending changes to the regulations, counselors will continue to receive guidance and instruction on time limits for developing IWRPs.</p>
			Corrective action taken.

Department	Reference Number	Audit Finding	Status of Corrective Action
Department of Alcohol and Drug Programs	96-13-5-84.186	<u>Allowable Costs—Exceeding the Limit on Administrative Costs.</u> Although the U.S. Department of Education has imposed a 2.5 percent limit on the amount of the Safe and Drug-Free Schools—State Grants that can be spent for administrative expenses, it has not defined which expenses should be classified as such. Depending on how administrative expenses are defined, the amount the Department of Alcohol and Drug Programs’ administrative expenses may have exceeded the 2.5 percent limit is between \$6,561 and \$1,763,166.	The department is following the audit resolution process established by the U.S. Department of Education and has submitted documents supporting its position on the issue to the U.S. Department of Education. A favorable decision is anticipated from the U.S. Department of Education on or about April 1998.
California Student Aid Commission	96-14-2-84.032	<u>Eligibility.</u> As reported in previous years, the California Student Aid Commission (commission) is not fully complying with the terms of its agreement to participate in the Federal Family Education Loans program. Specifically, the commission’s automated system does not apply the maximum loan limit edits when processing a loan that consolidates a borrower’s loans into one loan. The Bureau of State Audits’ (BSA) predecessor office, the Office of the Auditor General, reported a similar issue in its fiscal year 1989-90 audit. Furthermore, the BSA has reported a similar issue since its audit for fiscal year 1991-92.	Corrective action taken.
California Student Aid Commission	96-14-3-84.032	<u>Special Reporting Requirements.</u> The California Student Aid Commission (commission) does not always report accurate loan information to the federal government to compute the reinsurance rate.	The commission agrees its loan records are not always accurate but believes that lenders are primarily responsible for ensuring that they notify the commission of changes in loan status information. The commission does notify lenders when updated information appears necessary. The reconciliation project is in its final stages of completion and, upon its conclusion, the commission’s records will agree substantially with lenders’ records. To minimize future differences in commission and lenders’ loan statuses, the commission is considering performing annual reconciliations with participating lenders and establishing a more aggressive

Department	Reference Number	Audit Finding	Status of Corrective Action
California Student Aid Commission	96-17-3-84.032	<u>Special Tests and Provisions.</u> The California Student Aid Commission does not always ensure compliance with the Federal Family Education Loans program preclaims assistance requirements.	notification process to have lenders notify the commission of status changes on a more timely basis. Corrective action taken. ¹³
California Student Aid Commission	96-17-4-84.032	<u>Special Tests and Provisions.</u> The California Student Aid Commission (commission) receives borrower payments for defaulted student loans directly or through collection agencies. The federal government is entitled to receive a share of these moneys. However, the commission did not report approximately \$29 million (29 percent) of the collections due to the federal government for fiscal year 1995-96 within the required 45 days. This issue has been reported in previous years. The BSA's predecessor office, the Office of the Auditor General, reported this issue in its fiscal year 1990-91 audit. Furthermore, the BSA has reported a similar issue since its audit for fiscal year 1991-92.	Collections exceeding the 45-day reporting time period were reduced to 13.8 percent of the total amount collected, down from the 28 percent reported last year. Continuing efforts to improve the processing time have resulted in only a 5.3 percent late reporting of collections for the first seven months of the 1997-98 fiscal year. There will always be a certain number of collections that cannot be reported timely, but the commission is committed to doing all it can to meet the collection reporting requirements.
Department of Community Services and Development	96-13-6-93.536	<u>Services Allowed.</u> For fiscal year 1995-96, the Department of Community Services and Development did not have adequate controls over home energy assistance program payments to ensure it makes only one payment to an eligible applicant each program year as required.	Corrective action taken.
Department of Community Services and Development	96-13-7-93.568	<u>Services Allowed.</u> The Department of Community Services and Development (CSD) spent more than federal regulations allow to administer the 1995 Low-Income Home Energy Assistance program (LIHEAP) grant. The CSD does not accumulate LIHEAP planning and administrative costs in its accounting or program records in a manner that allows it to identify and summarize those costs for itself and local service providers. Therefore, CSD cannot be certain it has complied with the spending limitations of the program. Using CSD financial data for the 1995 LIHEAP	After CSD staff reviewed contractor payments, it was verified that CSD did not overpay subrecipients. If fact, CSD has a system by which all contracts are monitored very closely in order to avoid overpayments to subrecipients. The information used by the auditors contained total administrative costs incurred by the subrecipients, not the amount reimbursed by CSD. CSD staff identified \$200,000 included by the auditors that was not paid to the subrecipients. An additional \$184,460 of

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Department	Reference Number	Audit Finding	Status of Corrective Action
		grant, it was determined that CSD overspent the amount of grant funds allowed for the planning and administrative costs by approximately \$626,000. The Bureau of State Audits reported a similar issue during the audit for fiscal year 1994-95.	CSD's administrative costs has been reclassified to the proper programs. CSD staff also identified approximately \$300,000 in administrative costs that will be reclassified to their proper programs. With these adjustments, the actual total administrative expenditures are far less than the allowable 10 percent.
Department of Health Services	96-15-2-93.917	<u>Earmarking</u> . The Department of Health Services (department) cannot demonstrate that it is complying with the requirement to use at least 15 percent of funds from the HIV Care Formula Grants to provide health and support services to women, infants, and children (WIC), and families with the HIV disease.	The department established a system by which a percentage of the Care Funds made available through the Consortia Program are allocated by county to fund WIC families living with HIV disease. The WIC allocation is based upon the reported number of WIC-eligible people living with the HIV disease in each county. A system is in place by which the counties project WIC funding usage and this information is included in the application and the state contract. The Consortia grant recipients report on general usage of WIC funding, but a system has not been developed to capture actual WIC usage in terms of service categories. The department plans to evaluate the current system of allocating and expending Care funds and to establish a monitoring system next fiscal year.
Department of Health Services	96-16-5-93.994	<u>Special Reporting Requirements</u> . The Department of Health Services was unable to provide clear documentation that its accounting records support certain expenditures it recorded in the annual report for the Maternal and Child Health Services Block Grant to the States.	Corrective action taken. ¹¹
Department of Community Services and Development	96-17-5-93.568	<u>Special Tests and Provisions</u> . The Department of Community Services and Development (CSD) does not always follow federal law and regulations concerning the prompt expenditure of Low-Income Home Energy Assistance Program (LIHEAP) funds. The department did not ensure	The CSD has always had a process to determine the amount of the carry over for the LIHEAP. The Bureau of State Audits (BSA) auditor included leveraging funds that should have been included in calculating the carryover amount. Through a review

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Department	Reference Number	Audit Finding	Status of Corrective Action
		that it spent or obligated at least 90 percent of its 1995 LIHEAP grant within the first year of availability as required by federal law.	conducted by CSD's audit staff and budget officer, it has been verified that the amount of the carryover did not exceed the allowable 10 percent. It was found that the BSA auditors did not account for all of the expenditures that had been incurred. CSD staff are currently working with the BSA auditor to eliminate this audit finding entirely. ¹⁴
Department of Alcohol and Drug Programs	96-17-6-93.959	<u>Special Tests and Provisions.</u> The Department of Alcohol and Drug Programs has not contracted for independent peer reviews of the alcohol and drug treatment providers receiving funds from the Block Grant for the Prevention and Treatment of Substance Abuse. The Bureau of State Audits has reported a similar issue since the audit for fiscal year 1993-94.	The contract for conducting the independent peer reviews was negotiated and awarded in June 1997. Currently, the program is on target for achieving compliance with 15 reviews conducted as of January 31, 1998.
Department of Health Services	96-11-4-93.778	<u>Administrative Requirements (Program Income).</u> As of April 1997, the Department of Health Services (DHS) had not fully implemented procedures to monitor and collect drug rebates. The department also had not finished establishing steps for performing monthly reconciliations between the department's accounting records and its records for the drug rebate program. The Bureau of State Audits reported a similar issue during the audit for fiscal year 1994-95.	The DHS has implemented a tracking system for monitoring drug rebates. However, to better meet the needs of the DHS, the DHS has contracted with EDS to develop an improved drug tracking system. This system should be completed next fiscal year. Currently, the DHS is in the process of resolving invoice disputes with the manufacturers and has developed an action plan and a workable timetable.

¹ We agree that the office has been analyzing the time sheets quarterly for adjustments. However, it has not been recording in the accounting system the required adjustments to reflect actual personal service costs charged against the federal grant. We reported a similar weakness during our fiscal year 1996-97 audit. Please refer to reference number 97-2-3 for additional information.

² We agree with the department's statement that it has corrected the weakness we identified during our fiscal year 1995-96 audit. However, we noted a related problem during our fiscal year 1996-97 audit. Please refer to reference number 97-2-3 for additional information.

³ We reported a similar weakness during our fiscal year 1996-97 audit. However, our audit covered the period from July 1, 1996, to June 30, 1997, and the department's and office's statements may be reflective of their actions taken after our audit period, which we have not reviewed. Please refer to reference number 97-2-3 for additional information.

⁴ We reviewed the status of this issue during our fiscal year 1996-97 audit and found that the department submitted inaccurate federal financial reports. However, because the errors were immaterial, we did not report this issue for fiscal year 1996-97.

⁵ We reported a similar weakness during our fiscal year 1996-97 audit. Please refer to reference number 97-12-3 for additional information.

⁶ As of February 1998, the date of our testing, the department did not have a system in place to adequately monitor and review audit reports of subrecipients receiving \$25,000 in federal assistance in fiscal year 1995-96. Therefore, we reported this weakness again in fiscal year 1996-97. However, the department's statements may be reflective of its actions taken after our audit period, which we have not reviewed. Please refer to reference number 97-13-4 for additional information.

⁷ As of February 1998, the date of our testing, the office did not have a system in place to adequately monitor and review audit reports of subrecipients receiving \$25,000 in federal assistance in fiscal year 1995-96. Therefore, we reported this weakness again in fiscal year 1996-97. Please refer to reference number 97-13-5 for additional information.

⁸ Although the department has made some effort to correct the weaknesses that we identified in our fiscal year 1995-96 audit, we found a similar problem in our fiscal year 1996-97 audit. Please refer to reference number 97-12-1 for additional information.

⁹ We agree with the office's statement that it has corrected the weakness we identified during our fiscal year 1995-96 audit. However, we noted a related problem during our fiscal year 1996-97 audit. Please refer to reference number 97-14-7 for additional information.

¹⁰ We determined that the U.S. Department of Labor calculates the percentage of prompt payments. Therefore, we did not independently review the status of this issue.

¹¹ We reviewed the status of this issue during our fiscal year 1996-97 audit and found the department submitted an inaccurate report. However, because the error was immaterial, we did not report this issue for fiscal year 1996-97.

¹² We agree with the office's statement that it has corrected the weakness we identified during our fiscal year 1995-96 audit. However, during our 1996-97 audit, we noted a related problem for a public agency's quarterly reports. One of the public assistance projects we reviewed did not have a quarterly report submitted.

¹³ The U.S. Department of Education reviewed the California Student Aid Commission's compliance with this requirement for fiscal year 1996-97. Accordingly, we did not perform these audit procedures.

¹⁴ Our follow-up work during our fiscal year 1996-97 audit disclosed that the department continues to lack a system to track its expenditures and encumbrances for the Low-Income Home Energy Assistance program. Please refer to reference number 97-8-1 for additional information.

**Schedule of Audit Reports
Involving Federal Grants From
July 1, 1996 to December 31, 1997**

From July 1, 1996, to December 31, 1997, the Bureau of State Audits issued reports on audits involving federal grants. The following schedule lists the reports issued and presents a summary of the report findings. The agencies' responses to these findings are included in each of the separate audit reports.

Federal Catalog Number/Federal Grant and Catalog Number	Report Title and Description
<p>Department of Transportation Highway Planning and Construction 20.205</p>	<p>Investigations of Improper Governmental Activities: January 1 Through July 31, 1996 (196-2, 9-16-96)</p> <p>(1) An engineer at the Department of Transportation (department) had conflicts of interest when he participated in decision-making processes for the Devil's Slide project while maintaining a financial interest in a business entity that would benefit from the decisions. As a result, the department incurred unnecessary costs of approximately \$12,500, and the project was delayed.</p>
<p>Equal Employment Opportunity Commission</p> <p>Employment Discrimination—State and Local Fair Employment Practices Agency Contracts 30.002</p> <p>Equal Opportunity in Housing (Department of Housing and Urban Development) 14.400</p>	<p>Department of Fair Employment and Housing: Its Complaint Processing Needs More Effective Management (96034, 1-16-97)</p> <p>(1) The department does not have a sufficiently expedited process for investigating and closing complaints. For example, it does not conduct abbreviated investigations early in the process. These investigations would allow the department to do preliminary assessments of the complexity of the complaints and assign workload accordingly.</p> <p>(2) The department does not consistently enforce some of its current policies that promote prompt processing of complaints. For example, it does not always require consultants to attempt to negotiate no-fault settlements between the complainant and respondent early in the process. It also does not vigorously pursue replies from respondents when they fail to meet the deadline for replying to the complaint.</p> <p>(3) The department does not use its current automated capabilities fully, and it needs more automated capabilities to process complaints efficiently.</p> <p>(4) The department does not require its consultants to track time on each complaint, information that would provide the basis for measuring productivity, distributing workload among consultants, and documenting staffing needs.</p>

Federal Catalog Number/Federal Grant and Catalog Number	Report Title and Description
<p>Federal Emergency Management Agency</p> <p>Disaster Assistance 83.516</p>	<p>Office of Emergency Services: Shortcomings in Managing Its Disaster Recovery Efforts Hamper Effectiveness (96032, 1-30-97)</p> <ol style="list-style-type: none"> <li data-bbox="704 436 1430 632">(1) The Office of Emergency Services' (OES) management needs to more effectively fulfill its responsibility to expedite California's recovery from the effects of past disasters. For example, many of the functions central to its recovery efforts lack adequate planning, standardized procedures for administering recovery activities, and established priorities and responsibilities. <li data-bbox="704 663 1430 999">(2) OES is doing more than necessary to meet its responsibilities in administering the disaster assistance and hazard mitigation programs. For example, OES overburdens its resources by conducting too many final inspections that include review of all documents and records, procuring duplicative and unneeded audits, and performing unnecessary activities. If OES adopted a risk-based approach for conducting final inspections, procured only those audits that add value or replace OES's efforts, and streamlined its functions by eliminating unnecessary activities, OES could save as much as \$833,000 a year and substantially reduce its workload. <li data-bbox="704 1031 1430 1398">(3) Although it has made progress during the past year in automating its operations, OES is behind schedule in implementing the key initiatives of its 1995 strategic plan for improving its information technology. For example, one of OES's priorities, to create an automated system for handling the large volume of documents generated by the disaster assistance and hazard mitigation programs, is at least 15 months behind schedule, and now OES does not expect to complete the system until 2001. In addition, of the seven short-term information technology projects OES scheduled for completion during calendar year 1996, only two were finished on time, two were late, and three are incomplete. <li data-bbox="704 1430 1430 1619">(4) Although OES abandoned a system it had originally obtained to automate its management of damage survey reports, OES could complete certain components of the system that would make the disaster assistance program more efficient. However, OES has not yet completed the final modifications to make these components fully operational.
<p>Department of Education</p> <p>Vocational Education—Basic Grants to States 84.048</p>	<p>Investigative Report: Misappropriation of Public Funds, False Claims, and Gross Mismanagement by Employees of the Department of Education (I940262, 9-9-96)</p> <ol style="list-style-type: none"> <li data-bbox="704 1766 1430 1902">(1) We received an allegation under the Reporting of Improper Governmental Activities Act that a manager of the California Department of Education (department) improperly managed the funds of a statewide student vocational club under the department's jurisdiction and the

Federal Catalog Number/Federal Grant and Catalog Number	Report Title and Description
Rehabilitation Services—Vocational Rehabilitation Grants to States 84.126	<p data-bbox="751 323 1430 464">funds of a charitable corporation that received payments from departmental contracts. It was also alleged that he had a conflict of interest relating to his position as a monitor of departmental contracts and his position as an officer of the charitable corporation.</p> <ol style="list-style-type: none"> <li data-bbox="703 495 1430 575">(2) The manager submitted false claims that resulted in improper payments totaling over \$17,745 for his travel expenses. <li data-bbox="703 606 1430 686">(3) The manager illegally exchanged at least \$4,100 in airline tickets purchased with federal funds for other tickets, which he used to take personal trips. <li data-bbox="703 718 1430 831">(4) The manager appears to have influenced decisions by the department’s fiscal agents to do business with his business associate, resulting in payments totaling more than \$26,300. <li data-bbox="703 863 1430 999">(5) The manager was able to gain the above personal benefit at least in part because he used his various roles to improperly divert more than \$95,900 from a number of sources into the account for the California Association of Vocational Industrial Clubs of America Leadership Foundation. <li data-bbox="703 1031 1430 1056">(6) The manager made an improper political contribution. <li data-bbox="703 1087 1430 1167">(7) The department may have violated limits on the amount of federal grants that can be spent for administrative expenses and the State’s budgetary controls. <p data-bbox="703 1203 1430 1283">Department of Rehabilitation: Poor Management Practices Limit the Effectiveness of the Business Enterprise Program for the Blind (96031, 8-27-97)</p> <p data-bbox="751 1314 1430 1623">The Department of Rehabilitation (department) is not sufficiently promoting the program to all who might be eligible and interested. In addition, the department does not make a concerted effort to establish new, more profitable locations or improve existing locations, and is slow to explore other business opportunities that would provide alternatives to the types of vending facilities currently available to vendors. Further, it does not provide vendors already in the program with an equal opportunity to apply for facilities because of its process for awarding certain locations.</p> <ol style="list-style-type: none"> <li data-bbox="703 1654 1430 1850">(1) The department needs to more effectively fulfill its responsibilities to both the vendors and the Business Enterprise Consultants (BECs) who advise and assist them. For example, the department does not adequately provide training for all vendors to improve current operations or enhance their skills for more complex facilities. Moreover, the department does not always emphasize consulting

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services, which are designed to identify and resolve issues that negatively affect vendors' profitability. In addition, the department reduces the effectiveness of consulting services provided to vendors because it does not provide sufficient training or guidance to the BECs and it does not enforce the procedures that require BECs to conduct specific reviews of vendor performance. Further, it has not adopted procedures that compel vendors to adhere to the terms of their contracts with the department.

- (2) The department's inadequate administration of program finances impairs the program's growth and continued viability. For example, the department does not ensure that vendors promptly submit required monthly financial reports, fees, or loan repayments. In addition, the department is inappropriately using vendor set-aside fees to provide loans to vendors. Moreover, the department has not demonstrated that it administers set-aside fees in a manner equitable to all vendors. Further, while the department has made some improvement in ensuring it receives all vending machine commissions available to the program, more improvement is needed, and the department must ensure that it uses these commissions for the benefit of all vendors in an equitable manner. Finally, the department needs to improve its controls over equipment. For example, the department has allowed a private food service company to use program equipment at a location developed for program vendors.
- (4) The department has not promptly resolved certain tax-status issues related to the program's retirement plan, thereby putting the vendors and the State at risk. Specifically, the department has administered the retirement plan as a qualified plan for tax purposes, even though as early as 1990, a retirement consulting firm raised concerns that the retirement plan did not meet the requirements of a qualified plan. On a different matter, while the department has stated the vendors are independent businesspersons, it has put the State at risk because its administration of the program raises a question regarding whether its relationship with the vendors is more like an employer/employee relationship. If it is determined that the vendors should in fact be classified as employees, the State is potentially liable for failure to provide employee benefits and withhold taxes.

**Department of Health and Human
Services**

Child Support Enforcement
93.563

Child Support Pilot Projects: Effectiveness Cannot Be
Determined With Existing Data (93023, 9-12-96)

- (1) The federal government and the State provide incentive payments to the counties based on certain standards of performance in the Child Support Enforcement Program that is administered at the state level by the Department of Social Services (department). Some counties accumulate

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Foster Care 93.658	<p>“excess incentive funds” when incentive payments exceed the costs of administering their Child Support Enforcement programs.</p> <p>(2) Special legislation allowed Merced and San Luis Obispo counties to divert a portion of their excess incentive funds to establish two-year pilot projects that addressed child-related issues outside their Child Support Enforcement programs.</p> <p>(3) The same legislation required the Bureau of State Audits to evaluate the effectiveness of the pilot projects using specified data pertaining to each county’s Child Support Enforcement Program. However we could not do this for two reasons. First, a direct relationship does not exist between the Child Support Enforcement Program data and the success of the pilot projects and second, even if the data did apply, our review indicates the data and statistics may not be reliable or comparable.</p> <p>(4) We also found that neither the counties nor the department developed any other type of relevant data or performance measures to evaluate the pilot projects. As a result, we were unable to determine whether the projects, which appear to provide worthwhile services, achieved their expressed statutory purpose of improving the counties’ Child Support Enforcement programs.</p>
Adoption Assistance 93.659	<p>Los Angeles County: The Department of Children and Family Services Can Improve Its Processes To Protect Children From Abuse and Neglect (96106, 10-23-96)</p> <p>(1) The Department of Children and Family Services (DCFS) does not always comply with its own risk assessment policies related to protecting children from abuse, neglect, and exploitation. For 6 of 24 cases we reviewed, the risk assessment documentation was either missing, incomplete, or inadequately prepared. In addition, the risk assessment method used by the DCFS does not result in a standardized risk rating and, thus, it has less assurance that the most intense services are given to the most at-risk cases. Finally, when compared to different risk assessment methods used in some other states, the DCFS’s method does not appear to be the best available.</p> <p>(2) The DCFS does not always comply with other child safety procedures. In particular, we found it does not always follow its own policy to visit children and their parents or caregivers once per month. Also, we noted that required criminal background checks on adults caring for children were not always obtained by the DCFS. Finally, we found that children’s medical assessments were not obtained very timely and required reports were not submitted to the court on time.</p>

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Medicare 93.774	California Department of Veterans Affairs: The Veterans Home at Yountville Could Decrease Costs, Increase Revenues, and Improve the Quality of Care Provided to its Residents by Utilizing Accepted Industry and Managed Care Techniques (96035, 1-29-97)
Medical Assistance Program 93.778	
Veterans State Nursing Home Care (U.S. Department of Veterans Affairs) 64.015	<p>(1) Yountville is providing all its intermediate and skilled nursing care in an institutional setting. However, we believe that Yountville can better serve its residents by providing nursing care in its residential areas. A home health agency is simply a licensed unit that would provide the same type of services that the veterans now receive in the intermediate or skilled nursing areas of Yountville, but in their own residences at Yountville.</p> <p>(2) Yountville's physicians are on staff rather than the more common contracting on a fee-for-service basis. We also believe Yountville employs more staff physicians than necessary. Because of either excess physicians on staff, low productivity among the physicians, inadequate billing for physicians, or physician visits, Yountville incurs more than \$1.8 million in unreimbursed physician costs annually.</p> <p>(3) Yountville operates a 26-bed acute care hospital. However, the small size of Yountville's hospital and its low utilization rates suggest that the hospital is not cost-effective. Yountville's own analysis indicates that the hospital's costs exceeded its reimbursements by \$854,000 for fiscal year 1995-96. We also found that the hospital's radiology costs per procedure are 6 times greater than statewide averages. Finally, we question the quality of care provided at an unusually small hospital such as Yountville's versus the quality of care that can be obtained at nearby larger hospitals with more specialists and a greater pool of expertise.</p> <p>(4) Yountville uses a higher-than-industry-average ratio of registered nurses (RNs) compared to the less costly licensed vocational nurses (LVNs), and nurses' aides (aides). We estimate that Yountville could save approximately \$816,000 annually by shifting staffing ratios for RNs, LVNs, and aides to ranges consistent with statewide averages without decreasing the amount of direct nursing care received by the veterans. We also noted that the salaries for RNs and aides are significantly above state averages, while LVNs' salaries are lower.</p> <p>(5) Yountville can maximize its Medicare reimbursement rates by creating a "certified distinct part" (CDP) within the institution. This allows the facility to isolate and report all of the costs associated with providing skilled nursing care to Medicare-eligible patients. We believe that Yountville's Medicare reimbursement rate is far lower than it would be if the rate were based upon costs captured in an appropriately sized and monitored CDP. We also found</p>

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that some of the medical and administrative staff of Yountville lack the level of expertise in Medicare and Medi-Cal reimbursement techniques typically found in their counterparts in the industry.

- (6) The proper utilization of nursing services is important to Yountville's financial viability as well as the veterans' quality of life. A number of issues that came to our attention during this review caused us to question whether Yountville is appropriately using skilled nursing care. We also noted that skilled nursing care was provided at different locations at Yountville, which is inefficient.
- (7) Throughout the audit, we noted numerous weaknesses resulting from Yountville's lack of an adequate management information system (MIS). Many of these same weaknesses were identified by the Bureau of State Audits in an audit of Yountville in 1994. The lack of an adequate MIS effectively precludes Yountville from utilizing many of the management techniques commonly used by the industry.
- (8) We compared Yountville's cost of laundry and dietary services to those of the California Veterans Home at Barstow, which are provided by outside contractors. Considering those comparisons, we estimate Yountville could save approximately \$2 million annually by contracting for dietary services and approximately \$350,000 annually by contracting for laundry services.

Medical Assistance Program
93.778

Department of Health Services: Drug Treatment Authorization Requests Continue to Increase (96012, 8-1-96)

- (1) The Department of Health Services (department) processed 402,424 drug treatment authorization requests (TARs) from December 1995 through May 1996. This figure represents an increase of 421 percent over the number processed during the first six-month period that we reviewed in 1990 and an increase of 13 percent over the number of drug TARs processed in the prior six-month period.
- (2) Although the number of processed drug TARs has continually increased since June 1990, the number of unprocessed drug TARs has diminished. In November 1990, the department's backlog consisted of 2,311 drug TARs, whereas the backlog in May 1996 was 1,743, a decrease of 25 percent. From December 1995 through May 1996, the department's processes for compiling drug TAR statistics were appropriate.
- (3) During the six-month period we reviewed, both the Los Angeles and Stockton drug units met the new requirement for processing drug TARs received by mail in one working day.

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93.778

- (4) In previous audits, we validated the methods used by the drug units to calculate the length of time it took to process mailed-in drug TARs. However, the department conducted a study in March 1996 and determined that the method used to prepare the calculations was inefficient. As a result, in April 1996, the drug units discontinued calculating their turnaround time for mailed-in drug TARs. At the time of our review, the department still had not developed and implemented a new method. As a result, we were unable to validate the department's current methods for calculating the amount of time it takes to process a drug TAR in this audit.
- (5) From December 1995 through May 1996, 93 fair hearing requests were submitted to the Department of Social Services. This figure represents a decrease of 54 percent from the number of requests submitted during the prior review period. Of the 93 requests submitted, 64 were withdrawn or dismissed, 4 were denied, 4 were approved, and the decisions on the remaining 21 were still pending at the time of our review.

Department of Health Services: The Number of Drug Treatment Authorization Requests Has Begun To Stabilize (97011, 1-28-97)

- (1) The Department of Health Services (department) processed 381,110 drug treatment authorization requests (TARs) from June 1996 through November 1996.
- (2) Although the number of processed drug TARs has risen since June 1990, the percentage of unprocessed drug TARs compared to drug TARs received has decreased. In November 1990, the department's backlog consisted of 2,311 unprocessed drug TARs, or 19 percent of the total drug TARs received that month. During our first review period, from June 1990 through November 1990, the average monthly backlog was 20 percent of all drug TARs received. In comparison, the backlog in November 1996 was 5,999 drug TARs, representing 10 percent of all drug TARs submitted that month. The average monthly backlog for the review period June 1996 through November 1996 was just 4 percent of all drug TARs received.
- (3) Both of the department's drug units (located in Stockton and Los Angeles) consistently compiled with state policy, which requires all drug TARs will be processed by 5 p.m. of the following working day.
- (4) From June 1996 through November 1996, beneficiaries submitted to the Department of Social Services 97 fair-hearing requests appealing denials of drug TARs. This figure represents an increase of 4 (4 percent) over the prior review period of December 1995 to May 1996. Of the 97

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93.778

requests submitted, 79 (81 percent) were dismissed, 7 were denied, and 7 were approved. The decisions on the remaining 4 were still pending at the time of our review.

Department of Health Services: Some Drug Treatment Authorization Requests Are Not Processed Promptly (97012, 8-4-97)

- (1) The Department of Health Services (department) received 437,253 drug treatment authorization requests (TARs) from December 1996 through May 1997, an increase of 358,755 (457 percent) over the number received during our first six-month review period of June through November 1990. Major reasons for this significant increase include the rise in the number of people eligible to obtain drugs through Medi-Cal and changes in the governing code that require more drug TARs in specific situations.
- (2) The department processed 440,302 drug TARs from December 1996 through May 1997, an increase of 363,020 (470 percent) over the number processed during the first six-month period we reviewed. The current number represents the highest level of activity for any period we reviewed.
- (3) Although the number of processed drug TARs has risen substantially since June 1990, the percentage of unprocessed drug TARs compared to drug TARs received continues to remain at a low level. The average month-end backlog for the review period December 1996 through May 1997 was just 5 percent of all drug TARs received.
- (4) The department's Stockton drug unit consistently complied with state policy, which requires that all drug TARs be processed within one working day. However, the Los Angeles drug unit did not always comply with state policy, taking longer than one working day to fully process 117 (31 percent) of the 375 drug TARs sampled that were either mailed or submitted via Voice Drug TAR System (VDTS). In contrast, samples of facsimile (fax) drug TARs received by the Los Angeles unit, as well as samples of faxes and mailed-in drug TARs received at the Stockton unit, showed both units processed all 1,383 TARs within the required time frame.
- (5) We found that the number of fair-hearing requests went down during this latest review period. From December 1996 through May 1997, beneficiaries submitted to the Department of Social Services 71 fair-hearing requests appealing denials of drug TARs. This figure represents a decrease of 26 (27 percent) over the prior review period of June 1996 to November 1996.

Federal Catalog Number/Federal Grant and Catalog Number	Report Title and Description
Medical Assistance Program 93.778	<p data-bbox="704 321 1430 432">Department of Health Services: The Genetic Disease Branch's Fee Setting, Billing, and Collection Processes Need Improvement, and Its Regulations Do Not Warrant Emergency Status (97105, 9-4-97)</p> <ol style="list-style-type: none"> <li data-bbox="704 464 1430 575">(1) During fiscal year 1995-96, the branch charged fees that exceeded costs by 13 and 12 percent for the prenatal and newborn testing programs, respectively. Some excess fees resulted from branch assumptions that did not materialize. <li data-bbox="704 606 1430 743">(2) Because it has an ineffective process for billing and collecting prenatal testing fees from patients, the branch has written off \$9.7 million in uncollectable fees since July 1993, and it may soon add an additional \$6.5 million to this figure. <li data-bbox="704 774 1430 942">(3) Branch staff were unaware that they had not billed the California Medical Assistance Program (Medi-Cal) \$1.1 million for prenatal tests provided between July and November 1995, and these fees may now be uncollectable. Even if Medi-Cal pays the fees, the branch has lost approximately \$65,000 in interest earnings. <li data-bbox="704 974 1430 1058">(4) Because it returns overpayments only when requested, the branch is holding approximately \$775,000 in overpaid fees for prenatal screening tests. <li data-bbox="704 1089 1430 1226">(5) The branch generally complies with state laws and regulations on contracting, but it has not always followed good business practices. From 1990 to 1996, the branch did not seek competitive bids for the laboratory testing contracts that it awarded. <li data-bbox="704 1257 1430 1604">(6) Besides examining fees and contracting at the branch, we assessed whether the department uses its emergency regulatory powers appropriately when it adopts branch regulations. Our analysis showed that the department's emergency regulatory authority is unnecessary. Even though the Health and Safety Code designates as emergencies all branch regulations affecting the prenatal and newborn screening programs, many branch regulations that the department has adopted concern administrative issues rather than true emergencies. Also, the Administrative Procedures Act enables the department to adopt emergency regulations when emergencies arise. <li data-bbox="704 1635 1430 1845">(7) Further, the department has not benefited from oversight by the Office of Administrative Law (office), which makes certain that agencies complete the regulatory process promptly and also repeals regulations when necessary. Because the Health and Safety Code exempts from repeal any regulations governing the newborn and prenatal screening programs, the department could misuse its regulatory powers.

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- (8) Without supervision by the office, the department in one instance failed to complete the regulatory process on time. The department also violated the Administrative Procedures Act by increasing fees for both programs and modifying its prenatal screening tests without first adopting regulations to authorize these changes.

Department of Health Services: Its Drug Management Techniques Are Similar to Those of Health Maintenance Organizations (96038, 12-9-97)

- (1) Generally, the department's drug management techniques are on a par with those of Health Maintenance Organizations (HMOs). We compared them to those used by 14 HMOs and found the department employs 11 of the 14 techniques. Of the 3 it does not employ, 1 is not widely used by the HMOs and 2 are not applicable to the state program. While the department uses most of the same techniques, it does not use some in the same manner or to the same extent as the HMOs. There are differences in the list of preferred drugs (formulary), drug use reviews, and rebates.
- (2) The Medi-Cal formulary is comparable to those of HMOs in the number and range of drugs it offers. However, it offers fewer of the most commonly prescribed medications because the drugs either cost more than other comparable drugs or are prone to misuse. Nonetheless, if medically necessary, a Medi-Cal recipient can obtain these drugs with the department's approval.
- (3) Also, although the department employs drug use reviews, it does not do so as extensively as the HMOs. Both use on-line computer messages or screens to alert pharmacists of a drug's potential adverse effects, but the department screens only a few of the drugs on the Medi-Cal formulary while the HMOs screen all drugs on their formularies. Additionally, unlike some HMOs, the department does not obtain or review nonformulary drug use statistics to identify drugs for possible inclusion on the formulary.
- (4) Further, the department and most HMOs negotiate rebate agreements with drug manufacturers. However, while the HMOs base their rebates on a price that is published and readily available, the department bases its on a price known only to the drug's manufacturer. Thus, unlike the department, HMOs can calculate rebates and bill manufacturers for the amount owed.

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Department of Health Services: The Department Does Not Use Its Automated Payment System To Detect Certain Ineligible Outpatient Claims (97023, 12-16-97)

- (1) Our review disclosed that the contracting program has existed for 15 years without careful attention by the department and the commission to the intent of certain

contract provisions or the possibility of designing and implementing edits to enforce those provisions. As a result, the department pays ineligible claims because its automated payment system cannot identify them. The department also does not perform complete post-payment audits that include recovery of ineligible payments. Currently, if a hospital submitted a claim for an inpatient at the contracted rate and a separate outpatient claim for a service covered in the inpatient rate, it could receive payment for both.

- (2) Further, until recently, the department had not designated a program coordinator to plan and organize activities among its various units responsible for developing and implementing edits related to hospital contracts. In addition, the department has indicated that until 1995, it did not have the capability to implement edits for the contracting program.
- (3) As a result of these deficiencies, we estimate that the department overpaid providers by approximately \$1.6 million during fiscal year 1996-97. However, without controls such as edits in the automated payment system and audits of paid claims, the potential for ineligible payments is much greater.

Various Federal Departments

Various Programs

Tahoe Regional Planning Agency: Addressing Broader Needs of the Lake Tahoe Region and Streamlining Regulatory Processes Will Increase Effectiveness (96119, 2-7-97)

- (1) We found that the Tahoe Regional Planning Agency (TRPA) is currently shifting its focus from regulatory activities to facilitating environmental improvement projects. To accomplish this, TRPA is initiating a number of actions, such as developing an environmental improvement program, reorganizing its staff structure, and playing a greater role in facilitating the implementation of environmental projects. While these actions appear to be appropriate and consistent with its mission, it is premature to conclude on the effectiveness of TRPA's actions.
- (2) Further, the TRPA has recently conducted a second five-year evaluation of the Lake Tahoe region's progress towards achieving nine environmental standards, also known as thresholds. Originally adopted in 1982 using the best information and technology available at that time, an evaluation shows that the region has not achieved compliance with any of the nine thresholds, but has made progress in achieving 15 of the 34 subelements of the thresholds. However, TRPA's increasing emphasis on environmental improvement projects should help the Lake Tahoe region make progress toward achieving the thresholds. Therefore, TRPA's decision to focus on implementing environmental improvement projects before amending any of the thresholds is prudent.

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- (3) As to regulatory activities, TRPA has taken action to streamline its ongoing efforts and more effectively use its staff. For example, TRPA has delegated some of the reviews of residential projects to local jurisdictions, has implemented procedures to more efficiently process permit applications, and is in the process of revising its ordinances related to activities in the shorezone areas of Lake Tahoe.

State Contracting: Improvements Are Still Needed To Ensure the Effective Use of Public Resources (96015, 7-24-97)

In this and previous audits, we have found deficiencies in contracts between state departments and their contractors because the departments' management of contracts and interagency agreements, current laws related to public contracting, and the State's existing system for overseeing contracts have failed to prevent their recurrence.

Our review of 46 contracts at five state departments revealed the following specific concerns:

- (1) The Department of Developmental Services restricted competition to a sole contractor.
- (2) Two departments awarded contracts without sufficient funding for their completion. Although in both instances the departments subsequently provided the necessary funding, they risked receiving incomplete products, or no products at all, if additional funding had not been approved.
- (3) Some departments' planning and management of contracts did not always protect the public interest. For example, departments entered into contracts that did not specify the departments' requirements for the contractors. Without such detail, neither the departments nor the contractors knew what was to be delivered for the contracted price.
- (4) We found instances in which the California Department of Education misused interagency agreements to contract with private parties. Although the department initially contracted with the California State University, the campuses invoiced expenditures for subcontractors who performed the actual services. The department should have used the competitive bidding process to contract directly with the private parties to avoid paying additional administrative costs.
- (5) At the California Department of Education, an inadequate separation of duties permitted employees to both authorize contract expenditures and then serve as contract monitors to review and approve invoices for the same expenditures.

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- (6) Finally, the State may not obtain the best prices for services because it has not centralized negotiations for master agreements or information regarding available master agreements. Moreover, departments were frustrated because the procedures for obtaining service from a master service contractor varied considerably depending on the type of service.

**Independent Auditor's Report on
the Schedule of Federal Assistance**

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CALIFORNIA STATE AUDITOR

KURT R. SJOBERG
STATE AUDITOR

MARIANNE P. EVASHENK
CHIEF DEPUTY STATE AUDITOR

Independent Auditor's Report on the Schedule of Federal Assistance

The Governor and Legislature of
the State of California

We have audited the general purpose financial statements of the State of California as of and for the year ended June 30, 1997, and have issued our report thereon dated November 21, 1997. These general purpose financial statements are the responsibility of management of the State of California. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying schedule of federal assistance is presented for purposes of additional analysis and is not a required part of the general purpose financial statements. The U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires the schedule of federal assistance to present total expenditures for each federal assistance program. However, although the State's automated accounting system separately identifies revenues for each federal assistance program, it does not separately identify expenditures for each program. As a result, the State presents the schedule of federal assistance on a revenue basis. The schedule shows the amount of federal funds and the estimated value of food stamps and commodities received by the State for the year ended June 30, 1997, as well as the value of insurance in effect during the 1996-97 fiscal year and loans or loan guarantees outstanding as of June 30, 1997. The information in the accompanying schedule has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole. The California State University Schedule of Expenditures of Federal Assistance begins on page 155. These expenditures were audited by other independent auditors, and our opinion, insofar as it relates to the California State University expenditures, is based solely on the report provided by these auditors. The schedule does not include expenditures of federal grants received by the University of California. These expenditures are audited by other independent auditors in accordance with the OMB Circular A-133.

This report is intended for the information of the governor and Legislature of the State of California and the management of the executive branch. However, this report is a matter of public record, and its distribution is not limited.

BUREAU OF STATE AUDITS

A handwritten signature in black ink that reads "Philip Jelicich". The signature is written in a cursive style with a large, prominent initial "P".

PHILIP J. JELICICH, CPA
Deputy State Auditor

April 15, 1998

**State of California
Schedule of Federal Assistance for the
Fiscal Year Ended June 30, 1997**

Federal Agency/Program Title	Federal Catalog Number	Grant Amounts Received	
Department of Agriculture:			
Agriculture Conservation Program	10.063	\$ 14,057	
Forestry Incentives Program	10.064	13,000	
Meat, Poultry, and Egg Products Inspection	10.477	2,844,573	
Food Distribution	10.550	69,890,069	*
Food Stamps	10.551	2,579,950,620	*
School Breakfast Program	10.553	176,903,514	
National School Lunch Program	10.555	673,410,737	
Special Milk Program for Children	10.556	888,325	
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	648,634,299	
Child and Adult Care Food Program	10.558	184,427,083	*
Summer Food Service Program for Children	10.559	20,688,954	*
State Administrative Expenses for Child Nutrition	10.560	15,328,348	
State Administrative Matching Grants for Food Stamp Program	10.561	273,943,576	
Nutrition Education and Training Program	10.564	797,072	
Commodity Supplemental Food Program	10.565	5,744,435	*
Emergency Food Assistance Program	10.568	4,990,123	
Nutrition Program for the Elderly (Commodities)	10.570	11,734,041	
WIC Farmers' Market Nutrition Program (FMNP)	10.572	107,226	*
Forestry Research	10.652	6,000	

Federal Agency/Program Title	Federal Catalog Number	Grant Amounts Received	
Cooperative Forestry Assistance	10.664	1,806,622	
Schools and Roads—Grant to States	10.665	36,157,526	
National Forest—Dependent Rural Communities	10.670	556,466	
Other—U.S. Department of Agriculture	10.999	3,904,364	
Department of Commerce:			
Trade Development	11.110	42,421	
Economic Development—Support for Planning Organizations	11.302	125,000	
Economic Development—Technical Assistance	11.303	6,944	
Economic Development—State and Local Economic Development Planning	11.305	100,000	
Special Economic Development and Adjustment Assistance Program—Sudden and Severe Economic Dislocation and Long-Term Economic Deterioration	11.307	701,841	
Special Economic Development and Adjusted Assistance Program—Sudden and Severe Economic Dislocation	11.311	2,476,090	**
Anadromous Fish Conservation Act Program	11.405	451,427	
Interjurisdictional Fisheries Act of 1986	11.407	140,107	
Coastal Zone Management Administration Awards	11.419	2,863,155	
Coastal Zone Management Estuarine Research Reserves	11.420	397,263	
Marine Sanctuary Program	11.429	115,065	
Coastal Service Center	11.473	131,000	
Public Telecommunications Facilities—Planning and Construction	11.550	572,522	
Other—U.S. Department of Commerce	11.999	83,283	

Federal Agency/Program Title	Federal Catalog Number	Grant Amounts Received	
Department of Defense:			
Navigation Projects	12.107	24,900	
Planning Assistance to States	12.110	527,729	
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113	14,619,951	
National Guard Military Operations and Maintenance (O&M) Projects	12.401	5,014,629	
Community Economic Adjustment Planning Assistance	12.607	960,688	
Language Grant Program	12.900	6,202	
Research and Technology Development	12.910	770,000	
Other—U.S. Department of Defense	12.999	3,478,135	
Department of Housing and Urban Development:			
Community Development Block Grants/Special Purpose Grants/Technical Assistance Program	14.227	5,000	
Community Development Block Grants/State's Program	14.228	32,150,314	
Emergency Shelter Grants Program	14.231	4,021,598	
Supportive Housing Program	14.235	5,999,740	**
Supplemental Assistance for Facilities to Assist the Homeless	14.236	333,878	
Home Investment Partnerships Program	14.239	60,355,621	**
Housing Opportunities for Persons with AIDS	14.241	2,409,339	
Opportunities for Youth—Youthbuild Program	14.243	50,960	
Equal Opportunity in Housing	14.400	1,621,990	***
Section 8 Rental Voucher Program	14.855	618,530	

Federal Agency/Program Title	Federal Catalog Number	Grant Amounts Received
Lower Income Housing Assistance Program— Section 8 Moderate Rehabilitation	14.856	252,003
Section 8 Rental Certificate Program	14.857	2,134,053
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	2,119,887
Department of Interior:		
Recreation Resource Management	15.225	1,796
Reclamation Projects	15.503	260,448
Anadromous Fish Conservation	15.600	371,888
Sport Fish Restoration	15.605	8,630,329
Wildlife Restoration	15.611	6,818,483
Endangered Species Conservation	15.612	660,192
Cooperative Endangered Species Conservation Fund	15.615	10,729
Clean Vessel Act	15.616	467,124
Wildlife Conservation and Appreciation	15.617	55,996
Geological Survey—Research and Data Acquisition	15.808	136,086
Historic Preservation Fund Grants-In-Aid	15.904	3,959,661
Outdoor Recreation—Acquisition, Development and Planning	15.916	2,288,799
Research Information	15.975	393,692
Other—U.S. Department of the Interior	15.999	8,416,932
Shared Revenue—Potash and Sodium Lease	15.999	21,916,626

Federal Agency/Program Title	Federal Catalog Number	Grant Amounts Received
Department of Justice:		
Juvenile Justice and Delinquency Prevention— Allocation to States	16.540	8,070,084
Juvenile Justice and Delinquency Prevention— Special Emphasis	16.541	2,415,626
Part E—State Challenge Activities	16.549	374,450
National Criminal History Improvement Program	16.554	1,914,697
Justice Research, Development, and Evaluation Project Grants	16.560	252,304
State Criminal Alien Assistance Program	16.572	252,260,225
Criminal Justice Discretionary Grants	16.574	4,397,204
Crime Victim Assistance	16.575	15,028,138
Crime Victim Compensation	16.576	43,689,000
Byrne Formula Grant Program	16.579	46,709,454
Violent Offender Incarceration and Truth in Sentencing Incentive Grants	16.586	123,644
Violence Against Women Formula Grants	16.588	93,603
Other—U.S. Department of Justice	16.999	2,225,191
Department of Labor:		
Labor Force Statistics	17.002	6,092,238
Compensation and Working Conditions Data	17.005	266,000
Labor Certification for Alien Workers	17.203	7,470,244
Employment Service	17.207	97,991,210
Unemployment Insurance	17.225	3,214,186,745
Senior Community Service Employment Program	17.235	6,789,535

Federal Agency/Program Title	Federal Catalog Number	Grant Amounts Received	
Trade Adjustment Assistance—Workers	17.245	8,621,474	
Employment and Training Assistance—Dislocated Workers	17.246	228,497,847	
Employment Services and Job Training—Pilot and Demonstration Programs	17.249	1,297,708	
Job Training Partnership Act	17.250	305,845,925	
Occupational Safety and Health	17.500	9,464,923	
Occupational Safety and Health—State Program	17.503	9,641,768	
Consultation Agreements	17.504	2,054,576	
Mine Health and Safety Grants	17.600	98,559	
Women’s Special Employment Assistance	17.700	31,615	
Disabled Veterans’ Outreach Program	17.801	10,443,721	
Veterans’ Employment Program	17.802	27,062	
Local Veterans’ Employment Representative Program	17.804	5,954,436	
Other—U.S. Department of Labor	17.999	1,351,320	
Department of Transportation:			
Boating Safety Financial Assistance	20.005	1,544,071	
Airport Improvement Program	20.106	339,433	
Highway Planning and Construction	20.205	1,698,744,550	** ***
Motor Carrier Safety	20.217	3,326,234	
Motor Carrier Safety Assistance Program	20.218	53,727	
Railroad Safety	20.301	15,662	
Federal Transit Capital Improvement Grants	20.500	1,733,098	
Federal Transit Technical Studies Grants	20.505	6,790,838	

Federal Agency/Program Title	Federal Catalog Number	Grant Amounts Received	
Public Transportation for Nonurbanized Areas	20.509	8,913,665	
State and Community Highway Safety	20.600	11,908,082	
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	6,804,575	
Motorcycle Helmets and Safety Belt Incentive Grants	20.602	2,113,564	
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	400,998	
Other—U.S. Department of Transportation	20.999	34,057	
Department of Treasury:			
Other—U.S. Department of Treasury	21.999	60,027	
Equal Employment Opportunity Commission:			
Employment Discrimination—State and Local Fair Employment Practices Agency Contracts	30.002	3,245,500	***
General Services Administration:			
Donation of Federal Surplus Personal Property	39.003	8,871,892	*
National Aeronautics and Space Administration:			
Technology Transfer	43.002	19,025	
National Foundation on the Arts and the Humanities:			
Promotion of the Arts—Art in Education	45.003	36,750	
Promotion of the Arts—State and Regional Program	45.007	1,004,170	
Promotion of the Arts—Presenting	45.011	10,000	
Institute of Museum and Library Services	45.301	18,074	

Federal Agency/Program Title	Federal Catalog Number	Grant Amounts Received
National Science Foundation:		
Engineering Grants	47.041	27,687
Education and Human Resources	47.076	1,663,830
Small Business Administration:		
Business Development Assistance to Small Business	59.005	2,959
Procurement Assistance to Small Businesses	59.009	97,672
Small Business Development Center	59.037	6,905,949
Department of Veterans Affairs:		
Grants to States for Construction of State Home Facilities	64.005	1,859,875
Veterans State Domiciliary Care	64.014	3,540,977
Veterans State Nursing Home Care	64.015	5,990,004 ***
Veterans State Hospital Care	64.016	126,949
All-Volunteer Force Educational Assistance	64.124	45,844
Other—U.S. Department of Veterans Affairs	64.999	991,170
Environmental Protection Agency:		
Air Pollution Control Program Support	66.001	233,150
Air Pollution Control Technical Training	66.006	53,725
Air Pollution Control—National Ambient Air and Source Emission Data	66.007	85,134
State Indoor Radon Grants	66.032	91,574
Construction Grants for Wastewater Treatment Works	66.418	161,532

Federal Agency/Program Title	Federal Catalog Number	Grant Amounts Received	
Water Pollution Control—State and Interstate Program Support	66.419	4,856,243	
State Underground Water Source Protection	66.433	317,884	
Water Pollution Control—Lake Restoration Cooperative Agreements	66.435	92,718	
Water Quality Management Planning	66.454	1,024,077	
National Estuary Program	66.456	304,780	
Capitalization Grants for State Revolving Funds	66.458	757,397,687	**
Nonpoint Source Implementation Grants	66.460	6,227,735	
Wetlands Protection—Development Grants	66.461	516,927	
National Pollutant Discharge Elimination System Related State Program Grants	66.463	1,065,234	
Near Coastal Waters	66.464	236,256	
Air Pollution Control Research	66.501	66,347	
Water Pollution Control—Research, Development, and Demonstration	66.505	199,060	
Safe Drinking Water Research and Demonstration	66.506	5,187,447	
Toxic Substances Research	66.507	448,893	
Consolidated Pesticide Enforcement Cooperative Agreements	66.700	1,166,214	
Toxic Substances Compliance Monitoring Cooperative Agreements	66.701	92,213	
TSCA Title IV State Lead Grants—Certification of Lead-Based Paint Professionals	66.707	332,472	
Pollution Prevention Grants Program	66.708	179,224	
Hazardous Waste Management State Program Support	66.801	7,548,438	

Federal Agency/Program Title	Federal Catalog Number	Grant Amounts Received
Superfund State Site—Specific Cooperative Agreements	66.802	3,228,795
State Underground Storage Tanks Program	66.804	454,197
Leaking Underground Storage Tank Trust Fund Program	66.805	6,090,555
Solid Waste Management Assistance	66.808	422,991
Pollution Prevention Grants Program	66.900	5,166
Other—U.S. Environmental Protection Agency	66.999	1,122,716
Department of Energy:		
State Energy Program	81.041	1,985,243
Weatherization Assistance for Low-Income Persons	81.042	3,984,943
Environmental Research and Impact Assessments	81.046	197,745
Energy Conservation for Institutional Buildings	81.052	967,790
Regional Biomass Energy Programs	81.079	2,100
Conservation Research and Development	81.086	213,275
Renewable Energy Research and Development	81.087	6,971
Environmental Restoration	81.092	1,353,789
Technology Development for Environmental Management	81.104	66,421
National Industrial Competitiveness Through Energy, Environment, and Economics	81.105	879,958
Other—U.S. Department of Energy	81.999	291,823
Federal Emergency Management Agency:		
Hazardous Materials Training Program for Implementation of the Superfund Amendment and Reauthorization Act of 1986	83.011	3,228

Federal Agency/Program Title	Federal Catalog Number	Grant Amounts Received	
Acquisition of Flood Damage Structures	83.502	500,209	
Civil Defense—State and Local Emergency Management Assistance	83.503	5,260,273	
Population Protection Planning	83.514	531	
Disaster Assistance	83.516	357,732,697	***
Earthquake Hazards Reduction Grants	83.521	774,078	
Radiological Defense	83.522	25,164	
National Urban Search and Rescue Response System	83.526	312,220	
Emergency Management Institute—Field Training Program	83.528	569,018	
State and Local Emergency Management Assistance—Other Assistance	83.531	570,290	
Emergency Management—State and Local Assistance	83.534	1,372,230	
Other—Federal Emergency Management Agency	83.999	16	

Department of Education:

Adult Education—State Grant Program	84.002	32,322,903	
Civil Rights Training, and Advisory Services	84.004	205,185	
Education of Children With Disabilities in State Operated or Supported Schools	84.009	14,656	
Title I Grants to Local Educational Agencies	84.010	577,748,504	
Migrant Education—Basic State Grant Program	84.011	93,948,897	
Educationally Deprived Children—State Administration	84.012	610,815	
Title I Program for Neglected and Delinquent Children	84.013	4,035,575	
Services for Children with Deaf-Blindness	84.025	1,002,587	

Federal Agency/Program Title	Federal Catalog Number	Grant Amounts Received	
Special Education—Grants to States	84.027	227,594,100	
Special Education—Personnel Development and Parent Training	84.029	296,485	
Federal Family Education Loans	84.032	21,078,747,820	**
Public Library Services	84.034	9,907,523	
Interlibrary Cooperation and Resource Sharing	84.035	2,343,756	
Vocational Education—Basic Grants to States	84.048	99,107,980	***
Vocational Education—Consumer and Homemaking Education	84.049	881,546	
Vocational Education—State Councils	84.053	246,577	
State Student Incentives Grants	84.069	4,934,550	
Rehabilitation Services—Vocational Rehabilitation Grants to States	84.126	189,233,095	***
Rehabilitation Services—Service Projects	84.128	822,995	
Centers For Independent Living	84.132	2,549,791	
Chapter 2—State Block Grants	84.151	467,026	
Public Library Construction and Technology Enhancement	84.154	2,513,158	
Secondary Education and Transitional Services for Youth with Disabilities	84.158	445,061	
Immigrant Education	84.162	10,742,910	
Eisenhower Mathematics and Science Education—State Grants	84.164	631,849	
Eisenhower Professional Development—National Activities	84.168	81,687	
Independent Living—State Grants	84.169	1,244,596	
Special Education—Preschool Grants	84.173	37,359,670	

Federal Agency/Program Title	Federal Catalog Number	Grant Amounts Received
Vocational Education—Community Based Organizations	84.174	298,939
Douglas Teacher Scholarships	84.176	306,851
Rehabilitation Services—Independent Living Services for Older Individual Who are Blind	84.177	278,300
Special Education—Grants for Infants and Families With Disabilities	84.181	41,507,687
Byrd Honors Scholarships	84.185	6,185,287
Safe and Drug-Free Schools and Communities—State Grants	84.186	41,051,275
Supported Employment Services for Individuals With Severe Disabilities	84.187	3,614,359
Bilingual Education Support Services	84.194	777,193
Education for Homeless Children and Youth	84.196	3,116,148
Even Start—State Educational Agencies	84.213	10,381,670
Fund for the Improvement of Education	84.215	399,557
Capital Expenses	84.216	3,464,407
State School Improvement Grants	84.218	1,594,015
State Grants for Assistive Technology	84.224	903,345
Tech-Prep Education	84.243	11,892,860
Foreign Languages Assistance	84.249	594,539
State Literacy Resource Centers	84.254	144,046
Rehabilitation Training—State Vocational Rehabilitation Unit In-Service Training	84.265	301,050
Federal Direct Student Loans	84.268	40,050,070
National Early Intervention Scholarship and Partnership	84.272	225,122

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Federal Agency/Program Title	Federal Catalog Number	Grant Amounts Received
Goals 2000—State and Local Education Systemic Improvement Grants	84.276	34,034,308
Eisenhower Professional Development State Grants	84.281	28,934,995
Charter Schools	84.282	413,311
Innovative Education Program Strategies	84.298	31,008,329
Consumer Product Safety Commission:		
Other—Consumer Product Safety Commission	87.999	1,090
Department of Health and Human Services:		
Public Health and Social Services Emergency Fund	93.003	2,272,910
Low-Income Home Energy Assistance	93.028	70,058
Community Services Block Grant	93.031	15
Special Programs for the Aging—Title VII, Chapter 3—Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041	13,922
Special Programs for the Aging—Title III, Part F—Disease Prevention and Health Promotion Services	93.043	2,048,889
Special Programs for the Aging—Title III, Part B—Grants for Supportive Services and Senior Centers	93.044	29,740,913
Special Programs for the Aging—Title III, Part C—Nutrition Services	93.045	43,354,436
Special Programs for the Aging—Title III, Part D—In-Home Services for Frail Older Individuals	93.046	964,666
Special Programs for the Aging—Title IV, Training, Research and Discretionary Projects and Programs	93.048	150,588
Special Programs for the Aging—Title VII, Chapter 6—Allotments for Vulnerable Elder Rights Protection Programs	93.049	99,752

Federal Agency/Program Title	Federal Catalog Number	Grant Amounts Received
Grants for Residential Treatment Programs for Pregnant and Postpartum Women	93.101	5,454,489
Demonstration Grants for Residential Treatment for Women and Their Children	93.102	2,204,911
Food and Drug Administration—Research	93.103	1,539,870
Comprehensive Community Mental Health Services for Children With Serious Emotional Disturbances	93.104	3,315,563
Maternal and Child Health Federal Consolidated Programs	93.110	139,359
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	6,985,659
Acquired Immunodeficiency Syndrome Activity	93.118	13,994,021
Mental Health Planning and Demonstration Project	93.125	527,737
Emergency Medical Services for Children	93.127	119,904
Grants for Technical Assistance Activities Related to the Block Grant for Community Mental Health Service—Mental Health Statistics Improvement Program	93.128	150,711
Injury Prevention and Control Research and State and Community Based Programs	93.136	206,988
Projects for Assistance in Transition From Homelessness	93.150	1,639,714
Health Program for Toxic Substances and Disease Registry	93.161	776,840
Grants for State Loan Repayment	93.165	932,987
Disabilities Prevention	93.184	239,324
Cooperative Agreements for Drug Abuse Treatment Improvement Projects in Target Cities	93.196	6,937,017
Demonstration Cooperative Agreements for Development and Implementation of Criminal Justice Treatment Networks	93.229	603,566

Federal Agency/Program Title	Federal Catalog Number	Grant Amounts Received	
Mental Health Research Grants	93.242	66,847	
Childhood Immunization Grants	93.268	91,998,522	*
Centers for Disease Control and Prevention— Investigations and Technical Assistance	93.283	102,235	
Biomedical Research Support	93.337	169,740	
Family Preservation and Support Services	93.556	20,923,829	
Temporary Assistance for Needy Families	93.558	1,750,397,761	
Family Support Payments to States—Assistance Payments	93.560	1,329,930,418	
Job Opportunities and Basic Skills Training	93.561	149,841,459	
Child Support Enforcement	93.563	308,476,018	***
Refugee and Entrant Assistance—State Administered Programs	93.566	40,910,407	
Low-Income Home Energy Assistance	93.568	55,418,617	
Community Services Block Grant	93.569	40,171,178	
Community Services Block Grant Discretionary Awards—Community Food and Nutrition	93.571	310,598	
Emergency Community Services for the Homeless	93.572	552,809	
Child Care for Families At-Risk of Welfare Dependency	93.574	17,252,847	
Child Care and Development Block Grant	93.575	125,024,585	
Refugee and Entrant Assistance—Discretionary Grants	93.576	1,466,399	
U.S. Repatriate Program	93.579	13,792	
Refugee and Entrant Assistance—Targeted Assistance	93.584	8,248,320	
Empowerment Zones Program	93.585	2,503,408	

Federal Agency/Program Title	Federal Catalog Number	Grant Amounts Received	
Refugee Assistance—Naturalization and Citizenship Activities	93.589	1,741,006	
Community-Based Resource Centers	93.590	1,025,245	
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	56,510,443	
Head Start	93.600	122,873	
Developmental Disabilities Basic Support and Advocacy Grants	93.630	5,017,633	
Children’s Justice Grants to States	93.643	734,991	
Child Welfare Services—State Grants	93.645	33,011,903	
Social Services Research and Demonstration	93.647	133,005	
Temporary Child Care and Crisis Nurseries	93.656	618,365	
Foster Care—Title IV-E	93.658	813,462,130	***
Adoption Assistance	93.659	57,779,821	***
Social Services Block Grant	93.667	265,415,906	
Child Abuse and Neglect State Grants	93.669	1,578,239	
Child Abuse and Neglect Discretionary Activities	93.670	210,956	
Family Violence Prevention and Services—Grants to States and Indian Tribes	93.671	2,819,069	
Grants to States for Planning and Development of Dependent Care Programs	93.673	135,381	
Independent Living	93.674	12,928,490	
Medicare—Supplementary Medical Insurance	93.774	9,454,718	***
State Medicaid Fraud Control Units	93.775	7,312,756	
State Survey and Certification of Health Care Providers and Suppliers	93.777	23,968,029	
Medical Assistance Program	93.778	9,398,331,118	***

Federal Agency/Program Title	Federal Catalog Number	Grant Amounts Received
Health Care Financing Research, Demonstrations and Evaluations	93.779	735,720
Digestive Diseases and Nutrition Research	93.848	21,091
Model Comprehensive Drug Abuse Treatment Programs for Critical Populations	93.902	2,485,539
Model Criminal Justice Drug Abuse Treatment for Incarcerated Populations, Non-Incarcerated Populations and Juvenile Justice Populations	93.903	1,918,449
Grants to States for Operation of Offices of Rural Health	93.913	469,451
HIV Care Formula Grants	93.917	37,845,054
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Program	93.919	5,542,061
Demonstration Grants to States for Community Scholarships	93.931	498
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	618,690
Assistance Program for Chronic Disease Prevention and Control	93.945	59,074
Community-Based Comprehensive HIV/STD/TB Outreach Services for High Risk Substance Abusers Demonstration Program	93.949	571,772
Demonstration Grants to States With Respect to Alzheimer's Disease	93.951	852,631
Block Grants for Community Mental Health Services	93.958	34,991,878
Block Grants for Prevention and Treatment of Substance Abuse	93.959	183,664,379
Preventive Health Services—Sexually Transmitted Disease Control Grants	93.977	3,672,688

Federal Agency/Program Title	Federal Catalog Number	Grant Amounts Received
Mental Health Disaster Assistance and Emergency Mental Health	93.982	116,475
Health Program for Refugees	93.987	395,620
Cooperative Agreements for State-Based Diabetes Control Program and Evaluation of Surveillance Systems	93.988	306,890
National Health Promotion	93.990	26,150
Preventive Health and Health Services Block Grant	93.991	14,377,365
Maternal and Child Health Services Block Grant to the States	93.994	40,744,859
Other—Department of Health and Human Services	93.999	3,221,248
Corporation for National and Community Service:		
Service America/Higher Education	94.001	541,820
State Commissions	94.003	1,248,587
Learn and Serve America—School and Community Based Programs	94.004	1,280,317
AmeriCorps	94.006	14,740,360
Foster Grandparent Program	94.011	956,892
Social Security Administration:		
Social Security—Disability Insurance	96.001	151,459,541
Social Security—Research and Demonstration	96.007	349,841
Miscellaneous Grants and Contracts:		
Shared Revenue—Flood Control Lands	98.002	156,529
Shared Revenue—Grazing Land	98.004	188,964
Capital Outlay—Reed Act	98.012	2,252,140

Federal Agency/Program Title	Federal Catalog Number	Grant Amounts Received
U.S. Department of the Interior—Fire Prevention/Suppression Agreement	98.014	220,041
U.S. Department of the Interior—Fire Prevention/Suppression Agreement	98.015	392,460
U.S. Department of Agriculture and Various Other U.S. Departments—Fire Prevention/Suppression	98.016	5,866,957
Miscellaneous Federal Receipts	98.099	1,696,898
Miscellaneous Federal Receipts	98.999	2,348,051
Total Grants Received		\$50,078,445,611

* This amount includes or consists of the value of commodities or food stamps.

** This amount includes the value of insurance in effect during the year or loans or loan guarantees outstanding at year end.

*** The Bureau of State Audits reviewed this grant in conjunction with various reports issued from July 1, 1996 to December 31, 1997. See the Schedule of Audit Reports Involving Federal Grants from July 1, 1996, to December 31, 1997, beginning on page 117 for a description of these reports.

**California State University
Schedule of Expenditures of Federal Assistance
for the Fiscal Year Ended June 30, 1997**

<u>Federal Agency/Pass-Through Grantor/Program Title</u>	<u>Federal Catalog Number</u>	<u>Federal Disbursements/Expenditures</u>
Department of Education:		
Federal Supplemental Education Opportunity Grant Program	84.007	\$10,696,071
Federal Work-Study Program	84.033	10,205,484
Federal Perkins Loan Program	84.038	17,151,982
Federal Pell Grant Program	84.063	169,652,436
Federal Family Education Loan Program	84.032	290,552,345
Special Education—Innovation and Development	84.023	134,963
Services for Children With Deaf-Blindness	84.025	366,830
Special Education—Personnel Development	84.029	603,733
Higher Education—Cooperative Education	84.055	62,324
Postsecondary Education Program for Persons With Disabilities	84.078	163,632
Harris Fellowship	84.094	6,561
Fund for the Improvement of Postsecondary Education	84.116	87,874
Rehabilitation Long-Term Training—Experimental and Innovative	84.129	237,699
National Institute on Disability and Rehabilitation Research	84.133	411,190
Budget Assistance in Area of National Need	84.200	430,124
Urban Community Services	84.252	573,572
Rehabilitation Training—Experimental and Innovative	84.263	108,771

Federal Agency/Pass-Through Grantor/Program Title	Federal Catalog Number	Federal Disbursements/ Expenditures
Training in Early Childhood Education	84.266	123,258
Student Support Services	84.042a	205,904
Critical Language and Area Studies	84.273a	71,895
William Ford Direct Loan Program	84.268	241,968,554
Byrd Honors Scholarships	84.185	20,178
Rehabilitation Services—Service Projects	84.128	76,447
Business and International Education	84.153	77,041
Secondary Education and Transitional Services for Youth	84.158	89,153
Foreign Periodicals	84.251	45,536
State and Local Educational Systems Improvement Grant	84.276	47,033
Venezuelan Fulbright Grant	84.021a	44,995
National Service Award	None	17,540
		744,233,125
Federal Emergency Management Agency:		
Passed Through the California State Office of Emergency Services—Disaster Recovery Assistance	83.516	34,892,227
Department of Labor:		
Employment and Training Assistance	17.246	351,112
Department of Health and Human Services:		
Professional Nurses Traineeship	93.358	105,894
Nursing Student Loan	93.364	186,390

Federal Agency/Pass-Through Grantor/Program Title	Federal Catalog Number	Federal Disbursements/ Expenditures
Scholarship for the Disadvantaged	93.925	44,141
Social Services	93.576	56,517
Child Support Enforcement	93.023	9,374
Minority International Research Grant	93.106	1,026,438
Biological Response to Environmental Health Hazards	93.113	1,208
Minority Community Health Coalition Demonstration	93.137	96,087
Community Youth Activity Program Block Grant	93.171	116,499
Drug Abuse Treatment Improvement Project	93.196	115,650
Biological Models and Materials Research	93.198	2,752
Health Services Research and Development Grant	93.226	215,506
Advanced Nurse Education	93.299	167,936
General Clinical Research Centers	93.333	173,422
Academic Research Enhancement Award	93.390	20,748
Assistance Payment—Research	93.562	354,873
Biophysics and Physiological Science	93.821	51,289
HIV Demonstration Research and Education	93.941	416,324
Injury Prevention and Control Research	93.136	132,324
Research Centers in Minority Institutions	93.389	315,653
Health Careers Opportunity Program	93.822	70,119
Minority Access to Research Careers	93.880	1,782
Maternal and Child Health Services	93.994	114,963
		<hr/> 3,795,889 <hr/>

<u>Federal Agency/Pass-Through Grantor/Program Title</u>	<u>Federal Catalog Number</u>	<u>Federal Disbursements/ Expenditures</u>
Department of Housing and Urban Development:		
Community Development Block Grant	14.228	10,000
Department of the Interior:		
Fish and Wildlife Services	15.612	73,616
Endangered Species	15.162	615,537
Endangered Species RT	None	51,045
Bureau of Indian Affairs	None	8,750
		748,948
Department of Agriculture:		
Grants for Agriculture—Cooperative Research Grants	10.206	9,500
Forestry Research	10.652	43,036
		52,536
Department of Commerce:		
Marine Fisheries Initiative	11.433	9,800
Department of Defense:		
Navigation Projects	12.107	24,985
Selected Reserve Educational Assistance	12.609	106,165
		131,150
Department of the Navy:		
Office of Naval Research Basic and Applied Scientific Research	12.300	38,220

<u>Federal Agency/Pass-Through Grantor/Program Title</u>	<u>Federal Catalog Number</u>	<u>Federal Disbursements/ Expenditures</u>
Department of Justice:		
COPS MORE	16.726	26,037
Universal Hiring Grant	16.710	30,000
		56,037
Department of Transportation:		
State Marine Schools	20.806	200,000
National Aeronautics and Space Administration:		
Aerospace Education Services Program	43.001	319,565
National Science Foundation:		
Biology Fluorescent DNA Sequencing	47.076	67,000
Engineering Grants	47.041	87,150
Geosciences	47.050	23,311
Biological, Behavioral and Social Sciences	47.051	284,218
Material Development and Information Science Education	47.067	91,444
Studies, Evaluation and Dissemination	47.068	987,876
Computer and Information Science	47.070	3,811
Science and Technology Centers	47.073	1,351,360
Biological Sciences	47.074	736,740
Social, Behavioral and Economic Sciences	47.075	77,789
Education and Human Resources	47.076	179,617

<u>Federal Agency/Pass-Through Grantor/Program Title</u>	<u>Federal Catalog Number</u>	<u>Federal Disbursements/ Expenditures</u>
Academic Research Facilities and Instrumentation	47.077	49,890
Research Rose Zhang	None	9,354
		<hr/> 3,949,560 <hr/>
Environmental Protection Agency:		
Air Pollution Training Program	66.000	33,361
Hazardous Waste Management State Support Program	66.801	25,000
Environmental Protection—Consolidated Research	66.500	86,316
		<hr/> 144,677 <hr/>
Department of Energy:		
Basic Energy Sciences	81.049	153,998
		<hr/> \$789,086,844 <hr/> <hr/>

**NOTES TO SCHEDULES OF FEDERAL ASSISTANCE
FISCAL YEAR ENDED JUNE 30, 1997**

1. General

The accompanying State of California Schedule of Federal Assistance presents the total amount of federal financial assistance programs received by the State of California for the fiscal year ended June 30, 1997. This schedule does not include expenditures of federal grants received by the University of California. The expenditures of the University of California are audited by other independent auditors in accordance with the Office of Management and Budget (OMB), Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*.

The \$50,078,445,611 in total federal assistance consists of the following:

Grant Amounts Received	\$25,971,885,060
Non-Cash Federal Awards	2,607,032,768
Loans and/or Loan Guarantees Outstanding	18,268,896,483
Insurance In-Force	3,230,631,300
Total	\$50,078,445,611

The accompanying California State University (CSU) Schedule of Expenditures of Federal Assistance presents the total amount of federal assistance expended by the CSU for the year ended June 30, 1997. The CSU receives federal assistance directly from the federal government and other sources. The federal assistance programs administered by the CSU are based on the expenditures/disbursements of grant funds. For the fiscal year ended June 30, 1997, the CSU reported grant expenditures of approximately \$789 million. These federal grants were audited by other independent auditors in accordance with OMB, Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*.

2. Basis of Accounting

The OMB, Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*, and the Single Audit Act of 1984 (Amended 1996) require the Schedule of Federal Assistance to present total expenditures for each federal assistance program. However, although the state accounting system separately identifies revenues for each federal assistance program, it does not separately identify expenditures for each program. As a result, the State prepares its Schedule of Federal Assistance on a revenue basis. The schedule shows the amount of cash and non-cash federal assistance received, loans and loan guarantees outstanding, insurance in force, and amounts disbursed to subrecipients for the year ended June 30, 1997.

The CSU prepares its Schedule of Federal Assistance on an expenditures and/or disbursements basis.

3. **Unemployment Insurance**

Of the \$3,214,186,745 in total unemployment insurance funds (CFDA #17.225) received by the Employment Development Department during fiscal year 1996-97, \$2,844,136,799 was State Unemployment Insurance funds which were drawn down from the Unemployment Trust Fund in the U.S. Treasury.

4. **Other**

The State was also loaned federal excess personal property (FEPP) from the U.S. Forest Service during the period October 1, 1996 to September 30, 1997. According to the State's Department of Forestry and Fire Prevention, the amount loaned between October 1, 1996, and September 30, 1997, was approximately \$11 million. The U.S. Forest Service and the State maintain the FEPP program at federal acquisition costs of the property.

Appendix A Reports Issued by the Bureau of State Audits From July 1, 1996, to December 31, 1997

Date of Issue	Report Title	Report No.
1996		
July 2	California Department of Food and Agriculture: Improvement Is Needed in the Oversight of Market Enforcement Activities	96102
Aug 1	Department of Health Services: Drug Treatment Authorization Requests Continue To Increase	96012
Aug 15	State Contracting: Reforms Are Needed To Protect the Public Interest	95015
Aug 21	Oakland Unified School District: Current Practices Have Improved Its Financial Condition	96105.1
Aug 22	California State Lottery: Opportunities Exist To Improve Planning, Reduce Administrative Costs, and Increase Sales Efficiency	96107.1
Aug 28	Los Angeles County Metropolitan Transportation Authority: Planning and Budgeting of Its Operations and Bus Plan Need Improvement	96114
Aug 30	Treasurer's Cash Count (February 29, 1995)	96005
Sept 9	Investigative Report: Misappropriation of Public Funds, False Claims, and Gross Mismanagement by Employees of the Department of Education	I940262
Sept 12	Child Support Pilot Projects: Effectiveness Cannot Be Determined With Existing Data	93032
Sept 16	Investigations of Improper Governmental Activities: January 1 Through July 31, 1996	196-2
Oct 1	Employment Training Panel: Has Achieved Many of Its Training Program Responsibilities Despite Some Administrative and Planning Problems	96023
Oct 2	Office of Historic Preservation: Did Not Always Comply With Requirements for Sole-Source Contracts	95115
Oct 3	California Conservation Corps: Further Revisions Would Improve Its Performance-Based Budgeting Plan	95124

Date of Issue	Report Title	Report No.
Oct 16	Investigative Report: Theft of Funds From a Long-Term Savings Plan by a State Employee	I960030
Oct 23	Los Angeles County: The Department of Children and Family Services Can Improve Its Processes To Protect Children From Abuse and Neglect	96106
Nov 14	Department of Transportation: Further Improvements Can Be Made in the Management of Properties Along the State Route 710 Right-of-Way	95111
Nov 19	Statewide Redevelopment Agencies: Broad Project Discretion and Inadequate Information Make Comparison and Evaluation Difficult	95125
Nov 21	Los Angeles County: Budget Challenges Continue, and the Sheriff's Department Could Achieve Savings	96019
Dec 27	Treasurer's Cash Count (June 30, 1996)	96006
Dec 30	State of California: Financial Report Year Ended June 30, 1996	96001
Dec 31	Department of Transportation: No Activity in the Seismic Retrofit Bond Fund for the Fiscal Year Ended June 30, 1996	96022
1997		
Jan 3	State of California: Statement of Securities Accountability of the State Treasurer's Office, June 30, 1996	96008
Jan 16	Department of Fair Employment and Housing: Its Complaint Processing Needs More Effective Management	96034
Jan 28	Department of Health Services: The Number of Drug Treatment Authorization Requests Has Begun To Stabilize	97011
Jan 29	California Department of Veterans Affairs: The Veterans Home at Yountville Could Decrease Costs, Increase Revenues, and Improve the Quality of Care Provided to Its Residents by Utilizing Accepted Industry and Managed Care Techniques	96035
Jan 30	Office of Emergency Services: Shortcomings in Managing Its Disaster Recovery Efforts Hamper Effectiveness	96032
Feb 7	Tahoe Regional Planning Agency: Addressing Broader Needs of the Lake Tahoe Region and Streamlining Regulatory Processes Will Increase Effectiveness	96119

Date of Issue	Report Title	Report No.
Feb 19	Department of Alcohol and Drug Programs: A Review of the Processes Used To Allocate and Disburse Alcohol and Drug Funds to Counties	96039.1
Feb 19	Department of Alcohol and Drug Programs: A Review of the Actuary's Report on the 1996 Survey of Treatment Providers	96039.2
Feb 25	California State University: Evaluation of a Contractor Dispute at the Fullerton Camps	96113
Feb 26	California Transportation Commission and Department of Transportation: The State's Use of Transportation Funds Generated by the 1989 Transportation Blueprint Legislation	96014
Mar 13	Department of Insurance: Management of Its Financial Affairs and Programs Needs Improvement	96033
Mar 18	Investigations of Improper Activities by State Employees: August 1 Through December 31, 1996	197-1
Mar 27	Los Angeles County: Although It Continues To Balance Current Budgets, Financial Uncertainties Linger	97018
Mar 31	Los Angeles County Metropolitan Transportation Authority: Effects of the Transfer of \$50 Million to Los Angeles County	96024
Apr 17	Department of Personnel Administration: Improved Controls Would Reduce Risk in Long-Term Savings Plans	96125
Apr 21	Habitat Conservation Fund: Some State Agencies Need To Do More To Ensure the Fund Is Used Appropriately	95110
June 26	State of California: Internal Control and State and Federal Compliance Audit Report for the Year Ended June 30, 1996	96002
July 2	Department of Motor Vehicles: Overstated Costs for Registration Information Have Resulted in Inequitable Charges to Customers	96116
July 15	California Department of Transportation: Some Internal Audit Recommendations Have Been Implemented, but Inconsistencies Exist in Its Contracting for Expert Witness Services (Letter Report)	97106
July 24	State Contracting: Improvements Are Still Needed To Ensure the Effective Use of Public Resources	96015
July 31	California State Lottery: Information Technology Operations Need Correction and Because of Poor Scratcher Automation Decisions, It Unnecessarily Incurred Millions of Dollars in Contract Dispute Costs	96107.2

Date of Issue	Report Title	Report No.
Aug 4	Department of Health Services: Some Drug Treatment Authorization Requests Are Not Processed Promptly	97012
Aug 12	Investigations of Improper Activities by State Employees: January 1 Through June 30, 1997	197-2
Aug 20	Prison Industry Authority: Has Failed To Take Significant Corrective Action on Many State Auditor Recommendations	97502
Aug 21	Investigative Report: Conflicts of Interest, Illegal Acceptance of Gifts, Failure To Report Gifts, and Improper Reimbursement of Expenses at the Teale Data Center	1960159
Aug 27	Department of Rehabilitation: Poor Management Practices Limit the Effectiveness of the Business Enterprise Program for the Blind	96031
Sept 3	The UCSF and Stanford Health Services: The Proposed Merger Should Make the Partners Fiscally Stronger, Although the Extent of Financial Benefits Is Potentially Overstated	97122
Sept 4	Department of Health Services: The Genetics Disease Branch's Fee Setting, Billing, and Collection Processes Need Improvement, and Its Regulations Do Not Warrant Emergency Status	97105
Oct 16	U.S. Border Patrol: Its Policies Cause San Diego County Health Care Providers To Incur Millions of Dollars in Unreimbursed Medical Care	96117
Oct 27	Cerritos Community College: Improvements Needed in Aspects of Operating the District and Its Auxiliary Organization	96118
Oct 28	Los Angeles Unified School District: The District Can Improve Its Handling of Employees Accused of Child Abuse as Well as Its School Financial Accounts	96121
Nov 4	California Public Utilities Commission: Its Fees May Not Cover Its Costs of Regulating Transportation Companies	96020
Nov 5	California Community Colleges: The Chancellor's Office Should Collect Additional Funds for Questionable Training Agreements	97501
Nov 6	Los Angeles County: Departments Can Improve Purchasing and Warehousing Practices	97018.1
Nov 12	California Community Colleges: While the Chancellor's Office Has Improved Its Administration of the Economic Development Program, It Has Failed To Fully Address All State Auditor Recommendations	97500

Date of Issue	Report Title	Report No.
Nov 13	University of California: Its Award of Breast Cancer Research Funds Is Equitable; However, Some Procedures Should Be Improved	96042
Dec 9	Department of Health Services: Its Drug Management Techniques Are Similar to Those of Health Maintenance Organizations	96038
Dec 16	Treasurer's Cash County (June 30, 1997)	97006
Dec 16	Department of Health Services: The Department Does Not Use Its Automated Payment System To Detect Certain Ineligible Outpatient Claims	97023
Dec 18	Department of Transportation: Seismic Retrofit Expenditures Are Generally In Compliance With the Bond Act, but Some Improvements Are Needed	97022
Dec 23	State Legal Contracts: The State Could Reduce Its Reliance on Outside Counsel and Better Manage Contracts	97102
Dec 30	State of California: Statement of Securities Accountability of the State Treasurer's Office June 30, 1997	97008
Dec 30	State of California: Financial Report Year Ended June 30, 1997	97001

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Appendix B Index By State Department

	Page Number(s) On Which Issue(s) Begins
Business, Transportation, and Housing	
Department of Housing and Community Development	55, 57, 58
Department of Transportation	70
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Response to the report provided as text only:

STATE OF CALIFORNIA
DEPARTMENT OF FINANCE
Office of the Director
State Capitol, Room 1145
Sacramento, CA 95814-4998

June 19, 1998

Mr. Kurt R. Sjoberg
State Auditor
660 J Street, Suite 300
Sacramento, CA 95814

Dear Mr. Sjoberg:

STATE OF CALIFORNIA: INTERNAL CONTROL AND STATE AND FEDERAL COMPLIANCE
AUDIT REPORT FOR THE YEAR ENDED JUNE 30, 1997

Thank you for the opportunity to respond to the internal control and compliance audit report. This report was the result of your examination of the State's general purpose financial statements for the fiscal year ended June 30, 1997, and will be part of the Single Audit Report covering this period. Although our systems can always be improved, the fact that the cumulative findings do not adversely affect the State's general purpose financial statements is evidence that the State's operations are materially under control.

California is an entity with numerous programs and activities being carried out for its citizens and is much more complex and vast than most economic entities in the world. Such complexity, along with budget constraints, challenge us to not only meet the requirements of those programs and activities, but to do so in a manner that is effective and efficient. Moreover, such operations must exist within a process of internal control that safeguards assets and resources and produces reliable financial information. Attaining these objectives and overseeing the financial and business practices of the State continues to be an important aspect of the Department of Finance's leadership for the State.

In meeting our responsibility for financial leadership and oversight, the Department of Finance conducts internal control reviews of state departments and reviews areas of potential weakness in the State's fiscal systems. In addition, we provide oversight of internal audit units at individual departments, including the providing of audit guidelines and conducting quality assurance reviews of their work. Further, several years ago, we started a process of issuing Audit Memos to departments to establish policy or provide technical advice on various audit related issues. We will soon be issuing an Audit Memo concerning the results of the fiscal year 1996-97 Single Audit.

Mr. Kurt R. Sjoberg
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The head of each state department is responsible for establishing and maintaining internal control within their department. This responsibility includes documenting the controls, communicating control requirements to employees, and assuring that controls are functioning as prescribed and are modified for changes in conditions. Moreover, all levels of management of state departments must be involved in assessing and strengthening the internal controls to minimize fraud, errors, abuse, and waste of government funds.

Each department for which you have identified internal control weaknesses is responsible for developing corrective action plans. We will monitor the corrective actions included in their responses to your findings.

The Department of Finance will continue to provide the leadership to ensure the proper financial operations and business practices of the State, and to ensure that internal controls exist for the safeguarding and effective use of assets and resources.

If you have any questions concerning this letter, please contact Samuel E. Hull, Chief, Office of State Audits and Evaluations, at (916) 322-2985.

Sincerely,

CRAIG L. BROWN
Director

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