

California State Auditor

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

Department of Education:

*Its Monitoring Efforts Give Limited Assurance
That It Properly Administers State and
Federal Programs*



January 2000
99121

The first copy of each California State Auditor report is free.
Additional copies are \$3 each. You can obtain reports by contacting
the Bureau of State Audits at the following address:

**California State Auditor
Bureau of State Audits
555 Capitol Mall, Suite 300
Sacramento, California 95814
(916) 445-0255 or TDD (916) 445-0255 x 216**

OR

**This report may also be available
on the World Wide Web
<http://www.bsa.ca.gov/bsa/>**

Permission is granted to reproduce reports.



CALIFORNIA STATE AUDITOR

MARY P. NOBLE
ACTING STATE AUDITOR

STEVEN M. HENDRICKSON
CHIEF DEPUTY STATE AUDITOR

January 20, 2000

99121

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 requested by the Joint Legislative Audit Committee, the Bureau of State Audits presents its audit report concerning the Department of Education's (department) monitoring of state and federal programs.

This report concludes that the department has begun to shift its monitoring focus from concentrating solely on compliance with state and federal regulations to measuring accountability by student achievement. While we recognize the importance of student achievement, this philosophy hinders the department's ability to ensure the appropriate use of state and federal funds. Its monitoring approach is further flawed because the department generally does not review entities receiving state and federal funds based on risk and it does not adequately track and evaluate the results of its monitoring efforts.

We also found that the Audits and Investigations Division (audits division), which was the primary focus of our audit, provides limited value towards the department's monitoring efforts. The audits division is spending the majority of its time reviewing independent CPA reports and ensuring that the department's records agree with figures in these reports rather than performing on-site audits or assisting with program reviews. Finally, we found that various divisions within the department can improve their processes for monitoring nonprofit organizations and school districts by performing reviews within the required timeframe and consistently following up with program participants to ensure that they have taken appropriate corrective actions.

Respectfully submitted,

MARY P. NOBLE
Acting State Auditor

BUREAU OF STATE AUDITS

555 Capitol Mall, Suite 300, Sacramento, California 95814 Telephone: (916) 445-0255 Fax: (916) 327-0019

CONTENTS

<i>Summary</i>	1
<i>Introduction</i>	7
<i>Audit Results</i>	
The Department Must Improve Its Monitoring Efforts to Ensure Accountability for State and Federal Funds	13
Recommendations	32
<i>Appendix A</i>	
Monitoring of Participants in State and Federal Programs With Funding Greater Than \$10 Million	37
<i>Appendix B</i>	
Status of Corrective Action Following Three USDA Reports on Child Nutrition	39
<i>Response to the Audit</i>	
Department of Education	43
<i>California State Auditor's Comments on the Response From the Department of Education</i>	61

SUMMARY

Audit Highlights . . .

Our review of the monitoring activities revealed that the Department of Education (department):

- Does not focus its monitoring activities on high-risk programs and entities.*
 - Lacks an overall system to track the performance of recipients of state and federal funds.*
 - Furthermore, its Audits and Investigations Division oversight activities provide limited value.*
 - Program divisions do not effectively monitor their respective programs.*
-

RESULTS IN BRIEF

The Department of Education (department) oversees a variety of state and federal programs with combined expenditures of more than \$26 billion. It distributes most funds from these programs to school districts and nonprofit organizations throughout California, monitors these entities through desk and on-site program reviews and audits, and provides technical assistance to ensure that the participants properly administer these programs. Its monitoring of the programs, however, is flawed.

In administering these programs, the department has begun to shift its focus from concentrating solely on strict compliance with state and federal requirements to measuring accountability by student achievement. Student achievement is important, but this philosophy emphasizes the end results without adequately considering the means used to achieve them. It thus hinders the department's ability to effectively monitor the use of state and federal funds. Moreover, the federal government requires that the department monitor entities receiving federal funds to help ensure that program goals are met. There is a greater likelihood that misuses of state and federal funds will occur when the department fails to adequately exercise its oversight responsibilities. For example, in a July 1999 audit report, we found that ineffective monitoring by the department enabled nonprofit organizations to receive funds for services that they could not substantiate.

The department's approach to monitoring entities receiving the funds is further flawed because its staff do not review fund recipients based on the risk they present for noncompliance, nor does the department routinely use performance measures to assess quality and effectiveness. Equally important, the department lacks an overall view of its monitoring activities because it has no comprehensive tracking system, and current systems kept by some divisions are inferior. These shortcomings result in poor internal communication and disjointed coordination of audit efforts. Furthermore, the department's lack of coordination prevents it from evaluating whether its monitoring activities represent the best use of resources. The department should use

its resources better by focusing on high-risk programs and entities. It also should track the results of its evaluations and ensure the entities take necessary corrective actions.

The department's Audits and Investigations Division (audits division) contributes little to the department's oversight capability. This division is the primary focus of our audit. The audits division's external unit spends most of its time reviewing certified public accountant (CPA) reports of nonprofit organizations that receive funding to ensure their reimbursed costs agree with the department's figures. Although the department is required to perform these procedures, it may not be prudent for the external unit's professional staff to perform this function. Rather, the Fiscal and Administrative Services Division (FASD), which performs a similar process for school districts and community colleges, could take over this review of the nonprofit organizations. The FASD may need more resources to assume this role, but the benefit of freeing up to 4,500 audit hours of the audits division's time would far outweigh the added cost. Audit staff could provide greater value to the department if they spent time aggressively pursuing suspicious or fraudulent activities through on-site audits of program participants and shared their professional expertise with other program reviewers within the department.

In addition to the reconciliation it performs, the audits division's external unit spends 25 percent of its time ensuring that the independent CPA reports comply with federal requirements for entities receiving federal child nutrition, child development, and adult education funds. With a backlog of more than 500 reports, however, it is clear the audits division is unable to complete timely reviews of these reports. Further, the U.S. Department of Agriculture (USDA) is trying to recover \$1.6 million from the department because the audits division used federal child nutrition funds to perform on-site evaluations of program compliance before staff had completed the required CPA report reviews. Federal Food and Nutrition Service regulations require the department to complete these reviews before using funds to conduct on-site evaluations. Additionally, the audits division is unable to identify instances of noncompliance until it completes its reviews, so problems that may exist can remain uncorrected for an indeterminate length of time.

The audits division cites insufficient staff and a need for extensive resources to reconcile the CPAs' reports as reasons for falling behind on these reviews. However, the State Controller's Office

(SCO), which uses 8 to 12 auditors, conducts nearly 1,100 similar reviews annually for school districts, primarily because it concentrates only on reviewing critical areas of the audit reports.

Other divisions within the department also can improve their performance to ensure that school districts and nonprofit organizations are held accountable for the proper use of state and federal funds. Due to ineffective program monitoring or enforcement by various divisions, the department has paid unsubstantiated claims to some organizations. Other organizations have even been guilty of fraud. The Bureau of State Audits and the USDA have cited instances of this nature in previous audit reports.

Additional problems exist. Some divisions fall short of the number of program reviews they are required to conduct annually. For instance, despite state regulations requiring it to review nonprofit organizations every three years, the Child Development Division schedules such reviews only every four years. The divisions also do not keep adequate records of their review procedures, limiting assurance that entities receiving funds have met all regulatory requirements. Most importantly, staff do little to ensure that the organizations take corrective action or face sanctions when deficiencies are discovered. For instance, rather than making on-site visits to verify that school districts and nonprofit organizations have resolved deficiencies satisfactorily, reviewers in some divisions commonly accept written statements from these organizations stating they have corrected the problems. Furthermore, the Coordinated Compliance Review (CCR) teams do not regularly meet their own deadlines for ensuring timely corrective action. They also rarely impose sanctions on school districts that fail to correct deficiencies within the required time.

RECOMMENDATIONS

To maximize the value of its monitoring efforts, the department should:

- Modify its underlying philosophy for administering state and federal programs to reinstate the importance of monitoring entities receiving these funds.
- Prepare a department-wide monitoring plan.

- Develop a central database to track its monitoring activities and a monitoring committee to better communicate the status and results of these activities.
- Establish performance measures for itself and for the organizations receiving program funds, then use them consistently.

Additionally, to improve its audits division’s efforts to oversee federal and state programs and to eliminate the backlog of CPA reports requiring review, the department should:

- Modify its regulations to transfer the responsibility for reconciling CPA reports from the audits division to the FASD.
- Require audits division staff to work a reasonable amount of overtime and continue using outside assistance from entities such as the Department of Finance to eliminate the backlog of CPA report reviews.
- Require the audits division to streamline the process for reviewing CPA reports by focusing only on critical areas, an approach similar to that used by the SCO.

Finally, to ensure that the Adult Education, Child Development, Special Education, and Nutrition Services Divisions, as well as the CCR teams effectively monitor its programs, the department should:

- Direct program staff to adhere to audit and review cycles set forth by federal and state laws, regulations, or department policies.
- Direct program reviewers to document their monitoring procedures adequately during site visits.
- Monitor corrective action for entities receiving state and federal funds and enforce fiscal and administrative penalties as needed.
- Evaluate the effectiveness of monitoring processes and periodically report to the new monitoring committee on their success in meeting monitoring objectives.

AGENCY COMMENTS

The department agrees that it needs to improve its monitoring of state and federal programs. However, it believes that budgetary constraints will not allow it to provide genuine fiscal oversight and a meaningful accountability system. Nevertheless, the department generally concurs with our recommendations. ■

Blank page inserted for reproduction purposes only.

INTRODUCTION

BACKGROUND

The Department of Education (department) is responsible for educating approximately 5.8 million children annually. The department also distributes funds to local communities—generally through school districts or nonprofit organizations—for food provided at child and adult care facilities, child nutrition, child development, and adult educational services. To accomplish this goal, it administers approximately 100 state programs and 40 federal programs with expenditures of \$22.6 billion and \$3.4 billion, respectively. The National School Lunch program and Special Education programs are two of the larger federal programs the department administers. Under the school lunch program, the department disburses \$722.9 million to provide nutritious meals to eligible children. Special Education programs, which ensure that all children with disabilities receive an education tailored to their needs, total \$415.3 million.

The department and several other agencies monitor organizations to ensure that they properly use state and federal funds. Staff from these divisions within the department participate in monitoring the larger programs it administers: Audits and Investigations, Fiscal and Administrative Services, School Fiscal Services, School and District Accountability, Nutrition Services, Special Education, Child Development, and Education Support Systems. As Table 1 shows, these divisions perform various types of audits and reviews of nonprofit organizations and school districts. The Audit and Investigations Division, the primary focus of this audit, is described separately below.

Audits and Investigations Division

The Audits and Investigations Division (audits division) receives most of its funding from the federal government. The audits division has an internal and external unit. The five staff members in the internal unit perform quality control audits of the department, investigate department staff, and oversee the department's Y2K conversion. Costs for this unit are allocated among all the department's programs.

TABLE 1**Monitoring Activities That Other Divisions Perform**

Division	Monitored Entity	Scope of Review	Frequency of Review
Child Development Fiscal Services Unit within the Fiscal and Administrative Services Division	Nonprofit organizations	<ul style="list-style-type: none"> Review financial documents Verify audits division's calculations On-site reviews 	<ul style="list-style-type: none"> Quarterly or monthly Annually Intermittently
Office of Financial Accountability and Information Services within the School Fiscal Services Division	School districts	Ensure correction of issues found in CPA reports	Annually
Coordinated Compliance Review Management Unit within the School and District Accountability Division	School districts	Ensure program compliance for specially funded programs	Four-year cycle
Field Services Units within the Child Development Division	School districts and nonprofit organizations	Ensure program compliance for Child Development programs	Four-year cycle
Field Services Units within the Nutrition Services Division	<ul style="list-style-type: none"> School districts School districts and nonprofit organizations 	<ul style="list-style-type: none"> Verify compliance with National School Lunch, School Breakfast, and Commodities programs Verify compliance with Child and Adult Care Food Program 	<ul style="list-style-type: none"> Five-year cycle Two- to four-year cycle
Adult Education Office within the Education Support Systems Division	School districts and nonprofit organizations	Verify compliance with Adult Education programs	Five-year cycle
Compliance and Monitoring Unit within the Special Education Division	School districts	Verify compliance with Special Education programs	Undetermined

The larger external unit uses its 27 staff for three primary activities. Eleven people review independent certified public accountants (CPA) reports of nonprofit organizations receiving federal funding for Child Nutrition programs to ensure the completeness of the CPA report and the audited entity's compliance with all applicable requirements. If the unit identifies any noncompliance, it forwards the information to the appropriate program manager in the Nutrition Services Division, who is responsible for securing corrective action from the organization. Unit staff also may conduct on-site audits and administrative reviews of nonprofit organizations.

Nine staff members perform similar reviews of CPA reports for nonprofit organizations that receive state and federal funding for Child Development programs. If their reviews identify an entity that is experiencing serious financial difficulties, these staff notify the Field Services Unit in the Child Development Division, which determines the appropriate corrective action. The staff verify CPA calculations that determine whether an organization is entitled to the full amount awarded and compare their figures to those maintained by the Child Development Fiscal Services Unit, which is within the Fiscal and Administrative Services Division. They also may perform selected on-site audits and reviews of these organizations.

The remaining staff members investigate nonprofit organizations the department funds. They also review independent CPA reports of organizations that receive Adult Education program funds and assist a management team that examines complaints for eight separate federal programs for low-income students.

Monitoring Performed by External Parties

School districts and nonprofit organizations contract with independent CPAs to audit their financial and program records. The State Controller's Office (SCO) reviews school district's CPA reports for completeness. Finally, in accordance with U.S. Office of Management and Budget circulars, the Bureau of State Audits annually audits the State's use of the federal funds received for its major programs. As part of this audit, we review certain programs the department administers.

SCOPE AND METHODOLOGY

The Joint Legislative Audit Committee (committee) requested that the Bureau of State Audits (bureau) review the Audits and Investigations Division (audits division) of the department. The committee asked us to determine whether this division is structured appropriately to audit and monitor all state and federal programs the department administers. Other divisions within the department also perform key monitoring activities, so we included them in our review as well.

An analysis of department accounting records and the Governor's Budget for fiscal year 1999-2000 enabled us to identify state and federal programs the department administers as well as their related expenditures. To gain an understanding of the

department's monitoring structure, we interviewed staff from the department's audits division, the Coordinated Compliance Review (CCR) Management Unit, and other program divisions. We also reviewed applicable state and federal laws and regulations and departmental policies and procedures on monitoring requirements.

We interviewed executive management to gain an understanding of the department's philosophy concerning accountability for program funds and meeting program goals. To determine whether the department properly plans and evaluates its monitoring efforts, we interviewed department staff and evaluated the annual plans, tracking systems, and performance measures for the audits division, the Nutrition Services and Child Development divisions, the Adult Education Office, and the CCR Management Unit.

We also analyzed the audits division's process for reviewing the CPA reports. We found that there were delays in reviewing these reports, so we spoke to management to determine the cause of the backlog. Additionally, we compared the audits division's process for reviewing CPA reports to the SCO process for reviewing similar reports for school districts. We reviewed a sample of 20 child development recipient files to gain an understanding of the audits division's procedures for reconciling reimbursement and expenditure amounts in the CPA reports to departmental accounting records. We also interviewed staff from the Fiscal Administrative Services Division to determine their involvement in the reconciliation process. Finally, we reviewed a sample of internal audits performed by the audits division to determine whether they provided a sufficient basis for assessing the department's internal control structure under the requirements of the State Administrative Manual.

We examined a sample of five program reviews each from the Nutrition Services Division, the Adult Education Office, and the CCR Management Unit, and six program reviews from the Child Development Division to ensure they followed state and federal regulations and included evidence of follow-up and corrective action for any deficiencies found. Our sample consisted of reviews performed for fiscal year 1998-99 by the Adult Education Office and reviews performed in fiscal years 1995-96 through 1997-98 by the other units and divisions.

Finally, we reviewed recent reports issued by the U.S. Department of Agriculture (USDA) and the bureau citing deficiencies in the department's monitoring efforts and interviewed USDA staff to gain additional information about their concerns. We also interviewed staff from the Nutrition Services Division and audits division to obtain the status of any corrective action taken in response to the USDA's three audit reports. ■

Blank page inserted for reproduction purposes only.

AUDIT RESULTS

The Department Must Improve Its Monitoring Efforts to Ensure Accountability for State and Federal Funds

SUMMARY

The Department of Education's (department) philosophy and approach toward monitoring entities receiving state and federal funds do not allow it to adequately determine whether these funds are spent properly. The approach places little emphasis on ensuring the accountability of those receiving funds, or on the planning and evaluation of the department's own monitoring activities. There is limited assurance that the department uses its resources efficiently to monitor these organizations and that its efforts provide maximum value. As a result, the department cannot ensure that recipients appropriately use funds to meet the needs of eligible children and adults. In fact, the U.S. Department of Agriculture (USDA) recently found serious irregularities, including the diversion of funds for personal gain, at 10 nonprofit organizations receiving federal Child and Adult Care Food program funds.

The department must re-engineer the responsibilities of its Audits and Investigations Division (audits division) so it can dedicate more resources toward identifying and auditing those programs and entities at greatest risk of noncompliance with federal and state requirements. The division currently spends most of its time ensuring that fiscal information reported for the Child Development program agrees with the department's records. If the department would transfer this responsibility to the Child Development Fiscal Services Unit, which is within the Fiscal and Administrative Services Division (FASD), it could free up 3,750 to 4,500 hours for audits division staff. They could use this time to conduct more on-site audits or to assist other departmental reviewers, particularly with organizations considered to be risky. As part of its other functions, the audits division spends a significant block of time reviewing the independent certified public accountants (CPA) reports. Because the audits division used federal Child Nutrition program funds to conduct on-site evaluations of program compliance before completing

the reviews of these CPA reports, the department may lose \$1.6 million of this money. Federal Food and Nutrition Service regulations require the department to complete its reviews of the CPA reports before using funds for other purposes.

Program reviews by other divisions also need improvement to ensure accountability of nonprofit organizations and school districts. The Adult Education Office and the Child Development Division, for example, do not perform their reviews as often as state and federal guidelines require. Additionally, the Nutrition Services Division does not complete its reviews within 90 days, delaying its billing of nonprofits for any unallowable expenditure. We further found that most divisions do not consistently follow up with entities to ensure that corrective actions have been taken and are effective. Finally, the department's Coordinated Compliance Review (CCR) team, which assesses whether school districts comply with up to 12 pre-determined state and federal programs, is not imposing sanctions on school districts that fail to correct deficiencies within one year.

THE DEPARTMENT MUST RECONSIDER ITS PHILOSOPHY

The department's underlying philosophy focuses on ensuring that it distributes state and federal funds to nonprofits and school districts and provides them with technical assistance. This philosophy is well-intended, but it comes at the expense of ensuring that these entities meet program requirements. According to its chief deputy superintendent, in response to state and federal initiatives, the department has begun to shift its focus from requiring strict compliance with state and federal requirements to measuring accountability by student achievement. Further, the chief deputy superintendent believes it is likely that the department will continue this trend and further reduce its monitoring efforts over the next few years.

The limited scope of reviews its divisions perform is evidence of the department's new emphasis on measuring student achievement. We recognize the importance of student achievement, but emphasizing the end results while ignoring the means used to achieve them will diminish the department's ability to effectively monitor the use of state and federal funds. Currently, the divisions address some compliance issues in their reviews, but conduct only minimal assessments of fiscal, administrative, or internal controls. Instead, the reviews focus primarily on providing technical assistance. The department must do a better

Emphasizing student achievement is important, however, ignoring the means to attain the results will diminish the department's ability to monitor state and federal funds.

job of balancing its equally important responsibilities of ensuring compliance with state and federal requirements and measuring student achievement results.

THE APPROACH TO MONITORING IS FLAWED

The department has significant flaws in its approach to monitoring recipients of state and federal funds. First, its consideration of risk is minimal when planning its monitoring activities. Second, it lacks an adequate tracking system for monitoring activities, thus preventing consistent coordination among its divisions. Finally, the department does not routinely evaluate the results of its monitoring activities. In light of these shortcomings, the department cannot ensure that its monitoring efforts are effective or that they achieve desired results.

Risk Is Rarely Considered

Proper planning would ensure that its resources are best spent on identifying those entities posing the greatest risk.

The department must re-evaluate its current approach to monitoring nonprofits and school districts. Although it is not feasible to conduct an on-site review of each of the 1,800 entities that receive state and federal funds each year, proper planning could ensure that the department's resources are best spent on identifying those at highest risk of improperly using state and federal funds. Factors to consider when evaluating risk would include the amount of funding a school district or nonprofit organization receives and how long it has participated in a specific program, prior instances of noncompliance, and frequency of on-site audits and reviews.

Departmental policy or state and federal laws require the department to review program fund recipients every two to five years, depending on the program. The department strictly adheres to these schedules and does not make more frequent reviews of organizations with significant instances of noncompliance. To illustrate, upon examining a sample of the Child Development Division's reviews of nonprofits and a school district, we found that, even though this division noted weaknesses in areas such as determining applicant eligibility, it did not conduct follow-up reviews of most of these entities the next year. It is imperative that the department considers prior weaknesses when it plans monitoring for the current year to ensure that those weaknesses are corrected.

Our examination of the planning process for the audits division, the Child Development Division's Field Services Unit, and the CCR Management Unit found that only the CCR teams consider risk when planning reviews. In contrast, the audits division's partially complete draft plan, which was prepared only after our request, does not propose any on-site audits for high-risk entities and is really little more than a status report of its current staffing levels and reviews of independent CPA reports. Likewise, the Child Development Division's plan includes follow-up only on noncompliance issues, along with the estimated staff time to complete this task, as just one entry on a list of major tasks it plans to complete during its reviews for the year. However, the plan, prepared for the first time in fiscal year 1999-2000, does not identify the sites where follow-up visits will occur or include any consideration of specific noncompliance issues it deems to be critical. The Adult Education Office and Nutrition Services Division could not provide us with monitoring plans. However, in November 1999, in response to a USDA audit report, the Nutrition Services Division began to identify high-risk nonprofits participating in its programs.

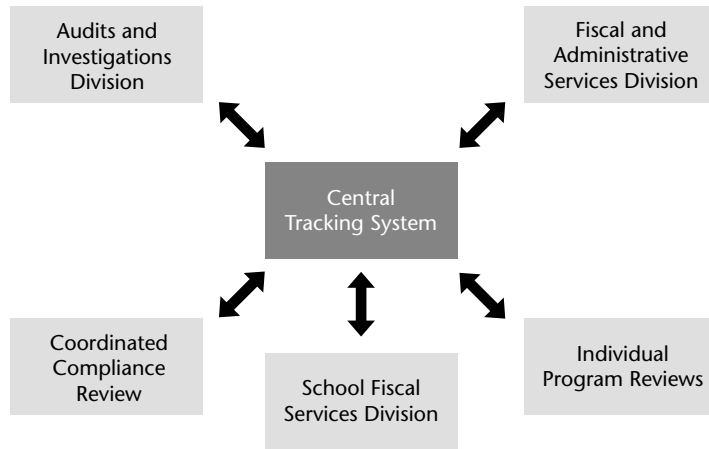
A Comprehensive Tracking System Would Improve the Monitoring Process

The department lacks a central tracking system so it cannot readily determine the status and results of its monitoring activities. Program staff currently use different systems that are not integrated and contain incomplete information. If the department had a central tracking system, it could quickly identify programs and entities that consistently experience problems such as claiming reimbursement of unallowable costs or failing to correct previously identified weaknesses.

An effective tracking system should produce timely information on monitoring activities. As shown in Figure 1, a central tracking system would allow all the department's units and divisions to enter information on the resources they need to conduct reviews, whether reviews are timely, and the findings identified and their resolution. Moreover, this information would be readily available to everyone within the department who is responsible for monitoring.

FIGURE 1

Proposed Central Tracking System



Rather than using a department-wide system to evaluate monitoring activities, some divisions maintain separate systems that track only their program monitoring information. However, as shown in Table 2, the tracking systems that the audits and Child Development divisions and the CCR Management Unit use do not contain much of the essential information.

- Elements of an Effective Tracking System**
- Program and entity name.
 - Start and end dates of review.
 - Budgeted and actual hours needed to complete reviews.
 - Description of current- and prior-year findings.
 - Status of any corrective action.
 - Sanctions imposed, if applicable.

Neither is there any formal means of communicating monitoring results among divisions. A central database tracking all department monitoring activities would serve this purpose, while a committee comprising executive management, audits, CCR, and individual program reviewers who meet regularly to discuss monitoring activities would be a useful forum for discussing these results. Until the department addresses this lack of department-

wide coordination and communication, it will not be able to effectively monitor recipients of state and federal funds.

TABLE 2
Current Tracking Systems Omit Essential Monitoring Data

	Start and Complete Dates	Budget to Actual Hours	Current-Year and Prior-Year Findings	Corrective Action	Sanctions Imposed
Nutrition Services Division	●*	●*	●*	●*	○
Child Development Division	○†	○	●	●	○‡
Adult Education Office	○	○	●§	●§	●§
Audits and Investigations External Audit Unit	●	●	○	N/A**	N/A**
Coordinated Compliance Review Management Unit	●	○	●	●	○

- Yes
- No
- * This information is kept in separate databases, rather than a central database.
- † Tracks completion date only.
- ‡ This information is kept in a separate tracking system for the Case Conference Review results.
- § Manually tracks these components rather than using a central automated tracking system.
- ** Corrective action and sanctions are the responsibility of the individual program divisions.

Performance Measurement Tools Can Help Assess the Effectiveness of Monitoring Efforts

Suggestions for Measuring Monitoring Performance

- Establish budgets for individual program reviews and audits and compare them to actual hours.
- Evaluate the timeliness of corrective actions.
- Quantify disallowed costs and compare them to the cost of program reviews and audits.
- Compare the results of current-year program reviews and audits to prior-year results.

The department does not routinely use performance measures to assess the value of its monitoring efforts or the results of program reviews and audits. Performance measurements would greatly increase its ability to evaluate the effectiveness of its monitoring activities and determine whether they are meeting its goals and expectations. These tools also can help the department measure the sufficiency of its resource commitment and employee performance.

We found performance measures to be virtually nonexistent during our review of the department's overall monitoring process. When they did exist,

the divisions made little effort to achieve them. For example, although the CCR team establishes deadlines for school districts to correct weaknesses, it does not evaluate the timeliness of corrective actions. Further, none of the divisions compare the hours budgeted for program reviews to the actual hours needed to complete them so they can measure staff performance or highlight inefficiencies in the review process. Establishing and consistently using performance measures would ensure that the department is providing the most value it can to its ultimate customers, the students.

THE AUDITS DIVISION MUST MAXIMIZE ITS VALUE TO THE DEPARTMENT

An inefficient use of resources and a narrow scope of responsibility limit the audits division monitoring of state and federal programs and has prompted recent audits to suggest this division improve the quality of its work. Currently, delays exist in its completion of required reviews of independent CPA reports. Consequently, the department risks losing at least \$1.6 million in federal funding for using these funds to conduct on-site evaluations of program compliance before its Child Nutrition reviews were completed. Further, the division gives minimal professional assistance to program reviewers, although the need clearly exists.

Restricted Funding and Inefficient Use of Resources Limit the Audits Division's Effectiveness

Although the audits division never was given the responsibility to monitor all state and federal programs, the department must seriously consider such an expanded role because its monitoring efforts have been so ineffective. Currently, the audits division does not devote sufficient resources to auditing nonprofit organizations and school districts for several reasons. Restrictions on federal funding for monitoring programs, the virtual lack of state funding for the same purpose, and the inability to use the expertise of its staff properly limit the division's ability to oversee program participants effectively.

The audits division receives federal funding for monitoring programs; however, federal laws and regulations restrict it to using these funds only to monitor federal Child Development, Child Nutrition, and Adult Education programs. This situation, coupled with the fact that it receives virtually no state funding

The audits division has not devoted sufficient resources to auditing nonprofit organizations and school districts.

for monitoring these or other programs, severely restricts the ability of the audits division to oversee the nonprofits and school districts participating in other federal and state programs. Since October 1994, the audits division has completed only 11 on-site audits for nonprofit organizations that received funding from October 1994 through September 1998, even though it cites these audits as one of its primary missions. During this same time, there have been no audits of school districts. Likewise, within the last year, the division has rarely assisted other divisions with any on-site reviews.

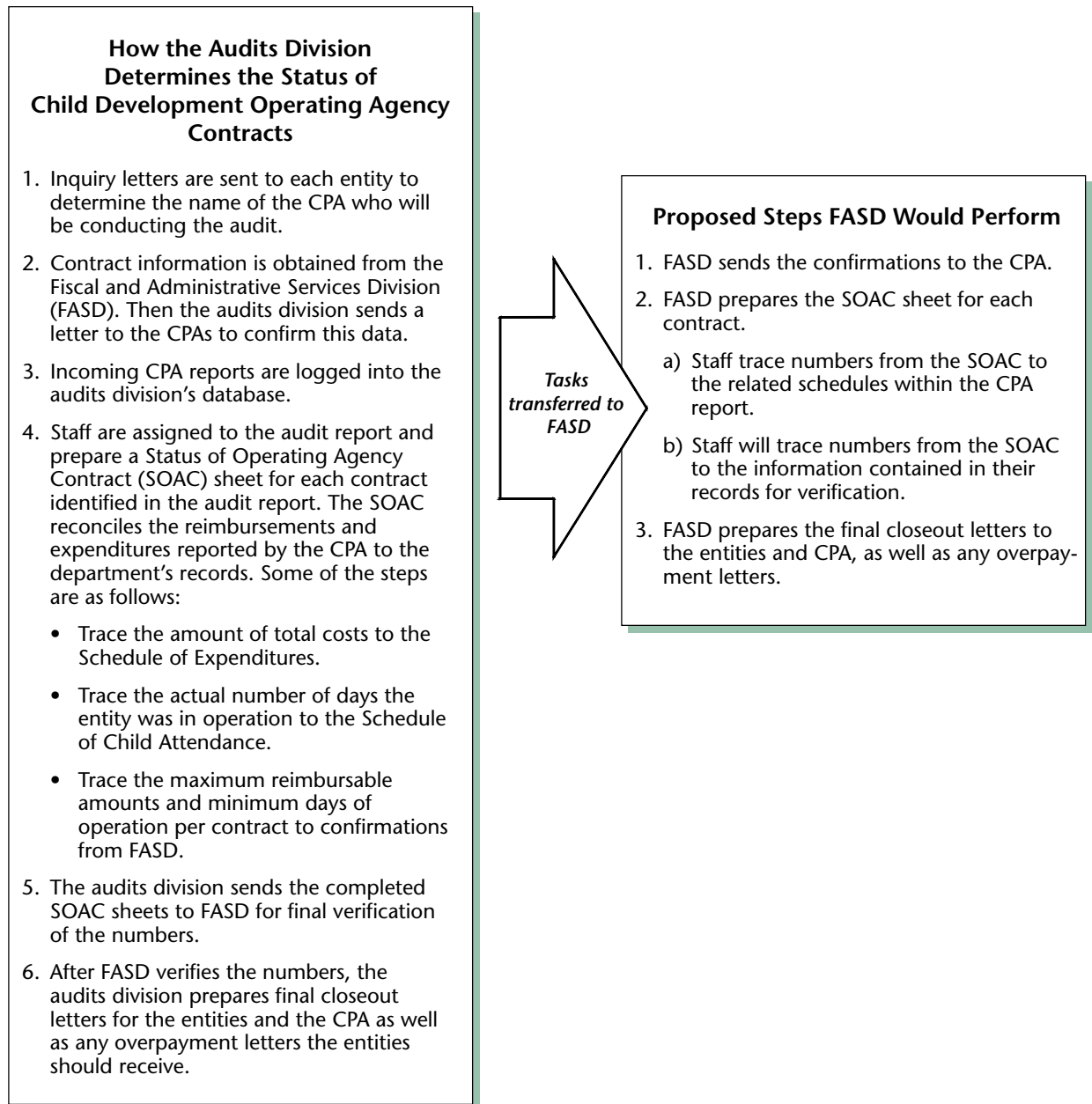
As discussed in the Introduction, the audits division has an external unit that performs various activities. Although staff in the external unit are assigned to one of three distinct areas, they generally work in each area when the need arises. The audits division director was unable to provide data showing how much time staff spend on each specific task. However, he and an audit manager state that the external unit spends most of its time ensuring that the department's records for nonprofits participating in the Child Development programs agree with the figures in independent CPA reports. This reconciliation allows the department to adjust allotments based on estimated costs to the actual allowable costs at the end of the year.

Although state regulations require the audits division to perform this function, we question whether it is prudent to use the external unit's professional staff for this task. Most possess, at a minimum, a four-year degree; some are CPAs. The division's director believes that it takes at least 10 to 12 hours to perform this reconciliation for each CPA report. On average, the external unit's staff receives more than 375 reports yearly for Child Development programs. Assuming it promptly completed these reconciliations, the external audit unit would exhaust 3,750 to 4,500 of its available hours each year. Figure 2 shows the steps involved in this reconciliation process.

Fiscal Services within the FASD performs a similar function for school districts and community colleges receiving Child Development funds. Rather than using CPA reports, FASD reconciles expenditure and reimbursement amounts using these recipients' quarterly and year-end reports. Nevertheless, its staff should readily be able to reconcile the CPA reports for nonprofit recipients. As Figure 2 shows, the FASD currently provides the external unit with much of the information it uses in the reconciliation

FIGURE 2

Fiscal Administrative Services Division Can Complete Most Tasks



process and verifies the final amounts owed to or from the nonprofits. If the FASD assumed primary responsibility for these reconciliations, the external unit could reduce its annual workload by up to 4,500 audit hours. The external unit would be called upon only for technical assistance with difficult issues.

The Audits Division Could Use the Additional Hours to Address More Critical Problems

We recognize that transferring the reconciliation of CPA reports to FASD may require a reallocation of resources, but we believe that freeing up audits division staff so they can aggressively pursue suspicious or fraudulent activities will far outweigh this cost. The external unit also could use the hours it no longer spends on reconciliations to correct deficiencies cited in recent audits by the USDA and the Bureau of State Audits (bureau).

Recent USDA and Bureau of State Audits' reports have criticized the department's monitoring efforts for failing to identify suspicious or fraudulent activity.

In a March 1999 report, the USDA found a high incidence of fraud and abuse in the State's Child and Adult Care Food program and concluded that the department has been negligent in its administration of this program. It charged that the department was not fulfilling its oversight responsibilities to maintain the program's integrity. The bureau, in a July 1999 report, criticized the department's monitoring of the Adult Education program. We found that 8 of 10 community-based organizations (CBOs) could not support their claims for reimbursement. The department had not developed adequate procedures for reviewing CBOs, so it failed to detect these problems even though it claimed to have conducted on-site reviews of the same organizations.

The audits division also could use the additional hours to provide more assistance to program reviewers. For example, in May 1999, reviewers from the Nutrition Services Division asked the audits division's external unit to assist with a review of one of the largest nonprofit nutrition contractors; however, the external unit stated its staff were not available because of its backlog in reviewing CPA reports. When the Nutrition Services Division was finally able to perform this review in October 1999, with assistance from the USDA, it found potentially serious problems. Because of the nature of the problems and the USDA's involvement, the external unit subsequently agreed to perform an audit of the organization.

The department will not benefit from the expertise of the audits division if it continues to allow the reconciliation process to consume a significant portion of staff time. The situations described above clearly demonstrate a need for the audits division to use its expertise in more productive ways, such as conducting more on-site audits, developing audit procedures to improve the effectiveness of program reviews, and assisting other reviewers with the more complex aspects of their own on-site reviews.

With the additional 4,500 hours each year, the audits division could conduct 16 on-site audits or assist program reviewers with 55 on-site reviews.

Recent Federal Audits Cite Deficiencies in the Audits Division's Work

The external unit spends about 25 percent of its time reviewing CPA reports for recipients of Child Nutrition, Child Develop-

Audits Division's Review of CPA Reports

- Incoming CPA reports are logged into its database.
- Staff verify the accuracy of the audit report by comparing certain items to its checklist. For example, they ensure that the report contains an audit opinion. If the opinion is modified, they check to see that an adequate explanation of the reasons for the modifications and its effects is present. They also review the report to ensure that all required schedules, statements, reconciliations, and notes are included and whether a report on compliance is included.
- During the review, staff may contact the CPA to request additional information.
- Staff review the audit report for disallowed or questionable costs that either the CPA found, or they find based on information in the report.
- Staff review the CPA findings and send a copy to the appropriate program within the department for follow-up.

ment, and Adult Education funds. In an August 1999 report, the USDA noted that the unit's review process was deficient because it does not examine the CPAs' work papers supporting the audit reports to ensure that federal requirements were met, nor does it ensure the audits were conducted in accordance with generally accepted government auditing standards. The USDA determined that the CPA report did not meet these standards for one of the five audits it reviewed during on-site visits to CPAs. It indicated there was no documentation that the audit steps were performed and the work papers did not contain sufficient evidence to support the CPA's conclusions. If the external unit must rely on the work of independent CPAs, the USDA noted that it should, at a minimum, review their work papers to determine whether the work meets auditing standards.

The USDA also noted the external unit should have an independent review of its internal quality control system, including its audit policies, procedures, and practices. At least every three years, organizations conducting audits in accordance with generally accepted government auditing standards should have an external review by an unaffiliated organization to ensure they follow these standards. The unit, however, has not had a review to date.

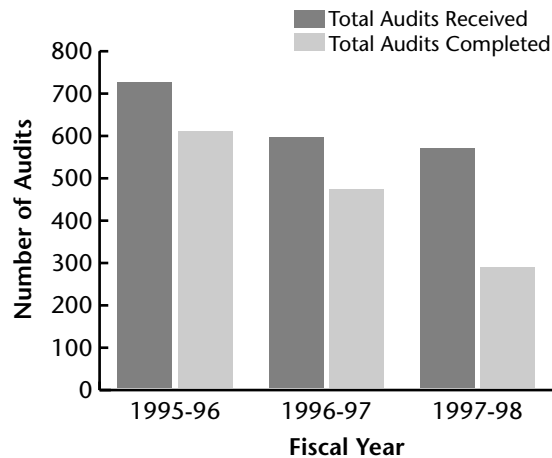
A Substantial Backlog Places Federal Funding at Risk

The external unit of the audits division must significantly streamline its process for reviewing independent CPA reports. In addition to reconciling the amounts in the CPA reports for participants in the Child Development program with department records, the audits division reviews independent CPA reports for the Child Nutrition, Child Development, and Adult

The audits division has not completed its reviews of more than 500 independent CPA reports; therefore, deficiencies that may exist remain unresolved.

Education programs to ensure that audits of program participants comply with federal requirements. These reviews further allow the department to identify any issues requiring follow-up and make decisions concerning the sufficiency and timeliness of any corrective actions. On average, the external unit receives about 600 reports annually and has six months to complete its review. However, delays exist in completing timely reviews, resulting in a backlog of more than 500 reports for fiscal years 1995-96 through 1997-98. Figure 3 compares the number of audit reports the external unit received each fiscal year to the number of reviews actually completed in the same period.

FIGURE 3
Significant Backlogs Exist in Completing Required Reviews of CPA Reports



Source: Audits and Investigations Tracking Reports as of October 22, 1999.

According to the director of the audits division, the external unit has not been able to keep current because of insufficient staffing and because other monitoring duties, such as reconciling Child Development program expenditures and reimbursements reported in the CPA reports to the department's records, consume extensive time. Although there are ample opportunities to work a reasonable amount of overtime and reduce the backlog, external unit staff have worked very little overtime for this purpose. From July 1996 through August 1999, a total of 38 months, the audits division staff, excluding the director and support staff, have worked 2,636 overtime hours. Fewer than 800 overtime hours were devoted to reducing the backlog, and just 24 hours were spent on this task within the last 14 months.

The department is trying to use other approaches to eliminate this backlog. In March 1999, it contracted with the Department of Finance (Finance) to assist with reviews and reconciliations of these reports. In addition, it recently requested funding for four additional auditors to perform these reviews and on-site audits for entities receiving child development funds.

We question whether these actions will adequately remedy the audits division's inability to remain current with its workload because we cited a similar problem in an August 1995 report. We found that, of the 818 reports it received during fiscal years 1991-92 through 1993-94, the division had not reviewed 525 (64 percent) within the established time frame. The department told us in August 1996 that its use of auditors from Finance, and the addition of three new auditors, should ensure that all audit reports were reviewed when received. Yet, three years later, we find this division is in the same predicament.

The audits division should become more efficient before it obtains any further resources. For example, the State Controller's Office (SCO) completes timely reviews of more than 1,100 independent CPA reports for school districts each year. This office manages to complete the reviews within a three-month period using only 8 to 12 staff because it focuses on critical areas. The external unit has more staff to review almost half the reports that SCO staff members review. The external unit should adopt a similar approach.

The USDA has instructed the department to return \$1.6 million because it had not completed required reviews of CPA reports.

Until the audits division improves its process, it will experience backlogs and place the department at risk of losing federal funding. In fact, the USDA already has instructed the department to return \$1.6 million because it used these funds to perform on-site evaluations of program compliance before completing the required reviews of CPA reports for entities receiving child nutrition funds. Moreover, the audits division is missing an important opportunity to use these reports to identify significant deficiencies that may exist among program participants.

The Audits Division's Review of Departmental Internal Controls Is Insufficient

The internal unit of the audits division is responsible for reviewing the department's internal accounting and administrative controls every two years, in accordance with state policy. The review ensures that the department uses resources economically and effectively; safeguards its assets; and follows state laws,

regulations, and policies. We found that the work the internal unit performs does not appear to be sufficient to conclude that the department's accounting and administrative controls are effective.

Finance issues a guide to assist department internal auditors with evaluating accounting and administrative controls and includes suggestions for audit procedures. Departments may tailor their procedures to address specific risks but must justify and document any changes or omissions. The guide stresses the importance of assessing the risk of vulnerability for each area within the department. In other words, the internal unit should consider the operations of the entire department when it plans its approach for this biennial audit.

However, for its most recent review, the internal unit did not use any of the suggested audit procedures nor document why it did not. Moreover, the unit did not conduct a preliminary assessment of risk to identify vulnerable areas or where its audit resources would best benefit the department. Instead, it relied on the results of 17 internal audits and reviews it performed within the prior two-year period to support its formal opinion on the adequacy of the department's internal controls. Because of the narrow focus of these audits, even collectively, they were not sufficient to support an overall opinion on the department's internal controls. For example, one audit investigated alleged theft of computer parts at the department's warehouse. Another dealt with controls over the department's cellular phones. Two other audits investigated the misuse of state property and inappropriate use of compensating time off at the California Schools for the Deaf in Fremont and Riverside, respectively.

In its opinion letter to Finance, the internal unit stated that it relied on the work of other auditors, including those from the bureau, to support its opinion on the department's internal controls. If the unit chooses to do this, it must follow generally accepted government auditing standards, which require it to perform certain procedures that provide a sufficient basis for relying on the work of other auditors. The procedures may include reviewing work papers or audit programs to verify that the other auditors' work is satisfactory. We found no evidence that the internal unit performed such procedures. As a result, the internal unit's audit efforts cannot ensure that the department's internal controls are operating effectively.

Because of the narrow focus of the reviews it conducts, the audits division cannot ensure that the department's internal controls operate effectively.

OTHER MONITORING ACTIVITIES MUST IMPROVE

We examined three divisions' reviews of nonprofit organizations and reviews of school districts conducted by CCR teams, and we found that most were inadequate. First, the department does not always conduct reviews within the time frame established by state and federal guidelines, and many are not brought to closure within a reasonable period of time. Additionally, most of its divisions do not consistently follow up with program participants to ensure they have taken appropriate corrective actions. Furthermore, the CCR teams are not imposing sanctions on school districts that fail to correct deficiencies within one year. We further found that the Special Education Division developed a new review process after criticism from a federal agency. However, because its staff were developing the new process, the Special Education Division conducted just one on-site review during fiscal year 1998-99.

The Coordinated Compliance Review Process Requires Re-Evaluation

The CCR process, developed in 1984, combines 12 different department reviews of school districts into one review. One

Programs Included in the CCR Process

- Adult Education
- California Early Start
- CalServe
- Career/Vocational Education and Civil Rights
- Child Development
- Consolidated Programs
(includes State Program for Students of Limited-English Proficiency, Miller-Unruh Reading Program, Title VI, and others)
- Gender Equity Program
- Gifted and Talented Education (GATE)
- IASA, Title II, Part B, Dwight D. Eisenhower Professional Development Program
- Migrant Education
- Title IV, Safe and Drug-Free Schools and Communities
- Tobacco-Use Prevention Education

Also includes Integrated Program Items and Uniform Complaint Procedures examined by multiple reviewers

purpose of this consolidation was to reduce the duplication of on-site visits by the reviewers. Another was to increase the school districts' participation in the monitoring process by requiring them to conduct a self-review before a CCR team's visit. Although the CCR process was intended to make the department's monitoring activities more efficient, it is less effective than it could be. CCR reviewers do not document exactly what they examine during visits, which hinders the supervisors' ability to ensure that all required items were reviewed. They also do not adhere to CCR guidance for following up on deficiencies, so schools remain out of compliance long past the deadlines. Furthermore, schools rarely receive sanctions for failing to correct problems promptly.

CCR Reviewers Do Not Retain Adequate Documentation

CCR reviewers do not retain documentation demonstrating that reviewers examined the required program elements. According to the

manager of the CCR unit, the department never intended to document its steps in writing. However, without sufficient written evidence, such as a checklist or similar written record, the department cannot validate that its staff adhere to monitoring guidelines. For example, the CCR reviewer responsible for Migrant Education programs must review a sample of the learning plans for 10 students at each of three grade levels, yet we found no documentation that the reviewer gathered any samples. Thus, the department cannot ensure that students in this program received services to address problems arising from their migrant lifestyles.

Follow-Up on Noncompliance Issues Is Slow and Sanctions Are Not Imposed

Although the CCR process was designed to allow more time for adequate follow-up of problems, we found reviewers often did not pursue these issues within the time frame set forth in the CCR guidelines, which require school districts to resolve non-compliance issues within 45 days of notification. Issues can range from failing to post policies in a prominent location to spending program funds on ineligible students. School districts may receive an extension of up to 180 days to resolve problems that are particularly difficult to correct—if they submit a corrective action plan within the 45-day period. When a school is out of compliance for more than 225 days, the reviewer sends a letter to the district superintendent warning that the department will notify the local school board if the issue is not resolved within 365 days. After 365 days, the division notifies the local school board that the school has been out of compliance for a year. At this point, the school is subject to sanctions approved by the State Board of Education.

Most school districts in our sample failed to correct all problems within 45 days when no extension was granted or to submit a corrective action plan when one was granted. In addition, most had at least some outstanding issues beyond the 225-day deadline, but only one received any letter from the appropriate division. This letter was not even timely: The division did not send it until 321 days after the review, 96 days beyond the deadline.

More than half the schools in our sample had some instances of noncompliance that remained unresolved for more than 365 days, with no evidence in their files that the division contacted the appropriate school boards or submitted sanctions to the State Board of Education for approval. In one case, a school was

granted a lengthy extension due to the severity of its problems and did not correct all its issues until 575 days after the review. If the department wishes to allow reviewers to exercise this much discretion over how quickly school districts correct their problems without receiving sanctions, it should reflect this in the CCR guidelines.

When we interviewed program reviewers about these lengthy delays, we found they shared some responsibility for causing them. Program reviewers cited several reasons for the delays, including inadequate staffing and oversights or negligence on their part, while CCR staff indicated that in the past five years they have sanctioned only one school district for failing to address noncompliance issues. In fiscal year 1997-98 alone, the CCR tracking system indicates that at least 21 percent of the schools reviewed had noncompliance issues for more than a year, and we found no evidence of any sanctions. One CCR reviewer told us that he believes the department has been reluctant to take punitive actions, such as withholding funds, because this would punish children for mistakes or oversights made by adults. However, the frequency with which schools remain noncompliant beyond 365 days suggests that the current CCR process may not adequately serve children because programs that are not complying with state and federal guidelines continue to receive funds.

Discontinuing Special Education Reviews Exposes This Program to Risk

In fiscal year 1998-99, the Special Education Division dropped out of the CCR process and began developing a new system for its reviews. While the division focused its resources on developing its new process, the number of school districts it visited dropped from 189 in fiscal year 1997-98 to one in fiscal year 1998-99. The division developed the new process in response to strong criticism of its monitoring activities from the U.S. Department of Education's Office of Special Education Programs (OSEP). While the division was part of the CCR review process, the OSEP had found that the division had failed to identify significant, systemic noncompliance in several school districts or to ensure the districts corrected problems it did identify.

In fiscal year 1997-98, as part of the CCR process, the Special Education Division identified 740 instances of noncompliance during its on-site visits to school districts. These instances included failure to identify all students who may need special

Despite identifying 740 instances of noncompliance during visits to 189 school districts in fiscal year 1997-98, the Special Education Division conducted only one on-site visit in the following year.

education services or failure to ensure that children receiving services participate in activities with the general school population. The division developed its separate process because it agreed with the OSEP's findings. It stated that the brevity of the CCR visits severely limited its ability to target its data collection and that the process did not allow adequate follow-up. Given the significant number of noncompliance issues identified by the division in the previous year, the nearly complete cessation of on-site review work in fiscal year 1998-99 is a serious situation. It exposes the department to further risk by allowing the problematic schools it identified to continue receiving special education funds for programs that may not fully meet the needs of eligible students.

Monitoring by Other Divisions Also Needs Strengthening

In addition to the CCR process, we examined the monitoring activities that various individual program units within the department perform. These reviews are meant to determine whether recipients of state and federal funds comply with program requirements. For example, reviewers from the Child Development Division determine whether the families of children receiving services meet a minimum level of need, while those in the Nutrition Services Division determine whether the number of reimbursable meals have been counted correctly. The quality of these reviews varies among the different programs, but they all suffer from weaknesses similar to those in the CCR review process.

The Child Development Division Does Not Conduct Reviews Often Enough or Impose Sanctions Consistently

The Field Services Unit within the Child Development Division does not adhere to a state-mandated cycle for conducting its reviews and does not always follow up on cases that may warrant it. State regulations require the division to conduct on-site program reviews of fund recipients on a three-year cycle, yet the division actually conducts reviews every four years. Furthermore, these reviewers accept written statements from nonprofits and school districts attesting that deficiencies have been corrected, even when the situation warrants an on-site follow-up review to verify compliance.

In reviewing a sample of child development monitoring files, we question why a follow-up review of the organization's corrective action did not occur for 80 percent of those reviews for which it

For four of five child development providers we reviewed, cases warranted a follow-up review that did not occur.

would have been appropriate. For example, one review found that the eligibility status of families in the program was not kept up to date. As a corrective action, the reviewer simply accepted the organization's statement that it had updated the families' eligibility and would do so regularly in the future.

The division is aware of its noncompliance with the state-mandated cycle for reviews and of its inability to conduct appropriate follow-up reviews, but it states that it lacks sufficient resources to address these issues. The division recently requested funding for additional staff. Nevertheless, the division may allow organizations that do not adequately correct their identified problems to remain out of compliance for years by not conducting follow-up reviews and not adhering to the review cycle.

The division does have a process for imposing sanctions on noncompliant nonprofit organizations, but it does not have any guidelines that direct its reviewers on what circumstances would warrant sanctions. Under this process, termed the Case Conference Review, a noncompliant organization can be subject to several disciplinary actions, including the termination of its contract. However, each reviewer decides whether to initiate the process, thus creating a potential for unequal treatment of noncompliant organizations. A division manager stated that, even though there is no specific guidance, reviewers generally agree on which issues are serious enough to be brought before the Case Conference Review committee. However, she acknowledges that there may be some inconsistency in dealing with less serious issues. Without specific sanctioning guidelines, the department cannot ensure that all noncompliant organizations are held to the same standard of accountability.

The Nutrition Services Division Does Not Close Its Reviews Quickly

We were equally concerned by the Nutrition Services Division's delays in bringing its reviews to closure. The USDA recommends the division take no more than 90 days from the receipt of a corrective action plan to verify that the appropriate action has been taken, or to bill the organization to recover any disallowed payments. The files we examined in the Nutrition Services Division indicated it took these reviewers longer than 90 days to complete either task. The earliest closure occurred 15 days beyond the 90-day deadline, with the latest taking 251 extra days. Failure to close reviews in a timely manner delays the collection of funds that noncompliant organizations owe. For

One school district owed the department \$58,000; however, it took more than a year to collect the funds.

example, one school district owed the department more than \$58,000, but the department could not collect the money until the review was closed, more than a year after the debt was discovered.

The primary cause of these delays was the division's Audit Closure Unit, which verifies that overpayment calculations are correct and instructs the department's accounting unit to bill the agency. The manager of this unit indicated that staff have been behind in their workload since fiscal year 1996-97, when their responsibilities were increased. The division has requested additional funding for fiscal year 2000-01 and has hired a student assistant in the interim.

The Adult Education Office Does Not Conduct Reviews Within the Federally Mandated Cycle

The Adult Education Office in the Education Support Services Division does not comply with federal regulations mandating the frequency of its on-site reviews. Each year, the office must conduct on-site program reviews of at least 20 percent of the entities that receive federal adult education funding, yet it visited only 63 of the 363 participating entities (17 percent) in fiscal year 1998-99. The office stated that it believed it had complied with the federal regulations because it planned to conduct more reviews for this time period in the subsequent fiscal year. If the office fails to conduct frequent and thorough reviews, it may continue to fund noncompliant organizations.

RECOMMENDATIONS

To ensure that its monitoring efforts provide maximum value, the department should:

- Modify its underlying philosophy for administering state and federal programs to restore its accountability for monitoring entities receiving these funds.
- Prepare a department-wide monitoring plan that includes, at a minimum, these elements:
 1. Monitoring goals for the current fiscal year.
 2. Identification of mandated monitoring requirements.

3. Analyses to determine the risk associated with programs and the organizations receiving funds.
 4. Scheduled start and completion dates and budgeted hours for individual monitoring activities.
 5. Identification of resource needs.
 6. A summary of prior-year's monitoring accomplishments.
 7. A summary and status of prior-year's findings.
- Develop a central database to track the status and results of its monitoring activities.
 - Establish and consistently use performance measures to evaluate its monitoring activities.
 - Establish a monitoring committee composed of representatives such as executive management, audits division, CCR reviewers, and individual program reviewers. The committee should meet periodically to discuss monitoring philosophies, status of current monitoring activities, including resolution of findings, and high-risk programs or entities.

Additionally, to improve its audits division's contribution to overseeing federal and state programs and to eliminate the backlog of independent CPA reports requiring review, the department should:

- Modify its existing regulations to transfer the responsibility for reconciling Child Development reimbursement and expenditure amounts reported by independent CPAs from the audits division to its FASD and instruct CPAs to send a copy of their audit report to the FASD.
- Conduct more on-site audits of entities receiving federal and state funds.
- Develop audit procedures to improve the effectiveness of program reviews. Also, assist other departmental program reviewers with the more complex or risky aspects of their periodic on-site reviews.
- Instruct the audits division to periodically review the working papers of the independent CPAs who audit those entities receiving federal and state funds.

- Eliminate the backlog of CPA report reviews by requiring audits division staff to work a reasonable amount of overtime and continuing to use the outside assistance of entities such as Finance.
- Require the audits division to streamline the process for reviewing CPA reports to prevent future backlogs and remain current with its workload by adopting an approach similar to that of the SCO, which focuses only on critical areas.
- Require the audits division to perform sufficient work to ensure that the department’s internal accounting and administrative controls are effective. The audits division should perform a biennial risk assessment and focus its audit resources accordingly. Further, it should review and document the work of those auditors that it intends to rely on to support its review.
- Ensure that the audits division has an independent peer review of its operations every three years in accordance with generally accepted government auditing standards.

Finally, to ensure that other divisions, such as Nutrition Services and Child Development, as well as the CCR teams effectively perform program reviews, the department should:

- Direct program staff to adhere to audit and review cycles set forth by federal and state laws, regulations, or departmental policies.
- Direct program reviewers to adequately document the monitoring procedures performed during site visits.
- Establish clear guidelines for imposing sanctions on noncompliant entities.
- Monitor corrective action for entities receiving state and federal funds and enforce fiscal and administrative penalties.
- Evaluate the effectiveness of their monitoring process and periodically report to the new monitoring committee on their success in meeting monitoring objectives.
- Instruct the Special Education Division to expedite the development and implementation of its new review process.

We conducted this review under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code and according to generally accepted government auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,

A handwritten signature in black ink that reads "Mary P Noble". The signature is written in a cursive style with a large, stylized "M" and "N".

MARY P. NOBLE
Acting State Auditor

Date: January 20, 2000

Staff: Joanne Quarles, CPA, Audit Principal
Stephen A. Cummins, CPA
Laneia M. Grindle
Joel M. Riphagen

Blank page inserted for reproduction purposes only.

APPENDIX A

Monitoring of Participants in State and Federal Programs With Funding Greater Than \$10 Million

Program	Funding	Monitoring Performed
FEDERAL PROGRAMS		
Child Care and Development Block Grant	\$246,363,226	1,2,3,4
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	187,171,410	1,2,3,4
National School Lunch	722,854,899	2,3,4
Child and Adult Care Food	192,256,219	2,3,4
School Breakfast	181,964,276	2,3,4
Summer Food Service Program for Children	18,786,795	2,3,4
Title I - Grants to Local Educational Agencies	822,117,375	1,3,4
Even Start State Educational Agencies	12,115,569	2,3,4
Special Education Grants to States	362,723,057	3,4
Special Education Preschool Grants	35,654,641	3,4
Migrant Education Basic State Grant	88,931,285	1,3,4
Immigration Education	38,305,767	3,4
Vocational Education Basic Grant to States	100,984,697	1,3,4
Tech Prep Education	11,010,374	1,3,4
Goals 2000 State and Local Education Systemic Improvement Grants	57,086,984	3,4
Technology Literacy Challenge Fund Grants	44,823,230	2,3,4
Innovative Education Program Strategies	35,376,276	3
Eisenhower Professional Development State Grant	30,250,855	1,3,4
Adult Education State Grant	33,707,390	1,2,3,4
Safe and Drug-Free Schools and Communities State Grants	45,692,077	1,3,4

Continued on the next page

Legend

- 1 On-site monitoring by the Coordinated Compliance Review team
- 2 Other on-site monitoring
- 3 Certified Public Accountant (CPA) audit
- 4 Other monitoring including: desk reviews, technical assistance, self-evaluations

Program	Funding	Monitoring Performed
STATE PROGRAMS		
Summer School	\$210,809,000	3
Regional Occupational Centers	309,369,000	3
Staff Development Day Buyout	195,000,000	3
Student Assessment	56,969,000	3,4
School Library Materials	158,500,000	3,4
Standards Based Math/Instructional Materials	250,000,000	3
Adult Education	497,787,044	1,3
Adults in Correctional Facilities	15,557,000	3
Special Education	2,111,920,000	3,4
Partnership Academies	13,964,000	3,4
Deferred Maintenance	115,000,000	3
Educational Technology	139,664,300	3,4
Instructional Materials 9-12	39,001,000	3
Instructional Materials K-8	133,099,000	3
Community Day Schools	20,436,000	3
Staff Development (Prop. 98)	49,100,000	3,4
Child Development	843,638,000	1,2,3,4
Healthy Start	59,000,000	3,4
Child Nutrition (non-Prop. 98)	10,882,000	2,3,4
High-Risk Youth Ed. & Public Safety	20,000,000	2,3
Consolidated Categorical Mega Item	2,433,632,000	1,3,4
Proposition 98 Block Grants	67,831,000	3
Class Size Reduction Program 9th Grade	44,450,000	3,4
Class Size Reduction	1,557,192,875	3,4
Remedial Summer School	75,000,000	3
Proposition 227/98 L/A	50,000,000	3,4
College Preparatory and Examination	10,000,000	3,4
School/Law Enforcement Partnership	10,000,000	2,3,4
School Apportionment/Ch 66/93	12,411,141,000	3
Math Teacher Instruction Grants (AB 2442)	14,250,000	3,4
Math Professional Development (AB 1331)	14,250,000	3,4
Tobacco Use Prevention Education	32,353,000	1,3,4

Legend

- 1 On-site monitoring by the Coordinated Compliance Review team
- 2 Other on-site monitoring
- 3 Certified Public Accountant (CPA) audit
- 4 Other monitoring including: desk reviews, technical assistance, self-evaluations

APPENDIX B

Status of Corrective Action Following Three USDA Reports on Child Nutrition

Date	Report	Finding	Recommendation	Action Taken By the Department
March 1999	Child and Adult Care Food Program (CACFP) 2 Percent Funds	The department charged improper costs for administrative reviewers to the 2 Percent of CACFP funding.	Repay \$1,604,364 used for administrative reviews.	The department is appealing; however, it has discontinued charging 2 Percent Funds for administrative reviews for the current year.
			Establish procedures to ensure all required audits are completed during the required time frame before charging administrative reviews to CACFP.	The department is working to complete all required audits. It may assign additional audit staff if necessary.
		The department charged unsupported costs to 2 Percent funding for audit staff.	Repay \$3,916,190 used for non-CACFP purposes.	The department is appealing the repayment.
March 1999	CACFP Oversight	Unscrupulous nonprofit organizations eluded department detection for years.	Prepare and implement a written cost assignment procedure to produce an equitable distribution of time and effort and maintain adequate support for time charged with appropriate time distribution records.	New review procedures ensure audit staff are following time-accounting procedures. Audit managers will carefully review time sheets for accuracy and completeness.
			Identify high-risk nonprofit organizations and direct resources to those organizations that fit the problem profile.	The department has updated its high-risk indicators and has applied them to nonprofit organizations.
			Compile a database of all CACFP nonprofit organizations and classify those that are high-risk.	Database of high-risk nonprofit organizations is in place and those considered high-risk have been identified.
		The department was negligent in fulfilling its responsibilities to oversee CACFP.	Establish a management and accountability process that ensures coordination between the Nutrition Services Division and the audits division.	Through the Child Nutrition Integrity Committee and regular program policy meetings, the department will coordinate activities.

Continued on the next page

Note: This appendix is based solely on the department's correspondence with the USDA and contains unaudited information.

Date	Report	Finding	Recommendation	Action Taken By the Department
March 1999 (continued)	CACFP Oversight (continued)		<p>Develop formal procedures to ensure nonprofits implement corrective actions recommended in administrative reviews and audit reports.</p> <p>Allow only one day care home agreement per nonprofit and ensure that all those currently participating in the program have only one such agreement.</p> <p>Thoroughly review each nonprofit's budget and obtain support for all questionable amounts listed.</p>	<p>The department has drafted procedures to ensure corrective action is implemented. They include conducting on-site visits of deficient nonprofits.</p> <p>The department reviewed all 108 agreements to ensure that all nonprofits had only one. It stated that its current policy allows for one agreement per organization.</p> <p>A budget-review task force consisting of staff from three states and a Food Nutrition Service representative is developing guidance.</p>
August 1999	CACFP Quality of Audit Work	<p>Audits of nonprofits were not completed in a timely manner.</p> <p>The department's audits did not meet Government Auditing Standards.</p>	<p>Arrange for the performance of the 189 required program-specific audits that have not yet been completed.</p> <p>Establish and implement an adequate tracking system to confirm that it is meeting its audit requirements.</p> <p>Establish and implement a clear line of authority to ensure CACFP audits are completed on time and staff is accountable for their completion.</p> <p>Develop and implement an audit program that is customized to CACFP requirements and includes coordination and communication between the CACFP units.</p>	<p>As of 10/13/99, the department had completed 95 of the required audits, including desk reviews of 82 CPA reports and 13 audits by its audits division. Of the remaining audits, 62 reports were never received and 32 were in progress.</p> <p>The department has contracted for a feasibility study to determine the costs to upgrade the tracking system. In January 2000, the department plans to transmit requests to begin the work on the tracking system.</p> <p>In July 1999, supervisory duties for all Child Nutrition program desk and field audits were consolidated under one manager who is directly accountable to the audits division director.</p> <p>The audits division is revising the CACFP audit program and will include provisions to promote coordination and communication between the CACFP units. It will contain procedures for assessing risk and evaluating internal controls and will require that audits of high-risk nonprofit organizations include a visit to their CPA to review working papers. The audits division expects to have the audit program developed by January 31, 2000.</p>

Continued on the next page

Note: This appendix is based solely on the department's correspondence with the USDA and contains unaudited information.

Date	Report	Finding	Recommendation	Action Taken By the Department
August 1999 <i>(continued)</i>	CACFP Quality of Audit Work <i>(continued)</i>		<p>Establish and implement a process for management to perform supervisory reviews of all audit reports and work papers.</p> <p>Establish and implement an evaluation system so management can evaluate an auditor's performance.</p> <p>Provide training in Government Auditing Standards to audit staff involved in CACFP audits.</p> <p>Establish and implement a formal internal quality-control system and a procedure manual for quality-control reviews.</p> <p>Establish and implement a system for an external quality-control review (peer review) to ensure that an internal quality-control review system is operating effectively, and that the applicable policy and procedures are being followed.</p>	<p>Since January 1999, the audits division's managers conduct quality reviews, which include a review of all working papers of field audits. For reviews of CPA reports, the managers are required to thoroughly examine desk review documents to ensure the completeness of the work. The director will periodically review work to ensure the quality of the supervisory review.</p> <p>The audits division participates in the department's personnel evaluation process each October. Performance is discussed with staff, and if significant improvement is needed, audit managers will monitor staff performance throughout the year. If there is no improvement, staff may be subject to corrective or disciplinary action.</p> <p>During 1999 audit staff attended training on various topics related to government auditing. In 2000, audits division management will ensure that all audit staff receive a minimum of 24 hours of training related to government auditing standards.</p> <p>The audits division is developing a formal internal quality control process and expects this to be formalized by February 2000. The process will require managers to verify that all pertinent statements in the audit report trace to the working papers. The division director will periodically review audit documents to ensure implementation of the internal control process.</p> <p>The department is evaluating the option of contracting for an external quality control review in 2000. It is considering contracting with an independent audit firm, the Institute of Internal Auditors or the California Association of State Auditors.</p>

Note: This appendix is based solely on the department's correspondence with the USDA and contains unaudited information.

Date	Report	Finding	Recommendation	Action Taken By the Department
August 1999 (continued)	CACFP Quality of Audit Work (continued)		Increase accounting curriculum requirements for new hires to enable the staff to perform the audits properly.	The department must follow state personnel hiring practices. Presently the Associate Management Auditor classification requires a minimum of six semester hours of accounting. Since November 1998, the department has hired only applicants who have professional certifications and/or sufficient accounting experience.
		Quality control system over CPA audits was deficient.	Perform quality control reviews on a representative sample of CACFP audits completed by certified public accountants.	The audits division uses a risk-based approach for determining which CACFP organizations to review. Division staff discuss each organization's budget with the nutrition program consultant and review the single audit report and all available financial information. The audits division will conduct as many quality control reviews as resources permit.
		Audit follow-up was inadequate.	Appoint a responsible audit official to certify corrective action has been implemented for required program-specific CACFP audits.	The Child Nutrition Integrity Committee, Audits Division, and Nutrition Services Division are developing policy and procedures to clearly define audit resolution responsibilities. These procedures will ensure that nonprofit organizations complete corrective action plans and that those plans adequately address findings. The department anticipates that this will be completed by March 1, 2000.

Note: This appendix is based solely on the department's correspondence with the USDA and contains unaudited information.

Agency's comments provided as text only.

California Department of Education
Delaine Eastin
State Superintendent of Public Instruction
721 Capitol Mall
Sacramento, California 95814

January 10, 2000

Mary P. Noble
Acting State Auditor
555 Capitol Mall, Suite 300
Sacramento, CA 95814

Audit No. 99121

Dear Mary:

This is the California Department of Education's (CDE) response to your draft audit report entitled "Department of Education: Its Current Monitoring Efforts Give the State Limited Assurance That It Properly Administers State and Federal Programs." I have the utmost regard for the work that you and your fine staff do. At the same time, I think the issue of resources can and should be highlighted more fully in your draft report.

Ours is the smallest state department of education in the nation in terms of state administration funds spent per pupil and as a percentage of total funding. In recent years, we have been asked to take on such large new programs as class size reduction, digital high school, and the reading initiatives, with no additional resources.

The 25 percent cut that was imposed upon us by Governor Wilson in fiscal year 1998-99 was extraordinary. Even though \$3 million of the \$8 million was restored by year end and \$7 million of the \$8 million was restored the following year, I could not, in good conscience, exceed my budget, even to achieve my goal of appropriate administrative oversight.

In his recent State of the State message, Governor Davis requested more than \$20 million to conduct audits of a \$1 billion program. As noted in your draft report (Results in Brief, page 3), CDE's auditing responsibilities are for more than \$26 billion in programs. We are given far less than \$20 million to conduct our oversight. And while CDE appreciates your acknowledgment in several places in the draft report about our resource limitations, we think, given the scope of our responsibilities, an even more specific analysis of our budget would be helpful.

In checking with my colleagues in other states, they are astounded at the limitations under which we are operating. Even the administrative overhead allowed by the federal government has been severely limited by the State of California. I ask you to look at the chart in Attachment 1 to the

enclosed audit response and pay particular attention to programs like special education where other large states have substantially greater resources to do their job.

CDE's response to your specific findings and recommendations is enclosed. If you have questions, you may contact me at 657-4766 or CDE's Audit Response Coordinator, Peggy Peters, at 657-4440.

Sincerely,

(Signed by: Delaine Eastin)

Delaine Eastin
State Superintendent of Public Instruction

Enclosure

ENCLOSURE

CALIFORNIA DEPARTMENT OF EDUCATION

RESPONSE TO AUDIT NO. 99121

GENERAL COMMENTS

The focal point of all operations at the California Department of Education (CDE) is improving student achievement. As Governor Gray Davis stated in his State of the State address on January 5, 2000, "We set the bar higher for every school by holding each one accountable for the only thing that really matters – improved student achievement." CDE is charged with both the responsibility for measuring student achievement as a means to promote the long-term economic and democratic success of our state, and at the same time it is our responsibility to ensure strict compliance with state and federal law (draft report, page 3). The challenge is striking the appropriate balance. It is the balancing of these responsibilities that dictate the operational philosophy of CDE.

We fully recognize the need for monitoring state and federal programs utilizing monitoring plans, tracking monitoring activities and outcomes, imposing sanctions, and establishing performance measures. With that stated, our current operations are not without their challenges. While we agree on the critical importance of strengthening the process of monitoring the use of state and federal funds, we face several real impediments to making progress in that regard. The major impediment is a lack of funding as expressed in the State Superintendent of Public Instruction's March 22, 1999, letter to Senator Dede Alpert regarding Governor Wilson's 25 percent cut to CDE's General Fund budget (\$8 million):

"It is our understanding that of the \$8 million cut, \$3 million will be restored in the current year [1998-99] and continued into the budget year. However, this still leaves our base budget with a \$5 million hole, which will severely impact the ability of the Department to conduct its basic functions, divert management attention and leadership away from implementing our important new reforms, and result in permanent staff reductions . . . I must also note that our state operations request to implement the Governor's four reform bills is very modest. In comparison, the Texas Education Agency which is so often touted as operating a model accountability system, has funded 49 positions in-house to do such things as data collection and educational performance analysis. California, with 46 percent more students, is preparing to embark on a similar endeavor with \$900,000 and about seven positions to operate the same function."

CDE did not believe then, nor does it believe now, that the state budget will enable CDE to fully provide the capacity required for genuine fiscal oversight and a meaningful

①

accountability system. The underfunding is compounded by the ever increasing responsibilities of new federal and state programs imposed upon CDE for which no or insufficient administrative funds for oversight of these programs are provided to CDE. The support that CDE is able to offer school districts is directly reflected in their ability to implement our goals and achieve the results we are seeking.

①

For fiscal year 2000-01, CDE has submitted seven Budget Change Proposals (BCPs) for additional resources for fiscal oversight activities in recognition of the critical need for improving CDE's accountability system. The BCPs request 28 positions and \$2.6 million. The governor's Budget released earlier today supports only seven positions and \$573,000 of CDE's request. In light of CDE's critical need and the level of support provided in the proposed budget, CDE will prepare and submit additional proposals for monitoring resources, which should be addressed through the spring budget negotiations. It is important to note that CDE has consistently requested through the normal BCP process resources to enable it to adequately monitor the funds it distributes to local agencies. However, many of these BCPs have been underfunded or not funded at all. Attachment 1 provides a sample of CDE's budget requests related to our ability to provide adequate program monitoring and oversight.

We are pleased that your draft report in Appendix A recognizes the many types of monitoring efforts conducted by CDE staff for all federal and state programs with funding greater than \$10 million. While CDE acknowledges that with a larger administrative budget we could do more, we use our limited resources as efficiently and effectively as possible. Your recommendations will assist us to improve these efforts in the future.

The recommendations for a department-wide monitoring plan, central database, monitoring committee and performance measures are valuable information which CDE has considered in the past and has implemented to some extent. With the recommendations of this audit, we will again evaluate the cost-effectiveness of these measures and whether they can be implemented at this time with existing resources.

In response to your recommendation for improving the efficacy of CDE's Audits and Investigations Division (AID), CDE will conduct a feasibility study to determine the extent to which CDE's Fiscal and Administrative Services Division (FASD) can perform activities relating to the verification of reimbursed costs for child care and development contractors. At the same time, we invite your support for our legislative measures and BCPs, which would allow us to initiate your recommendations consistent with our statutory obligations. AID has long been underfunded and understaffed, and CDE would like to provide it with the necessary resources to promptly review audit reports for completeness and agency compliance with all applicable program requirements.

Central database. CDE is acutely aware of the need for centralizing strategic data and making it accessible throughout CDE. We are currently undertaking several efforts to centralize data, with the most important being an enterprise database for certified and strategic subrecipient data to meet CDE needs as well as those of local educational

agencies. An internal Feasibility Study Report (FSR) has been completed which discusses the merits and method of developing an enterprise database and sets the parameters for moving into the described environment. This includes establishing standards for 1) the database platform to be used in future implementations and 2) the application development environment. CDE has purchased and implemented a test database platform and hired a Database Administrator (DBA). The new DBA has begun defining database standards, policies, and procedures. To the extent possible, CDE will include monitoring information in the enterprise database.

Monitoring committee. We concur with the recommendation that there needs to be more interaction and sharing of information among the various CDE offices and staff engaged in monitoring activities. CDE management has long recognized the value of collaboration and the exchange of information. In July 1999 CDE formed a Grants Task Force to identify and address issues relating to the administration of CDE's many grants to local agencies. In December 1999, the task force presented a draft of its final report. The task force recommends the adoption of a Grants Handbook containing policies and common procedures for grant administration, including monitoring; this handbook will be used as a basis for training CDE staff. CDE believes that these proposed solutions can be implemented within 10 – 12 months and will address most of the current problems associated with grant administration and strengthen our monitoring efforts.

CLARIFICATION AND RESPONSE TO OTHER INFORMATION IN REPORT

Introduction, draft report page 9.

The number of children in California's public schools increases annually. CDE is currently responsible for educating 5.8 million children annually, not 5.5 million as stated in your draft report. ②

Table 1: Monitoring Activities of Other Divisions, page 10.

The table should indicate that the Adult Education Office within the Education Support Systems Division monitors community college and library literacy programs as well as nonprofit organizations and school districts. ③

Under the Field Services Units within the Nutrition Services Division, the frequency of review for the Child and Adult Care Food Program should be corrected to a two- to four- year cycle depending upon the type of agency (7 CFR 226.6(l)). ④

Risk Is Rarely Considered When the Department Plans Monitoring Activities, page 19.

We agree that CDE does not uniformly consider risk in developing monitoring plans. Many programs do use information about the local educational agencies (LEAs) — such as past compliance problems, parent complaints, and school self-reviews — to target monitoring resources. CDE will review this element of monitoring planning as part of its department-wide review.

On page 19, the draft report states that “the Adult Education Office and Nutrition Services Division could not provide us with monitoring plans.” While the Adult Education Office does not have a single document that outlines plans for monitoring programs, various documents collectively demonstrate that planning for program review and monitoring has taken place. We agree that combining these documents into a single monitoring plan would be beneficial. Documents that reflect CDE’s monitoring efforts include:

5

- The Strategic Plan for Adult Education which indicates a plan for monitoring programs with specific budget allocations;
- Monthly travel itineraries for regional consultants which indicate schedules for visiting targeted programs within each region;
- A Compliance Review Document designed for use with all adult education federally funded agencies;
- The Adult Education Office budget; and
- The Compliance Review form completed during each program review.

The Nutrition Services Division’s Field Services Unit also does not have a single monitoring document. However, the Field Services Unit conducts an annual planning, resource allocation, and reporting process which addresses all of the recommended monitoring plan elements identified in your draft report. Indeed, it provides:

5

- Monitoring goals for the current year: At the beginning of each year, annual workplans are developed for each unit reviewer. These workplans identify all agencies to be scheduled for review during the year, including those “deficient” agencies scheduled for follow-up reviews;
- Identification of mandated reporting requirements established in federal regulations;
- Analysis to determine the risk associated with programs and the organizations receiving funds: As indicated above, agencies with identified deficiencies are scheduled for follow-up review to ensure their implementation of corrective actions. Review of these agencies is considered a priority and is scheduled as early as possible;
- Scheduled start and completion dates and budgeted hours for individual monitoring activities: During the development of annual workplans, staff plan their activities to ensure that all agencies to be reviewed are scheduled. This workplan is reviewed and updated on a monthly basis by each staff person and supervisor to ensure that it is current;
- Identification of resource needs: As part of the workplan development process, those agencies that are too large to be reviewed by a single individual are identified. In these cases, a staff team will be formed to perform the review. This planning process and prioritization of resources occurs during the development of the annual workplan as a means of ensuring that staff resources are utilized effectively and all necessary reviews are performed;
- A summary of prior year’s monitoring accomplishments: Annual reports describing the results of unit monitoring efforts are submitted to U.S. Department of Agriculture

each March. This information summarizes all pertinent data regarding child nutrition program monitoring; and

- A summary and status of prior year’s findings: Information on prior year reviews is archived in the unit database.

The process utilized by the Nutrition Services Division, therefore, does in fact, establish a plan for monitoring programs albeit, not in one document.

Figure 3: Current Tracking Systems Omit Essential Monitoring Data, page 21.

Figure 3 is misleading. It indicates that the Adult Education Office does not track “Current Year and Prior Year Findings” nor does it track “Corrective Action” and “Sanctions Imposed.” The Adult Education Office does track these components manually, as stated in the audit report footnote (3) for Figure 3. Yet these monitoring data are each marked “No” in Figure 3. Thus, while the footnote clearly notes the information is being tracked, it is not clear what is at the heart of the concern. If the criticism is manual tracking versus computerized tracking, that should be clarified.

6

Audits and Investigations Division, starting on page 24.

While the Audits and Investigations Division (AID) agrees that review of its policies and procedures is helpful in ensuring that it maximizes its effectiveness, AID takes exception with the assertion that it has inefficiently used resources and too narrowly defined its scope of responsibility. The duties of AID staff are set forth in federal and state statutes and regulations, including Education Code sections 8448 and 8450, and Title 5, California Code of Regulations sections 18071 through 18073. These laws mandate that AID staff perform detailed reviews of independent audits submitted by Certified Public Accountants (CPAs) for child development recipients. CDE has been steadfast in its adherence to these laws to ensure that CDE properly conducts its monitoring function.

7

For this reason, the comparison to the State Controller’s Office review of school district reports on page 32 of the draft report is misleading. The State Controller’s Office process is primarily composed of a multi-page checklist ensuring that all required financial information is included in the audit report. Once the checklist is completed, the State Controller’s Office merely reviews the report to identify significant audit findings and closes the review. This entire process represents only a fraction of the monitoring process required to be performed by AID staff. Accordingly, it is not surprising that the State Controller’s Office is able to conduct all reviews within one year using from 12 to 18 auditors. Conversely, AID staff includes only 9 auditors primarily assigned to conduct the review of all required financial information and the more thorough reviews of over 400 audits of child development agencies annually. In our view, the thorough type of monitoring conducted by AID staff represents more substantial value for the amount of resources committed to the job.

8

9

On-Site Audits of Nonprofit Organizations: Despite the mandate to perform detailed review of CPA audit reports, AID staff has conducted more on-site audits than stated in

10 the draft report on page 25. Since October 1994, AID staff has completed 26 on-site audits of nonprofit organizations, including 19 audits of child and adult care food sponsors, one child development agency, and six adult basic education agencies. Additionally, since October 1994, AID staff has assisted Nutrition Services Division staff in conducting dozens of fiscal reviews as part of program administrative reviews.

11 As part of on-site audits, AID staff periodically and normally review the working papers of independent CPAs whenever there is reason to question or suspect improper accounting or reporting of program funds. AID staff have, in fact, reviewed CPA working papers for four on-site audits, two of which were at adult education nonprofit agencies and one at a child development agency.

In addition, AID staff is prepared to conduct on-site audit work within a short timeframe whenever a high-risk nonprofit organization is identified. To improve the effectiveness of CDE on-site audits, AID staff are refining the audit program to require auditors to visit an organization's independent auditor and review the CPA's working papers, and to incorporate audit steps for detecting fraud. Since AID staff already periodically review CPA working papers when conducting on-site audits of high risk nonprofit organizations, CDE agrees to continue and expand the number of reviews of CPA working papers while conducting future on-site audits to the extent resources permit.

12 Identification of High-Risk Nonprofit Organizations: Under the existing system, AID staff has been effective in identifying high-risk nonprofit organizations and reporting this information to CDE program staff for fiscal or program sanctions. Over the last year, CDE imposed sanctions on more than 20 child development agencies and several child and adult care food sponsors due to fiscal or program noncompliance or mismanagement. CDE also placed "holds" on current year funding and denied new funding awards to many other nonprofit organizations. Last year, at least three child development agencies were terminated from the program because of serious fiscal concerns or program noncompliance issues. Implementation of the draft report recommendations will further improve the efficiency and effectiveness of AID.

13 Substantial Growth in Child Development Programs Has Contributed to Backlog: As of January 2000, AID has significantly reduced the backlog of audits relating to nutrition and child development programs. Several factors hinder AID staff's ability to achieve greater efficiency in carrying out its monitoring functions, including restrictions on the use of federal funding, a lack of state funding for monitoring, and the detailed review and verification required of child development audits by state regulations, as discussed above. However, these factors tell only a part of the story. The factor contributing most to the backlog of audit reviews is the tremendous growth in federal and state funding of child development programs. This has resulted in significant increases in the number of direct service contracts for the provision of services to children. At the same time, administrative resources allotted to AID for monitoring has remained relatively stagnant, delaying completion of required audits and limiting time to conduct on-site reviews.

To obtain additional resources for reducing the audit backlog and conducting on-site audits, AID staff have sought to implement several strategies to augment existing resources. Starting in 1997, the AID contracted with the Department of Finance to obtain additional professional auditing services to augment existing department auditors. This strategy has been moderately successful, but is constrained by the availability of Department of Finance staff and the availability of federal administrative funds to support the interagency agreement for these services. Continued use of outside entities to reduce the backlog, as suggested in the report, may not be possible without additional funding support. In addition, CDE will encourage the use of overtime hours for AID staff to the extent that funding permits. Overtime is not without cost and given the draconian cuts made to CDE during the Wilson administration, overtime was curtailed. In the long run, overtime may not be the most cost effective way to do the State's business.

15

During the last budget cycle, AID staff submitted three BCPs for 2000-01. One BCP requested four new Associate Management Auditor positions for audit work in the child development program and on-site audits. A second BCP requested \$150,000 in state general fund monies for conducting audit activities of programs which currently do not have administrative funding for auditing purposes. Lastly, AID staff submitted a BCP for a Senior Management Auditor to oversee day-to-day supervision of AID's Internal Audit Unit. CDE was hopeful that the resources requested through these BCPs, in conjunction with modifying the direct service contract closeout process as discussed below, would provide sufficient resources to eliminate the existing backlog within 12 months, and to significantly increase the number of on-site audits conducted by AID staff. However, the Governor's budget proposal, released today, did not fund any of our requests. We will again make these proposals in the spring.

In addition, in order to eliminate the backlog and initiate a risk-based approach to conducting auditing activities, AID submitted, in December 1999, a proposal for a legislative change to amend Education Code section 8448(g). The nature of this proposed change is to amend the annual organization-wide audit report requirement for child development agencies from the current annual funding level of \$25,000 to a funding level of \$300,000, consistent with federal audit requirements (Office of Management and Budget Circular No. A-133). This would permit AID staff to focus resources on the high-risk nonprofit organizations that receive large funding amounts. In 1997, AID also proposed this legislative change; however, the Department of Finance blocked efforts to raise the annual reporting requirement limit to \$300,000 or more. We are hopeful that your audit recommendations will have a positive influence on the Department of Finance.

16

It May Be Possible to Streamline the Review Process and Still Ensure Fiscal Accountability: AID and FASD staff have held preliminary discussions to explore ways to streamline the audit review process for child development audit reports while maintaining fiscal integrity and accountability over program funding. We believe that the required process for reviewing and closing out audits is more complex than depicted in the draft report and that prudence dictates some steps remain with professional audit staff. Until modifications are more fully developed, we cannot determine whether the draft report's estimate of the potential savings in hours is accurate. In choosing to modify any

17

existing regulations or transfer closeout responsibilities, AID staff will ensure the changes are consistent with the objectives and purpose of the monitoring function and consistent with the risk-based approach adopted by AID and CDE.

Internal Audits Considered Risk in Auditing Department Operations: The Internal Audits Unit has consistently applied state policy when conducting its study of CDE's internal accounting and administrative controls. It has also followed auditing practices which the Department of Finance has found acceptable in its evaluation of a variety of controls in different programs and procedures exhibiting high-risk factors. While this year the Internal Audits Unit did not specifically utilize the recently revised audit guidelines of the Department of Finance for the SAM 20000 audit, it performed 17 new audits based upon generally accepted auditing procedures during its examination of CDE operations. The information in the draft report on pages 33 and 34 does not recognize all 17 audits.

18

The Internal Audits Unit disagrees with the draft report to the extent it claims the unit did not utilize risk assessment identifying vulnerable areas or areas where audit resources would best benefit CDE. Internal Audit staff assessed CDE's operations and, based upon its determination that there were weaknesses in controls of vocational student organizations, conducted two audits of these programs after a CDE employee was thought to have embezzled funds allocated for student activities. In addition, the Internal Audits Unit performed two audits involving grant management in the Adult Education and Migrant Education units. These units were considered high-risk because of significant high-profile negative publicity over the administration of these units in awarding funds to subrecipients. Other similar audits were conducted which strengthened controls over CDE operations to safeguard state assets.

19

Despite this disagreement with the report, the Internal Audits Unit concurs with the recommendation that the Department of Finance's revised audit guidelines for SAM 20000 be utilized. The Internal Audits Unit has initiated a 22-month plan to perform sufficient work to ensure that CDE's internal accounting and administrative controls are effective. Included in these efforts is the development of a database to maintain audit findings and to enhance CDE's ability to identify high-risk areas. In addition, the Internal Audits Unit is exploring its options for an external quality control review of AID by an independent entity.

Adult Education audits on pages 27 and 28 of draft report.

The draft report cites deficiencies previously identified in the Bureau of State Audits' July 1999 audit of adult education. The draft report does not reflect that CDE has taken many steps, beginning in 1998, to correct problems in this area, including:

- Established strict guidelines for service providers to document student testing and hours of instruction to deter easily falsified evidence. Weekly, the Adult Education administrator convenes a meeting to inform and train consultant staff on how to conduct meaningful compliance reviews and to offer technical assistance to adult education providers. The monitoring document specifically includes items for verifying the supporting documentation for the student testing and hours of

instruction reported by the provider. In addition, Comprehensive Adult Student Assessment System (CASAS) staff provide ongoing training to CDE staff on the proper use of the standardized tests.

- Designed monitoring procedures to verify accuracy of claimed services, including review of attendance records, summary documents, and student tests showing attainment of benchmarks. In July 1999, adult education consultants implemented a monitoring document that includes items for verifying the accuracy of the services claimed by providers. In addition, the Compliance Review Form, completed by regional consultants for each program review, was revised to require identification of the items examined during site visits.
- Required all applicants to promptly submit required information, including audit reports, to qualify for funding. Adult Education Office staff continue to follow up on overdue audit reports and send billing requests to those organizations that are out of compliance with the OMB A-133 audit requirements. In keeping with established application review policy, CDE did not accept as eligible for funding any application for 1998-99 or 1999-00 from an organization that did not submit required audit reports.
- Evaluated prior-year performance and the size of the service provider before authorizing grant awards by: 1) changing the due date of required audits from 13 months to six months after the program year to ensure that ongoing funding decisions are made with up-to-date information; 2) examining all funding requests by providers for reasonableness by comparing the amount requested with the level of service provided in the previous year; and 3) ensuring that provider information regarding audit exceptions and “need for remediation” issues were made available to all adult education consultants, analysts, and managers.

Thus, CDE has developed and will continue to ensure that there are adequate procedures for reviewing CBOs.

Consolidated Compliance Review (CCR), page 38.

Most monitoring activities are tracked through the CCR tracking system. This covers all the programs reviewed within the CCR. Currently, only staff within the School and District Accountability Division have direct on-line access to the CCR Compliance Tracking System, and specific programs each maintain separate databases of other monitoring activities, such as complaints, investigations, and audits.

While we question the issue of inadequate documentation by CCR reviewers, we will evaluate the feasibility of expanding the CCR validation report to include notation that each compliance step has been performed. (20)

We note, however, that the draft report indicates that in fiscal year 1997-98, the CCR tracking system identified that at least 21 percent of the schools reviewed had

noncompliance issues for more than a year. We would like to clarify that nearly 15 percent of the noncompliance issues were related to the Special Education and Gender Equity programs. CDE has taken action to eliminate the special circumstances that created delays in resolving the non-compliance issues in the Special Education and Gender Equity programs.

Special Education Reviews, page 38.

21

In fiscal year 1998-99, while the Special Education Division did not participate in scheduled CCR validation reviews, it continued to monitor compliance with Part B of the Individuals with Disabilities Education Act (IDEA) using a variety of methods. The core of CDE's general monitoring of federal and state compliance by LEAs is to ensure compliance with federal and state laws by 1,066 local education agencies so that all children with disabilities receive a free appropriate public education in the least restrictive environment. These monitoring efforts include:

- Collection of information about compliance from all local educational agencies (LEA)s and Special Education Local Plan Areas (SELPA)s: 1) Annual Local Plan Submission (250 LEAs); 2) California Special Education Management Information System (CASEMIS); 3) California Basic Educational Data System (CBEDS); 4) California's Standardized Testing and Reporting (STAR) Program; 5) Coordinated Compliance Review (CCR) Self-Reviews (250 LEAs); and 6) Coordinated Compliance Review Data Base.
- Review and analysis of information submitted by: 1) reviewing local plans for compliance with all federal and state laws; 2) requiring LEAs/SELPA)s to correct noncompliant policies and procedures; 3) reading CCR self review; 4) developing corrective action plans; 5) investigating complaints; 6) imposing corrective actions; 7) conducting site visits when there is an unusual number or pattern of noncompliance; 8) calculating key performance indicators for each LEA; and 9) identifying low performing LEAs to participate in focused monitoring in 1999-00.
- Development of corrective action plans for each instance of noncompliance and providing training and technical assistance on an individual, regional and statewide basis.

(Attachment 2 provides the estimated number of pupils receiving special education services in the LEAs which were monitored in 1998-99 and those planned for monitoring in 1999-00.)

While the last recommendation in the draft report (page 46) directs CDE to instruct the Special Education Division to expedite its new review process, we note the Special Education Division has already initiated its new review processes. In 1999-00, focused monitoring began its transition year. In addition to monitoring activities continued from prior years, scheduled onsite review processes are being conducted in 1999-00. There are four primary elements of CDE monitoring that provide comprehensive and timely

pressure to achieve and sustain compliance with special education requirements statewide. They are closely linked and coordinated. CDE staff conduct:

- An annual review of local plans, including service and budget plans that are submitted each year under California law;
- Coordinated compliance review activities, including the submission of comprehensive self reviews of compliance with federal and laws and CDE conducted verification processes;
- Complaint investigations and complaint management activities, including the proactive reviews of districts subject to a large number or a particular type of complaint; and
- Focused monitoring activities, which include CDE conducted and supervised verification of compliance and student data. Participation in focused monitoring is voluntary. LEAs who participate in Focused Monitoring have agreed to go beyond minimum levels of compliance to achieve higher standards of student achievement and outcomes. Focused monitoring includes four types of reviews:

1. Facilitated reviews (8 LEAs) are conducted with LEAs whose results in key performance indicators (KPIs) are most frequently in the lowest 15% of LEAs. Facilitated reviews are conducted over a three-year period of time and include a four-day leadership seminar, a CDE-conducted verification of data and compliance, an indepth self-study of compliance and student outcomes by an LEA team that includes CDE staff, and preparation and implementation of a quality assurance plan that corrects noncompliance and promotes effective student outcomes.

2. Collaborative reviews (12 LEAs) are conducted over a two-year period of time with LEAs whose KPI data is less frequently in the lowest 15% of LEAs. The review process contains the same elements as facilitated reviews.

3. Verification reviews (18 LEAs) are conducted in LEAs selected at random from the pool of LEAs slated for CCR validation visits. The verification review is designed to verify the data supplied to CDE in the CCR document and to review compliance items.

4. Preferred practices reviews (estimated at 9 LEAs). Preferred practices LEAs are those who have exemplary programs or practices. LEAs will be selected for preferred practices reviews based on KPI data and additional criteria for demonstrating effectiveness. The review process is still under development, but it will include a CDE-conducted verification of LEA data and compliance

In addition, Special Education Division and CDE legal staff continuously review complaint and compliance trends. When an LEA has a large number of complaints and non-compliance findings, CDE staff initiate a review of the LEA's complaint management system. CDE staff develop and implement a technical assistance plan for correcting systemic areas of noncompliance in the LEA.

Occasionally, the resolution of CCR self-review findings suggests (when coupled with the LEA's compliance history) that there is a need to conduct a wider discussion and review of the LEA's practices and compliance. This may result in an onsite review to obtain comprehensive understanding of the noncompliance and to develop an effective corrective action plan.

Finally, we would like to note that Title 20, U.S. Code, Section 1411(f) allows approximately 25 percent for state administration and other state level activities; however, in the past, the Department of Finance has restricted our federal administrative funding level to 3.67 percent. In comparison to the administrative funding for special education in other large states, California's administrative level ranks among the lowest.

Child Development Division, page 40.

On pages 6, 16, 19 and 40, the draft report indicates that the Child Development Division does not adhere to its mandated review cycle, follow-up on noncompliance issues as warranted, and conduct on-site follow-up visits to verify compliance.

We disagree with the statements on pages 6, 16, 19, and 40 of the draft report because the statements imply that CDE staff in the Child Development Division intentionally do not comply with state requirements for monitoring at least once every three years. It should be noted that these requirements are not black and white. Title 5, California Code of Regulations, Section 18023(a) requires that CDE conduct reviews “. . . at least once every three (3) years and as resources permit . . .” In reality, budget cuts, increased responsibility, and inadequately funded new programs have decreased CDE's ability to promptly complete monitoring reviews. Currently, CDE does not have sufficient resources to conduct monitoring reviews of each contractor within the recommended period and, therefore, submitted a BCP this year to augment resources for 2000-01 reviews. This BCP was partially approved for four positions and \$375,000, which will help CDE to complete monitoring reviews once every three years. It should be noted that two years ago CDE's Child Development Division took on responsibility for administration of CalWORKs child care programs. CDE submitted BCPs for the additional workload; these were only partially funded, leaving CDE understaffed to conduct existing monitoring activities as well as activities related to the new programs.

22

Follow-up on noncompliance issues is one of many division tasks. Its placement as “just one entry on a list of major tasks . . .” in no way diminishes its importance. However, it does again highlight the fact that CDE has insufficient resources to accomplish follow-up on noncompliance issues through on-site visits. Therefore, given our budgetary constraints, CDE is forced to either accept written corrective action statements from agencies indicating compliance or visit other agencies even less often than once every four years, a choice we find untenable, but necessitated by our fiduciary responsibility to operate within our budget.

In reality, the use of a four-year cycle means that CDE is already directing staff time that could be used in regular monitoring reviews to high-risk, high-problem areas. Many of

the activities within the Child Development Division's Field Services units have been aimed at prevention based on the belief that adequate knowledge (provided by regional technical assistance and training) reduces errors. However, training and technical assistance is not a singular event; it is an ongoing process requiring frequent repetition of every specific training element. Because contractor staff turnover is high at the site level and program changes resulting from legislation or interpretation of the law occur regularly, adequate proactive training on-site requires more resources than are currently available.

In reference to the discussion on page 41 of the draft report on the Case Conference Review process, CDE staff will develop written guidelines relating to child development contract noncompliance issues to standardize referrals to the Case Conference Committee. CDE will provide in-service training to Child Development Division staff to ensure consistency in referring child development contractors to the Case Conference Committee. This training will be included in the annual CCR/case management referral training held for the Child Development Division's Field Services units. During this training all items within the CCR document are discussed and common procedures are agreed upon for the specific review cycle.

Nutrition Services Division, page 42.

In addition to the corrective action identified in the draft report at the bottom of page 42, in December 1999, the Nutrition Services Division reviewed audit closure procedures and identified a step in the closure process which can be eliminated. The review summation report has been revised to provide a place for indicating when there is no fiscal action to be taken. In these instances, the reports will no longer be routed through the audit closure unit, thus reducing closure workload.

Adult Education Office, page 43.

In fiscal year 1998-99, the Adult Education Office scheduled visits to 20 percent of the entities that receive federal adult education funding. However, the final eight reviews were scheduled to occur after June 30, 1999, in conjunction with on-site audits conducted by AID. The Bureau of State Audits discounted the eight reviews. Based on initial guidance from the U.S. Department of Education (USDE), which was later reversed, CDE used a review schedule for 1998-99 that extended past the end of fiscal year 1998-99. All future reviews will be held before June 30 of each funding cycle. For 1999-2000, the Adult Education Office will review all agencies receiving federal adult education funding because of the major reporting and funding changes in the program.

(23)

California Department of Education
Special Education Division
Estimated Number of Students Receiving Special Education Services
in Districts Monitored during 1999-2000
by Type of Monitoring

Monitor Type	Special Education	
	Enrolled	Pct
Local Plan & Compliance/Complaint	3,972	0.6%
Local Plan/Collaborative (Facilitated framework)	2,084	0.3%
Local Plan/Collaborative	3,030	0.5%
Local Plan/Verification/CCR	5,813	0.9%
Local Plan/CCR	9,088	1.4%
Local Plan Only	114,809	18.2%
Compliance/Complaint & Collaborative	19,261	3.0%
Compliance/Complaint & Verification	3,094	0.5%
Compliance/Complaint & CCR	70,892	11.2%
Compliance/Complaint	1,241	0.2%
Facilitated/CCR	351	0.1%
Facilitated Only	3,581	0.6%
Collaborative (Facilitated framework)/CCR	2,299	0.4%
Collaborative/CCR	386	0.1%
Collaborative Only	8,831	1.4%
Verification/CCR	24,838	3.9%
CCR Only	104,317	16.5%
Total Monitored	377,887	59.8%
Total California	632,238	100.0%

CDE Budget Requests

1999-00 BCPs

<i>BCP title</i>	Requested		Funded	
	<i>PY's</i>	<i>Dollars*</i>	<i>PY's</i>	<i>Dollars*</i>
Special Ed-Quality Assurance Process:				
Focused Monitoring	5.0	\$2,101	4.0	\$843
Create Complaints Mgmt Unit	6.0	\$547	3.0	\$239
Comprehensive School Reform	6.0	\$815	0.0	\$0
Audit Resolution	5.0	\$558	0.0	\$0
CNFDD Administration & Compliance	20.0	\$1,722	6.0	\$530
External Audits-Adult Basic Education				
Audit support	1.0	\$100	1.0	\$87

1998-99 BCPs

<i>BCP title</i>	Requested		Funded	
	<i>PY's</i>	<i>Dollars*</i>	<i>PY's</i>	<i>Dollars*</i>
Complaint Investigation and Resolution	7.0	\$736	0.0	\$0
CA Student Info System	1.0	\$155	0.0	\$0
Augmentation for Child Development Services	21.0	\$1,807	12.0	\$949
Child Development Staffing				
Augmentation	6.0	\$388	0.0	\$0
Audit Resolution Process	6.0	\$649	0.0	\$0
Special Ed Augmentation to meet federal mandates	7.0	\$1,346	0.0	\$0
Field Services to meet mandated child nutrition requirements	7.0	\$466	7.0	\$466
Child Care Food Program-Increased Technical Assistance	1.0	\$89	1.0	\$89

* in thousands

California Department of Education
Special Education Division
Estimated Number of Students Receiving Special Education Services
in Districts Monitored during 1998-1999
by Type of Monitoring

Monitor Type	Special Education		Districts	Pct
	Enrolled	Pct		
Local Plan & Compliance/Complaint	19,142	3.0%	26	2.4%
Local Plan Only	93,543	14.8%	198	18.6%
Compliance/Complaint & CCR	91,832	14.5%	21	2.0%
Compliance/Complaint	15,333	2.4%	40	3.8%
Compliance/Complaint & State Monitor & Local Plan	456	0.1%	1	0.1%
Compliance/Complaint & State Monitor	2,156	0.3%	1	0.1%
State Monitor Only	12,509	2.0%	1	0.1%
CCR Only	97,762	15.5%	221	20.7%
Total Monitored	332,733	52.6%	509	47.7%
Total California	632,238	100.0%	1,066	100.0%

COMMENTS

California State Auditor's Comments on the Response From the Department of Education

To provide clarity and perspective, we are commenting on the Department of Education's (department) response to our audit report. The following numbers correspond to the numbers we have placed in the department's response.

- ① Although the department contends that it receives no or insufficient administrative funds for program oversight, it is still accountable for this function. The department must ensure that it fulfills its monitoring responsibilities. Short of seeking a relaxation of these responsibilities from the appropriate federal agencies, the department must continually evaluate and design a more effective approach to monitoring entities it funds, such as the approach we describe on pages 15 and 19 of this report.
- ② We have changed the text on page 7 of the report to agree with the increase in California's public school population that the department cites.
- ③ As stated on page 7 of our report, Table 1 focuses only on the various types of audits and reviews performed for nonprofit organizations and school districts.
- ④ We agree with the department and have modified Table 1 on page 8 to reflect the change.
- ⑤ By merely discussing the lack of a unified document, the department seems to be minimizing our concern. As stated on page 16, of the divisions we reviewed, only the Coordinated Compliance Review Management Unit considered risk when planning reviews. While the documents the department lists suggest some planning is taking place, these documents do not demonstrate a concerted effort by the Adult Education Division or the Nutrition Services Division's Field Services Unit to consider risk when planning their reviews. Moreover, neither division provided any evidence that an analysis considering risk factors, such as amount of funding, frequency of reviews, or significance or status of prior-year findings was actually prepared.

- ⑥ Table 2 has been modified to reflect the department's concerns.
- ⑦ We stand by our conclusion that the inefficient use of resources and narrow responsibilities limit the Audits and Investigations Division's (audits division) monitoring of state and federal programs. We agree that the California Code of Regulations and the Education Code require the audits division to review independent CPA reports for compliance with federal regulations and make a final determination of expenditures for recipients of federal Child Development funds. However, the department has the discretion to choose how it will meet these requirements. As discussed on pages 20 and 23, we believe there is significant room for improvement in how the department performs these tasks.
- ⑧ The department is mischaracterizing our comparison with the reviews of certified public accountant (CPA) reports that the State Controller's Office (SCO) performs. Rather than inspecting each audit report for the existence of relatively insignificant components, such as ensuring it includes the name of a CPA or that the report is properly addressed, the department should take an approach similar to the SCO's. We suggest this change on page 25, which focuses on the critical elements of the report.
- ⑨ The department is in error when it suggests that our description of the audits division's process represents only a fraction of the monitoring process the division must perform. It may believe that our description omits a discussion of the reconciliation process the audits division performs for Child Development contracts; however, we discuss this process on page 20. Our focus here is on its review of the audit report language, supplemental information, and findings, as discussed in the text box on page 23. The department also incorrectly states that the SCO uses from 12 to 18 auditors to conduct all reviews within one year. As discussed on page 25, the SCO completes its reviews of 1,100 CPA reports within a three-month period using 8 to 12 staff.
- ⑩ The 26 audits the department now asserts that the audits division has completed differs from the figures in the records they provided to us. According to the audits division's tracking reports, as of October 22, 1999, 11 on-site audits of Child and Adult Food Care program sponsors covering the period from October 1994 through September 1998 have been completed since October 1994. While we acknowledge the division is currently conducting 6 audits of Adult Education program agencies, according to an audits division manager, these audits will not be completed until the spring of 2000. Moreover, this

issue was previously discussed with the audits division director on at least two separate occasions, most recently during our final exit conference on December 17. The department raised no opposition at that time. If the audits division believes its records were incorrect, ample time was available to provide more current data. To provide clarity to the report, we have modified the text on page 20 to identify the audit period reviewed.

- ⑪ The department's statement that the audits division staff periodically review CPA working papers is contrary to what the division told us during our audit and what the U.S. Department of Agriculture found during a recent review of the Child and Adult Care Food program.
- ⑫ We repeatedly asked the audits division director for evidence that it uses a risk-based approach to planning audits of non-profit organizations. During our audit, the director provided us with a draft of the division's audit plan; however, as indicated on page 16, the plan was merely a status report of staffing levels and reviews of CPA reports and did not propose any on-site audits of high-risk entities. While the director continues to assert that the division employs a risk-based approach, he has yet to provide any evidence to support his assertion.
- ⑬ The audits division director did not provide evidence to support his statement that the division has significantly reduced the backlog of reviews of CPA reports for the Child Nutrition and Development programs.
- ⑭ The department fails to acknowledge the other significant factors that contribute to the backlog. As discussed on pages 23 to 25, also contributing to the backlog of CPA reports is the audits division's inefficient use of staff resources to perform reconciliations of Child Development expenditures and reimbursements, its detailed review of CPA reports, and its minimal use of overtime. Moreover, the backlog is not limited to Child Development programs as similar backlogs exist in the division's review of CPA reports for the Child Nutrition and Adult Education programs.
- ⑮ As stated on page 24, although ample opportunities exist to work a reasonable amount of overtime and reduce the backlog, the division's external unit staff have worked very little overtime for this purpose. Moreover, our recommendation on page 34

clearly states that the department should require the audits division to work a reasonable amount of overtime to eliminate the backlog.

- ⑩⑥ Our recommendations do not address raising the current state-imposed funding level requirement for audits of child development agencies. Regardless of whether the Department of Finance increases the limit, until the audits division improves its process for reviewing reports, it will continue to experience backlogs. As recommended on page 34, the audits division should streamline its current process by adopting an approach that focuses only on critical areas.
- ⑩⑦ The process is not as complex as the department is depicting. As illustrated in Figure 2 on page 21, the process for closing out contracts of entities receiving child development funds consists largely of tracing amounts from schedules prepared by the independent CPA to the Status of Operating Agency Contract sheet, which is also prepared by the CPA. The audits division then confirms certain amounts contained in the CPA report with records maintained by the department's Fiscal and Administrative Services Division (FASD). Furthermore, the department mistakenly believes that we are recommending the transfer of the review of CPA reports to FASD. However, as stated in our recommendation on page 33, we are proposing the department only transfer to FASD the responsibility for reconciling Child Development reimbursement and expenditure amounts reported by CPAs. The audits division would continue to review all CPA reports for compliance with federal regulations.
- ⑩⑧ The department errs in stating that our report does not recognize all 17 audits. Page 26 of our report clearly states the audits division relied on the results of 17 internal audits and reviews it performed within the prior two-year period to support its formal opinion on the adequacy of the department's internal controls.
- ⑩⑨ Contrary to the department's statements, the audits the internal audits unit performed were generated by management referral or complaints. The internal audits unit has not demonstrated that it undertakes a deliberative process that considers the operations of the entire department when it plans its approach for the biennial audit.
- ⑩⑩ We stand by our conclusion that CCR reviewers did not maintain adequate documentation demonstrating that the required program elements were reviewed. For example, as stated on

page 28, we found no documentation that the CCR reviewer for the Migrant Education program gathered a sample of learning plans, as required.

- ②1 The department is missing our point concerning the importance of on-site reviews. While the monitoring efforts listed by the department provide some assurance that program requirements are followed, its monitoring efforts are more effective when on-site visits to school districts are also conducted. As stated on page 29, it was able to identify 740 instances of noncompliance in fiscal year 1997-98 as a result of on-site reviews.
- ②2 The department is incorrect. The requirements for monitoring Child Development agencies are very clear. The California Code of Regulations specifically requires the department to monitor these agencies at least once every three years. As stated on page 31, the division is aware of its noncompliance with the state-mandated cycle for reviews but states that it lacks sufficient resources.
- ②3 The department's statement that we discounted the final eight reviews is incorrect. We considered all reviews performed through June 30, 1999, the date the Adult Education Office was required to complete its reviews.

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