

California State Auditor

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

State of California:

*Internal Control and State and Federal
Compliance Audit Report for the Fiscal
Year Ended June 30, 2006*



May 2007
2006-002

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CALIFORNIA STATE AUDITOR

ELAINE M. HOWLE
STATE AUDITOR

DOUG CORDINER
CHIEF DEPUTY STATE AUDITOR

May 10, 2007

2006-002

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

Dear Governor and Legislative Leaders:

As required by California Government Code, Section 8542 et seq., the Bureau of State Audits presents its audit report concerning our review of the State of California's internal controls and compliance with state and federal laws and regulations for the year ended June 30, 2006.

This report concludes that the State did not materially comply with certain requirements for 18 of its federal programs or clusters of programs. Further, we were unable to obtain sufficient documentation to determine whether the State adequately complied with relevant federal requirements for two programs. Additionally, it continues to experience certain problems in accounting and administrative practices that affect its internal controls over financial reporting and over compliance with federal requirements. As a result, the State has not always complied with some state and federal regulations. Although none of the problems we identified are significant to the State's financial statements, weaknesses in the State's internal control system could adversely affect its ability to provide accurate financial information and to administer federal programs in compliance with applicable requirements.

Respectfully submitted,

ELAINE M. HOWLE
State Auditor

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AUDITOR'S SECTION

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

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CALIFORNIA STATE AUDITOR

ELAINE M. HOWLE
STATE AUDITOR

DOUG CORDINER
CHIEF DEPUTY STATE AUDITOR

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

The Governor and the Legislature of
the State of California

We have audited the basic financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of California as of and for the year ended June 30, 2006, which collectively comprise the State of California's basic financial statements, and have issued our report thereon dated February 21, 2007. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. As described in our report on the State of California's financial statements, other auditors audited the financial statements of the following:

Government-wide Financial Statements

- Certain enterprise funds that, in the aggregate, represent 82 percent, 42 percent, and 52 percent, respectively, of the assets, net assets, and revenues of the business-type activities.
- The University of California, State Compensation Insurance Fund, California Housing Finance Agency, Public Employees' Benefits, and certain other funds that, in the aggregate, represent over 99 percent of the assets, net assets, and revenues of the discretely presented component units.

Fund Financial Statements

- The following major enterprise funds: Electric Power fund, Water Resources fund, Public Building Construction fund, and State Lottery fund.
- Certain nonmajor enterprise funds that represent 89 percent, 79 percent, and 86 percent, respectively, of the assets, net assets, and revenues of the nonmajor enterprise funds.
- The funds of the Public Employees' Retirement System and the State Teachers' Retirement System that, in the aggregate, represent 92 percent, 94 percent, and 69 percent, respectively, of the assets, net assets, and additions of the fiduciary funds and similar component units.
- The discretely presented component units noted above.

This report does not include the results of the other auditors' testing of internal control over financial reporting and compliance and other matters that are reported on separately by those auditors.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the State of California's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State of California's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2006-19-2 and 2006-19-3.

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

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the State of California's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as Item 2006-19-1.

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

BUREAU OF STATE AUDITS



PHILIP J. JELICICH, CPA
Deputy State Auditor

February 21, 2007



CALIFORNIA STATE AUDITOR

ELAINE M. HOWLE
STATE AUDITOR

DOUG CORDINER
CHIEF DEPUTY STATE AUDITOR

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

The Governor and the Legislature of
the State of California

COMPLIANCE

We have audited the compliance of the State of California with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The State of California's major federal programs are identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State of California's management. Our responsibility is to express an opinion on the State of California's compliance based on our audit. We did not audit the State of California's compliance with the requirements of the U.S. Environmental Protection Agency's Capitalization Grants for Clean Water State Revolving Funds (CFDA Number 66.458). This program, which accounts for less than 1 percent of the total federal assistance received by the State of California, is included in the accompanying schedule of findings and questioned costs and schedule of federal assistance. Other auditors have audited the State of California's compliance with this program's requirements and their report thereon has been furnished to us. Our opinion, insofar as it relates to this program, is based solely on the report of the other auditors.

The State of California's basic financial statements include the operations of the University of California and the California State University systems, as well as the California Housing Finance Agency, a component unit authority of the State. However, these entities are not included in the accompanying schedule of findings and questioned costs or schedule of federal assistance for the year ended June 30, 2006. The University of California and the California State University systems, and the California Housing Finance Agency, which reported expenditures of federal awards totaling \$3.2 billion and \$1.3 billion, and \$74 million, respectively, engaged other auditors to perform an audit in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133).

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

We were unable to obtain sufficient documentation supporting the State of California’s compliance with the level of effort—maintenance of effort requirements applicable to the Special Education—Grants to States program (CFDA Number 84.027) and to the earmarking requirements applicable to the Maternal and Child Health Services Block Grant to the States program (CFDA Number 93.994), nor were we able to satisfy ourselves as to the State of California’s compliance with those requirements by other auditing procedures.

As described in the Table below and in the accompanying schedule of findings and questioned costs, the State of California did not comply with requirements that are applicable to the following programs:

Table

| Finding Number | Federal Department | Program | Catalog of Federal Domestic Assistance | Compliance Requirement |
|---------------------|---------------------------|--|--|---------------------------------------|
| 2006-1-1 & 2006-1-2 | Health and Human Services | Medicaid Cluster: | | |
| | | State Medicaid Fraud Control units, | 93.775 | |
| | | Hurricane Katrina Relief, State Survey and | 93.776 | |
| | | Certification of Health Care Providers and Suppliers, Medical Assistance Program | 93.777 93.778 | Allowable Costs |
| 2006-2-1 | Health and Human Services | Centers for Disease Control and Prevention—Investigations and Technical Assistance | 93.283 | Allowable Costs |
| 2006-5-2 | Health and Human Services | Medicaid Cluster: | | |
| | | State Medicaid Fraud Control units, | 93.775 | |
| | | Hurricane Katrina Relief, State Survey and | 93.776 | |
| | | Certification of Health Care Providers and Suppliers, Medical Assistance Program | 93.777 93.778 | Eligibility |
| 2006-7-3 | Homeland Security | State Domestic Preparedness Equipment Support Program | 97.004 | Earmarking |
| 2006-7-4 | Education | Title I Grants to Local Educational Agencies, | 84.010 | |
| | | Safe and Drug-Free Schools and Communities-State Grants, Education | 84.186 | |
| | | Technology State Grants, English Language | 84.318 | |
| | | Acquisition Grants, Improving Teacher | 84.365 | Maintenance of Effort—Level of Effort |
| | | Quality State Grants | 84.367 | |
| 2006-8-3 | Health and Human Services | Child Care Development Fund Cluster: | | |
| | | Child Care and Development Block Grant and Child Care Mandatory and Matching Funds of the Child Care and Development Fund | 93.575 93.596 | Period of Availability |
| 2006-9-1 | Homeland Security | Hazard Mitigation Grant | 97.039 | Procurement, Suspension and Debarment |
| 2006-9-2 | Education | Migrant Education-State Grant Program, | | |
| | | Special Education Cluster: | | |
| | | Special Education-Grants to States and | 84.011 | |
| | | Special Education-PreSchool Grants and Comprehensive School Reform Demonstration | 84.027 84.173 84.332 | Procurement, Suspension and Debarment |
| 2006-12-3 | Health and Human Services | Child Care Development Fund Cluster: Child Care and Development Block Grant and Child Care Mandatory and Matching Funds of the Child Care and Development Fund | 93.575 93.596 | Reporting |

| Finding Number | Federal Department | Program | Catalog of Federal Domestic Assistance | Compliance Requirement |
|----------------|---------------------------------|--|--|--|
| 2006-12-9 | Education | English Language Acquisition Grants | 84.365 | Reporting |
| 2006-13-2 | Justice | Crime Victim Assistance | 16.575 | Subrecipient Monitoring |
| 2006-13-3 | Homeland Security | Disaster Grants—Public Assistance (Presidentially Declared Disasters), Hazard Mitigation Grant | 97.036 97.039 | Subrecipient Monitoring |
| 2006-13-8 | Education | Comprehensive School Reform Demonstration | 84.332 | Subrecipient Monitoring |
| 2006-13-13 | Health and Human Services | Immunization Grants | 93.268 | Subrecipient Monitoring |
| 2006-13-17 | Environmental Protection Agency | Capitalization Grants for Clean Water State Revolving Funds | 66.458 | Subrecipient Monitoring |
| 2006-14-1 | Health and Human Services | Medicaid Cluster: State Medicaid Fraud Control Units, Hurricane Katrina Relief, State Survey and Certification of Health Care Providers and Suppliers, Medical Assistance Program | 93.775 93.776 93.777 93.778 | Special Tests and Provisions—Provider Eligibility |
| 2006-14-2 | Agriculture | Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) | 10.557 | Special Tests and Provisions—Review of Food Instruments to Enforce Price Limitations and Detect Errors |

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

In our opinion, except for the effects of noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the State of California's compliance with the requirements of the Special Education—Grants to States (CFDA Number 84.027) regarding level of effort-maintenance of effort and the Maternal and Child Health Services Block Grant to the States (CFDA Number 93.994) regarding earmarking requirements as described in items 2006-7-5 and 2006-7-8, respectively, and except for the noncompliance described in the Table, the State of California complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. The results of our auditing procedures also disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2006-2-2, 2006-3-1, 2006-3-2, 2006-3-5, 2006-3-6, 2006-3-7, 2006-3-8, 2006-3-9, 2006-3-10, 2006-3-11, 2006-3-16, 2006-5-1, 2006-7-1, 2006-7-7, 2006-8-1, 2006-12-1, 2006-12-2, 2006-12-6, 2006-12-7, 2006-12-8, 2006-12-10, 2006-13-1, 2006-13-12, 2006-13-14, 2006-13-16, and 2006-13-17.

INTERNAL CONTROL OVER COMPLIANCE

The management of the State of California is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the State of California's internal control over compliance with requirements that could have a direct and material

effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the State of California's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2006-1-1, 2006-1-2, 2006-1-4, 2006-1-5, 2006-1-6, 2006-2-1, 2006-2-2, 2006-3-1, 2006-3-2, 2006-3-3, 2006-3-4, 2006-3-5, 2006-3-6, 2006-3-7, 2006-3-8, 2006-3-9, 2006-3-10, 2006-3-11, 2006-3-12, 2006-3-13, 2006-3-14, 2006-3-16, 2006-5-1, 2006-5-2, 2006-5-4, 2006-5-5, 2006-7-1, 2006-7-2, 2006-7-3, 2006-7-4, 2006-7-5, 2006-7-7, 2006-7-8, 2006-8-1, 2006-8-2, 2006-8-3, 2006-8-4, 2006-9-1, 2006-9-2, 2006-9-4, 2006-12-1, 2006-12-2, 2006-12-3, 2006-12-4, 2006-12-5, 2006-12-6, 2006-12-7, 2006-12-8, 2006-12-9, 2006-13-1, 2006-13-2, 2006-13-3, 2006-13-4, 2006-13-5, 2006-13-6, 2006-13-7, 2006-13-8, 2006-13-9, 2006-13-10, 2006-13-12, 2006-13-13, 2006-13-14, 2006-13-15, 2006-13-16, 2006-14-1, 2006-14-2, 2006-14-3, 2006-14-4, 2006-14-5, and 2006-14-7.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items, 2006-1-1, 2006-1-2, 2006-2-1, 2006-3-1, 2006-5-2, 2006-7-3, 2006-7-4, 2006-7-8, 2006-8-3, 2006-9-1, 2006-9-2, 2006-12-3, 2006-12-9, 2006-13-2, 2006-13-3, 2006-13-8, 2006-13-13, 2006-14-1, and 2006-14-2 to be material weakness.

SCHEDULE OF FEDERAL ASSISTANCE

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of California, as of and for the year ended June 30, 2006, and have issued our report thereon dated February 21, 2007. We did not audit the following significant amounts in the financial statements of:

Government-wide Financial Statements

- Certain enterprise funds that, in the aggregate, represent 82 percent, 42 percent, and 52 percent, respectively, of the assets, net assets, and revenues of the business-type activities.
- The University of California, State Compensation Insurance Fund, California Housing Finance Agency, Public Employees' Benefits, and certain other funds that, in the aggregate, represent over 99 percent of the assets, net assets, and revenues of the discretely presented component units.

Fund Financial Statements

- The following major enterprise funds: Electric Power fund, Water Resources fund, Public Building Construction fund, and State Lottery fund.
- Certain nonmajor enterprise funds that represent 89 percent, 79 percent, and 86 percent, respectively, of the assets, net assets and revenues of the nonmajor enterprise funds.
- The funds of the Public Employees' Retirement System and the State Teachers' Retirement System that, in the aggregate, represent 92 percent, 94 percent, and 69 percent, respectively, of the assets, net assets, and additions of the fiduciary funds and similar component units.
- The discretely presented component units noted above.

Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for those funds and entities, is based on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

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

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

BUREAU OF STATE AUDITS



PHILIP J. JELICICH, CPA
Deputy State Auditor

February 21, 2007

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Schedule of Findings and Questioned Costs

**STATE OF CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Summary of Auditor's Results

Financial Statements

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

Federal Awards

| | |
|--|-----------|
| Internal control over major programs: | |
| Material weaknesses identified? | Yes |
| Reportable conditions identified that are not considered to be material weaknesses? | Yes |
| Type of reports the auditor issued on compliance for major programs: | |
| Special Supplemental Nutrition Program for Women, Infants, and Children (10.557) | Qualified |
| Crime Victim Assistance (16.575) | Qualified |
| Capitalization Grants for Clean Water State Revolving Funds (66.458) | Qualified |
| Title I Grants to Local Educational Agencies (84.010) | Qualified |
| Migrant Education—State Grant Program (84.011) | Qualified |
| Special Education Cluster: Special Education Grants to States, Special Education Pre-school Grants (84.027 and 84.173) | Qualified |
| Education Technology State Grants (84.318) | Qualified |
| Comprehensive School Reform Demonstration (84.332) | Qualified |
| English Language Acquisition Grants (84.365) | Qualified |
| Improving Teacher Quality State Grants (84.367) | Qualified |
| Immunization Grants (93.268) | Qualified |

| | |
|---|----------------|
| Centers for Disease Control and Prevention— Investigations and Technical Assistance (93.283) | Qualified |
| Child Care Development Fund Cluster: Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fund (93.575 and 93.596) | Qualified |
| Medicaid Cluster: State Medicaid Fraud Control Units, Hurricane Katrina Relief, State Survey and Certification of Health Care Providers and Suppliers, Medical Assistance Program (93.775, 93.776, 93.777, and 93.778) | Qualified |
| Maternal and Child Health Services Block Grant to States (93.994) | Qualified |
| State Domestic Preparedness Equipment Support Program (97.004) | Qualified |
| Disaster Grants-Public Assistance (Presidentially Declared Disasters) (97.036) | Qualified |
| Hazard Mitigation Grants (97.039) | Qualified |
| All other major programs | Unqualified |
| Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133? | Yes |
| Dollar threshold used to distinguish between Type A and Type B programs | \$70.4 million |
| Auditee qualified as low-risk auditee? | No |

Identification of major programs:

| CFDA Number | Name of Federal Program or Cluster of Programs |
|--------------------|--|
| | Aging Cluster |
| | Child Care Development Fund Cluster |
| | Employment Services Cluster |
| | Food Stamp Cluster |
| | Highway Planning and Construction Cluster |
| | Highway Safety Cluster |
| | Medicaid Cluster |
| | Special Education Cluster |
| | Student Financial Aid Cluster |
| 10.557 | Special Supplemental Nutrition Program for Women, Infants, and Children |
| 10.665 | Schools and Roads—Grants to States |
| 12.401 | National Guard Military Operations and Maintenance (O&M) Projects |
| 16.575 | Crime Victim Assistance |
| 17.225 | Unemployment Insurance |
| 66.458 | Capitalization Grants for Clean Water State Revolving Funds |
| 66.468 | Capitalization Grants for Drinking Water State Revolving Funds |
| 84.010 | Title I Grants to Local Educational Agencies |
| 84.011 | Migrant Education—State Grant Program |
| 84.126 | Rehabilitation Services—Vocational Rehabilitation Grants to States |
| 84.181 | Special Education—Grants for Infants and Families with Disabilities |
| 84.318 | Education Technology State Grants |
| 84.332 | Comprehensive School Reform Demonstration |
| 84.365 | English Language Acquisition Grants |
| 84.367 | Improving Teacher Quality State Grants |
| 84.369 | Grants for State Assessments and Related Activities |
| 93.268 | Immunization Grants |
| 93.283 | Centers for Disease Control and Prevention—Investigations and Technical Assistance |
| 93.556 | Promoting Safe and Stable Families |
| 93.558 | Temporary Assistance for Needy Families |
| 93.563 | Child Support Enforcement |
| 93.568 | Low-Income Home Energy Assistance |
| 93.569 | Community Services Block Grant |
| 93.667 | Social Services Block Grant |
| 93.674 | Chafee Foster Care Independence Program |
| 93.767 | State Children’s Insurance Program |
| 93.917 | HIV Care Formula Grants |
| 93.994 | Maternal and Child Health Services Block Grant to the States |
| 96.001 | Social Security—Disability Insurance |
| 97.004 | State Domestic Preparedness Equipment Support Program |
| 97.036 | Disaster Grants—Public Assistance (Presidentially Declared Disasters) |
| 97.039 | Hazard Mitigation Grant |

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

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VARIOUS STATE DEPARTMENTS

Reference Number: 2006-19-1

CONDITION

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

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

Despite these requirements, some state departments did not consistently ensure that all employees' taxable benefits or taxable business expense reimbursements were being reported to the Controller's Office. We reviewed the reporting of employees' taxable benefits and reimbursements at one previously unreviewed state department for fiscal year 2005–06 in addition to following up on concerns we reported for other departments for fiscal year 2004–05. We summarize the results of this testing in the table below.

We reviewed 164 travel expense claims at the Department of Housing and Community Development (Housing) to determine whether the department properly reported employees' taxable reimbursements. However, not all of these travel expense claims included claims for taxable benefits. Housing did not always ensure that it met the reporting requirements the Controller's Office described.

We also determined if Housing issued vehicle home storage permits and reported the personal use of state vehicles to the Controller's Office. Housing did not always ensure that staff using their homes as headquarters, who would otherwise be exempt from reporting the personal use of state vehicles, kept required vehicle mileage logs. To review Housing's compliance with reporting requirements, we sampled four employees from Housing's Northern Region and six employees from its Southern Region. Housing believes that its employees in the Southern Region are exempt from reporting their personal commutes under the home-as-headquarters rule. To be exempt under this rule, the Controller's Office Payroll Procedures Manual describes specific conditions, including documentation of vehicle mileage logs, which need to be met. As the table also shows, our review determined that none of the six employees from the Southern Region maintained vehicle mileage logs, and therefore, did not meet the exemption requirements.

We reported similar concerns for fiscal year 2004–05 at seven other departments—the Department of Corrections and Rehabilitation, the Department of Fish and Game (Fish and Game), the Department of Health Services (Health Services), Secretary of State, State Personnel Board (Board), Commission on Peace Officer Standards and Training, and the Department of Industrial

Relations (Industrial Relations). We performed a follow-up review of the reporting of employees' taxable benefits and reimbursements at these state departments generally for March 2006 to June 2006, the period since our last review. Our review found that four of the seven departments continued to have reporting problems. Specifically, we reviewed from 71 to 111 travel expense claims at Fish and Game, Health Services and the Board and found that Fish and Game and Health Services again did not always report to the Controller's Office taxable fringe benefits arising from employees' travel and overtime expense reimbursements. We also found that Fish and Game, Industrial Relations, and the Board still did not always ensure that they reported the personal use of state vehicles to the Controller's Office.

TABLE

**Reportable Items Reviewed That Were Not Reported
to the Controller's Office in Fiscal Year 2005-06**

| State Agency | Total Number of Travel expense Claims With Reportable Items Reviewed | Items Not Reported | | |
|--|---|-------------------------------|--|---|
| | | Overtime/ Callback Mileage | Meals for Travel of 24 Hours or Less/ Overtime Meals | Employees with Personal Use of State Vehicle* |
| Department of Housing and Community Development | 23 | 9 | 5 | 6 [†] |
| Department of Fish and Game | 14 | NA | 3 | 5 |
| Department of Health Services | 7 | NA | 9 | 0 |
| Department of Industrial Relations | NA | NA | NA | 6 |
| State Personnel Board | 21 | NA | 0 | 1 |
| Totals | 65 | 9 | 17 | 18 |

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

N/A: We did not review this area because, in our prior year audit, we did not report noncompliance.

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

† These six employees did not maintain vehicle logs, as Controller's Office procedures require.

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

CRITERIA

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

- Section 129.1 states that the use of state-owned or state-leased vehicles for personal commutes between home and office is reportable taxable income.

- Section 129.1.3 describes an IRS exemption for unmarked law-enforcement vehicles if the use of the vehicle is authorized by the department owning the vehicle and employing the officer and is incident to law enforcement functions and the actual facts and circumstances are documented.
- Section 129.1.3 also states that for the value of personal use of a state-owned or state-leased vehicle to be excluded from income for an employee whose home is designated as his/her headquarters, certain criteria, including documentation of vehicle mileage logs, must be met.
- Section 130.1.2 states that reimbursements to employees for commuting expenses, such as for expenses from commuting or personal travel between home and office, is considered taxable income. This includes callback and overtime mileage.
- Section 143.3 states that overtime meal compensation is reportable and constitutes taxable income.
- Section 145.1.2 states that meal reimbursements for travel of 24 hours or less without lodging is taxable income. Simply stated, if an employee receives reimbursement for meals during travel in which there was no overnight stay, this reimbursement is taxable income.

RECOMMENDATION

All state departments should ensure that they properly report taxable fringe benefits and taxable employee business expense reimbursements.

DEPARTMENTS' VIEWS AND CORRECTIVE ACTION PLANS

Housing concurs with our finding and in July 2006, issued written instructions to ensure that overtime/callback mileage and taxable meals are reported to the Controller's Office. In June 2006, the department issued procedures to ensure that all field staff with assigned state vehicles turn in their mileage logs to their supervisors on a monthly basis.

Fish and Game concurs with our finding and states that it issued a bulletin to all employees in June 2006 to ensure that all appropriate taxable benefits are reported to the Controller's Office.

Health Services concurs with our finding and states that it implemented the California Automated Travel Expense Reimbursement System for all employees in June 2006. The system will automatically report taxable items to the Controller's Office.

Industrial Relations agrees with our finding. Industrial Relations plans to periodically review home storage permit records, mileage logs, and personal-use of state-owned vehicles to ensure proper reporting.

The Board concurs with our finding. The Board states that it has developed, and distributed to staff, written procedures to provide guidance on properly reporting taxable fringe benefits and taxable employee business reimbursements. The Board also states that it has provided training to its staff and that they follow the written procedures. In addition, the Board states that internal audits will be conducted quarterly to ensure compliance with applicable requirements.

DEPARTMENT OF FISH AND GAME

Reference Number: 2006-19-2

CONDITION

For the fiscal year ending June 30, 2005, we reported that the Department of Fish and Game (Fish and Game) had inadequate procedures for accounting and reporting its real property. We noted that Fish and Game's Land and Facilities Branch is responsible for reporting information on land to the Department of General Services (General Services) to be included in the Statewide Property Inventory and for reconciling with the Statewide Property Inventory. Its Fiscal and Administrative Services Branch, Property Unit had the same responsibilities for buildings and improvements. Its accounting unit reported real property information to the State Controller's Office (Controller's Office) for inclusion in the State's financial statements. Fish and Game also accounted for and reported real property information for the Wildlife Conservation Board (board), using the same agency number for both agencies in the Statewide Property Inventory.

For fiscal year 2001–02, the two branches did not reconcile their data with the Statewide Property Inventory. Further, the two branches and the accounting unit did not reconcile the property listings and Statement of Changes in General Fixed Assets. Also, the accounting unit reported incorrect information to the Controller's Office. Specifically, we determined the following:

- For the year ending June 30, 2002, Fish and Game's property listings for itself and the board had land of approximately \$490.1 million, while the Statewide Property Inventory recorded approximately \$97.6 million more.
- As of June 30, 2002, the Statements of Changes in General Fixed Assets reported land, buildings, and improvements valued at approximately \$105.3 million greater than the property listings showed. For the year ended June 30, 2002, the accounting unit reported real property of approximately \$164.3 million that may not have represented completed asset purchases.
- The accounting unit overstated land additions in the board's Statement of General Fixed Assets by at least \$2.5 million by including cash grants given to a non-state entity. For fiscal year 2002–03, Fish and Game inappropriately reported \$65.9 million in cash grants as land additions and understated the gift value of land by \$46.1 million.

For fiscal years 2003–04 through 2005–06, Fish and Game indicated to us that it had not fully implemented our prior recommendations. As a result, we did not conduct additional audit work except to determine whether Fish and Game currently reported selected changes to its real property inventory.

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

CRITERIA

The California Government Code, Section 11011.15, requires each agency to furnish General Services with a record of each parcel of real property that it possesses and to update its real property holdings by July 1 each fiscal year. It also requires General Services to maintain a

complete and accurate inventory of all real property held by the State. General Services includes Fish and Game's information in the Statewide Property Inventory. In addition, the State Administrative Manual, Section 7924, requires agencies to annually reconcile the amounts reported in the Statewide Property Inventory with the Statement of Changes in General Fixed Assets.

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

RECOMMENDATIONS

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

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

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Fish and Game concurs with our finding and indicates that it has made progress in addressing the recommendations, but additional time is necessary for full implementation. Effective October 1, 2006, the Department of Finance authorized a position in Fish and Game's Business and Contracts Management Branch to be responsible for tracking land, building and fixed asset acquisitions.

Fish and Game indicates it is reviewing each capital outlay expenditure to determine if it is a department asset or non-department asset. Non-department assets will be recorded as work in progress and then either removed or capitalized from the Property Inventory Database. Guidelines for identifying these assets are being developed and should be in operation by June 30, 2007. Further, Fish and Game reports that its Accounting Services Branch is recording information monthly on the additions and deletions of real property and is reporting this information annually in the Statement of Changes in General Fixed Assets to the Controller's Office.

Further, Fish and Game reports that it is working with the board to develop a methodology to accurately reflect land purchases into the Property Inventory Database. In addition, it is also conducting training to assist staff in recognizing which acquisition costs associated with land purchases should be included in capital assets. Finally, it is working with the board to coordinate land purchase information in order to improve communication regarding these purchases, to reduce errors, avoid duplication of record-keeping, and assist in correct documentation of Fish and Game's property inventory. With these actions, Fish and Game expects that it will be able to accurately report its capital assets by June 2008.

DEPARTMENT OF PARKS AND RECREATION

Reference Number: 2006-19-3

CONDITION

For fiscal year ending June 30, 2004, we reported that the Department of Parks and Recreation (Parks and Recreation) continued to have inadequate procedures to account for and report its real property. Specifically, its acquisition unit had not reported \$3.4 million in ancillary costs for the real property acquired between July 2001 and June 2002, and it did not report ancillary costs to General Services in a format that allows input into the Statewide Property Inventory system. In addition, Parks and Recreation did not reconcile the amounts reported in the Statewide Property Inventory system with its records. In December 2004, in an attempt to reconcile the two sources, Parks and Recreation acknowledged an unexplained difference of approximately \$167 million between its and General Services' Statewide Property Inventory account balances for land. In its corrective action plan, Parks and Recreation had stated that it would work with General Services to develop a process to include ancillary costs in the Statewide Property Inventory system and that it had initiated a process to reconcile the amounts reported in the Statewide Property Inventory system with its Statement of Changes in General Fixed Assets.

In September 2006 we followed up with Parks and Recreation to determine whether it reports ancillary costs to General Services for inclusion in the Statewide Property Inventory system, which now total \$7.9 million through fiscal year 2005-06, and whether it reconciles the amounts reported in the Statewide Property Inventory with its records. Parks and Recreation informed us it has now reported the \$7.9 million in ancillary costs of real property acquired in fiscal years 2001–01 through 2005–06, and reports ancillary costs to General Services in a format that allows input into the Statewide Property Inventory system. In September 2006, Parks and Recreation also informed us that it has not fully implemented our prior year's recommendation to reconcile the amounts reported in the Statewide Property Inventory with its Statement of Changes in General Fixed Assets and that the difference between the two sources was \$239 million. Because Parks and Recreation has not fully implemented our recommendation to reconcile the amounts reported, we did not review its progress in reporting ancillary costs.

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

CRITERIA

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

The California Government Code, Section 11011.15, requires departments to furnish General Services with a record of each parcel of real property that it possesses and to update its real property holdings by July 1 each fiscal year. It also requires General Services to maintain a complete and accurate inventory of all real property held by the State. General Services includes

Parks and Recreation's information in the Statewide Property Inventory. In addition, the State Administrative Manual, Section 7924, requires agencies to annually reconcile the amounts reported in the Statewide Property Inventory with the Statement of Changes in General Fixed Assets.

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

RECOMMENDATIONS

We recommend that Parks and Recreation take the following actions:

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

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Parks and Recreation concurs with our findings and indicates it has made progress in addressing the recommendation, but additional time is necessary for full implementation. Specifically, Parks and Recreation reported \$7.9 million in ancillary cost for acquisitions from fiscal years 2000–01 through 2005–06 to General Services. It believes these figures are now in a form acceptable to the Statewide Property Inventory system. Parks and Recreation also indicates that it continues to reconcile its records of assets. Parks and Recreation believes that due to the extent of research necessary for each item to be reconciled, it may take several years to complete the reconciliation.

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Compliance Issue Related to All Federal Grants

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IDENTIFYING PROGRAM EXPENDITURES

Reference Number: 2006-12-10
Federal Program: All Programs
Category of Finding: Reporting

CRITERIA

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

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

CONDITION

Because of limitations in its automated accounting systems, the State has not complied with the provision of OMB Circular A-133 requiring a schedule showing total expenditures for each federal program. As a result, the schedule (beginning on page 173) shows total receipts, rather than expenditures, by program. Expenditure information is necessary to identify Type A programs. To ensure that we identified and audited all high-risk Type A programs, we reviewed accrual basis expenditures, which are identified manually, for all programs that we did not already plan to audit and that had cash receipts within 10 percent of the Type A program threshold. We identified three such programs. Our review of the expenditures of these programs showed that two of them exceeded the Type A threshold. However, only one of the two was high risk and required an audit.

RECOMMENDATION

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

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Finance states that the State's accounting system will require substantial modification to comply with federal and State requirements. At this time Finance has received approval for a new integrated statewide financial management system, the Financial Information System for California. Finance is currently pursuing the funding for the project through the legislative process. It is anticipated that the new system will have the capability to provide total expenditures for each federal program.

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

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Bureau of State Audits

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U.S. DEPARTMENT EDUCATION

Reference Number: 2006-3-1
Federal Catalog Number: 84.298
Federal Program Title: State Grants for Innovative Programs
Federal Award Number and Calendar Year Awarded: S298A050005; 2005
Category of Finding: Cash Management
State Administering Department: Department of Education

CRITERIA

Our review of the State Grants for Innovative Programs (Innovative Education) identified the following requirements related to cash management:

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

CONDITION

The Department of Education (Education) does not have adequate procedures to ensure that subrecipients of the Innovative Education program demonstrate the ability to minimize the time between receipt and disbursement of federal funds. Under its payment procedures, Education disbursed \$16.6 million, or 80 percent, of Innovative Education's fiscal year 2005–06 entitlements without first assessing each subrecipient's immediate cash needs. Additionally, Education did not ensure that these subrecipients had spent the \$24 million they reported in June 2005 as having carried over from their fiscal year 2004–05 disbursements. This did not occur because Education does not have a process in place to request the balance of unspent funds from previous years before disbursing current-year funds—in this case, the fiscal year 2005–06 funds disbursed in June 2006. As a result of this weakness, Education has no assurance that these subrecipients minimized the time between the receipt and disbursement of federal funds.

RECOMMENDATIONS

To minimize the time between subrecipients' receipt and disbursement of federal funds, Education should establish and implement procedures to assess each subrecipient's cash needs and, if necessary, adjust payments to subrecipients to more closely reflect the immediate cash needs of each subrecipient. One way Education could achieve this would be to require its subrecipients to report their Innovative Education cash balances and expected costs for the upcoming payment period. Education then would advance only enough Innovative Education funds to cover immediate cash needs. If Education determines that it cannot implement effective cash management procedures, it should pay subrecipients on a reimbursement basis.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

The local education agencies (subrecipients) report year-to-date expenditures on the Consolidated Application for Title V Innovative Education. However, Education continues to develop processes for establishing minimum spending thresholds and assessing each subrecipient's cash needs before the release of additional funds.

AUDITOR'S COMMENTS ON THE DEPARTMENT'S VIEW

Although Education requires subrecipients to report expenditures in the consolidated application, Education does not require them to report expenditures related to their spending of carryover balances identified in prior years' applications. Thus, Education is not acquiring the information it needs to determine whether its subrecipients fully used the balances before disbursing additional funds.

| | |
|---|--|
| Reference Number: | 2006-7-1 |
| Federal Catalog Number: | 84.181 |
| Federal Program Title: | Special Education—Grants to Infants and Families with Disabilities |
| Federal Award Number and Calendar Year Awarded: | H181A040037; 2004 |
| Category of Finding: | Level of Effort—Maintenance of Effort |
| State Administering Department: | Department of Developmental Services |

CRITERIA

Our review of the Special Education—Grants for Infants and Families with Disabilities program (Early Start Program) identified the following requirements related to level of effort:

The Code of Federal Regulations, Title 34, Section 303.124(b), specifies that the total amount of state and local funds budgeted for expenditure in the current fiscal year for early intervention services for children eligible under Part C of the Individuals with Disabilities Education Act and their families must be at least equal to the total amount of state and local funds actually expended for early intervention services for these children and their families in the most recent preceding fiscal year for which the information is available. Allowances may be made for (1) decreases in the number of children eligible to receive early intervention services under Part C and (2) unusually large amounts of funds expended for such long-term purposes as the acquisition of equipment and the construction of facilities.

CONDITION

The Department of Developmental Services (Developmental Services) does not have a system in place to demonstrate that it maintains funding under the Early Start Program for early intervention services for children and their families at a level that is at least equal to the funding for the prior

year. According to the manager of the Children and Family Services Branch, in previous years, the state funds budgeted for the Early Start Program steadily increased because of a continuous increase in the number of participants; thus, Developmental Services believes it has met the maintenance of effort requirements.

Although Developmental Services provided us with documentation to support the steady increase of participants in the Early Start Program through June 2006, there is currently no budget specifically assigned to this program that can measure whether the state funds spent increased with the rise in the number of participants in this program. By not tracking and fully demonstrating that it is meeting this requirement, Developmental Services could lose some of its federal funding for the Early Start Program.

RECOMMENDATION

Developmental Services should implement a system for annually monitoring its compliance with the maintenance of effort requirement.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Developmental Services does not agree with the finding that "The Department of Developmental Services does not have a system in place to demonstrate that it maintains funding under the Early Start Program for early intervention services for children and their families at a level that is at least equal to the funding for the prior year."

The Developmental Services' Information Services Division (ISD) reports quarterly data per the population served and the expenditures for children in the Early Start program. This quarterly reporting commenced in fiscal year 2000–01. Additionally, ISD can conduct point-in-time data runs as requested to produce expenditure and census data to demonstrate California's ongoing maintenance of effort. As reflected in the data table provided to the audit team, California's annual per capita amount increased 65% since fiscal year 1995-96 for children served in the Early Start program (from \$2,720 to \$4,696). This per capita increase in expenditures is in conjunction with an increase of 120% in the 0-3 population served in the program. This contrasts with a 32% decrease in the federal per capita share during this same time period (\$2,338 to \$1,586). Developmental Services contends that it has a strong system in place to clearly and dramatically demonstrate maintenance of effort for this program.

AUDITOR'S COMMENTS ON THE DEPARTMENT'S VIEW

We disagree with Developmental Services' statement that it has a strong system in place to demonstrate it has met its maintenance of effort requirement. When we initially requested Developmental Services to describe to us how it annually monitors its compliance with this requirement, it was unable to do so. In fact, according to the manager of the Children and Family Services Branch, a precise mathematical demonstration of maintenance of effort is unwarranted. However, without a mathematical calculation, it is not possible to monitor whether Developmental Services is meeting this requirement.

Furthermore, although Developmental Services indicates in its view and corrective action plan that it provided us with a table demonstrating it is meeting the maintenance of effort requirement, it did not prepare the table until October 19, 2006, which is after we had completed our fieldwork. Moreover, our review of this table found it to be insufficient for purposes of monitoring its

maintenance of effort for several reasons. First, the table does not contain data for fiscal year 2005–06, which is the period under audit. Second, the table includes only a portion of the state’s funds used for this program and excludes others, such as state funds spent on administration; thus, the table is incomplete. Finally, the case load data included in the table is significantly more than the case load data reported on the Departmental Services’ website, which also calls into question the accuracy of the table.

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|---|---|
| Reference Number: | 2006-7-2 |
| Federal Catalog Number: | 84.298 |
| Federal Program Title: | State Grants for Innovative Programs |
| Federal Award Number and Calendar Year Awarded: | S298A050005; 2005 |
| Category of Finding: | Level of Effort—Supplement Not Supplant |
| State Administering Department: | Department of Education |

CRITERIA

Our review of the State Grants for Innovative Programs (Innovative Education) identified the following requirement related to level of effort:

The United States Code, Title 20, Section 7217(c) provides that funds made available under this program shall be used to supplement, not supplant, any other federal, state, or local education funds.

CONDITION

The Department of Education (Education) does not have a system in place for monitoring the State’s compliance with the requirement that it use revenues from Innovative Education to supplement, rather than supplant, existing funds for grant-related activities. By not tracking whether it is using its federal funds to supplement existing funds, the State may not identify potential noncompliance in time to take the necessary corrective action, which ultimately could result in reduced federal funding.

However, we independently performed procedures to determine whether Education met the supplement—not—supplant requirement for Innovative Education. Although there is a lack of controls at the state level to ensure compliance, we found that Education appears to have met the requirements.

RECOMMENDATION

Education should implement a process to monitor, at the state level, whether the revenues from Innovative Education supplement other funding for grant-related activities.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Program activity accounts are maintained in Education's accounting and budget systems. These accounts reflect the appropriations as approved by the state legislature in the Budget Act, and the actual expenditures as reported on the certified annual year-end financial statements. The Budget Act delineates available funding from both federal and state programs.

Education also maintains subsidiary spreadsheets that track and list program appropriations and expenditures from both the current and prior fiscal years. Fiscal and program staff utilize the spreadsheets to monitor program fiscal compliance by making sure designated programs' funding has not been eliminated or shifted to other funding sources (supplanting).

AUDITOR'S COMMENTS ON THE DEPARTMENT'S VIEW

We agree that Education maintains the data that would allow it to track whether it is using federal funds to supplement existing funds. However, although Education indicates staff is monitoring its compliance with the supplement-not-supplant requirement, it was unable to provide us with documentation to show that it is doing so.

| | |
|---|--|
| Reference Number: | 2006-13-1 |
| Federal Catalog Number: | 84.181 |
| Federal Program Title: | Special Education—Grants to Infants and Families with Disabilities |
| Federal Award Number and Calendar Year Awarded: | H181A040037; 2004 |
| Category of Finding: | Subrecipient Monitoring |
| State Administering Department: | Department of Developmental Services |

CRITERIA

Our review of the Special Education—Grants for Infants and Families with Disabilities program (Early Start Program) identified the following compliance requirements related to subrecipient monitoring:

The U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133), describes the requirements the State must follow when it passes federal funds through to subrecipients. Specifically, OMB Circular A-133, Section 400(d)(1) requires the State to identify federal award information to subrecipients at the time of the award. This includes such information as the Catalog of Federal Domestic Assistance (CFDA) title and number, award name and number, and name of the federal agency.

CONDITION

Developmental Services did not completely fulfill its subrecipient monitoring responsibilities for its Early Start Program. Specifically, although Developmental Services identifies the federal law and regulations that govern the Early Start Program, for the five subrecipients we reviewed, it did not provide the CFDA title and number, the award number, and the name of the Federal agency when awarding program funds through a contract. When Developmental Services does not fully identify the federal award information, it cannot ensure that subrecipients correctly identify all of the federal requirements of the Early Start Program. As a result, subrecipients' independent auditors who must conduct audits in accordance with OMB Circular A-133 may not be aware of all of the requirements they should test. According to its Assistant Section Chief of the Customer Support Section, Developmental Services was not aware of this federal requirement because the State's Contracting Manual does not address it. The State Contracting Manual is a resource that provides the policies, procedures, and guidelines to promote sound business decisions and practices in securing necessary services for the State. It does not eliminate or override federal requirements; therefore Developmental Services is still responsible to follow the federal requirements for subrecipient monitoring found in the OMB Circular A-133.

RECOMMENDATION

Developmental Services should ensure that it identifies and provides all required federal award information to subrecipients of the Early Start program at the time of the awards.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Developmental Services concurs with the finding and confirms that it will list the grant fund source on every subrecipient contract. The Developmental Services' Customer Support Section is revising its internal contract request forms to require programs to indicate if the funding for the contracts is federal money. If yes, the program requesting the contract will have to indicate the Catalog of Federal Domestic Assistance title and number, award name and number, and name of the Federal Agency on the contract request forms. The Contract Analysts will then ensure that the information is included in the contract.

| | |
|---------------------------------|-----------------------------------|
| Reference Number: | 2006-14-7 |
| Federal Catalog Number: | 84.032 |
| Federal Program Title: | Federal Family Education Loans |
| Year Awarded: | State fiscal year 2005–06 |
| Category of Finding: | Special Tests and Provisions |
| State Administering Department: | California Student Aid Commission |

CRITERIA

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

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

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

CONDITION

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

The auxiliary organization's management has not provided sufficient entitywide security planning and management. We found that it has made some progress in addressing this weakness. The auxiliary organization hired a contractor that completed a security risk assessment in June 2005, and in January 2007 management informed its employees via a policy memo that its entitywide security program plan shall apply to all employees, vendors, and third parties with access to the auxiliary organization's systems or information. However, the auxiliary organization has not yet addressed all of the high-risk and moderately high-risk findings identified in its risk assessment, nor has it fully implemented the entitywide security program plan. The lack of planning and management commitment has the potential to result in insufficient protection of sensitive or critical computer records.

The auxiliary organization also needs to strengthen its electronic access controls designed to restrict access to data files. Although the auxiliary organization had made some changes, it continued to allow a limited number of employees access to data that is not related to their assigned responsibilities. Additionally, the auxiliary organization inappropriately allowed these same employees to make changes to sensitive data, even though these changes were not subject to the normal edits of its information system. Further, the auxiliary organization did not maintain a complete history or audit trail of the changes made to the data.

Finally, Student Aid's operating agreement with the auxiliary organization does not include provisions to ensure that the auxiliary organization maintains strong controls over its information systems. We noted that the operating agreement for state fiscal years 2002–03, 2003–04, and 2004–05 did not detail Student Aid's expectations for the operation of the information technology system that maintains the records for the loan program. Such expectations could include requirements for information security, the performance of a security risk assessment, and development of an information security program plan. We also noted that Student Aid could require its auxiliary organization to obtain an audit of its information technology controls that are relevant to Student Aid's financial statements. This audit should report on whether such controls were suitably

designed to achieve specified control objectives, whether they have been enacted as of a specific date, and whether the controls were sufficient to provide reasonable but not absolute assurance that the related control objectives were achieved during the period specified. Student Aid extended its operating agreement with the auxiliary organization for fiscal year 2005–06 without adding any provisions to strengthen controls over information systems.

RECOMMENDATIONS

Student Aid's auxiliary organization should fully implement its entitywide program for security planning and management, and strengthen its electronic access controls. This will help ensure that it maintains current, complete, and accurate records for each loan it holds. In addition, Student Aid should amend the operating agreement with its auxiliary organization to specify its expectations related to the control structure over the information systems.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Entity-wide Security Planning and Management

An entity-wide security program plan was documented in late federal fiscal year 2005–06 and was further enhanced in early federal fiscal year 2006–07. Many elements of the plan are in place while others are continuing to be addressed by the auxiliary. A significant number of the high-risk and moderately high-risk findings identified in the June 2005 risk assessment have been mitigated, although, some remain to be addressed. The auxiliary is in the process of expanding its dedicated information security team by providing additional resources to better strengthen this function.

Data Maintenance

During fiscal year 2005–06, the auxiliary performed an inventory of the key data maintenance changes currently performed, determined the cause(s) and criticality of such changes as well as the volume and associated risk(s) of such changes. The auxiliary determined that for certain updates that are performed using data maintenance; modifications could be made which would provide a systematic process for performing these updates including the creation of an automated audit trail. Where readily practicable, modifications were made to certain processes that have eliminated the need for some data maintenance activity.

A process has been implemented to address updates/actions that the auxiliary determined could not readily be performed through a systematic process and, therefore, will continue to be performed through data maintenance. Specifically, the auxiliary has created logs that document all data maintenance updates that are currently occurring or requested. Information documented in the logs include a description of the type of data change, impact to the business unit or borrower if the error is not corrected, and the action taken. The Technology Solutions and Services Division is responsible for reviewing new types of data maintenance requests to ensure that there is no readily available systematic means to perform the change.

The limited number of employees performing data maintenance are designated by EdFund management to have system access to perform their job responsibilities which include data maintenance. The two divisions in which these individuals work have formal procedures for requesting, authorizing, and performing data maintenance changes which the employees are required to follow.

Additionally, EdFund's Internal Audit Department is scheduled to perform a review of these newly implemented data maintenance processes during the two-year internal audit cycle ending September 30, 2007.

Operating Agreement

Staff are currently drafting a new Operating Agreement for the Commission's review and approval. The Commission anticipates providing the draft agreement to the California Joint Legislative Budget Committee and the Department of Finance no later than May 1, 2007, to allow for a 45 day comment period. The Commission will then discuss any resulting comments and make revisions, if necessary, so that a new Operating Agreement can be in place by June 30, 2007.

The draft Operating Agreement provided to the Commission will include provisions to appropriately require the auxiliary to maintain strong control over its information systems including an audit of the information technology controls relevant to the Operating Fund and Federal Fund financial statements.

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U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Reference Number: 2006-2-2
Federal Catalog Number: 93.778
Federal Program Title: Medical Assistance Program
Federal Award Number and Calendar Year Awarded: 05-0505CA5028; 2005
Category of Finding: Allowable Costs and Cost Principles
State Administering Department: Department of Health Services

CRITERIA

Our review of the Medical Assistance Program (Medicaid) identified the following compliance requirements related to allowable costs and cost principles:

The United States Code, Title 42, beginning with Section 1396, enables states to provide medical assistance to Medicaid beneficiaries and providers. Additionally, Public Law Number 107-300, the Improper Payments Information Act of 2002, defines an improper payment as a payment that should not have been made or that was made in an incorrect amount (including overpayments, underpayments, and duplicate payments) under statutory, contractual, administrative, or other legally applicable requirements by a federal agency, a federal contractor, or a governmental or other organization administering a federal program or activity. Finally, the Code of Federal Regulations, Title 42, sections 433.300 through 433.320, establishes the requirements for recovering overpayments from providers.

CONDITION

Electronic Data Systems (EDS)—the firm the Department of Health Services (Health Services) contracts with to authorize Medicaid payments—authorized Medicaid payments to some skilled nursing facilities (facilities) more than once for the same services. We identified these errors while performing an audit of California's implementation of a new facility-specific reimbursement rate system. Specifically, we identified more than 2,100 duplicate payments to facilities for claims reflecting dates of service between August 1, 2005, and July 31, 2006, totaling \$3.3 million. We are also aware of other potential duplicate payments to facilities; however, due to the complexity of these payments, additional research by EDS is necessary. According to EDS, its examiners followed a flawed procedure that instructed them to override a specific type of suspended claim, resulting in duplicate payment authorizations.

Health Services and EDS have subsequently taken measures to resolve this problem. EDS has implemented a special processing guideline to discontinue overriding suspended claims, updated its procedures, and started to identify all facilities that received duplicate Medicaid payments to begin efforts to recoup those funds. However, subsequent to our audit, we found that its special processing guideline instructs examiners in certain situations to continue to follow the flawed procedure, which could result in EDS continuing to pay duplicate claims related to the skilled nursing facilities.

Because the scope of the audit described above focused on long-term care payments made to facilities subject to new reimbursement rates, we reviewed Health Service’s guidelines for other types of payments and found that those for medical, outpatient, and vision payments included this same flawed procedure. However, because EDS does not document or track the reasons it overrides a suspended claim, we could not identify which claims were paid using the flawed procedure that could result in duplicate payments. Although we were not able to definitively determine which suspended claims were paid in this manner, we obtained information from EDS that indicates the number and dollar amount of those claims that could be subject to the flawed procedure. We have summarized this information in the table below. We did not assess the reliability of this information and its use should be limited to providing a proper context for our results.

TABLE

Number of Claims Suspended and Overridden That Were Potentially Subject to the Flawed Procedure in Fiscal Year 2005–06

| Type of Claim | Suspended Claims | | Claims Overridden and Paid | |
|----------------|------------------|----------------------|----------------------------|---------------------|
| | Numbers | Amount | Number | Amount |
| Long-term care | 103,201 | \$188,845,801 | 12,151 | \$10,586,218 |
| Medical | 512,011 | 182,730,151 | 79,222 | 39,675,433 |
| Outpatient | 182,204 | 71,166,926 | 9,897 | 1,015,041 |
| Vision | 128 | 64,840 | 23 | 7,102 |
| Totals | 797,544 | \$442,807,718 | 101,293 | \$51,283,794 |

RECOMMENDATIONS

To ensure that EDS authorizes disbursements of Medicaid funds only to facilities and providers entitled to them, Health Services should take the following steps:

- Completely review and update its procedures and guidelines as necessary to ensure that examiners are not overriding system-generated errors inappropriately.
- Further investigate the possibility that duplicate payments were authorized by the contractor beyond those we specifically identified during our earlier audit to ensure that the magnitude of the problem is identified and corrected, and duplicate payments are recouped.
- Ensure that its contractor—EDS—documents and tracks the reasons for overriding claims that have been suspended in the system.

DEPARTMENT’S VIEW AND CORRECTIVE ACTION PLAN

To ensure that its contract consultant authorizes disbursements of Medi-Cal funds only to facilities entitled to them, Health Services should take the following steps:

Recommendation:

Completely review and update its procedures and guidelines as necessary to ensure that examiners are not overriding system-generated errors inappropriately.

Response:

The Department will review the error code criteria and systems processing guidelines and make any corrections needed to assure the error code instructions for overrides are clear and do not result in erroneous payments. Recoupment will be made for any additional mispayments identified.

Recommendation:

Further investigate the possibility that duplicate payments were authorized by the contractor beyond those we specifically identified during our earlier audit to ensure that the magnitude of the problem is identified and corrected, and duplicate payments are recouped.

Response:

The BSA audited the period August 1, 2005 to July 31, 2006. The Department expanded the paid claim investigation period (January 1, 2003 through November 2006) and has determined that duplicate payments were made from October 5, 2005 through November 18, 2006 for an approximate total of \$6.1 million in overpayments affecting 648 providers. It should be noted that October 5, 2005 is the date the flawed Long-Term Care (LTC) suspense override procedure was implemented and November 18, 2006 was the date that Special Processing Guideline (SPG) number 648 was installed to correct the flawed override procedure. All overpayments will be collected from providers through the running of an Erroneous Payment Correction (EPC) process.

The Department will review all other claim types to determine if any mispayments have occurred related to this edit criteria and make any necessary changes in the processing instructions. Where mispayments are found, the Department will initiate recoupment from providers. In this research, the Department will refine the universe of claims which are potentially affected to include only claims with a Treatment Authorization Request (TAR) since only claims with an approved TAR are potentially subject to this issue.

Recommendation:

Ensure that its contractor-EDS-documents and tracks the reasons for overriding claims that have been suspended in the system.

Response:

The Department agrees to increase Quality Control over the claims override function. Although the specific reasons for override are not documented, all transactions applied to a claim are documented in CA-MMIS reports. These reports include the MR-O-154 Paid Full Status Non-Institutional, CP-O-02A Process Suspense Reentry Transaction Register, and CP-O-03A Daily Error Suspense List. Notably, the CP-O-02A and MR-O-154 reports document which examiner made an override transaction. These reports are retained for 10 years and additional audit trails for each claim processed. EDS also performs quality control reviews of each examiner and the EDS Quality Management Department performs monthly audits of claims processing which includes override transactions.

AUDITOR'S COMMENTS ON THE DEPARTMENT'S VIEW

While Health Services is able to recreate the decision the examiner may have made using various reports, unless the examiner documents the specific basis for the override, uncertainty remains. Further, an even better method for documenting decisions made by the examiners would be to create a field in the system that records the basis for overriding a suspended claim, which would allow EDS to sort and analyze the reasons electronically.

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| Reference Number: | 2006-3-16 |
| Federal Catalog Number: | 93.563 |
| Federal Program Title: | Child Support Enforcement |
| Federal Award Number and Calendar Year Awarded: | 75-X-1501; 2005 |
| Category of Finding: | Cash Management |
| State Administering Department: | Department of Child Support Services |

CRITERIA

Our review of the Child Support Enforcement program (enforcement program) identified the following requirements related to cash management:

The Code of Federal Regulations, Title 45, Section 92.21, prescribes the basic standard and methods under which a federal agency will make payments to grantees and grantees will make payments to subgrantees. The basic standard states that the methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursements by the grantee or subgrantee in accordance with U.S. Treasury regulations included in the Code of Federal Regulations, Title 31, Part 205. Further, the Code of Federal Regulations, Title 45, Section 92.20(7), requires grantees to monitor cash drawdowns by their subgrantees to ensure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees. Additionally, Section 92.21(e) states that if a grantee cannot meet the criteria for an advance by minimizing the time between receipt and disbursement of federal funds and the federal agency has determined that reimbursement is not feasible because the grantee lacks sufficient working capital, the awarding agency may provide a working capital advance. This same section states that the working capital advance method of payment shall not be used by grantees or subgrantees if the reason for using such a method is the unwillingness or inability of the grantee to provide timely advances to the subgrantee to meet the subgrantee's actual cash disbursements.

CONDITION

The Department of Child Support Services (Child Support Services) did not have procedures in place to ensure that it limits the advances of federal funds to its subgrantee—the Judicial Council of California (Judicial Council)—to the minimum amounts needed for the enforcement program. Child Support Services enters into a cooperative agreement with the Judicial Council to coordinate the efforts of local courts in the ongoing operation of the statewide enforcement program. Under this

agreement, the Judicial Council requested from Child Support Services two advances of federal funds for fiscal year 2005–06, which it considers to be working capital advances. It received the first advance of \$3 million in July 2005 and the second advance of \$6 million in October 2005. The Judicial Council indicated that it requested the first advance to reimburse court invoices for July through October 2005 and the second for invoices from October 2005 through May 2006.

The Judicial Council believes it needs these advances for two reasons. First, it does not have the funds in its general fund to pay the local courts for their invoices before being reimbursed by Child Support Services. Second, in the past it took up to four months for Child Support Services to reimburse the Judicial Council for court invoices, which was not acceptable to the courts, especially the smaller ones. However, we identified the following problems with the advances provided to the Judicial Council:

- Child Support Services did not obtain the federal government’s determination that the Judicial Council needs a working capital advance.
- Although the Judicial Council indicated that it believed a \$6 million advance was reasonable because it represents approximately two months of local court expenditures, we did not find this to be the case during state fiscal year 2005–06. For example, for the months of November 2005 through January 2006, the three months after it received the \$6 million advance, the amounts that Judicial Council requested from Child Support Services for the local courts’ monthly expenditures were less than \$1 million. Consequently, for these three months, at various points in time, the Judicial Council had at least \$4 million and as much as \$5.5 million in excess federal funds on hand. According to the Judicial Council, this occurred because it had not yet fully executed contracts with some of the courts; thus, it could not pay all the invoices submitted during these months. Once the contracts were executed in February 2006, it paid invoices totaling more than \$13 million.

Finally, we question whether a working capital advance is appropriate when it is not unreasonable for the Judicial Council to obtain advances that correspond to its disbursement cycle. Additionally, as the Judicial Council acknowledges, it is difficult to obtain executed contracts in a timely manner, which can result in significant fluctuations in the amount of cash it needs. For example, during the months the contracts remain unsigned, the Judicial Council could estimate the amounts it believes it will be paying the courts that have executed contracts in place and request that amount in advance. In a subsequent month, it could adjust the advance to reflect actual expenditures while requesting a new advance for the next month to more closely reflect its disbursement cycle and ensure that it does not have cash on hand for extended periods of time.

RECOMMENDATIONS

Child Support Services should work with the Judicial Council to reassess the timing and amount of federal funds the Judicial Council needs in advance so the advances correspond as closely as possible to the actual expenditure activity. Additionally, Child Support Services should ensure that it promptly adjusts subsequent advances to reflect its reconciliation of earlier advances with actual expenditures. However, if Child Support Services believes the Judicial Council needs a working capital advance, it should obtain the federal government’s determination on this matter.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Child Support Services agrees with the recommendations. It will work closely with Judicial Council to ensure that our advance process includes an evaluation of the initial advance amount as well as an ongoing process to minimize the time elapsing between transfer of funds and disbursement by Judicial Council. If it is determined that the advance process is not viable, we will seek federal approval to establish a working capital advance. The process to evaluate the advance is underway and Child Support Services expects to have revised procedures in place for state fiscal year 2007–08.

Reference Number: 2006-13-16
Category of Finding: Subrecipient Monitoring
State Administering Department: Department of Aging

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

CRITERIA

Our review of the Aging Cluster grants identified the following compliance requirements related to subrecipient monitoring:

The United States Code, Title 42, Section 3027(a)(4), requires that the State conduct periodic evaluations of activities and projects authorized under Title III of the Older Americans Act. The Code of Federal Regulations, Title 45, Section 1321.3, defines “*periodic*” as, at a minimum, once each fiscal year. However, the U.S. Administration on Aging has agreed that the State can conduct onsite program monitoring reviews (program review) of the services provided by area agencies at least once every four years and onsite compliance reviews once every three years. Further, Section 1321.11 requires the State to establish policies that address the manner in which it will monitor the performance of all programs and activities funded by the Title III grants for quality and effectiveness. Finally, the State is responsible for enforcement of these policies.

CONDITION

The Department of Aging (Aging) is not adequately fulfilling all its monitoring responsibilities for the Area Agencies on Aging (area agencies). Specifically, while Aging was able to conduct eight onsite program reviews and 11 onsite compliance reviews for fiscal year 2005–06, we found the following:

- Aging did not promptly complete the final reports for the eight onsite program reviews. Aging’s procedures require it to provide area agencies with a preliminary report of required corrective action (preliminary report) for its program reviews during the exit conference at the completion of its onsite visits. Additionally, Aging informs the area agencies in its preliminary report that it will send a final report to them, which includes Aging’s recommendations for required corrective actions, within 120 days of the exit conference. However, as of December 14, 2006, Aging had not completed the final reports for seven of its onsite program reviews. Additionally, although it completed the final report for the eighth program review in October 2006, this exceeded the 120 days as required by its procedures by more than eight months.

- As of December 14, 2006, Aging had yet to complete the draft reports for 11 onsite compliance reviews. Aging informs area agencies that following a site visit for a compliance review, it issues a draft notice of audit determination and allows the area agency 30 days to provide additional information related to audit findings before issuing a final report. For example, during the exit conference held on January 13, 2006 for one of its 11 compliance reviews, Aging discussed with the area agency that it had preliminarily identified \$2.3 million in questioned costs for the four years audited. However, because Aging did not promptly provide the area agency with its draft notice of audit determination and allow the area agency its opportunity to provide additional information related to the audit findings within 30 days, Aging had yet to determine the true amount of the questionable costs, almost one year later.

Because Aging is not following its procedures to promptly provide area agencies with its final and draft reports for its onsite reviews, Aging cannot ensure that area agencies submit corrective action plans and that area agencies are taking prompt and appropriate action to correct deficiencies.

RECOMMENDATION

To ensure that area agencies prepare corrective action plans and take prompt and appropriate action to correct deficiencies identified during program and compliance reviews, Aging should comply with its internal procedures related to promptly issuing reports to notify area agencies of deficiencies.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Onsite Program Reviews—The Department of Aging (Aging) does not agree with two statements in the finding. First, the finding states “. . . as of December 14, 2006, Aging had not completed the final reports for any of these reviews.” The Department did issue a final report on October 20, 2006, for one of its eight onsite program reviews. Second, the finding states “Although Aging may have discussed deficiencies it identified during these reviews with the area agencies during the exit conference, Aging failed to provide the final or draft report that it informed the area agencies to expect.” This statement implies that Aging only “discusses deficiencies” during exit conferences; in fact, at exit conferences, area agency directors are provided with a written copy of the “Report of Required Corrective Actions” signed and dated by Aging’s Monitoring Team Policy Manager in charge of the review. This report documents the corrective actions required by the area agency to rectify any deficiencies and stresses the importance of using the report to begin implementing the corrective actions required to bring the area agency into compliance.

Staff is continuously working to improve the procedures that govern the monitoring protocols used by Aging to conduct onsite program reviews. We will work on streamlining processes to ensure the remaining seven reports are finalized within the current fiscal year.

Onsite Compliance Reviews (Audits)—Aging has had significant staff turnover during the past three years, including not having had an Audit Manager for 17 months, 12 of which were consecutive. This has resulted in the current backlog of reports.

Since these 11 onsite reviews were conducted, the auditors have been in contact with the area agencies seeking additional information to resolve the initially questioned costs. Frequently, this process, though lengthy, results in an immaterial amount finally being questioned in the report because the auditor is able to obtain documentation showing that costs were appropriate. During

this process of resolution, the auditors are also providing technical assistance to the area agencies that will help prevent recurrence in the future. The area agency has also begun progress toward corrective action and greater accountability even though the written report has not been issued.

The Department hired a permanent Audit Manager in late November, and subsequently the unit was fully staffed and two new auditors are being trained. As of the end of January 2007, the Audit Branch completed either draft or final reports for four of the 11 reviews and worked on streamlining processes to ensure the remaining seven reports are completed within the current fiscal year. In the meantime, Aging is also adopting procedures to ensure that area agencies are promptly notified in writing of their deficiencies following all future onsite compliance reviews and to ensure that the area agencies implement appropriate action to correct deficiencies.

AUDITOR'S COMMENTS ON THE DEPARTMENT'S VIEW

We have revised our finding to reflect Aging's comments that it had completed the final report for one of the eight onsite program reviews and that it provides a "Report of Required Corrective Actions" to the area agencies at the exit conference. However, we would like to point out that several times during our fieldwork, we questioned Aging as to whether it had completed any of the final reports for these eight onsite program reviews, including during a final update meeting held in December 2006, when we discussed with Aging the details of this finding. During this meeting, Aging stood by its responses to our earlier inquiries that it had not completed nor distributed any of these final reports. In fact, it was not until February 2007, when we received its corrective action plan, that Aging informed us it had completed the one report and it provided us a copy of that report only upon our direct request.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

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| Federal Catalog Number: | 93.044 |
| Federal Program Title: | Special Programs for the Aging—Title III, Part B—Grants for Supportive Services and Senior Centers |
| Federal Award Numbers and Calendar Years Awarded: | 05AACAT3SP; 2005 06AACAT3SP; 2006 |

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| Federal Catalog Number: | 93.045 |
| Federal Program Title: | Special Programs for the Aging—Title III, Part C—Nutrition Services |
| Federal Award Numbers and Calendar Years Awarded: | 05AACAT3SP; 2005 06AACAT3SP; 2006 |

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| Federal Catalog Number: | 93.053 |
| Federal Program Title: | Nutrition Services Incentive Program |
| Federal Award Numbers and Calendar Years Awarded: | 05AACANSIP; 2005 06AACANSIP; 2006 |

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U.S. DEPARTMENT OF AGRICULTURE
Summary of Findings and Questioned Costs
June 30, 2006

Reference Number: 2006-14-2

Federal Catalog Number: 10.557

Federal Program Title: Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)

Federal Award Number and Calendar Year Awarded: 7CA700CA7; 2006, 7CA700CA7; 2005

Category of Finding: Special Tests and Provisions—Review of Food Instruments to Enforce Price Limitations and Detect Errors

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

Criteria:

TITLE 7—AGRICULTURE, CHAPTER II—FOOD AND NUTRITION SERVICE (FNS), DEPARTMENT OF AGRICULTURE, PART 246—SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS AND CHILDREN—Subpart G—Miscellaneous Provisions Section 246.25 Records and reports.

- Recordkeeping requirements: Each State and local agency shall maintain full and complete records concerning Program operations. Such records shall comply with 7 CFR part 3016 and the following requirements:
 - Records shall include, but not be limited to, information pertaining to financial operations, food delivery systems, food instrument issuance and redemption, equipment purchases and inventory, certification, nutrition education, civil rights and fair hearing procedures.
 - All records shall be retained for a minimum of three years following the date of submission of the final expenditure report for the period to which the report pertains. If any litigation, claim, negotiation, audit or other action involving the records has been started before the end of the three-year period, the records shall be kept until all issues are resolved, or until the end of the regular three-year period, whichever is later. If FNS deems any of the Program records to be of historical interest, it may require the State or local agency to forward such records to FNS whenever either agency is disposing of them.

Condition:

The WIC Program obtained a waiver from the United States Department of Agriculture (USDA), which allowed the State Agency to destroy redeemed food instruments prior to the end of the regulated three-year retention period. However, this is contingent upon the ability to retrieve copies of these destroyed food instruments (up to three years after redemption) routinely and timely through existing banking records. The WIC Program is only able to retrieve copies of the food instruments redeemed up to one year ago. By not retaining copies or having the ability to obtain copies for the three-year retention period, Health Services is not in compliance with the recordkeeping requirements of the WIC Program.

Questioned Costs:

Not determined

Recommendations:

We recommend that WIC Program management resolve this matter by attempting to retain banking records of redeemed food instruments for three years. Management may consider working with banks to retain the information electronically. In addition, management should also clarify with federal agency representatives as to whether the electronic records of food instruments would satisfy the requirements.

Department's View and Corrective Action Plan:

Health Services concurs with the recommendations.

Health Services is researching the cost of retaining electronic bank records and capturing and storing images of redeemed food instruments for audit purposes. The two alternatives currently under consideration include:

1. Paying the State Treasurer's Office to retain source of receipt records linking each food instrument to the bank of deposit. Each bank of deposit is required by law to retain check images for seven years and will provide a check copy upon request for a \$25 fee.
2. Paying the State Treasurer's Office to electronically capture an image of each food instrument and retain the image for retrieval as needed.

Health Services will complete its research and develop a draft implementation plan within the next 60 days. Health Services will request clarification from the USDA, Food and Nutrition Service, Western Region Office before final implementation of its plan.

U.S. DEPARTMENT OF JUSTICE
Summary of Findings and Questioned Costs
June 30, 2006

Reference Number: 2006-13-2

Federal Catalog Number: 16.575

Federal Program Title: Crime Victim Assistance

Federal Award Number and
Calendar Year Awarded: 2001-VA-GX-4006; 2001
2003-VA-GX-4025; 2003
2004-VA-GX-0009; 2004
2005-VA-GX-0052; 2005
2006-VA-GX-0049; 2006

Category of Finding: Subrecipient Monitoring

State Administering Department: Governor's Office of Emergency Services
(Emergency Services)

Criteria:

TITLE 31—MONEY AND FINANCE, SUBTITLE V—GENERAL ASSISTANCE ADMINISTRATION, CHAPTER 75—REQUIREMENTS FOR SINGLE AUDITS, Section 7502. Audit requirements; exemptions, (f)(2) Each pass-through entity shall:

- Monitor the subrecipient's use of Federal awards through site visits, limited scope audits, or other means;
- Review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the Director, pertaining to federal awards provided to the subrecipient by the pass-through entity; and

TITLE 28—JUDICIAL ADMINISTRATION, CHAPTER I—DEPARTMENT OF JUSTICE, PART 66—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS—Subpart C—Post-Award Requirements, Section 66.40 Monitoring and reporting program performance. (a) Monitoring by grantees.

Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to ensure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.

Condition:

Emergency Services did not adequately monitor its subrecipients of funds for the Crime Victim Assistance Program for the fiscal year ending June 30, 2006. According to the chief of its Grants Management Branch of Emergency Services, there is a backlog in performing the reviews and preparing management letters due to lack of staffing. Emergency Services has not reviewed an estimated combined 1,575 audit reports submitted by subrecipients dating back to 2002.

In addition, Emergency Services has not followed up with subrecipients who have not submitted their single audit reports. Further, Emergency Services does not have processes or controls in place to accurately track whether subrecipients' audit reports have been submitted or reviewed.

Emergency Services stated that it lacks sufficient staff to adequately monitor the receipt of the reports, review them, issue management decisions on the findings contained in them, and ensure that the subrecipients have taken timely and appropriate corrective action on all audit findings. Without performing these procedures, Emergency Services could not ensure that subrecipients were complying with federal program requirements.

Questioned Costs:

Not determined

Recommendations:

We recommend that Emergency Services develop a process to review subrecipient audit reports, respond and resolve findings noted in those reports, and ensure appropriate corrective action is taken within six months after receipt of the subrecipient report in accordance with Federal guidelines.

Department's View and Corrective Action Plan:

Emergency Services concurs with the finding and has implemented corrective action. An audit coordinator was hired in December 2006, and that person's responsibilities include the review of A-133 audit reports and the resolution of any findings in programs administered by Emergency Services. Emergency Services expects to complete the review of all backlogged reports, and be current on newly received reports, by June 30, 2007.

U.S. DEPARTMENT OF EDUCATION
Summary of Findings and Questioned Costs
June 30, 2006

Reference Number: 2006-1-5

Federal Catalog Number: 84.332

Federal Program Title: Comprehensive School Reform Demonstration

Federal Award Number and
Calendar Year Awarded: S332A050005; 2005

Category of Finding: Activities Allowed/Allowable Costs

State Administering Department: Department of Education (Education)

Criteria:

TITLE 34—EDUCATION, PART 76—STATE-ADMINISTERED PROGRAMS—Subpart E—How a Subgrant Is Made to an Applicant, Section 76.400 State procedures for reviewing an application.

A State that receives an application for a subgrant shall take the following steps:

- (a) Review. The State shall review the application.
- (b) Approval—entitlement programs. The State shall approve an application if:
 - The application is submitted by an applicant that is entitled to receive a subgrant under the program; and
 - The applicant meets the requirements of the Federal statutes and regulations that apply to the program.
- (c) Approval—discretionary programs. The State may approve an application if:
 - The application is submitted by an eligible applicant under a program in which the State has the discretion to select subgrantees;
 - The applicant meets the requirements of the Federal statutes and regulations that apply to the program; and
 - The State determines that the project should be funded under the authorizing statute and implementing regulations for the program.
- (d) Disapproval—entitlement and discretionary programs. If an application does not meet the requirements of the Federal statutes and regulations that apply to a program, the State shall not approve the application.

Condition:

Education has a formal control process for approving awarding grants to Local Educational Agencies (LEAs). This process consists of multiple levels of Education approval, which are documented on a *Summary Cover Memo* (Form EXE-100f), by the program manager and director, the deputy, general counsel, government affairs and chief deputy, as appropriate, to approve the award to the LEA. These approved *Summary Cover Memos* are not retained as evidence of the controls in place over the grant award approval process. By not retaining the *Summary Cover Memos* as evidence of award approval, Education cannot demonstrate support for the proper approval of grants.

Questioned Costs:

Not applicable

Recommendations:

We recommend that Education retain copies of the *Summary Cover Memos* in the program department files as evidence of controls over the grant award approval process.

Department’s View and Corrective Action Plan:

Education will retain copies of the *Summary Cover Memos*, indicating the required approvals, in the program office files as evidence of controls over the grant award approval process.

| | |
|---|---|
| Reference Number: | 2006-1-6 |
| Federal Catalog Number: | 84.332 |
| Federal Program Title: | Comprehensive School Reform Demonstration |
| Federal Award Number and Calendar Year Awarded: | S332A050005; 2005 |
| Category of Finding: | Activities Allowed/Allowable Costs |
| State Administering Department: | Department of Education (Education) |

Criteria:

TITLE 34—EDUCATION, PART 76—STATE-ADMINISTERED PROGRAMS—Subpart E—How a Subgrant is Made to an Applicant, Section 76.400 State procedures for reviewing an application.

A State that receives an application for a subgrant shall take the following steps:

- (e) Review. The State shall review the application.
- (f) Approval—entitlement programs. The State shall approve an application if:

- The application is submitted by an applicant that is entitled to receive a subgrant under the program; and
 - The applicant meets the requirements of the Federal statutes and regulations that apply to the program.
- (g) Approval—discretionary programs. The State may approve an application if:
- The application is submitted by an eligible applicant under a program in which the State has the discretion to select subgrantees;
 - The applicant meets the requirements of the Federal statutes and regulations that apply to the program; and
 - The State determines that the project should be funded under the authorizing statute and implementing regulations for the program.
- (h) Disapproval—entitlement and discretionary programs. If an application does not meet the requirements of the Federal statutes and regulations that apply to a program, the State shall not approve the application.

Condition:

The program department has a formal control process for the approval of the Local Educational Agencies' (LEAs) application for use of program funds. This process consists of a review of the proposed activities by two program consultants. Evidence of the review of the consultants of the proposed activities is indicated on a reviewer's score sheet.

These program funds were issued to LEAs in grouping cycles entitled cohorts. During the fiscal year ended June 30, 2006 funds were paid for cohorts 3, 4, and 5. These reviewer score sheets were not retained by the program department for cohorts 3 or 4, nor were we able to obtain any other documented evidence to support the review and approval of applications for allowable activities. By not retaining the reviewer score sheets as evidence of review and approval of proposed grant activities, Education cannot demonstrate support for approval of activities.

Questioned Costs:

Not applicable

Recommendations:

We recommend that Education retain copies of these reviewer's score sheets with the LEAs applications in the program department files as evidence of controls over the approval of LEA activities.

Department's View and Corrective Action Plan:

To document approval of LEA activities, Education will retain copies of reviewer's score sheets and LEA applications in the program office files.

Reference Number: 2006-3-3
Federal Catalog Number: 84.010
Federal Program Title: Title I, Grants to Local Educational Agencies
Federal Award Number and
Calendar Year Awarded: S010A050005; 2005

Federal Catalog Number: 84.011
Federal Program Title: Migrant Education—State Grant Program
Federal Award Number and
Calendar Year Awarded: S011A050005; 2005

Federal Catalog Number: 84.027 & 84.173
Federal Program Title: Special Education Cluster—Special Education
Grants to States & Special Education
Pre-School Grants
Federal Award Number and
Calendar Year Awarded: H027A050116 & H173A050120; 2005

Federal Catalog Number: 84.318
Federal Program Title: Education Technology State Grants
Federal Award Number and
Calendar Year Awarded: S318X050005; 2005

Federal Catalog Number: 84.332
Federal Program Title: Comprehensive School Reform Demonstration
Federal Award Number and
Calendar Year Awarded: S332A050005; 2005

Federal Catalog Number: 84.365
Federal Program Title: English Language Acquisition Grants
Federal Award Number and
Calendar Year Awarded: T365A050005; 2005

Federal Catalog Number: 84.367
Federal Program Title: Improving Teacher Quality State Grants
Federal Award Number and
Calendar Year Awarded: S367A050005; 2005

Federal Catalog Number: 84.369
Federal Program Title: Grants for State Assessments and
Related Activities
Federal Award Number and
Calendar Year Awarded: S369A050005; 2005

Category of Finding: Cash Management

State Administering Department: Department of Education (Education)

Criteria:

TITLE 34—EDUCATION, PART 80—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS—Subpart C—Post-Award Requirements, Section 80.20 Standards for financial management systems:

- Cash Management—Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to ensure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.

Condition:

During our procedures performed over claim payments made to subrecipients, we noted Education requests cash advances from the federal government and then requests payments to be made to the Local Educational Agencies (LEAs) by the State Controller's Office (SCO).

For the programs that are included in the Cash Management Improvement Act (CMIA) agreement between the U.S. Department of the Treasury and the State, we noted that the required pre-issuance funding technique for payments to local agencies requires the State to disburse cash advances to LEAs not more than three days after the advance is deposited in the State account. For programs that do not fall under the CMIA, Education has adopted an internal policy of 14 days as a reasonable amount of time between the advance of federal funds and disbursement made to LEAs.

Education has a control process in place to reconcile and follow up on a monthly basis any outstanding LEA payment requests submitted to the SCO from advanced federal funds that remain unpaid after 60 days. The practice of only following up on items after 60 days past due would not enable Education to determine whether or not it is in compliance with Federal requirements for minimizing the time elapsing between the request for advance from the Federal government and the payment being made to the subrecipient.

Without appropriately designed controls in place, Education risks payments not being made in accordance with Federal guidelines. We understand that Education is in the process of strengthening controls to ensure that reconciliations of any unpaid LEA payment requests are performed more timely.

Questioned Costs:

Not applicable

Recommendations:

We recommend that Education strengthen processes, controls, and communication with the SCO to reduce the amount of time before follow up is made on unpaid amounts.

Department's View and Corrective Action Plan:

For payment of claims, the procedures followed by Education fall either under those established by the Department of Finance (DOF) with agreement by the SCO for CMIA or those that follow the process governed by the California Prompt Payment Act. CMIA claims are paid within three days and for all others the SCO has 15 days in which to issue payment. In an effort to further strengthen existing controls, Education has changed the timeframe it waits to follow up on any outstanding claims to 30 days.

| | |
|---|---|
| Reference Number: | 2006-3-4 |
| Federal Catalog Number: | 84.010 |
| Federal Program Title: | Title I, Grants to Local Educational Agencies |
| Federal Award Number and Calendar Year Awarded: | S010A050005; 2005 |
| Category of Finding: | Cash Management |
| State Administering Department: | Department of Education (Education) |

Criteria:

Title 34—EDUCATION, PART 76—STATE-ADMINISTERED PROGRAMS—Subpart G—What are the Administrative Responsibilities of the State and Its Subgrantees? Section 76.702 Fiscal control and fund accounting procedures:

A State and a subgrantee shall use fiscal control and fund accounting procedures that insure proper disbursement of and accounting for Federal funds.

Condition:

Education has a formal control process for making payments to subrecipients. A *Claims Schedule* is prepared by the Fiscal Services Division Accounting Office for the amounts approved to be paid, which is input into the California State Accounting and Reporting System (CALSTARS) General Ledger. A supervisor reviews and approves the work performed by the staff by initialing the Claims Schedule. The original copy of the approved *Claims Schedule* is sent to the State Controller's Office (SCO) to be paid, however a copy of the approved Claims Schedule is not retained as evidence of the review and approval process for the claim. An unsigned copy of the Claims Schedule is retained along with the other documentation as support for the payment. By not retaining the signed copy as evidence of review and approval of the payment request data entry into CALSTARS, Education can not demonstrate support for proper approvals of payments made to LEAs.

Questioned Costs:

Not applicable

Recommendations:

We recommend that Education retain copies of the approved *Claims Schedule* instead of the unapproved *Claims Schedule* as part of the supporting documentation package as evidence of controls over the payment approval process.

Department's View and Corrective Action Plan:

Although the State Controller's Office has signature cards on file and will not process a claim for payment unless the original claim is reviewed and signed by authorized personnel, Education will retain copies of claim schedule face sheets that the accounting staff have initialed to indicate approval.

| | |
|---|---|
| Reference Number: | 2006-3-5 |
| Federal Catalog Number: | 84.010 |
| Federal Program Title: | Title I, Grants to Local Educational Agencies |
| Federal Award Number and Calendar Year Awarded: | S010A050005; 2005 |
| Category of Finding: | Cash Management |
| State Administering Department: | Department of Education (Education) |

Criteria:

TITLE 34—EDUCATION, PART 80—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS—Subpart C—Post-Award Requirements, Section 80.20 Standards for financial management systems:

- Cash Management—Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish

reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to ensure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.

Condition:

During our procedures performed over payments made to subrecipients, we noted Education does not have a process in place for assessing the cash needs of its subrecipients. Education requests advance funds from the Federal government and makes three predetermined payment advances to Local Educational Agencies (LEAs) during the fiscal year. Education does not require periodic expenditure reporting or input by the LEAs during the award period and relies upon the expenditures reported in the annual two-part consolidated application (CONAPP), the year-end expenditure report. Part II of the CONAPP, which contains the program expenditure data, is due to Education seven months after the end of the fiscal year.

The timing of the payments made to LEAs does not take the LEAs' cash needs into consideration as no expenditure data or input was obtained from the LEAs during the award year. As a result of this condition, Education disbursed over \$1.7 billion during the fiscal year ending June 30, 2006 with no assurances that these subrecipients minimized the time between the receipt and disbursement of federal funds, which would not comply with Federal guidelines.

Questioned Costs:

Not determined

Recommendations:

We recommend that Education review its current policies and procedures over the issuance of cash advances to LEAs to more effectively monitor the cash needs of its LEAs with the timing of the payments to minimize the time elapsing between the advance of federal funds and expenditure by the LEAs.

Department's View and Corrective Action Plan:

On May 2, 2006, Education met with the U.S. Department of Education Risk Management Team to discuss cash management with consideration given to Education's existing capabilities and funding processes. However, solutions were deemed to be on a program-by-program basis due to the unique features of individual programs, data collection requirements, and available program resources. Education continues to explore procedural improvements that will reduce the time in which federal funds are distributed to and expended by funding recipients.

| | |
|-------------------------|-----------------------------------|
| Reference Number: | 2006-3-6 |
| Federal Catalog Number: | 84.318 |
| Federal Program Title: | Education Technology State Grants |

Federal Award Number and
Calendar Year Awarded: S318X050005; 2005

Category of Finding: Cash Management

State Administering Department: Department of Education (Education)

Criteria:

TITLE 34—EDUCATION, PART 80—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS—Subpart C—Post-Award Requirements, Section 80.20 Standards for financial management systems:

- Cash Management—Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to ensure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.

Condition:

During our procedures performed over payments made to subrecipients, we noted Education does not have a process in place for assessing the cash needs of its subrecipients. Education requests advance funds from the Federal government and makes two predetermined payment advances to Local Educational Agencies (LEAs) during the fiscal year with the final payment to be made after the receipt of the year-end final expenditure report. Education does not require periodic expenditure reporting or input by the LEAs during the award period but requires the year-end final expenditure report, which is due to Education approximately 60 days after the end of the State fiscal year.

The timing of the payments made to LEAs does not take the LEAs' cash needs into consideration as no expenditure data or input was obtained from the LEAs during the award year. As a result of this condition, Education disbursed over \$81 million during the fiscal year ending June 30, 2006 with no assurances that these subrecipients minimized the time between the receipt and disbursement of federal funds, which would not comply with Federal guidelines.

Questioned Costs:

Not determined

Recommendations:

We recommend that Education review its current policies and procedures over the issuance of cash advances to LEAs to more effectively monitor the cash needs of its LEAs with the timing of the payments to minimize the time elapsing between the advance of federal funds and expenditure by the LEAs.

Department's View and Corrective Action Plan:

Education continues to explore improvements to more closely monitor and match the cash needs of LEAs with the timing of the payments to minimize the time elapsing between the LEA's receipt of funds and actual expenditures.

Reference Number: 2006-3-7
Federal Catalog Number: 84.332
Federal Program Title: Comprehensive School Reform Demonstration
Federal Award Number and Calendar Year Awarded: S332A050005; 2005
Category of Finding: Cash Management
State Administering Department: Department of Education (Education)

Criteria:

TITLE 34—EDUCATION, PART 80—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS—Subpart C—Post-Award Requirements, Section 80.20 Standards for financial management systems:

- Cash Management—Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to ensure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.

Condition:

During our procedures performed over payments made to subrecipients, we noted Education does not have a process in place for assessing the cash needs of its subrecipients. Education requests advance funds from the Federal government and makes two predetermined payment advances to Local Educational Agencies (LEAs) during the fiscal year with the final payment to be made after the receipt of the year-end final expenditure report. Education does not require periodic expenditure reporting or input by the LEAs during the award period but requires the year-end final expenditure report, which is due to Education approximately 60 days after the end of the State fiscal year on June 30, 2006. In our sample of 50 LEAs we noted five had to be billed back by Education after the end of the award period for over advanced funds because they had not been fully expended.

The timing of the payments made to LEAs does not take the LEAs' cash needs into consideration as no expenditure data or input was obtained from the LEAs during the award year. As a result of this condition, Education disbursed over \$28 million during the fiscal year ending June 30, 2006 with no assurances that these subrecipients minimized the time between the receipt and disbursement of federal funds, which would not comply with Federal guidelines.

Questioned Costs:

Not determined

Recommendations:

We recommend that Education review its current policies and procedures over the issuance of cash advances to LEAs to more effectively monitor the cash needs of its LEAs with the timing of the payments to minimize the time elapsing between the advance of federal funds and expenditure by LEAs.

Department's View and Corrective Action Plan:

On May 2, 2006, Education met with the U.S. Department of Education Risk Management Team to discuss cash management with consideration given to Education's existing capabilities and funding processes. However, solutions were deemed to be on a program-by-program basis due to the unique features of individual programs, data collection requirements, and available program resources. Education continues to explore procedural improvements that will reduce the time in which federal funds are distributed to and expended by funding recipients.

| | |
|---|-------------------------------------|
| Reference Number: | 2006-3-8 |
| Federal Catalog Number: | 84.365 |
| Federal Program Title: | English Language Acquisition Grants |
| Federal Award Number and Calendar Year Awarded: | T365A050005; 2005 |
| Category of Finding: | Cash Management |
| State Administering Department: | Department of Education (Education) |

Criteria:

TITLE 34—EDUCATION, PART 80—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS—Subpart C—Post-Award Requirements, Section 80.20 Standards for financial management systems:

- Cash Management—Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible

to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to ensure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.

Condition:

During our procedures performed over English Language Acquisition payments made to subrecipients, we noted Education’s process for assessing the cash needs of its subrecipients consists of comparing the expenditures reported on three periodic reports (i.e., mid-year, 3rd quarter, and year-end) to the previous cash advances made to determine if the Local Educational Agency (LEA) has expended enough of the prior cash advances to warrant another cash advance.

In our sample of 64 LEA advance payment considerations, we noted 10 LEAs that had sufficient expenditures when compared to the advances made but did not receive the scheduled advance. In the same sample, we also noted one LEA was paid a cash advance before it had submitted the required expenditure report to support it had expended the earlier advance.

As a result of these exceptions noted, Education disbursed approximately \$152 million during the fiscal year ending June 30, 2006 with no assurances that these subrecipients minimized the time between the receipt and disbursement of federal funds, which would not comply with Federal guidelines.

Questioned Costs:

Not determined

Recommendations:

We recommend that Education strengthen controls over its LEA cash advance process to ensure that Education’s policy is being followed consistently and documentation is maintained to justify any deviations from the policy.

Department’s View and Corrective Action Plan:

Education will strengthen controls over LEA cash advances to ensure that Education’s policy is consistently followed. For example, Education will require a second level approval to: (1) ensure that all required expenditure reports are reviewed, (2) verify that the data reports are accurate, and (3) assess the cash needs of LEAs before subsequent cash advances are released.

| | |
|---|---|
| Reference Number: | 2006-3-9 |
| Federal Catalog Number: | 84.367 |
| Federal Program Title: | Improving Teachers Quality State Grants |
| Federal Award Number and Calendar Year Awarded: | S367A050005; 2005 |
| Category of Finding: | Cash Management |
| State Administering Department: | Department of Education (Education) |

Criteria:

TITLE 34—EDUCATION, PART 80—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS—
Subpart C—Post-Award Requirements, Section 80.20 Standards for financial management systems:

- Cash Management—Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to ensure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.

Condition:

During our procedures performed over Education's payments made to subrecipients, we noted it does not have an adequate process in place for assessing the cash needs of its subrecipients. Education does not require periodic expenditure reporting at different intervals throughout the year but instead utilizes the June 30th year-end expenditures that are reported to it on three different dates on the Consolidated Application (CONAPP) and Standard Account Code Structure (SACS) trial balance general ledger. On the annual two-part CONAPP report Local Educational Agencies (LEAs) report the status of their year-end expenditures. On the first part of the CONAPP, which is due on June 30, 2005, the LEA reports its estimated expenditures to date for the year ended June 30, 2005. The second part of the CONAPP, which is due January 31, 2006, the LEAs report the final expenditures for that same fiscal year ending June 30, 2005. The SACS trial balance is due September 15, 2005 for the same June 30, 2005 expenditures.

Education requests advances from the Federal government and compares the prior year expenditures reported on the three different dates for the prior year-end expenditure reports: CONAPP, Part 1; CONAPP, Part 2; and SACS trial balance, to the prior year cash payments made to the LEA to assess if the LEA warrants another payment. Due to a backlog, the program made only one advance payment to the LEAs in April 2006 for 40% of the total award amount, which was approximately 76% into the award period. Neither the second advance payment of 40% or final payment of 20% has been made to the LEAs as of December 2006.

This payment timing does not take the current year LEAs' cash needs into consideration as the only expenditure data taken into consideration was the prior year. No current year expenditure data was obtained from the LEAs during the award year to monitor and minimize the time elapsing between the expenditure and receipt of program funds. As a result of this condition, Education disbursed approximately \$324 million during the fiscal year ending June 30, 2006 with no assurances that subrecipients minimized the time between the receipt and disbursement of federal funds, which would not comply with Federal guidelines.

Questioned Costs:

Not determined

Recommendations:

We recommend that Education review its current policies and procedures over the issuance of cash advances to LEAs to more effectively monitor the cash needs with the timing of the payments to minimize the time elapsing between the advance of federal funds and expenditure by LEAs.

Department's View and Corrective Action Plan:

Education will strengthen current policies and procedures over LEA cash advances to more effectively monitor and more closely match the cash needs of LEAs, and minimize the time between the advance of federal funds and expenditure by the LEA. For example, to effectively assess the cash needs of LEAs, Education will require quarterly expenditure reports from the LEAs.

Reference Number: 2006-3-10
Federal Catalog Number: 84.010
Federal Program Title: Title I Grants to Local Educational Agencies
Federal Award Number and Calendar Year Awarded: S010A050005; 2005

Federal Catalog Number: 84.332
Federal Program Title: Comprehensive School Reform Demonstration
Federal Award Number and Calendar Year Awarded: S3332A050005; 2005

Federal Catalog Number: 84.367
Federal Program Title: Improving Teacher Quality State Grants
Federal Award Number and Calendar Year Awarded: S367A050005; 2005

Category of Finding: Cash Management
State Administering Department: Department of Education (Education)

Criteria:

TITLE 34—EDUCATION, PART 80—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS— Subpart C—Post-Award Requirements, Section 80.21 Payment:

- Interest earned on advances. Except for interest earned on advances of funds exempt under the Intergovernmental Cooperation Act (31 U.S.C. 6501 et seq.) and the Indian Self-Determination Act (23 U.S.C. 450), grantees and subgrantees shall promptly, but at least quarterly, remit interest earned on advances to the Federal agency. The grantee or subgrantee may keep interest amounts up to \$100 per year for administrative expenses.

Condition:

Comprehensive School Reform Demonstration: During our procedures performed over cash management of the subrecipients we noted Education did not notify the Local Educational Agencies (LEAs) of the requirement to return interest earned on advances nor did they request this information in their year-end report entitled *Summary of Expenditures for Fiscal year 2005–2006*. We also noted there were no processes or controls in place to collect and return the interest earned over \$100 to the federal Department of Education.

Title I Grants to Local Educational Agencies and Improving Teacher Quality State Grants: During our procedures performed over cash management, we noted Education did notify the LEAs of the requirement to return interest earned on advances, however, they did not require the interest earned to be reported on the Consolidated Application (CONAPP) nor are there any processes or controls in place to collect and return the interest earned over \$100 to the Federal Department of Education. The current process consists of the LEA voluntarily sending a check to Education, who then forwards those payments to the Federal government. For the fiscal year ending June 30, 2006 only 29 interest payments were received from the LEAs totaling \$409,466 for all Education programs. We noted in one subrecipient's A-133 audit report the interest earned on Title I program alone to be \$1.8 million during the fiscal year ended June 30, 2005, which was not returned to Education or the Federal government.

Education does not appear to be adequately monitoring the cash management compliance of its subrecipients, in that potential material amounts of interest earned on cash advances paid by Education without an adequate assessment of immediate cash needs, are not being returned. By not implementing appropriately designed processes, controls, and enforcement procedures Education cannot adequately ensure its subrecipients' compliance with cash management requirements.

Questioned Costs:

Not determined

Recommendations:

We recommend that Education establish processes and controls to communicate and obtain this information from the LEAs as well as to collect and return the funds back to the federal government, as applicable.

Department's View and Corrective Action Plan:

Education will review and strengthen its processes for requiring LEAs to report and return to Education interest earned on federal funds in amounts greater than \$100. Education will forward the remitted interest to the USDOE. If appropriate, Education will deduct any unremitted reported interest from the grantees' final payments.

Reference Number: 2006-5-5
Federal Catalog Number: 84.367
Federal Program Title: Improving Teachers Quality State Grants
Federal Award Number and Calendar Year Awarded: S367A050005; 2005
Category of Finding: Eligibility
State Administering Department: Department of Education (Education)

Criteria:

TITLE 34—EDUCATION, PART 76—STATE-ADMINISTERED PROGRAMS—Subpart G—What are the Administrative Responsibilities of the State and Its Subgrantees? Section 76.702 Fiscal control and fund accounting procedures:

A State and a subgrantee shall use fiscal control and fund accounting procedures that insure proper disbursement of and accounting for Federal funds.

Condition:

Education has a formal process for calculating the award entitlements made to its subrecipients, however this calculation is performed by one individual and there is no evidence of the review and approval of the calculation by a supervisor to help ensure the accuracy of the calculations. Absence of segregation of duties and proper reviews and approvals increase the risk that material errors may occur within the entitlement calculations.

Questioned Costs:

Not applicable

Recommendations:

We recommend that Education enhance policies and procedures to include evidence of a formal detail review and approval of the entitlement calculations.

Department's View and Corrective Action Plan:

Education will enhance policies and procedures by requiring the second level reviewer to document the review and approval of entitlement amounts by initialing the award calculation documents.

Reference Number: 2006-7-4
Federal Catalog Number: 84.010
Federal Program Title: Title I Grants to Local Educational Agencies
Federal Award Number and Calendar Year Awarded: S010A050005; 2005; S010A040005; 2004

Federal Catalog Number: 84.186
Federal Program Title: Safe and Drug Free Schools and Communities State Grants
Federal Award Number and Calendar Year Awarded: Q186A050005; 2005

Federal Catalog Number: 84.318
Federal Program Title: Education Technology State Grants
Federal Award Number and Calendar Year Awarded: S318X050005; 2005; S318X040005; 2004

Federal Catalog Number: 84.365
Federal Program Title: English Language Acquisition Grants
Federal Award Number and Calendar Year Awarded: T365A050005; 2005; T365A040005; 2004

Federal Catalog Number: 84.367
Federal Program Title: Improving Teacher Quality State Grants
Federal Award Number and Calendar Year Awarded: S367A050005; 2005; S367A040005; 2004

Category of Finding: Level of Effort—Maintenance of Effort
State Administering Department: Department of Education (Education)

Criteria:

TITLE 34—EDUCATION—SECONDARY EDUCATION, DEPARTMENT OF EDUCATION, PART 299—GENERAL PROVISIONS—Subpart D—Fiscal Requirements Section 299.5 What maintenance of effort requirements apply to ESEA programs?

- General—An Local Educational Agency (LEA) receiving funds under an applicable program listed in paragraph (b) of this section may receive its full allocation of funds only if the State Educational Agency (SEA) finds that either the combined fiscal effort per student or the aggregate expenditures of State and local funds with respect to the provision of free public education in the LEA for the preceding fiscal year was not less than 90% of the combined fiscal effort per student or the aggregate expenditures for the second preceding fiscal year.
- **Expenditures:**
 - (1) In determining an LEAs compliance with paragraph (a) of this section, the SEA shall consider only the LEAs expenditures from State and local funds for free public education. These include expenditures for administration, instruction, attendance and health services, pupil transportation services, operation and maintenance of plant, fixed charges, and net expenditures to cover deficits for food services and student body activities.
 - (2) The SEA may not consider the following expenditures in determining an LEAs compliance with the requirements in paragraph (a) of this section:
 - Any expenditures for community services, capital outlay, debt service or supplemental expenses made as a result of a Presidentially declared disaster.
 - Any expenditures made from funds provided by the Federal Government.

Condition:

During our procedures performed over Education’s maintenance of effort calculations we noted the following:

- 1 Expenditures for debt service, principal and interest were included as part of the expense for free public education, but should be omitted in accordance with the Federal Education Code. We also noted that only the equipment replacement portion of capital outlay was being omitted instead of the entire capital outlay, thereby including expenditures for buildings, improvements, and equipment that should also be omitted. Including these expenditures could inadvertently skew the results of the per pupil expenditure comparison in years when large capital purchases are made or new debt is issued.
- 2 Education was using unadjusted LEA expenditure figures to calculate compliance with the maintenance of effort requirements instead of using the final audited expenditures. Per further inquiry, the LEAs are required to submit their unaudited financial trial balances electronically in the State required format, Standard Account Code Structure (SACS), to Education by September 15th of each year. These SACS trial balances are then used for all LEA financial measurement calculations (e.g., level of effort) performed by Education. The final audited financial statements are submitted in hard copy to Education through the State Controller’s Office by December 15th; however, there is not a required follow up submission of the final SACS trial balance to Education. There is no policy or procedure in place to review and reconcile the unaudited SACS trial balance to the final audited financial statement or review of the subsequent year SACS trial balance submission in the following September for any material adjustments to the fund balance for prior year audit adjustments. By using the unaudited figures, there is a risk that material adjustments or omissions may not be adequately reflected and computed in the maintenance of effort calculation.

3 Education prepares the maintenance of effort calculations for its LEAs; however, they are not being timely prepared. Education has not yet finalized its State fiscal year 2005 calculations, which compare the expenditures for the State fiscal years ending June 30, 2003 to June 30, 2004, even though it received the required SACS expenditure data that it used to perform the calculation on or before September 15, 2004. We also noted Education does not have policies or procedures that require Education to send the final calculations to each LEA annually. It only follows up on any LEA maintenance of effort failures. By not timely performing and providing these calculations to its LEAs, Education is not providing information required by its LEAs in completing their annual A-133 audits.

Questioned Costs:

Not determined

Recommendations:

We recommend that Education review its current maintenance of effort calculation to update for any items that are required to be adjusted. We also recommend that Education use the final audited LEA financial figures in performing its maintenance of effort calculations either by modifying the required timing of the SACS submissions or requiring an additional submission. We further recommend Education enhance its current procedures to ensure that timely calculations are completed and communicated to its LEAs to assist in the timely completion of the A-133 audits of both Education and the LEAs.

Department's View and Corrective Action Plan:

Condition 1—Education has reviewed its calculation of the “Current Expense of Education”, a statutory calculation, and determined it to be close, but not identical, to the federal definition of expense for free public education (see www.cde.ca.gov/ds/fd/ec/). To calculate the expense for free public education, Education utilizes the automated Standardized Account Code Structure (SACS) and the “Current Expense of Education” per average daily attendance calculation. Since the Current Expense of Education calculation through the SACS automatically excludes capital outlay, debt service, and interest, it is not necessary to make manual adjustments to exclude these costs. However, equipment replacement expenditures are not automatically excluded in the “Current Expense of Education” calculation; accordingly, Education manually excludes these costs to arrive at the expense for free public education.

Condition 2—The LEAs are required to electronically submit unaudited data via the SACS to Education by October 15 of each year. The SACS was developed because of the significant number of LEAs and to electronically obtain data from the even greater number of financial expenditure and revenue accounts. Both the level of detail required to perform the MOE calculations and the number of LEAs dictate that Education utilize electronic data to calculate MOE.

Education receives audit reports by December 15 of each year; however, the audit reports are submitted in hard copy and are not in sufficient detail for Education to perform the required calculations. Using audited data is not feasible unless data is submitted electronically, and current State statute is revised to require that audit reports present expenditures and revenue accounts in the level of detail necessary to perform the MOE calculations.

Condition 3—Since final entitlements are not known until the end of the fiscal year, and adjusting the entitlements mid-year creates significant statewide recalculation problems, in cases of noncompliance, Education adjusts the LEA entitlements the following year. However, Education has

developed new MOE forms for the SACS that will enable the LEAs to better view the calculations and to assess compliance with MOE requirements. Currently, Education is testing the SACS software changes to verify the integrity of data collection and the MOE calculations.

Auditors' Comment on Department's View:

Condition 1—The Auditor's review of the actual calculations performed by Education are not consistent with the definitions indicated in the Department's view. The staff performing the actual calculations indicated Education is not required to exclude expenses related to capital outlay and debt service unless they were incurred as a result of a Presidentially declared disaster, otherwise they should not be excluded.

Condition 2—The Auditor agrees that the SACS data is the most effective means of obtaining the information to perform the required MOE calculations, however Education may consider changing the timing or frequency of the SACS submissions to utilize the final audited numbers instead of the unaudited interim numbers to perform accurate calculations. To revise the State statute to require that audit reports present expenditures and revenue accounts in an expanded level of detail to perform the MOE calculations is not necessary.

Condition 3—Education's statement regarding mid-year adjustments is not applicable to the finding condition. The finding demonstrates that Education had not completed its 2005 calculation even though it received the two prior years of expenditure information needed to perform the calculation by September 2004.

| | |
|---|--|
| Reference Number: | 2006-7-5 |
| Federal Catalog Number: | 84.027 |
| Federal Program Title: | Special Education Cluster—Special Education Grants to States |
| Federal Award Number and Calendar Year Awarded: | H027A030116; 2003; H027A040116; 2004 |
| Category of Finding: | Level of Effort—Maintenance of Effort |
| State Administering Department: | Department of Education (Education) |

Criteria:

TITLE 34—EDUCATION—REHABILITATIVE SERVICES, DEPARTMENT OF EDUCATION PART 300—ASSISTANCE TO STATES FOR THE EDUCATION OF CHILDREN WITH DISABILITIES—Subpart B—State and Local Eligibility—Section 300.154 Maintenance of State financial support. (a) General:

The State must have on file with the Secretary information to demonstrate, on either a total or per-capita basis, that the State will not reduce the amount of State financial support for special Education and related services for

children with disabilities, or otherwise made available because of the excess costs of educating those children, below the amount of that support for the preceding fiscal year.

TITLE 20—EDUCATION—CHAPTER 33—EDUCATION OF INDIVIDUALS WITH DISABILITIES—
SUBCHAPTER II—ASSISTANCE FOR EDUCATION OF ALL CHILDREN WITH DISABILITIES—
Section 1412. State eligibility (a) In general:

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

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

Condition:

Consistent with prior year findings, for years 2001–2002 through 2004–2005, Education was unable to obtain clarification with the U.S. Department of Education (USDOE) on which funds should be included in its maintenance of effort determination, thus we cannot conclude whether or not it has met this requirement.

To demonstrate its compliance with this maintenance of effort requirement for fiscal year 2003–04, the most recent year for which complete information is available, Education included only those expenditures authorized under certain General Fund appropriations specific to Education and certain special Education programs. Using this method, Education determined that it had met its maintenance of effort requirement for fiscal year 2003–04 by \$130,496 of the \$3.01 billion of expenditures made in 2003–2004. Due to these conditions, we cannot conclude that it has included all of the information to demonstrate its compliance with the requirement. For example, Special Education expenses incurred by other State departments, such as Mental Health expenditures, which were \$133 million and \$148 million for years 2001–2002 and 2002–2003, respectively, were not included. It has also included the amount of local property taxes required to be allocated for Special Education instead of the actual expenditures made during the fiscal year, where unexpended allocations could cause noncompliance. This clarification of expenditures to be included becomes more notably important with Education’s calculation of this requirement being met by only \$130,496 or 0.004% for the 2003–2004 fiscal year.

Questioned Costs:

Not determined

Recommendations:

We recommend that Education continue with its ongoing discussions with the USDOE and request written clarification from the USDOE as to what should be included and excluded from the State’s maintenance of effort calculation.

Department's View and Corrective Action Plan:

On May 22, 2006, Education sent a letter to the USDOE delineating the components included in Education's calculation of Maintenance of Effort for Special Education; Education awaits USDOE's response.

Reference Number: 2006-7-7

Federal Catalog Number: 84.027

Federal Program Title: Special Education Cluster—Special Education Grants to States

Federal Award Number and Calendar Year Awarded: H027A030116; 2003

Category of Finding: Earmarking—Formula Subgrants to LEAs

State Administering Department: Department of Education (Education)

Criteria:

TITLE 20—EDUCATION—CHAPTER 33—EDUCATION OF INDIVIDUALS WITH DISABILITIES—SUBCHAPTER II—ASSISTANCE FOR EDUCATION OF ALL CHILDREN WITH DISABILITIES, Section 1411. Authorization; allotment; use of funds; authorization of appropriations, (f) Subgrants to local Educational agencies:

- (1) Subgrants required—Each State that receives a grant under this section for any fiscal year shall distribute any funds the State does not reserve under subsection (e) to local Educational agencies (including public charter schools that operate as local Educational agencies) in the State that have established their eligibility under section 1413 of this title for use in accordance with this subchapter.
- (2) Procedure for allocations to local Educational agencies, For each fiscal year for which funds are allocated to States under subsection (d), each State shall allocate funds under paragraph (1) as follows:
 - (A) Base payments—The State shall first award each local Educational agency described in paragraph (1) the amount the local Educational agency would have received under this section for fiscal year 1999, if the State had distributed 75% of its grant for that year under Section 1411(d) of this title as Section 1411(d) was then in effect.
 - (B) Allocation of remaining funds—After making allocations under subparagraph (A), the State shall:
 - (i) allocate 85% of any remaining funds to those local Educational agencies on the basis of the relative numbers of children enrolled in public and private elementary schools and secondary schools within the local Educational agency's jurisdiction; and

- (ii) allocate 15% of those remaining funds to those local Educational agencies in accordance with their relative numbers of children living in poverty, as determined by the State Educational agency.

Condition:

During our procedures performed over earmarking requirements, we reviewed Table I entitled *Fiscal Year 2003 Allocations Grants to States Individuals with Disabilities Education Act—Part B, Section 611* attached to the Grant Award Document from the Federal Department of Education. We noted it indicated some specific earmarking requirements for each state, including California. In Column B, *Minimum Flow—Through to Local Educational Agencies (LEAs)*, it indicated the amount as \$830,013,772, however per review of expenditure data compiled by Education we noted the total expenditures to be only \$829,260,041, thus under the requirement of grants to LEAs by \$753,731.

Questioned Costs:

\$753,731 (\$830,013,772 required—\$829,260,041 actual expended)

Recommendations:

We recommend that Education strengthen monitoring controls over its earmarking calculations to ensure that they are reviewed at least on an annual basis and make any budget revisions as necessary to comply with the requirement over the 27-month period of availability to comply with required expenditure earmarks.

Department's View and Corrective Action Plan:

Education will strengthen monitoring controls over its earmarking calculations to ensure that they are reviewed on a quarterly basis. Additionally, Education will ensure that the earmark amount is correctly designated on the carryover worksheet by requiring the review and approval of both the Budget Office and Special Education Division.

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|---|---|
| Reference Number: | 2006-8-1 |
| Federal Catalog Number: | 84.318 |
| Federal Program Title: | Education Technology State Grants |
| Federal Award Number and Calendar Year Awarded: | S318X030005; 2003 |
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| Federal Catalog Number: | 84.369 |
| Federal Program Title: | Grants for State Assessments and Related Activities |
| Federal Award Number and Calendar Year Awarded: | S369A030005; 2003 |
| <hr/> | |
| Category of Finding: | Period of Availability |
| State Administering Department: | Department of Education (Education) |

Criteria:

TITLE 34—EDUCATION, PART 80—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS—Subpart C—Post-Award Requirements, Section 80.23 Period of availability of funds:

- Liquidation of obligations. A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in the program regulation) to coincide with the submission of the annual Financial Status Report (SF-269). The Federal agency may extend this deadline at the request of the grantee.

Condition:

Education Technology—During our procedures performed over the timing of the liquidation payments made during the closeout of the 2003-2004 grant award, we noted 8 of the 20 items sampled and required to be liquidated by December 29, 2005 were paid in January 2006.

Grants for State Assessments—During our procedures performed over the timing of the liquidation payments made during the closeout of the 2003-2004 grant award, we noted 3 of the 7 items sampled and required to be liquidated by December 29, 2005 were paid in January 2006.

Based on review of the batch dates of the check requests made by Education, it appeared that the check requests were made on December 14th and 22nd. Since neither program fell under the Cash Management Improvement Act (CMIA) agreement between the U.S. Department of the Treasury and the State, the payment timing fell under Education's adopted internal policy of checks being issued 14 days from the date the request was made, which cause the payments to be made after the end of the liquidation period. Liquidations of program encumbrances/expenditures made after the period allowable are no longer allowable costs.

Questioned Costs:

\$179,024 of the \$1,403,877 sampled for the Education Technology Program

\$1,435 of the \$257,213 sampled for the Grants for State Assessments Program

Recommendations:

We recommend that Education strengthen controls over its grant closeout process to ensure that all program funds are liquidated within the required timeframe.

Department's View and Corrective Action Plan:

Grant funds were available for drawdown in the Grant Administration and Payment System (GAPS) until January 3, 2006. The federal cash was drawn on December 29, 2005, for deposit January 3, 2006. Although the State Controller's Office (SCO) may have made payment on the obligations in January 2006, Education liquidated the obligations on GAPS and submitted the claim schedules to the SCO for payment on December 30, 2005 (prior to the end of the liquidation period). However, Education will work with its program offices in ensuring that program funding obligations continue to be liquidated within the required time periods

Reference Number: 2006-9-2
Federal Catalog Number: 84.011
Federal Program Title: Migrant Education—State Grant Program
Federal Award Number and Calendar Year Awarded: S011A050005; 2005

Federal Catalog Number: 84.027 & 84.173
Federal Program Title: Special Education Cluster—Special Education Grants to States & Special Education Pre-School Grants
Federal Award Number and Calendar Year Awarded: H027A050116; 2005, H173A050120; 2005

Federal Catalog Number: 84.332
Federal Program Title: Comprehensive School Reform Demonstration
Federal Award Number and Calendar Year Awarded: S332A050005; 2005

Category of Finding: Procurement, Suspension and Debarment
State Administering Department: Department of Education (Education)

Criteria:

TITLE 34—EDUCATION, PART 80—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS—Subpart C—Post-Award Requirements, Section 80.35 Subawards to debarred and suspended parties:

Grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, *Debarment and Suspension*.

Condition:

Migrant Education: We reviewed the State of California Standard Agreements made with two program subcontractors and noted that the Agreements did not include any language regarding suspension or debarment. Education has Federal Certifications Forms (Form No. CO. 7 12/02) which contain nonsuspension and debarment certification language, however these certifications were not included with the contracts on file.

Special Education Cluster: The Grant Award Notification document (Award) refers to acceptance of grant conditions and assurances. The grant assurances are contained in an attachment to the Award, however the General Assurances and Federal Funds Conditions are indicated as an

“attachment” but no longer attached to the Grant Award document. Education stated that this General Assurances and Federal Funds Conditions attachment is available on Education’s website, however there is no specific website address given on the Award as to where to locate these assurances. In searching Education’s website we located a page of the website entitled Funding Forms that contained four separate assurance components. The General Assurances and Lobbying, Drug Free Workplace and Suspension and Debarment. All but the General Assurances required a separate signature certification, however Education no longer requires its participating Special Education Local Plan Area (SELPA) or LEAs to sign them and return them as a condition of receiving a grant award. Education expects the SELPAs and LEAs to locate these assurances and keep signed copies on file at the SELPA or LEA. We also noted Education did not verify the nonsuspension or debarment of the LEA on the Excluded Parties List System (EPLS).

Comprehensive School Reform Demonstration: We reviewed the conditions of the grant award and noted that it did not include any language regarding suspension or debarment. Education does have nonsuspension and debarment certification forms available on its website but did not require its participating LEAs to sign them and return them as a condition of receiving a grant award. We also noted Education did not verify the nonsuspension or debarment of the LEA on EPLS.

By not obtaining signed self-certifications of nonsuspension or debarment and not performing any independent checks on the EPLS website, Education is not in compliance with Federal suspension and debarment requirements and runs the risk that it will enter into an agreement with a suspended or debarred LEA or contractor, which would result in all expenditures paid under that agreement being disallowed.

Questioned Costs:

Not applicable

Recommendations:

We recommend Education require a signed certification of nonsuspension or debarment as part of its award approval process. We also recommend that Education implement policies and procedures to include a verification of the EPLS website (www.epls.gov) for all subawards or contracts either on an individual program level or on an Education-wide level to reduce the risk that subawards or contracts will be made to suspended or debarred parties.

Department’s View and Corrective Action Plan:

Education will compare the EPLS website to the California State Accounting and Reporting System (CALSTARS) vendor file used for all payments to verify that an LEA or contractor is not federally suspended or debarred; verification will be documented accordingly. This comparison will be a documented process for the year-end schedule.

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|---|---|
| Reference Number: | 2006-9-4 |
| Federal Catalog Number: | 84.369 |
| Federal Program Title: | Grants for State Assessments and Other Activities |
| Federal Award Number and Calendar Year Awarded: | S369A050005; 2005 |

Category of Finding: Procurement, Suspension and Debarment

State Administering Department: Department of Education (Education)

Criteria:

TITLE 34—EDUCATION, PART 76—STATE-ADMINISTERED PROGRAMS—Subpart G—What are the Administrative Responsibilities of the State and Its Subgrantees?, Section 76.702 Fiscal control and fund accounting procedures:

A State and a subgrantee shall use fiscal control and fund accounting procedures that insure proper disbursement of and accounting for Federal funds.

Condition:

During procedures performed over Education’s procurement process we noted Education has a formal procurement process that includes formal signoffs of contracts paid from Federal program funds. In our sample of 13 contracts for the program, we noted two did not contain all of the required authorized signatures. For the two exceptions, we noted that the signature of the Deputy, Deputy Superintendent, or Chief Legal Counsel was not evidenced on Education’s CO-201 Contract Request Form as required by its policies. By not retaining the evidence of review and approval of material program contracts, Education cannot demonstrate that appropriate approvals are in place.

Questioned Costs:

Not applicable

Recommendations:

We recommend that Education strengthen controls to ensure that all required signatures are obtained during the contract approval process.

Department’s View and Corrective Action Plan:

The contracts reviewed were processed under the “Contract Worksheet” (old CO-201) process which did not have the tighter signature controls the Contracts Office now has in place with the “Contract Request Form” (new CO-201) process. In response to the finding, the Contracts Office has already strengthened its controls to ensure that all required signatures are obtained during the CO-201 routing process.

Reference Number: 2006-12-5

Federal Catalog Number: 84.027 & 84.173

Federal Program Title: Special Education Cluster—Special Education
Grants to States & Special Education
PreSchool Grants

Federal Award Number and Calendar Year Awarded: H027A050116; 2005, H173A050120; 2005

Category of Finding: Reporting

State Administering Department: Department of Education (Education)

Criteria:

TITLE 34—EDUCATION, REHABILITATIVE SERVICES, DEPARTMENT OF EDUCATION, PART 300—ASSISTANCE TO STATES FOR THE EDUCATION OF CHILDREN WITH DISABILITIES—Subpart G—Allocation of Funds; Reports, Section 300.754 Annual report of children served—other responsibilities of the SEA. In addition to meeting the other requirements of Section 300.750—300.753, the SEA shall:

- (e) Ensure that documentation is maintained that enables the State and the Secretary to audit the accuracy of the count.

Condition:

During procedures performed over special reporting for the *Report of Children and Youth with Disabilities Receiving Special Education Under Part B of the Individuals With Disabilities Education Act*, as amended (OMB No. 1820-0043), we reviewed the controls built into Education’s California Special Education Management Information System (CASEMIS) software program which is used to compile data used for this report. We noted that CASEMIS contained built-in edit checks to identify errors or any potentially duplicate participants, however there is no ability to evidence that each edit check is successfully performed or other audit trail to show successful completion of all edit checks. We also noted there was inadequate evidence of control totals to ensure that there were no duplicate students contained in the CASEMIS system. The absence of evidence of system controls being performed effectively increases the risk of inaccurate reporting.

Questioned Costs:

Not applicable

Recommendations:

We recommend that Education enhance its current CASEMIS system controls to provide for audit trails or other evidence to support that all edit checks are cleared and add control totals to reduce the risk of potential inaccuracies in the reporting of the unduplicated student count.

Department’s View and Corrective Action Plan:

Education will create the appropriate audit trails in its CASEMIS procedures and software documenting that edit checks are successfully performed. Additionally, Education will enhance current procedures to include control totals to reduce the risk of potential material inaccuracies in reporting the unduplicated student count.

Reference Number: 2006-12-6

Federal Catalog Number: 84.011

Federal Program Title: Migrant Education—State Grant Program

Federal Award Number and Calendar Year Awarded: S011A040005; 2004

Category of Finding: Reporting

State Administering Department: Department of Education (Education)

Criteria:

TITLE 34—EDUCATION, PART 76—STATE-ADMINISTERED PROGRAMS—Subpart G—What are the Administrative Responsibilities of the State and Its Subgrantees?, Section 76.731 Records related to compliance.

- A State and a subgrantee shall keep records to show its compliance with program requirements.

TITLE 34—EDUCATION, PART 80—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS—Subpart C—Post-Award Requirements, Section 80.20 Standards for financial management systems:

A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to:

- Permit preparation of reports required by this part and the statutes authorizing the grant, and
- Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

TITLE 34—EDUCATION, PART 80—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS—Subpart C—Post-Award Requirements, Section 80.42 Retention and access requirements for records:

- Length of retention period—except as otherwise provided, records must be retained for three years from the starting date.
- Starting date of retention period—when grant support is continued or renewed at annual or other intervals, the retention period for the records of each funding period starts on the day the grantee or subgrantee submits to the awarding agency its single or last expenditure report for that period.

Condition:

During procedures performed over reporting, we selected 25 items of data reported on Education's annual Consolidated State Performance Report for Funding Year 2004–05, which was submitted during 2006, and requested supporting documentation for those items. Education did not maintain copies of the documentation used to prepare the report and was unable to provide supporting documentation for all 25 of the items sampled, which related to participant population data, academic status, participation, school data, and project data for the Migrant Education Program. By not maintaining documentation to support required reporting, Education is not in compliance with Federal reporting requirements.

The Consolidated State Performance Report approval process includes a top level review and approval from an Education department official of the data that is compiled by a subcontractor; however, there was no documented evidence of this review. We also noted there was no evidence of the review and approval from an Education department official of the data that is compiled by a subcontractor for the Migrant Child Count Report. The absence of appropriate reviews and approvals of the compilation of required reporting increases the risk of inaccuracies going undetected.

Questioned Costs:

Not applicable

Recommendations:

We recommend that Education enhance its current policies and procedures to include a detailed review be performed and evidenced as part of its reporting approval process to reduce the risk of material inaccurate reporting and to maintain all supporting documentation for required reporting for the required document retention period.

Department's View and Corrective Action Plan:

Education will implement policies and procedures that specify a reporting approval process that involves a detailed review and maintenance of supporting documentation for the required retention period.

This reporting approval process will include documentation to support:

- Quarterly vendor meetings to review LEA data and required NCLB reports, and to discuss and/or correct problems or discrepancies.
- Data accuracy comparisons between the Consolidated State Performance Report (CSPR) and child count reports using current and prior year reports, and LEA data versus vendor reports.
- Annual onsite monitoring and a formal re-interview process for validating child eligibility for child count purposes.

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| Reference Number: | 2006-12-7 |
| Federal Catalog Number: | 84.318 |
| Federal Program Title: | Education Technology State Grants |

Federal Award Number and
Calendar Year Awarded: S318X030005; 2003

Category of Finding: Reporting

State Administering Department: Department of Education (Education)

Criteria:

TITLE 34—EDUCATION, PART 76—STATE-ADMINISTERED PROGRAMS—Subpart G—What are the Administrative Responsibilities of the State and Its Subgrantees?, Section 76.731 Records related to compliance.

- A State and a subgrantee shall keep records to show its compliance with program requirements.

TITLE 34—EDUCATION, PART 80—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS—SUBPART C—Post-Award Requirements, Section 80.20 Standards for financial management systems:

A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to:

- Permit preparation of reports required by this part and the statutes authorizing the grant, and
- Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

TITLE 34—EDUCATION, PART 80—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS—Subpart C—Post-Award Requirements, Section 80.42 Retention and access requirements for records:

- Length of retention period—except as otherwise provided, records must be retained for three years from the starting date.
- Starting date of retention period—when grant support is continued or renewed at annual or other intervals, the retention period for the records of each funding period starts on the day the grantee or subgrantee submits to the awarding agency its single or last expenditure report for that period.

Condition:

During procedures performed over reporting we selected 42 items of data reported on Education's annual Consolidated State Performance Report for Funding Year 2003, which was submitted during 2006, and traced those items to supporting documentation. In our 42 items sampled, we noted Education was unable to provide supporting documentation for two of the items reported. Education did not maintain the original documentation used to create this report but was able to recreate the documentation to support the information reported for all but two items. The two unsupported items related to performance data relating to the percent of teachers qualified to use technology and receiving professional development funds. By not maintaining documentation to support required reporting, Education is not in compliance with Federal reporting requirements.

The reporting approval process includes a top level review and approval from a department official, but it appears there was no documented evidence of this review. The absence of appropriate reviews and approvals of the compilation of required reporting increases the risk of inaccuracies going undetected.

Questioned Costs:

Not applicable

Recommendations:

We recommend that Education enhance its current policies and procedures to include a detailed review be performed and evidenced as part of its reporting approval process to reduce the risk of inaccurate reporting and to maintain all supporting documentation for required reporting for the required document retention period.

Department's View and Corrective Action Plan:

Education will enhance policies and procedures by requiring the second level reviewer to document the review and approval of the data on Education's annual Consolidated State Performance Reports by initialing the report. Additionally, Education will maintain documentation for the required retention period.

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| Reference Number: | 2006-12-8 |
| Federal Catalog Number: | 84.332 |
| Federal Program Title: | Comprehensive School Reform Demonstration |
| Federal Award Number and Calendar Year Awarded: | S332A050005; 2006 |
| Category of Finding: | Reporting |
| State Administering Department: | Department of Education (Education) |

Criteria:

TITLE 34—EDUCATION, PART 80—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS— Subpart C—Post-Award Requirements, Section 80.20 Standards for financial management systems:

A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to:

- Permit preparation of reports required by this part and the statutes authorizing the grant, and
- Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

Condition:

During procedures performed over reporting we selected 25 items of data reported on Education's annual Consolidated State Performance Report and the Comprehensive School Reform Demonstration Program 2005 Evaluation Report and traced those items to supporting documentation. In our 25 items sampled, we noted three did not match the supporting documentation for the reported item. The three inaccuracies related to the subgrant award totals and the number of schools awarded. The reporting approval process includes a top level review and approval from a department official, but it appears there was no detailed level review of tracing the report data to the supporting documentation. Although these differences appeared to be immaterial in the current year reports, differences in future years could be material without a performed detail review.

Questioned Costs:

Not applicable

Recommendations:

We recommend that Education enhance its current policies and procedures to include a detailed review be performed and evidenced as part of its reporting approval process to reduce the risk of material inaccurate reporting.

Department's View and Corrective Action Plan:

Education will enhance policies and procedures requiring a detailed level of review tracing the report data to the supporting documentation. Additionally, documentation of secondary review and approval will be incorporated in the reporting approval process.

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| Reference Number: | 2006-12-9 |
| Federal Catalog Number: | 84.365 |
| Federal Program Title: | English Language Acquisition Grants |
| Federal Award Number and Calendar Year Awarded: | T365A030005; 2003 |
| Category of Finding: | Reporting |
| State Administering Department: | Department of Education (Education) |

Criteria:

TITLE 34—EDUCATION, PART 80—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS—
Subpart C—Post-Award Requirements, Section 80.20 Standards for financial management systems:

A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to:

- Permit preparation of reports required by this part and the statutes authorizing the grant, and
- Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

TITLE 34—EDUCATION, PART 80—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS—Subpart C—Post-Award Requirements, Section 80.42 Retention and access requirements for records:

- Length of retention period—except as otherwise provided, records must be retained for three years from the starting date.
- Starting date of retention period—when grant support is continued or renewed at annual or other intervals, the retention period for the records of each funding period starts on the day the grantee or subgrantee submits to the awarding agency its single or last expenditure report for that period.

Condition:

During procedures performed over reporting, we selected 50 items of data reported on Education's annual Consolidated State Performance Report (CSPR) for Funding Year 2004-05, which was submitted during 2006, and requested supporting documentation for those items. We noted the department did not maintain the original documentation used to create this report but was able to recreate the documentation to support the information reported for 3 of the 50 items. One of the 47 items sampled that was unsupported was the total number of participating students identified as Limited English Proficiency (LEP). The reported number on the 2004-05 CSPR was 11,581,178, however the same line item on the 2003-04 CSPR was only 1,554,172. Since the total students assessed was only 1,736,931 and the total enrollment population is only 6,322,141, the 11,581,178 reported would not appear reasonable.

The reporting approval process includes a top level review and approval from an Education department official of the data that is compiled by a subcontractor, but there was no documented evidence of this review. The absence of appropriate reviews and approvals of the compilation of required reporting increases the risk of material inaccuracies going undetected.

Questioned Costs:

Not applicable

Recommendations:

We recommend that Education enhance its current policies and procedures to include that a detailed review be performed and evidenced as part of its reporting approval process to reduce the risk of material inaccurate reporting and to maintain all supporting documentation for required reporting for the required document retention period.

Department's View and Corrective Action Plan:

Although Education does not maintain hard copies of all data collected, data is maintained electronically for the required retention periods. However, as part of the review process, Education will enhance procedures by requiring documentation of secondary review and approval. Also, Education will maintain hard copies of data supporting the Consolidated State Performance Report.

Reference Number: 2006-13-4
Federal Catalog Number: 84.011
Federal Program Title: Migrant Education—State Grant Program
Federal Award Number and Calendar Year Awarded: S011A050005; 2005
Category of Finding: Subrecipient Monitoring
State Administering Department: Department of Education (Education)

Criteria:

Office of Management and Budget (OMB) Circular A-133: *Audits of States, Local Governments, and Non-Profit Organizations*, Subpart D—Federal Agencies and Pass-Through Entities, Section 400 Responsibilities, (d) Pass-through entity responsibilities: A pass-through entity shall perform the following for the Federal awards it makes:

- Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.
- Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.

TITLE 34—EDUCATION, PART 80—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS—Subpart C—Post-Award Requirements, Section 80.37 Subgrants: States shall follow state law and procedures when awarding and administering subgrants of financial assistance to local and Indian tribal governments. States shall:

- Ensure that every subgrant includes any clauses required by Federal statute and executive orders and their implementing regulations;
- Ensure that subgrantees are aware of requirements imposed upon them by Federal statute and regulation;
- Ensure that a provision for compliance with 80.42 (retention and access requirements for records) is placed in every cost reimbursement subgrant; and
- Conform any advances of grant funds to subgrantees substantially to the same standards of timing and amount that apply to cash advances by Federal agencies.

Condition:

During our procedures performed over award identification we were unable to identify any controls to ensure that award information was properly identified to the Local Educational Agencies (LEAs). We noted the *Grant Award Notification* (Form AO-400) did not contain the name of the Federal agency. We also noted in the Standard Account Code Structure (SACS) program identification information that Education indicated approximately \$5 million of the \$108 million accrued basis expenditures of these program funds, which were part of the Even Start portion of the program, as CFDA number 84.214 instead of 84.011. This incorrect program identification information would cause subrecipients to follow incorrect program regulations.

Questioned Costs:

Not applicable

Recommendations:

We recommend that Education strengthen controls over award identification to ensure that all required award information is properly communicated to the LEAs as required.

Department's View and Corrective Action Plan:

Education has strengthened controls over award identification to ensure that all required award information is properly communicated to the LEAs. For example, Education revised the Grant Award Notification form to include the CFDA number, name of the federal agency, and CFR references. Additionally, current policy requires that information about the federal program be included in the Request for Application documents. Applicants must review this information and sign an application form to be considered for a grant.

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| Reference Number: | 2006-13-5 |
| Federal Catalog Number: | 84.010 |
| Federal Program Title: | Title I Grants to Local Educational Agencies |
| Federal Award Number and Calendar Year Awarded: | S010A050005; 2005 |

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| Federal Catalog Number: | 84.011 |
| Federal Program Title: | Migrant Education—State Grant Program |
| Federal Award Number and Calendar Year Awarded: | S011A050005; 2005 |

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| Federal Catalog Number: | 84.318 |
| Federal Program Title: | Education Technology State Grants |

Federal Award Number and
Calendar Year Awarded: S318X050005; 2005

Federal Catalog Number: 84.332

Federal Program Title: Comprehensive School Reform Demonstration

Federal Award Number and
Calendar Year Awarded: S332A050005; 2005

Federal Catalog Number: 84.365

Federal Program Title: English Language Acquisition Grants

Federal Award Number and
Calendar Year Awarded: T365A050005; 2005

Federal Catalog Number: 84.367

Federal Program Title: Improving Teacher Quality State Grants

Federal Award Number and
Calendar Year Awarded: S367A050005; 2005

Category of Finding: Subrecipient monitoring

State Administering Department: Department of Education (Education)

Criteria:

TITLE 34—EDUCATION, PART 80—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS—Subpart C—Post-Award Requirements, Section 80.12 Special grant or subgrant conditions for ‘high-risk’ grantees:

(a) A grantee or subgrantee may be considered “high risk” if an awarding agency determines that a grantee or subgrantee:

- Has a history of unsatisfactory performance, or
- Is not financially stable, or
- Has a management system which does not meet the management standards set forth in this part, or
- Has not conformed to terms and conditions of previous awards, or
- Is otherwise not responsible; and if the awarding agency determines that an award will be made, special conditions and/or restrictions shall correspond to the high risk condition and shall be included in the award.

(b) Special conditions or restrictions may include:

- Payment on a reimbursement basis;
- Withholding authority to proceed to the next phase until receipt of evidence of acceptable performance within a given funding period;
- Requiring additional, more detailed financial reports;
- Additional project monitoring;
- Requiring the grantee or subgrantee to obtain technical or management assistance; or
- Establishing additional prior approvals.

(c) If an awarding agency decides to impose such conditions, the awarding official will notify the grantee or subgrantee as early as possible, in writing, of:

- The nature of the special conditions/restrictions;
- The reason(s) for imposing them;
- The corrective actions which must be taken before they will be removed and the time allowed for completing the corrective actions and
- The method of requesting reconsideration of the conditions/restrictions imposed.

Condition:

During inquiries made with program specific personnel and the central Education Management Assistance, Categorical Programs and Audit Resolution Unit, we were unable to obtain or identify any policies or procedures for assessing Local Educational Agencies (LEAs) subrecipients as high risk either on the individual program level or on the overall LEA level. Identification of higher risk LEAs is a critical component in determining the extent of during-the-award monitoring procedures to be performed.

Questioned Costs:

Not applicable

Recommendations:

We recommend that Education develop formal policies and procedures to determine whether any LEAs should be considered as high risk. These assessments should be made in cooperation with various Education departments (consolidated program monitoring, audit resolution, program, etc.) to obtain sufficient knowledge to make an informed assessment of the LEAs' performance. Any LEAs assessed as high risk should have this information communicated to the LEA as well as disseminated among the various Education departments to assist in development of appropriate monitoring during the award period.

Department's View and Corrective Action Plan:

Education will develop policies and procedures to obtain sufficient knowledge in making informed assessments of LEAs' performance on a program-specific basis. To assist in this process, Education will disseminate summary reports of A-133 audit findings to program staff.

Reference Number: 2006-13-6
Federal Catalog Number: 84.010
Federal Program Title: Title I Grants to Local Educational Agencies
Federal Award Number and Calendar Year Awarded: S010A050005; 2005

Federal Catalog Number: 84.011
Federal Program Title: Migrant Education—State Grant Program
Federal Award Number and Calendar Year Awarded: S011A050005; 2005

Federal Catalog Number: 84.365
Federal Program Title: English Language Acquisition Grants
Federal Award Number and Calendar Year Awarded: T365A050005; 2005

Federal Catalog Number: 84.367
Federal Program Title: Improving Teacher Quality State Grants
Federal Award Number and Calendar Year Awarded: S367A050005; 2005

Category of Finding: Subrecipient monitoring
State Administering Department: Department of Education (Education)

Criteria:

TITLE 31—MONEY AND FINANCE, SUBTITLE V—GENERAL ASSISTANCE ADMINISTRATION, CHAPTER 75—REQUIREMENTS FOR SINGLE AUDITS, Section 7502. Audit requirements; exemptions, (f)(2) Each pass-through entity shall:

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

- Monitor the subrecipient's use of Federal awards through site visits, limited scope audits, or other means;
- Review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the Director, pertaining to Federal awards provided to the subrecipient by the pass-through entity; and
- Require each of its subrecipients of Federal awards to permit, as a condition of receiving Federal awards, the independent auditor of the pass-through entity to have such access to the subrecipient's records and financial statements as may be necessary for the pass-through entity to comply with this chapter.

TITLE 34—EDUCATION, PART 80—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS—
Subpart C—Post-Award Requirements, Section 80.40 Monitoring and reporting program performance, (a) Monitoring by grantees:

- Grantees are responsible for managing the day-to-day operations of the grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to ensure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.

Condition:

During procedures performed over subrecipient monitoring, we noted the program is monitored by the Consolidated Program Monitoring (CPM) Unit of Education. This unit performs program monitoring site reviews on its subrecipients, where Education selects a subrecipient and monitors a number of its larger programs. We selected a sample of schools that had been monitored and reviewed the documentation retained to support the review's findings and conclusions and noted the following:

- Documentation of the monitoring visit is evidenced by the *Cross-Program Instrument (CP)*. This *CP* is the only official documentation that is retained to support the procedures performed during the monitoring visit. The CPM does not retain detail work paper documentation of the samples tested, interviews performed, etc., to support the conclusions reached.
- The monitoring procedures contained limited fiscal procedures and should be enhanced to cover all major functions and activities of the program.
- There was no documented signoff of approval for the procedures performed and conclusions reached for the monitoring visit on the *CP* by someone other than the preparer.

By not maintaining adequate documentation of the procedures performed or ensuring that appropriate reviews and approvals are performed, Education is not able to adequately support conclusions reached during its monitoring visits.

Questioned Costs:

Not applicable

Recommendations:

We recommend that Education strengthen its current policies and procedures over subrecipient monitoring, specifically the during-the-award monitoring (i.e., monitoring visits), to ensure sufficient documentation is retained in enough detail to support the conclusions reached and that there is evidence this documentation is reviewed by someone other than the preparer before final reports are issued.

We also recommend that Education enhance the extent of the monitoring procedures performed or documentation maintained to support tests of fiscal elements (i.e., sampling expenditures from the general ledger to test for allowability, tests of documentation to support private school per pupil allocations, samples tested to support supplement not supplant, etc.) to support they are being adequately reviewed and to ensure that these monitoring procedures cover each program, function and activity of the Local Educational Agencies (LEAs) that is sampled. This additional documentation of procedures will support Education's assertions that its subrecipients are complying with program laws, regulations and grant award provisions and that its performance goals and objectives are being achieved.

Department's View and Corrective Action Plan:

Education will strengthen procedures over subrecipient monitoring by requiring reviewers to notate in more detail the documents or evidence used to support the conclusions on the site visitation form. Also, Education will require a secondary reviewer to initial the site visitation forms to indicate approval. With regard to testing fiscal elements, Education follows up on information reported by the LEA's independent certified public accountant's A-133 single audit reports. Additionally, Education follows up on any fiscal concerns identified in other subrecipient monitoring reviews (e.g., categorical program monitoring and contract monitoring reviews). If more extensive fiscal procedures are deemed necessary, Education's Audits and Investigations Division can be requested to assist in determining an LEA's compliance with required fiscal elements.

Auditors' Comment on Department's View and Corrective Action Plan:

The Auditor believes that Education's view of placing significant reliance on subrecipient A-133 audits does not adequately address the risk of material noncompliance of all programmatic and fiscal requirements by its LEAs. Education should consider the complexity of the requirements and the risk that LEAs may not assess compliance correctly. Education, as a pass through entity, is responsible to provide technical advice to the LEAs and auditors of those LEAs, testing key fiscal elements is a valuable tool to assess the understanding of those requirements. Information obtained during its sampled LEAs monitoring visits can then be used to develop more effective guidance to LEAs to assist in complying with required rules and regulations.

Its comment regarding following up on fiscal concerns identified in other monitoring reviews is not applicable, since the condition of the finding indicates the inadequacy of those specific monitoring review procedures that Education indicated where it would follow up.

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| Reference Number: | 2006-13-7 |
| Federal Catalog Number: | 84.318 |
| Federal Program Title: | Education Technology State Grants |

Federal Award Number and
Calendar Year Awarded: S318X050005; 2005

Category of Finding: Subrecipient monitoring

State Administering Department: Department of Education (Education)

Criteria:

TITLE 31—MONEY AND FINANCE, SUBTITLE V—GENERAL ASSISTANCE ADMINISTRATION, CHAPTER 75—REQUIREMENTS FOR SINGLE AUDITS, Section 7502. Audit requirements; exemptions, (f)(2) Each pass-through entity shall:

- Provide such subrecipient the program names (and any identifying numbers) from which such assistance is derived, and the Federal requirements which govern the use of such awards and the requirements of this chapter;
- Monitor the subrecipient's use of Federal awards through site visits, limited scope audits, or other means;
- Review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the Director, pertaining to Federal awards provided to the subrecipient by the pass-through entity; and
- Require each of its subrecipients of Federal awards to permit, as a condition of receiving Federal awards, the independent auditor of the pass-through entity to have such access to the subrecipient's records and financial statements as may be necessary for the pass-through entity to comply with this chapter.

TITLE 34—EDUCATION, PART 80—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS— Subpart C—Post-Award Requirements, Section 80.40 Monitoring and reporting program performance, (a) Monitoring by grantees:

- Grantees are responsible for managing the day-to-day operations of the grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to ensure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.

Condition:

During procedures performed over subrecipient monitoring, we noted the program has formal monitoring procedures in place, however they include very limited procedures over fiscal requirements. A sample of Local Educational Agencies (LEAs) awards are monitored each year which are selected through a judgmental risk assessment. A total of nine LEAs were monitored during the fiscal year. Documentation of the monitoring visit is evidenced by the *Enhancing Education Through Technology Site Visitation Form (Form)*. There was no documented signoff of approval for the procedures performed and conclusions reached for the monitoring visit on the Form by someone other than the preparer. This Form is the only documentation that is retained to support the monitoring visit. The program does not retain detail work paper documentation of the samples tested, interviews performed, etc., to support the conclusions reached. We also noted the monitoring visit exit correspondence indicates that the site visit was not an audit and that fiscal certification criteria would be assessed during the annual district audit or by appropriate oversight

agencies, thus reliance is placed on A-133 subrecipient audits and any Federal Agency audits to ensure compliance with fiscal requirements. By not performing monitoring procedures over fiscal requirements, Education risks material noncompliance of subrecipients going undetected on a timely basis.

Questioned Costs:

Not determined

Recommendations:

We recommend that Education strengthen its current policies and procedures over subrecipient monitoring, specifically during-the-award monitoring (i.e., monitoring visits), to ensure that sufficient documentation is retained in enough detail to support the conclusions reached and that there is evidence that this documentation is reviewed by someone other than the preparer before final reports are issued. We also recommend that Education enhance the extent of the monitoring procedures performed or documentation maintained to support tests of fiscal elements (i.e., sampling expenditures from the general ledger to test for allowability, tests of documentation to support private school per pupil allocations, samples tested to support supplement not supplant, etc.) to support they are being adequately reviewed and to ensure that these monitoring procedures cover each program, function, and activity of the LEA that is sampled. This additional documentation of procedures will support Education's assertions that its subrecipients are complying with program laws, regulations, and grant award provisions and that its performance goals and objectives are being achieved.

Department's View and Corrective Action Plan:

Education will strengthen policies and procedures over subrecipient monitoring by requiring reviewers to notate the documents or evidence used to support the conclusions on the site visitation form. Also, Education will require a secondary reviewer to initial the site visitation forms to indicate approval before final reports are issued. In regards to testing fiscal elements, Education follows up on information reported by the LEA's independent certified public accountant's Single Audit Reports. Additionally, Education follows up on any fiscal concerns identified in subrecipient monitoring reviews.

Auditors' Comment on Department's View and Corrective Action Plan:

The Auditor believes that Education's view of placing significant reliance on subrecipient A-133 audits does not adequately address the risk of material noncompliance of all programmatic and fiscal requirements by its LEAs. Education should consider the complexity of some of the requirements and the risk that LEAs may not assess compliance correctly. Education, as a pass-through entity is responsible to provide technical advice to the LEAs and auditors of those LEAs, testing key fiscal elements is a valuable tool to assess the understanding of those requirements. Information obtained during its sampled LEAs monitoring visits can then be used to develop more effective guidance to LEAs to assist in complying with required rules and regulations.

Its comment regarding following up on fiscal concerns identified in other monitoring reviews is not applicable, since the condition of the finding indicates the inadequacy of those specific monitoring review procedures that Education indicated where it would follow up.

Reference Number: 2006-13-8
Federal Catalog Number: 84.332
Federal Program Title: Comprehensive School Reform Demonstration
Federal Award Number and Calendar Year Awarded: S332A050005; 2005
Category of Finding: Subrecipient monitoring
State Administering Department: Department of Education (Education)

Criteria:

TITLE 34—EDUCATION, PART 80—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS—Subpart C—Post-Award Requirements,

Section 80.37 Subgrants: States shall follow state law and procedures when awarding and administering subgrants of financial assistance to local and Indian tribal governments. States shall:

- Ensure that every subgrant includes any clauses required by Federal statute and executive orders and their implementing regulations;
- Ensure that subgrantees are aware of requirements imposed upon them by Federal statute and regulation;
- Ensure that a provision for compliance with Section 80.42 (retention and access requirements for records) is placed in every cost reimbursement subgrant; and
- Confirm any advances of grant funds to subgrantees substantially to the same standards of timing and amount that apply to cash advances by Federal agencies.

Section 80.40 Monitoring and reporting program performance, (a) Monitoring by grantees:

- Grantees are responsible for managing the day-to-day operations of the grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to ensure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.

TITLE 31—MONEY AND FINANCE, SUBTITLE V—GENERAL ASSISTANCE ADMINISTRATION, CHAPTER 75—REQUIREMENTS FOR SINGLE AUDITS, Section 7502. Audit requirements; exemptions, (f)(2) Each pass-through entity shall:

- Provide such subrecipient the program names (and any identifying numbers) from which such assistance is derived, and the Federal requirements which govern the use of such awards and the requirements of this chapter;
- Monitor the subrecipient's use of Federal awards through site visits, limited scope audits, or other means;

- Review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the Director, pertaining to Federal awards provided to the subrecipient by the pass-through entity; and
- Require each of its subrecipients of Federal awards to permit, as a condition of receiving Federal awards, the independent auditor of the pass-through entity to have such access to the subrecipient's records and financial statements as may be necessary for the pass-through entity to comply with this chapter.

Condition:

During our procedures performed over award identification we were unable to identify controls to ensure that award information was properly identified to the Local Educational Agencies (LEAs). We noted the *Grant Award Notification* (Form AO-400) did not contain any of the following: CFDA number, name of federal agency or CFR references for requirements imposed by laws, regulations or provisions. We also noted in the Standard Account Code Structure (SACS) program identification information that Education indicated these program funds as CFDA number 84.010 instead of 84.332. This incorrect program identification information would cause subrecipients to follow incorrect program regulations.

We also noted that the program did not perform comprehensive monitoring of its subrecipients' activities to assess if they were in compliance with the laws, regulations and provisions of grant award agreements or if its performance goals were being achieved. Since 100% of CSR program funds are passed through to subrecipients, there is an increased need for strong subrecipient monitoring procedures to reduce the risk of potential material noncompliance. The program did not perform any site visits or limited scope audits nor was this program part of Education's consolidated program monitoring reviews performed on its subgrantees, where Education selects a subrecipient and monitors a number of its larger programs. The program also did not require its subrecipients to provide annual programmatic reporting in the fiscal year ending June 30, 2006 to assess if the subrecipients had met its goals and objectives, however it did require the submission of one annual financial expenditure report which was reviewed before the final payment was made to the subrecipients. By not performing comprehensive monitoring procedures, Education risks material noncompliance of its subrecipients going undetected.

Questioned Costs:

Not applicable

Recommendations:

We recommend that Education strengthen its current policies and procedures over subrecipient monitoring, specifically the during-the-award monitoring (i.e., performance reports, site visits, etc.), to ensure that its subrecipients are complying with program laws, regulations, and grant award provisions and that its performance goals and objectives are being achieved. We also recommend that Education ensure that all required award information is properly communicated to the LEAs as required.

Department's View and Corrective Action Plan:

Education has an ongoing annual program evaluation report requirement that, combined with annual review of state performance data, ensures that performance goals are being achieved. However, to strengthen award monitoring procedures, Education's Grant Award Notification forms include the CFDA number. Additionally, to ensure that all required award information is properly communicated to LEAs, Education requires that Federal program information, such as the Federal

agency name and CFR references, be included in the Request for Application (RFA) documents. Applicants must review and sign the RFAs to indicate acknowledgement and agreement to comply with all applicable laws, regulations, and award provisions.

Auditors' Comment on Department's View:

The corrective action plan proposed by management only addresses the award notification element of the finding. It does not include any during-the-award monitoring elements to ensure that all performance goals and objectives are being met.

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| Reference Number: | 2006-13-9 |
| Federal Catalog Number: | 84.027 & 84.173 |
| Federal Program Title | Special Education Cluster—Special Education Grants: to States & Special Education PreSchool Grants |
| Federal Award Number and Calendar Year Awarded: | H027A050116; 2005, H173A050120; 2005 |
| Category of Finding: | Subrecipient monitoring |
| State Administering Department: | Department of Education (Education) |

Criteria:

TITLE 31—MONEY AND FINANCE, SUBTITLE V—GENERAL ASSISTANCE ADMINISTRATION, CHAPTER 75—REQUIREMENTS FOR SINGLE AUDITS, Section 7502. Audit requirements; exemptions, (f)(2) Each pass-through entity shall:

- Provide such subrecipient the program names (and any identifying numbers) from which such assistance is derived, and the Federal requirements which govern the use of such awards and the requirements of this chapter;
- Monitor the subrecipient's use of Federal awards through site visits, limited scope audits, or other means;
- Review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the Director, pertaining to Federal awards provided to the subrecipient by the pass-through entity; and
- Require each of its subrecipients of Federal awards to permit, as a condition of receiving Federal awards, the independent auditor of the pass-through entity to have such access to the subrecipient's records and financial statements as may be necessary for the pass-through entity to comply with this chapter.

TITLE 34—EDUCATION, PART 80—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS— Subpart C—Post-Award Requirements, Section 80.40 Monitoring and reporting program performance, (a) Monitoring by grantees:

- Grantees are responsible for managing the day-to-day operations of the grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to ensure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.

Condition:

During procedures performed over subrecipient monitoring, we noted Education’s Focused Monitoring and Technical Assistance Unit (FMTA) conducts site visits of its Local Educational Agencies (LEAs) and Special Education Local Plan Areas (SELPA’s). Of the 18 LEAs and SELPA’s that were monitored by the FMTA for the fiscal year June 30, 2005, we noted 5 of the 18, which had Education report dates in July, August and October 2005 that contained findings that remained unresolved in December 2006. Of the five LEAs with unresolved findings, four had recent follow up made between September and November 2006, however were still unresolved with the fifth having original report date of August 29, 2005 and no recent follow up. By not performing timely follow up on monitoring visit findings of noncompliance with program regulations, the period of noncompliance for subrecipients is extended causing noncompliance in subsequent grant periods.

Questioned Costs:

Not applicable

Recommendations:

We recommend that Education strengthen its current policies and procedures over subrecipient monitoring, specifically the during-the-award monitoring (i.e., monitoring visits), to ensure that timely follow up is performed to ensure corrective action on deficiencies noted in during-the-award monitoring.

Department’s View and Corrective Action Plan:

Education will strengthen policies and procedures over monitoring visits by documenting the corrective actions taken by subrecipients on reported deficiencies and the status of any unresolved deficiencies. Additionally, Education will reiterate to SELPA directors that all corrective action on reported deficiencies must be completed within one year.

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| Reference Number: | 2006-13-10 |
| Federal Catalog Number: | 84.010 |
| Federal Program Title: | Title I Grants to Local Educational Agencies |
| Federal Award Number and Calendar Year Awarded: | S010A050005; 2005 |

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| Federal Catalog Number: | 84.011 |
| Federal Program Title: | Migrant Education—State Grant Program |
| Federal Award Number and Calendar Year Awarded: | S011A050005; 2005 |

Federal Catalog Number: 84.027 & 84.173
Federal Program Title: Special Education Cluster—Special Education Grants to States & Special Education Pre-School Grants
Federal Award Number and Calendar Year Awarded: H027A050116; 2005, H173A050120; 2005

Federal Catalog Number: 84.318
Federal Program Title: Education Technology State Grants
Federal Award Number and Calendar Year Awarded: S318X050005; 2005

Federal Catalog Number: 84.332
Federal Program Title: Comprehensive School Reform Demonstration
Federal Award Number and Calendar Year Awarded: S332A050005; 2005

Federal Catalog Number: 84.365
Federal Program Title: English Language Acquisition Grants
Federal Award Number and Calendar Year Awarded: T365A050005; 2005

Federal Catalog Number: 84.367
Federal Program Title: Improving Teacher Quality State Grants
Federal Award Number and Calendar Year Awarded: S367A050005; 2005

Category of Finding: Subrecipient monitoring
State Administering Department: Department of Education (Education)

Criteria:

TITLE 31—MONEY AND FINANCE, SUBTITLE V—GENERAL ASSISTANCE ADMINISTRATION, CHAPTER 75—REQUIREMENTS FOR SINGLE AUDITS, Section 7502. Audit requirements; exemptions, (f)(2) Each pass-through entity shall:

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

Condition:

During procedures performed over subrecipient monitoring, we noted that the A-133 audits of the subrecipient Local Educational Agencies (LEAs) are initially collected by the State Controller's Office who ensures the completeness and timeliness of all LEA reports. The LEA reports are simultaneously sent to Education to address the findings and recommendations noted. Education maintains a central department entitled Management Assistance, Categorical Programs, and Audit Resolution that is responsible for addressing and resolving findings noted in the A-133 reports. The data from these reports is entered into a central database to track the status of findings and recommendations.

- Education relies upon this database as its sole tracking device for subrecipient audit findings that need to be addressed by Education. There does not appear to be adequate segregation of duties or an independent review process by the consultants who are responsible for the database. The A-133 reports are input into the database by the consultants; however the review of the data input is checked by the same consultant who performed the input. There is no independent review of the database information by the department administrator to assess its accuracy or completeness.
- There is no formal report generated from the database to be reviewed by Education management that summarizes the status of LEA findings that are required to have Education management decisions issued within six months after receipt of the report. This information is needed by management to adequately monitor the audit finding resolution process being performed by its consultants to ensure timeliness of the management decisions required to be made. Of the 50 June 30, 2005 A-133 LEA reports sampled, we noted 12 LEAs with audit findings that required Education management decisions. Of those 12 LEAs requiring management decisions, we noted two with unresolved findings outstanding after 10 months and two additional LEAs with findings resolved later than six months after the receipt of the report.
- Findings are resolved with the LEAs by the consultants in the Management Assistance, Categorical Programs, and Audit Resolution Unit. We noted some informal e-mail communications discussing some of the findings contained in the reports, however there is no formal notification from the Audit Resolution Department to the respective Education program departments or Consolidated Performance Monitoring Unit nor are copies of any audit resolution correspondence forwarded to the respective program department regarding the A-133 audit findings of its subrecipients. This information is important to the program departments to assist in the development of their monitoring procedures to be performed over its program subrecipients. With this information the program department could more accurately determine subrecipient risk and focus its monitoring efforts on higher risk LEAs that either had audit findings or did not have its program audited as a major program in the last year or last several years.

Without appropriately designed segregation of duties and formal checks, balances and communications, Education risks noncompliance noted in Subrecipient A-133 audits are not being timely addressed and resolved to comply with Federal regulations.

Questioned Costs:

Not applicable

Recommendations:

We recommend that Education strengthen its current policies and procedures over its A-133 audit finding resolution process by formalizing communications and resolutions. The files should contain formal evidence of input, reviews and approvals that supports the timing, agreement with the proposed corrective action, and notification of the respective program department.

We also recommend that Education generate a periodic status of findings and corrective actions for review by the audit resolution department administrator to assist in monitoring the timeliness of Education’s resolution of audit findings.

We further recommend that Education disseminate the information obtained from the A-133 reports captured in the database (i.e., number of LEAs with Education Technology audited as a major program, identification of findings for Education Technology program, etc.) to the appropriate program staff and consolidated program monitoring unit to assist in the determination of subrecipient risk, which is an important component of determining the extent of the during-the-award monitoring procedures that should be performed on specific LEAs.

Department’s View and Corrective Action Plan:

To assist in monitoring the timeliness of an LEA’s resolution of audit findings, Education will disseminate a summary report of A-133 audit findings to respective program staff. Additionally, Education will provide a status report of A-133 audit findings to the administrator of the Audit Resolution Unit for review, approval, and to manage the resolution of A-133 audit findings.

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| Reference Number: | 2006-14-3 |
| Federal Catalog Number: | 84.010 |
| Federal Program Title: | Title I Grants to Local Educational Agencies |
| Federal Award Number and Calendar Year Awarded: | S010A050005; 2005 |
| Category of Finding: | Special Tests and Provisions—Comparability |
| State Administering Department: | Department of Education (Education) |

Criteria:

TITLE 20—EDUCATION, CHAPTER 70—STRENGTHENING AND IMPROVEMENT OF ELEMENTARY AND SECONDARY SCHOOLS, SUBCHAPTER I—IMPROVING THE ACADEMIC ACHIEVEMENT OF THE DISADVANTAGED, Part A—Improving Basic Programs Operated by Local Educational Agencies, Subpart 1—basic program requirements, Section 6321. Fiscal requirements, (c) Comparability of services

Procedures and records—Each local educational agency assisted under this part shall:

- a. Develop procedures for compliance with this subsection; and
- b. Maintain records that are updated biennially documenting such agency’s compliance with this subsection.

Condition:

During our procedures performed over comparability, we noted Education has developed specific policies and procedures to assess Local Educational Agencies (LEAs) for compliance with Title I comparability during the fiscal year ended June 30, 2006, which includes a Comparability Report that performs required calculations (e.g., student/teacher ratio, etc.). Any calculations that do not meet the mandated criteria are followed up by Education by requesting revised or supplemental information, however it did not require any documentation to support this revised or supplemental information submitted. We also noted there are no procedures included in the consolidated program monitoring that include any procedures performed to assess the accuracy of data used in the comparability calculations. Without appropriately designed controls to ensure the accuracy of the data utilized for comparability calculations, Education risks that materially inaccurate assessments may be made of comparability requirements of its LEAs.

Questioned Costs:

Not applicable

Recommendations:

We recommend that Education enhance current policies and procedures to require LEAs to provide supporting documentation when submitting revised or supplemental data to support compliance with comparability requirements. We also recommend that Education add a procedure in its consolidated program monitoring related to comparability compliance.

Department's View and Corrective Action Plan:

The Categorical Program Monitoring (CPM) Cross-Program, Title I Part A Basic and EIA/SCE, and Program Improvement instruments contain monitoring items for Title I, Part A. The items in these instruments will be reviewed for the monitoring of 20 USC 6321(c), fiscal requirements for comparability of services in coordination and collaboration with all offices involved in the current Comparability Report. If necessary, either a new item or the augmentation of an existing item will take place for inclusion in the 2007–08 CPM cycle. This will be accomplished by April 16, 2007.

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| Reference Number: | 2006-14-4 |
| Federal Catalog Number: | 84.010 |
| Federal Program Title: | Title I Grants to Local Educational Agencies |
| Federal Award Number and Calendar Year Awarded: | S010A050005; 2005 |
| Category of Finding: | Special Tests and Provisions—Identifying Schools and Local Educational Agencies (LEAs) Needing Improvement |
| State Administering Department: | Department of Education (Education) |

Criteria:

TITLE 20—EDUCATION, CHAPTER 70—STRENGTHENING AND IMPROVEMENT OF ELEMENTARY AND SECONDARY SCHOOLS, SUBCHAPTER I—IMPROVING THE ACADEMIC ACHIEVEMENT OF THE DISADVANTAGED, Part A—Improving Basic Programs Operated by Local Educational Agencies, subpart 1—basic program requirements, Section 6311. state plans, (a) plans required

- Use of assessments—Each State educational agency may incorporate the data from the assessments under this paragraph into a State-developed longitudinal data system that links student test scores, length of enrollment, and graduation records over time.
- Requirements—Such assessments shall:
 - be the same academic assessments used to measure the achievement of all children;
 - be aligned with the State’s challenging academic content and student academic achievement standards, and provide coherent information about student attainment of such standards;
 - be used for purposes for which such assessments are valid and reliable, and be consistent with relevant, nationally recognized professional and technical standards;
 - be used only if the State educational agency provides to the Secretary evidence from the test publisher or other relevant sources that the assessments used are of adequate technical quality for each purpose required under this chapter and are consistent with the requirements of this section, and such evidence is made public by the Secretary upon request.

Condition:

During our procedures performed over Identifying Schools and LEAs Needing Improvement, we noted Education has two separate computer systems to compile the data used to assess compliance with this requirement. The source data input into these two programs is extracted from the three Education standardized testing programs: Standardized Testing and Reporting (STAR), California High School Exit Exam (CAHSEE), and California Alternate Performance Assessment (CAPA).

Validation of correct processing of the data is attempted by dual processing of data on the separate systems. The programmer of the first system processes the input data initially then provides an output file to the programmer for the second system who then processes the same input data and compares results between the two systems. Neither system programs produce logs or other evidence of the results of the processing of the records. No formal documented processes exist to evidence that this review is performed.

The requirements to assess LEAs needing improvement are subject to change periodically, requiring changes to be made to reconfigure the system(s) calculations based on the new requirements. Tests are run to confirm the correct configuration, however test results are not retained and the system(s) do not generate logs or other material to confirm either valid or invalid data. No formal change review process exists for this process. Without proper controls in place to assess the accuracy and completeness of the data, Education will not be able to accurately identify LEAs needing improvement.

Questioned Costs:

Not applicable

Recommendations:

We recommend that Education enhance its current system controls to provide for audit trails or other evidence to support that all edit checks are cleared and changes are properly configured to reduce the risk of potential material inaccuracies in the assessment of schools or LEAs needing improvement.

Department's View and Corrective Action Plan:

Education will enhance controls by requiring staff to document output data file edit checks, and sign assurances validating that data has been compared and reconciled between systems.

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|---|---|
| Reference Number: | 2006-14-5 |
| Federal Catalog Number: | 84.011 |
| Federal Program Title: | Migrant Education—State Grant Program |
| Federal Award Number and Calendar Year Awarded: | S011A050005; 2005 |
| Category of Finding: | Special Tests & Provisions—Subgrant Process |
| State Administering Department: | Department of Education (Education) |

Criteria:

TITLE 20—EDUCATION, CHAPTER 70—STRENGTHENING AND IMPROVEMENT OF ELEMENTARY AND SECONDARY SCHOOLS, SUBCHAPTER I—IMPROVING THE ACADEMIC ACHIEVEMENT OF THE DISADVANTAGED, Part C—Education of Migratory Children, Section 6394. State applications; services, (d) Priority for services:

In providing services with funds received under this part, each recipient of such funds shall give priority to migratory children who are failing, or most at risk of failing, to meet the State's challenging State academic content standards and challenging State student academic achievement standards, and whose education has been interrupted during the regular school year.

Condition:

The subgrant approval process includes a review and approval from an Education department official of the data compiled by a subcontractor that takes into account the numbers, needs, priority-for-services, and availability of funds, but there was no documented evidence of this review and approval of the work performed by the subcontractor. Without evidence of controls and monitoring performed over the subcontractor, Education risks that materially inaccurate data may be compiled and reported without being detected.

Questioned Costs:

Not applicable

Recommendations:

We recommend that Education enhance its current policies and procedures to include that a detailed review be performed and evidenced as part of its subgrant approval process to reduce the risk of material inaccuracies in award calculations.

Department's View and Corrective Action Plan:

Education will strengthen policies and procedures to reduce the risk of material inaccuracies in award calculations by implementing a subgrant approval process and documenting review conclusions. The review and approval process will include: (1) reviewing LEA data and required No Child Left Behind (NCLB) reports to discuss and/or correct problems or inefficiencies; (2) data accuracy comparisons between LEA and vendor reports; and (3) onsite monitoring for validating child eligibility and counts.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Summary of Findings and Questioned Costs
June 30, 2006

Reference Number: 2006-1-1
Federal Catalog Number: 93.778
Federal Program Title: Medicaid Cluster: Medical Assistance Program
Federal Award Number and Calendar Year Awarded: H23/CCH922507-04-1; 2006, 05-0505CA5048; 2005
Category of Finding: Allowable Costs/Cost Principals
State Administering Department: Department of Health Services (Health Services)

Criteria:

1. State plan under Title XIX of the Social Security Act State: California Supplement 2 to attachment 4.19-B:

- The method used to establish maximum drug product payments is that payments for drugs dispensed by pharmacists shall consist of the State's Established Acquisition Cost (EAC) of the drug product dispensed plus a dispensing fee that is added to the drug product payment. The EAC is the lowest of the Average Wholesale Price (AWP) minus 17%; the Maximum Allowable Ingredient Cost (MAIC); the federal upper limit of reimbursement for listed multiple source drugs (called "Federal Upper Limit," or FUL); or the charges to the general public.

TITLE 42—PUBLIC HEALTH, CHAPTER IV—CENTERS FOR MEDICARE & MEDICAID SERVICES, DEPARTMENT OF HEALTH AND HUMAN SERVICES, Part 447—Payments for Services, Subpart B, Payment Methods: General Provisions, Section 447.201 state plan requirements.

- A state plan must provide that the requirements in this subpart are met.
- The plan must describe the policy and the methods to be used in setting payment rates for each type of service included in the State's Medicaid program.

2. OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, Attachment A, General Principles for Determining Allowable Costs, Part C. Basic Guidelines

- Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria: Be necessary and reasonable for proper and efficient performance and administration of Federal awards.

California Code of Regulations, Title 22, Section 51476:

- Each provider shall keep, maintain, and have readily retrievable, such records as are necessary to fully disclose the type and extent of services provided to a Medi-Cal beneficiary. Required records shall be made at or near the time at which the service is rendered.

Department of Health Services Provider Manual—Provider Regulations

- Medi-Cal requires providers to: Agree to keep necessary records for a minimum period of three years from the date of service to disclose fully the extent of services furnished to the patient. The provider also must agree to furnish these records and any information regarding payments claimed for providing the services, on request, to the California Department of Health Services.

Condition:

In our sample of fee-for-service claims tested, we noted exceptions in 3 of the 50 claims sampled as follows:

1. One drug sample was found using the outdated average wholesale price (AWP) in the payment calculation, which resulted in a \$52.44 underpayment to the provider. Average wholesale prices are obtained from First DataBank. The price effective date is based on the wholesaler's effective dates, which are announced within days of the effective date. Health Services and the State's fiscal intermediary, Electronic Data Systems (EDS), do not timely update the AWP by the effective date. Therefore, the State may process incorrect payments due to timing differences in rate adjustments. Providers may resubmit the claim for adjustment if the incorrect effective rates were used.
2. We could not determine the medical necessity of 2 of the 50 claims tested. The provider was unable to provide supporting documentation, such as medical records, for the claims in question.

Total expenditures for the Medicaid Program amounted to approximately \$18 billion* for the fiscal year ended June 30, 2006. Due to the nature of these types of medical claim expenditures no individually material claims were sampled, however, the exceptions found are an indication of potential material noncompliance for claims paid based on the sample selected.

Questioned Costs:

\$4,552 of the \$256,528 sampled*

- * The amounts represent both the state and federal dollars paid to providers. We were unable to determine the federal portion on an individual claim basis. See finding 2006-12-4 for further details.

Recommendations:

We recommend that Health Services implement a process to expedite the input of rate adjustments into the California Medicaid Management Information System (CA-MMIS) to ensure providers are paid using the effective rates as stated in the state plan requirement. The internal control process may include implementing an Erroneous Payment Correction (EPC) query for claims paid using incorrect AWP rates. We also recommend Health Services strengthen its internal control process to detect providers in violation of record retention rules.

Department's View and Corrective Action Plan:

1. Health Services agrees with the audit findings and has already implemented changes to the California Medicaid Management Information System (CA-MMIS) to perform weekly price updates to the formulary file beginning January 1, 2006.

When the formulary file on the CA-MMIS was designed in the early 1980's, the Medi-Cal Program was using local level Medi-Cal codes to pay for drugs. At that time, updates to the formulary file were manual and relied on manufacturers to send Health Services updates on pricing. With the 1988 Medi-Cal Request for Proposal (RFP), the Fiscal Intermediary (FI) Contractor began using a Drug Pricing Clearinghouse, First DataBank (FDB), to update the prices on the file for selected drugs. Although this assisted on some drugs, the process still had many manual interventions. In addition, claims were sent to the Medi-Cal Program on paper or electronic tape media (CMC). In 1994, Health Services instituted the use of the National Drug Code (NDC) for claims payment, doing away with the local level codes. This increased the volume of codes needing updates from ten to twenty thousand to over a hundred thousand codes. In addition, claims payment went from paper and CMC to on-line real time claims processing. In order to keep up with pricing updates, the FI Contractor subcontracted with FDB to do all drug-pricing updates on a monthly basis, which is a requirement of the Medi-Cal RFP. These monthly updates are done at the beginning of a month and contain any updates that occurred during the previous month.

Prices for drugs today are changing daily due to market trends, supply and demand, FDA rulings and numerous other factors. Because providers are purchasing on a daily basis from wholesalers and distributors, the ever changing purchase price impacts their ability to provide services to Medi-Cal beneficiaries when Health Services is unable to reimburse these providers the current market value. In addition, the Medi-Cal Program is unable to recognize savings when the price for drugs goes down at any point during the month. Therefore, in order to ensure access for pharmacy services to Medi-Cal recipients and recognize savings from price decreases, Health Services was mandated under Assembly Bill 131 to update the formulary file prices within seven days of notification that a price change has occurred. Beginning January 1, 2006, this change was implemented into CA-MMIS. In addition, a report was created detailing any price changes that occurred on the weekly price updates. From this report, Health Services then runs ad hoc reports against pharmacy claim records to determine the impact on claims that have been submitted to Health Services. If it is determined that claims were impacted by these price changes, an Erroneous Payment Correction (EPC) request is issued to the FI Contractor.

2. Health Services agrees that such controls are necessary to detect providers in violation of records retention rules and currently Health Services has controls in place to detect providers who do not maintain proper records to support the claims they submit for reimbursement. It is important to recognize that Health Services has a number of processes in place to review and detect this; however, more than 200 million fee-for-service claims are processed and paid annually which prohibits examination of 100% of the claims and supporting documentation. Health Services conducts various pre-payment and post-payment reviews of providers to detect violations of record retention rules.

Random Claims Review is a pre-payment review of randomly selected claims. Providers are required to submit supporting documentation before payment of the claims is approved. Self-Audits, Field Audit Reviews, and Audit for Recoveries are post-payment reviews. Providers are asked to submit records to support Medi-Cal payments made during prescribed record retention periods as specified in the provider manual. If the provider is unable to supply the supporting documents, recoveries for the unsupported services are made and/or recommendations are made for a more detailed review.

Of the 50 claims reviewed there were two claims where the provider was unable to provide sufficient supporting documentation. The provider of the first claim did not provide documentation to support the claim for an outpatient hospital visit. A field audit review (FAR) has been requested for this facility. Additional claims will be selected and reviewed for medical

necessity and supporting documentation. The provider of the second claim provided partial documentation to support the medical necessity of a 17 day inpatient hospital stay. A small portion of the ancillary services from the 17 day stay was not documented. Reimbursement of hospital ancillary charges is based on costs to charge ratios. The costs to charge ratios are reviewed for propriety during the hospital's annual cost report audit. Adjustments are made to the cost report for any discrepancies. The annual cost report audit for the hospital is scheduled to be completed and issued by the end of the fiscal year.

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|---|---|
| Reference Number: | 2006-1-2 |
| Federal Catalog Number: | 93.778 |
| Federal Program Title: | Medicaid Cluster: Medical Assistance Program |
| Federal Award Number and Calendar Year Awarded: | 05-0605CA5048; 2006, 05-0505CA5048; 2005 |
| Category of Finding: | Allowable Costs/Cost Principals |
| State Administering Department: | Department of Health Services (Health Services) |

Criteria:

OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, Attachment A, General Principles for Determining Allowable Costs, Part C. Basic Guidelines

- Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:
 - Be necessary and reasonable for proper and efficient performance and administration of Federal awards.

Condition:

During our procedures performed over the Medi-Cal program, we reviewed all available audit and investigations reports related to the program that were published and released during the fiscal year ended June 30, 2006. The following is a summary of the findings cited in the second annual *Medi-Cal Payment Error Study (MPES)* performed during the fiscal year 2004–2005:

“The sampling strategy . . . included 1,123 (Fee-For-Service (FFS) and Dental Program) claims, (with . . . a minimum of 50 claims from each stratum to ensure that statistically valid conclusions could be drawn. . . Also added to the review process in the MPES 2005 was reviewing for vulnerabilities in the eligibility process for both FFS and Medi-Cal Managed Care.

(The results of the MPES indicated that) 8.40% of the total dollars paid had some indication that they contained a provider error. Included in the claim errors are those attributable to compliance issues. The dollars associated with such claims are not considered “at risk” of having been paid inappropriately by the Medi-Cal Program.

These compliance errors are a subset of the 8.40%, representing 0.97% of the total dollars paid. The remaining 7.43% represents the percentage of payment errors attributable to Medi-Cal program dollars “at risk” of being paid inappropriately. The 8.40% equates to \$1.4 billion of the total \$16.8 billion annual payments made for FFS medical and dental services in calendar year 2004. Of the \$1.4 billion in annual payments, \$1.25 billion are viewed as being “at risk” of being paid inappropriately. The \$1.25 billion represents payments for claims with errors, such as a lack of medical necessity, abuse, or fraud. It does not include payments for claims with compliance errors. Of the total payments, 3.23%, or \$542 million, were for claims submitted by providers that disclosed characteristics of potential fraud.

(In addition), the MPES 2005 reviewed all 1,123 claims within the sample study design to determine if the FFS beneficiary was eligible for Medi-Cal at the time he/she received services. The review of the claims found that 5.5% of “Medi-Cal only” beneficiaries within the MPES sample were in error due to the beneficiary being ineligible. The sample reviewed was not a random sample of FFS beneficiaries but rather the sample of 1,123 FFS claims reviewed as part of MPES. The eligibility errors are not included in the 8.40 percentage of payment error calculation since the MPES focuses on payment errors due to provider behavior rather than due to errors in the eligibility determination process.

(Lastly), the MPES also included a review of the eligibility of 1,000 managed care beneficiaries and found 56 eligibility errors, or 5.6%.”

Based on the error percentages related to Medi-Cal payments and incorrect eligibility determinations, the risk of noncompliance with allowable costs and activities and eligibility is considered material.

Questioned Costs:

Unknown

Recommendations:

We recommend that Health Services strengthen internal control procedures to prevent, deter, and detect potential overpayments to providers and follow existing policies and procedures to ensure payments are made for allowable services and to eligible recipients.

Department’s View and Corrective Action Plan:

Health Services concurs with the above recommendation and will continue to implement the corrective action steps outlined in the MPES 2005.

The annual MPES provides opportunities for identifying new patterns of payment errors and areas of potential fraud, waste, and abuse in the Medi-Cal program. The MPES findings reinforce the need to continuously and systematically identify those areas of the program most vulnerable to fraud and abuse and to use these findings to guide Health Services in its allocation of fraud control resources and its development of innovative anti-fraud strategies and fraud prevention tools.

The MPES 2005 did identify newly emerging fraud and abuse patterns. Health Services has initiated corrective actions for all providers identified in the study against which actions are warranted. In addition, Health Services will take additional actions to focus anti-fraud efforts on those areas identified by the study as most vulnerable to fraud and abuse. These additional actions include: on-site reviews of 2,000 pharmacies, expanded use of new technology to better identify potential fraud schemes, reform of the Adult Day Health Care (ADHC) program, an increase of the

number of investigational and routine field compliance audits, and development of a joint action plan with provider regulatory boards and provider associations to address provider claiming errors identified as potential fraud and abuse.

The MPES 2005 can be downloaded at www.dhs.ca.gov/ane.

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| Reference Number: | 2006-1-4 |
| Federal Catalog Number: | 93.778 |
| Federal Program Title: | Medicaid Cluster: Medical Assistance Program |
| Federal Award Number and Calendar Year Awarded: | 05-0605CA5048; 2006, 05-0505CA5058; 2005 |
| Category of Finding: | Activities Allowed |
| State Administering Department: | Department of Health Services (Health Services) |

Criteria:

TITLE 42—PUBLIC HEALTH, CHAPTER IV—CENTERS FOR MEDICARE & MEDICAID SERVICES, DEPARTMENT OF HEALTH AND HUMAN SERVICES, PART 431—STATE ORGANIZATION AND GENERAL ADMINISTRATION—Subpart A—Single State Agency, Section 431.10 Single State agency.

Authority of the single State agency. In order for an agency to qualify as the Medicaid agency:

- The agency must not delegate, to other than its own officials, authority to:
 - Exercise administrative discretion in the administration or supervision of the plan, or
 - Issue policies, rules, and regulations on program matters.
 - The authority of the agency must not be impaired if any of its rules, regulations, or decisions are subject to review, clearance, or similar action by other offices or agencies of the State.
 - If other State or local agencies or offices perform services for the Medicaid agency, they must not have the authority to change or disapprove any administrative decision of that agency, or otherwise substitute their judgment for that of the Medicaid agency with respect to the application of policies, rules, and regulations issued by the Medicaid agency.

Condition:

Business users (who do not have any system administration responsibilities) have full, unrestricted administrative access to the Centers for Medicare and Medicaid Services 64 (CMS-64) database. Administrative users have the ability to change data and disable any controls on the system, thereby removing traceability of the actions of the user.

Questioned Costs:

Not applicable

Recommendations:

We recommend that Health Services implement system access and segregation of duties controls. Only personnel with system administrative duties and no program responsibilities should be given administrative access to the system. Further, adequate system-based capability should be developed to provide the required data-correction capability with adequate controls and safeguards.

Department's View and Corrective Action Plan:

Health Services agrees with reservations.

Some important elements of the current CMS-64 Accounting System updates are traceable to transaction authors which are recorded in separate tables. For users of the CMS-64 Accounting system, there is no distinction between business users and administrative users.

The Department is in the process of removing access to the CMS-64 Database for all Business and Administrative users. New Update screens are being developed for Accounting staff to allow users to update certain elements of the tables due to either user error or policy decision. The new data corrections screen will protect the system with adequate controls, safeguard the data, and eliminate user errors.

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| Reference Number: | 2006-2-1 |
| Federal Catalog Number: | 93.283 |
| Federal Program Title: | Centers for Disease Control and Prevention– Investigations and Technical Assistance |
| Federal Award Numbers and Calendar Years Awarded: | U55/CCU921920; 2006, U55/CCU921920; 2005 U90/CCU917016; 2006, U90/CCU917016; 2005 |
| Category of Finding: | Allowable Costs/Cost Principles |
| State Administering Department: | Department of Health Services (Health Services) |

Criteria:

OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, Attachment B, Selected Items of Cost, Part 8 Compensation for Personnel Services, Section H Support of salaries and wages:

- Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

Condition:

Health Services did not ensure that employees who worked full-time on the Breast and Cervical Cancer Control Program consistently completed the required payroll certifications. In our sample of employees that worked full-time on the program, Health Services was unable to locate the required certifications for the two employees sampled for testing.

Health Services also did not ensure that employees who worked full-time on the Public Health Preparedness and Response for Bioterrorism Program consistently completed the required payroll certifications. In our sample of employees that worked full-time on the program, Health Services was unable to locate the required certifications for five of the twenty-five employees sampled for testing.

By not maintaining required personnel services documentation in accordance with OMB Circular A-87, Health Services did not comply with Federal principles for allowable costs.

Questioned Costs:

\$10,092 of the \$10,092 sampled for the Breast and Cervical Cancer Control Program

\$24,530 of the \$122,649 sampled for the Public Health Preparedness and Response for Bioterrorism Program

Recommendations:

We recommend Health Services enhance current policies and procedures to ensure employees complete required payroll certifications and that those certifications be retained in accordance with Federal and State record retention requirements.

Department's View and Corrective Action Plan:

In response to past audit reports, Health Services' Public Health Preparedness and Response for Bioterrorism Program established a process for supervisors to collect the certification forms. However, when Health Services went to supervisors to collect the forms in response to requests from the auditors, certifications for employees who had left the office could not be located. Therefore, Health Services has changed its procedures for collecting the required certifications to make it the responsibility of the personnel analyst who will maintain the certifications in a central location.

Health Services' Breast and Cervical Cancer Control Program agrees with the recommendation. This was the first year that these certification documents were not up to date. Health Services will bring all necessary documents up to date by the end of February 2007.

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| Reference Number: | 2006-3-2 |
| Federal Catalog Number: | 93.283 |
| Federal Program Title: | Centers for Disease Control and Prevention– Investigations and Technical Assistance |
| Federal Award Number and Calendar Year Awarded: | U90/CCU917016; 2005, U90/CCU917016; 2006 |

Category of Finding: Cash Management
State Administering Department: Department of Health Services (Health Services)

Criteria:

TITLE 45—PUBLIC WELFARE, SUBTITLE A—DEPARTMENT OF HEALTH AND HUMAN SERVICES, PART 92—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE, LOCAL, AND TRIBAL GOVERNMENTS—Subpart C—Post-Award Requirements, Section 92.21 Payment.

- Interest earned on advances. Except for interest earned on advances of funds exempt under the Intergovernmental Cooperation Act (31 U.S.C. 6501 et seq.) and the Indian Self-Determination Act (23 U.S.C. 450), grantees and subgrantees shall promptly, but at least quarterly, remit interest earned on advances to the Federal agency. The grantee or subgrantee may keep interest amounts up to \$100 per year for administrative expenses.

TITLE 45—HEALTH AND HUMAN SERVICES, PART 92—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS—Subpart C—Post-Award Requirements, Section 92.25 Program income:

- Grantees are encouraged to earn income to defray program costs. Program income includes income from fees for services performed, from the use or rental of real or personal property acquired with grant funds, from the sale of commodities or items fabricated under a grant agreement, and from payments of principal and interest on loans made with grant funds. Except as otherwise provided in regulations of the Federal agency, program income does not include interest on grant funds, rebates, credits, discounts, refunds, etc. and interest earned on any of them.

Condition:

During our procedures performed over cash management of the subrecipients, we noted Health Services did not require subrecipients to return interest earned on advances from the Federally funded program. Subrecipients are notified that any interest earned on cash advances is to be used for purposes of the program only. Interest earned on program advances does not fall under the program income regulations unless specifically provided in the Federal awarding agency regulations or terms and conditions of the award. We were unable to locate this authorization in the grant award document, agency regulations, or obtain a copy of any specific authorization from the Federal Department Health and Human Services that granted Health Services the authority to regrant the interest earned. The amounts of interest earned and expended are reported annually to Health Services, however it was unable to provide an estimate of the totals of interest earned and expended for the fiscal year.

Questioned Costs:

Not determined

Recommendations:

We recommend that Health Services establish processes and controls to communicate and obtain this information from the subrecipients as well as to collect and return the funds back to the federal government, as applicable.

Department’s View and Corrective Action Plan:

Health Services is following State statute regarding local use of interest earned on these federal funds. Health and Safety Code Section 101317(f) requires any local health jurisdiction that receives these funds to deposit them in a special local public health preparedness trust fund established solely for local preparedness purposes before transferring or expending the funds for any of the allowed uses and further states that interest accrued to the benefit of the fund shall be expended for the same purposes as other moneys in the fund.

Auditor’s Comment on Department’s View:

Health Services statement that the enacted State statute regarding local use of interest earned on Federal funds exempts them from having to comply with Federal requirements is not accurate. State statutes do not supersede Federal laws in regard to Federally funded program requirements. We recommend the State seek guidance and approval from the U.S. Department of Health and Human Services.

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| Reference Number: | 2006-3-11 |
| Federal Catalog Number: | 93.283 |
| Federal Program Title: | Centers for Disease Control and Prevention– Investigations and Technical Assistance |
| Federal Award Number and Calendar Year Awarded: | U90/CCU917016; 2006, U90/CCU917016; 2005 |
| Category of Finding: | Cash Management |
| State Administering Department: | Department of Health Services (Health Services) |

Criteria:

TITLE 45—PUBLIC WELFARE, SUBTITLE A—DEPARTMENT OF HEALTH AND HUMAN SERVICES, PART 92—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE, LOCAL, AND TRIBAL GOVERNMENTS—Subpart C—Post-Award Requirements, Section 92.21 Payment.

- Advances. Grantees and subgrantees shall be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds and their disbursement by the grantee or subgrantee.

TITLE 45—PUBLIC WELFARE, SUBTITLE A—DEPARTMENT OF HEALTH AND HUMAN SERVICES, PART 92—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE, LOCAL, AND TRIBAL GOVERNMENTS—Subpart C—Post-Award Requirements, Section 92.20 Standards for financial management systems:

- Cash Management. Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees’ cash balances and

cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to ensure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.

Condition:

Health Services does not have procedures in place to ensure that the Public Health Preparedness and Response to Bioterrorism program's subrecipients can demonstrate the ability to minimize the time between receipt and disbursement of federal program funds. According to the chief of Health Services' Program Support Section, Emergency Preparedness Office, Health Services follows California Health and Safety Codes and disburses the first quarterly payment to its subrecipients upon receipt of their applications. Specifically, the California Health and Safety Code, sections 101317(d)(1) and (2), require Health Services to disburse funds quarterly to local health jurisdictions (subrecipients) for the Public Health Preparedness and Response to Bioterrorism program contingent upon completion of certain tasks. Subsequent payments are made contingent upon the approval of a subrecipient's plan and budget and progress in implementing that plan, as well as submission of fiscal reports. However, we noted that Health Services does not have a process in place for assessing the cash needs of its subrecipients and does not require any periodic expenditure reporting or input by the subrecipients during the award period.

As a result of these weaknesses, Health Services disbursed approximately \$52.7 million during fiscal year 2005–2006 with no assurance that these subrecipients minimized the time between the receipt and disbursement of federal funds. Further, Health Services' records indicate subrecipients reported that they had unspent funds for fiscal year 2005–2006 totaling more than \$6 million.

Questioned Costs:

Not determined

Recommendations:

We recommend that Health Services review its current policies and procedures over cash advances to subrecipients to monitor and match the cash needs of the subrecipients with the timing of the payments to minimize the time elapsing between the advance of federal funds and expenditure by the subrecipient.

Department's View and Corrective Action Plan:

Health Services disagrees with the following statement from the condition above—"does not require any periodic expenditure reporting or input by the subrecipients during the award period." CDHS requires local health departments to submit semi-annual expenditure reports which are reviewed by staff to ensure the expenditures are in accordance with the approved budget.

Health Services disagrees with the finding because: (1) Health Services is required by federal law to comply with state law, which expressly requires quarterly payments; (2) there is no guidance nor criteria upon which to base a finding that a quarterly payment is inconsistent with the federal timely disbursement requirement; and (3) the federal regulations provide for, contemplate, and acknowledge alternative methods of disbursing grant funds and circumstances under which a grantee would not be able to meet the requirement to minimize the time between receipt and disbursement of funds.

First, the auditor refers to federal regulations applicable to these grants, but ignores a threshold criteria applicable to financial administration of the grant. Specifically, federal regulations on financial administration of the grant first require that states “must expend [sic] and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. (42 CFR 92.20(a), emphasis provided). Therefore, by federal rule, California is required to comply with its own laws applicable to this grant. That directly brings into play the State statutory requirements of Health & Safety Code Section 101317(d), and others that apply generally to financial administration of grant funds. Health & Safety Code Section 101317(d) mandates that funds “shall be disbursed quarterly to local health jurisdictions. Accordingly, the State is required by federal rule to disburse funds quarterly.

Second, the audit bases its findings in large part on the timely disbursement criteria without any statutory or legal standard upon which timeliness is measured, or to conclude that quarterly payments are inconsistent with the federal requirement to minimize the lapse in time. Health Services was unable to find a regulation that addresses or provides a measurement for what constitutes an appropriate timeframe. There is also nothing upon which to base a conclusion that a quarterly disbursement schedule is inconsistent with the federal requirement of minimizing the time lapse between receipt of funds and disbursements. As an aside, an argument can be made that the requirement to minimize the time lapse between the receipt and disbursement of funds applies whenever advance payment procedures are used. (42 CFR 92.20(b)(7).

The third area under which this audit finding is vulnerable is that the federal regulations on post-grant award requirements provide for several alternative methods of payment and acknowledge there will be circumstances under which a state cannot meet the time lapse requirement. The methods of payment include advance payments, reimbursement, and cash or a working capital advance basis (42 CFR 92.21). The “Basic Standard” for payment requires methods and procedures in place to “minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee, in accordance with Treasury regulations at 31 CFR Part 205.” (Again, the Treasury regulations contain provisions for funding and discretion to add other requirements in the event the federal or state government agencies do not comply with the requirements, including timely disbursement.) The regulation provides for alternative methods or standards for payment including but not limited to the “Basic Standard” with the timely disbursement requirement. In addition to providing alternative methods, the regulations also contemplate situations when states or subgrantees cannot meet the timely disbursement requirements. Specifically, the reimbursement method of payment is to be used when the “requirements of paragraph (c) of this section [procedure for timely disbursement] are not met.” This language expressly acknowledges and authorizes alternative methods of disbursing grant funds outside the timely disbursement criteria.

Health Services concludes that both the State and federal requirements for grant financial funding apply. Both contain timely administration of payment criteria which are not inconsistent. State disbursement requirements are quarterly. Federal requirements must ensure a procedure to limit any time lags between receipt and disbursement of funds. It is unclear how a quarterly disbursement is inconsistent or noncompliant with a procedure that minimizes the time between receipt of grant funds and disbursements. Without specific criteria, there is nothing upon which to base a finding that these timeframes are inconsistent. Moreover, with the federal regulation requiring states to administer grant funds in accordance with state requirements, doing anything other than quarterly disbursements (or whatever methodology required by state law) would violate this federal requirement. Assuming the State is disbursing funds in accordance with state law (including but not limited to H&S 101317), and has a procedure in place that minimizes the lapse in time between receipt and disbursement of grant funds, it is reasonable to conclude that the grant funds are being administered in accordance with federal requirements.

Bureau of State Audits' Comments on the Department's View:

According to our Legal Counsel, the California Health and Safety Code, Section 101317(d)(1) does not preclude Health Services from assessing its subrecipients' cash needs and adjusting the quarterly payments, when necessary to comply with federal regulations. However, if Health Services believes state law requires it to make quarterly payments without regard to the federal regulations pertaining to cash management, it should seek clarification from the U.S. Department of Health and Human Services.

Reference Number: 2006-3-12

Federal Catalog Number: 93.575 & 93.596

Federal Program Title: Child Care Development Fund Cluster—Child Care and Development Block Grant & Child Care Mandatory and Matching Funds of the Child Care and Development Fund

Federal Award Number and Calendar Year Awarded: G-0601CACCDF; 2006

Category of Finding: Cash Management

State Administering Department: Department of Education (Education)

Criteria:

TITLE 34—HEALTH AND HUMAN SERVICES, PART 92—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS—Subpart C—Post-Award Requirements, Section 92.20 Standards for financial management systems:

- Cash Management—Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to ensure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.

Condition:

During our procedures performed over claim payments made to Local Educational Agencies (LEAs) and subrecipient contractors, we noted Education requests cash advances from the federal government and then requests payments to be made to the LEAs and contractors by the State Controller's Office (SCO).

For these programs that are included in the Cash Management Improvement Act (CMIA) agreement between the U.S. Department of the Treasury and the State, we noted required funding techniques of pre-issuance for its payments to LEAs and monthly estimate/monthly draw for subrecipient contractors. The pre-issuance technique requires the State to disburse cash advances to LEAs not more than three days after the advance is deposited in the State account. For the non-preissuance payments, Education has adopted an internal policy of 14 days as a reasonable amount of time between the advance of federal funds and the disbursement made to the contractor.

Education has a control process in place to reconcile and follow up on a monthly basis any outstanding LEA payment requests submitted to the SCO from advanced federal funds that remain unpaid after 60 days. The practice of only following up on items 60 days past due would not enable Education to determine whether or not it is in compliance with Federal requirements for minimizing the time elapsing between the request for advance from the Federal government and the payment being made to the subrecipient.

Without appropriately designed controls in place, Education risks payments not being made in accordance with Federal guidelines which could cause Education to be required to switch from the advance basis to a reimbursement basis from the awarding agency. We understand that Education is in the process of strengthening controls to ensure that reconciliations of any unpaid LEA payment requests are performed more timely.

Questioned Costs:

Not applicable

Recommendations:

We recommend that Education strengthen processes, controls, and communication with the SCO to reduce the amount of time before follow up is made on outstanding payments not yet been made by the SCO to reduce the risk of potential material noncompliance.

Department's View and Corrective Action Plan:

For payment of claims, the procedures followed by Education fall either under those established by the Department of Finance (DOF) with agreement by the SCO for CMIA or those that follow the process governed by the California Prompt Payment Act. CMIA claims are paid within three days and for all others the SCO has 15 days in which to issue payment. In an effort to further strengthen existing controls, Education has changed the timeframe it waits to follow up on any outstanding claims to 30 days.

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| Reference Number: | 2006-3-13 |
| Federal Catalog Number: | 93.994 |
| Federal Program Title: | Maternal and Child Health Services Block Grant to the States |
| Federal Award Number and Calendar Year Awarded: | B04MC04274-01-03; 2004, B04MC06558-01-03; 2004 |

Category of Finding: Cash Management
State Administering Department: Department of Health Services (Health Services)

Criteria:

TITLE 42—THE PUBLIC HEALTH AND WELFARE, CHAPTER 7—SOCIAL SECURITY, SUBCHAPTER V—MATERNAL AND CHILD HEALTH SERVICES BLOCK GRANT, Section 701. Authorization of appropriations; purposes; definitions:

- To improve the health of all mothers and children consistent with the applicable health status goals and national health objectives established by the Secretary under the Public Health Service Act (42 U.S.C. 201 et seq.) for the year 2000, there are authorized to be appropriated \$850,000,000 for fiscal year 2001 and each fiscal year thereafter for the purpose of enabling each State:
 - to provide rehabilitation services for blind and disabled individuals under the age of 16 receiving benefits under subchapter XVI of this chapter, to the extent medical assistance for such services is not provided under subchapter XIX of this chapter; and

TITLE 31—MONEY AND FINANCE: TREASURY, CHAPTER II—FISCAL SERVICE, DEPARTMENT OF THE TREASURY PART 205—RULES AND PROCEDURES FOR EFFICIENT FEDERAL—STATE FUNDS TRANSFERS—Subpart B—Rules Applicable to Federal Assistance Programs not Included in a Treasury-State Agreement, Section 205.33 How are funds transfers processed?

- A State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes. A Federal Program Agency must limit a funds transfer to a State to the minimum amounts needed by the State and must time the disbursement to be in accord with the actual, immediate cash requirements of the State in carrying out a Federal assistance program or project. The timing and amount of funds transfers must be as close as is administratively feasible to a State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. States should exercise sound cash management in funds transfers to subgrantees in accordance with OMB Circular A-102 (For availability, see 5 CFR 1310.3.).
- Neither a State nor the Federal government will incur an interest liability under this part on the transfer of funds for a Federal assistance program subject to this subpart B.

Condition:

During the fiscal year ending June 30, 2006, Health Services used \$6 million in Maternal, Child, and Adolescent Health (MCAH) cash advances to operate the California Child Services (CCS) Medical Therapy Program. The CCS Medical Therapy Program is administered by California school districts and provides physical therapy for all eligible school children in the state of California. The MCAH regulations prohibit the use of the grant funds to pay for rehabilitation services to individuals under 16 years of age, if these services are available through the Medicaid Program. Health Services advanced funds on July 29, 2005 from the MCAH program to pay for services provided under the CCS Medical Therapy Program, which are not allowable under MCAH regulations. These cash advances were not repaid to the MCAH program by the Medicaid Program until May 3, 2006. The approximate 9 months from when these cash advances were drawn down from the MCAH letter of credit in July 2005 until they were reimbursed by the Medicaid Program in May 2006 were not for the immediate cash needs of the MCAH program in accordance with cash management requirements.

Questioned Costs:

Not determined

Recommendations:

We recommend that management limit fund draw downs to the minimum amounts needed by the program and for immediate cash requirements as required by the grant’s funding technique.

Department’s View and Corrective Action Plan:

We do not agree with the statement made in the condition portion of the audit finding and do not believe there is a valid finding. It is stated that the expenditures in question are cash advances of federal funds. The funds were drawn down from the Federal Government to cover expenditures that CDHS considered to be appropriate federal activities. As soon as it was discovered that these expenditures should not have been charged to the Federal Funds, an adjustment was made to our Accounting System to correct the appropriate funding and the money was returned to the Federal Agency. This does not constitute an advance.

In addition, we do not concur that for the time period that federal monies were used for the CCS rehabilitation program require any penalty consideration in this context, US Treasury Rule and Regulations 31 CFR Part 20 33(b) states that “neither a State nor the Federal government will incur an interest liability under this part of the transfer of funds for a Federal assistance program subject to this subpart B.”

In regard to the recommendation regarding limiting fund draws to the minimum required, the CDHS concurs with this statement. This is our business practice and we will continue to strive to limit fund draw downs to the minimum amounts required.

Auditors Response to Department’s View

The timeframe cited in the finding refers to the date the funds were drawn down from the Federal letter of credit until they were transferred to the Medicaid Program and disbursed to pay for program expenditures. This program does not meet the threshold to be included under the Treasury State Agreement for specified funding technique; therefore, the criteria would be for the State to minimize the time between the drawdown of the funds and the payment to the vendors for program services.

Health Services had stated that the issue was caught and corrected before the end of the award year and the time the final report was issued. This finding only cites the timing of the MCAH advance drawn down and when it was reimbursed by Medicaid to pay for MCAH program expenditures.

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| Reference Number: | 2006-3-14 |
| Federal Catalog Number: | 93.575 & 93.596 |
| Federal Program Title: | Child Care Development Fund Cluster—Child Care and Development Block Grant & Child Care Mandatory and Matching Funds of the Child Care and Development Fund |

Federal Award Number and
Calendar Year Awarded: G-0601CACCDF; 2006

Category of Finding: Cash Management

State Administering Department: Department of Education (Education)

Criteria:

TITLE 45—PUBLIC WELFARE, SUBTITLE A—DEPARTMENT OF HEALTH AND HUMAN SERVICES, PART 92—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE, LOCAL, AND TRIBAL GOVERNMENTS—Subpart C—Post-Award Requirements, Section 92.20 Standards for financial management systems.

A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to:

- Permit preparation of reports required by this part and the statutes authorizing the grant, and
- Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

Condition:

During our procedures performed over sub grant claim payments made to subrecipients, we tested Education's control processes over those payments, which include a signed approval that is documented on a *Request for Payment of a Non-Formula Grant* (Form AO-401 rev. 01/02). The *Request for Payment of a Non-Formula Grant* forms are required to be signed by the Division Director in accordance with the Delegation of Authority Policy (Section 2050 of the Department of Education Administrative Manual, effective August 2, 1999). In our sample of 50 *Request for Payment of a Non-Formula Grant* forms, we noted an approved authorized agent did not sign 11 of the 50 samples on 11 different dates throughout the fiscal year. Upon further inquiry, we noted Education had adopted an informal process where an Administrator I would sign their own name and add "for the director," however this practice is not authorized in the Education Administrative Manual.

After the sub grant payments are approved on the *Request for Payment of a Non-Formula Grant*, the payment requests are forwarded to the Fiscal Service Division to be processed. A *Claims Schedule* is then prepared by the Fiscal Services Division Accounting Office (Accounting Office) for the amounts approved to be paid and the payment information is input into the California State Accounting and Reporting System (CALSTARS) General Ledger. A supervisor then reviews and approves the work performed by the staff by initialing the *Claims Schedule*. The original copy of the approved *Claims Schedule* is sent to the State Controller's Office (SCO) to be paid, however a copy is not retained as evidence of the review and approval process for the claim. An unsigned copy of the *Claims Schedule* is retained along with the other documentation as support for the payment. In our sample of payments made to Local Educational Agencies (LEAs) and subrecipient contractors, we noted 47 of the 50 *Claims Schedules* sampled did not contain evidence of the review and approval process performed by the Accounting Office. By not retaining the signed copy as evidence of review and approval to ensure accuracy of the payment request data entry into CALSTARS, Education cannot demonstrate support for approvals for payments made to LEAs and subrecipient contractors.

Questioned Costs:

Not applicable

Recommendations:

We recommend that Education retain copies of the approved instead of the unapproved *Claims Schedule* as part of the supporting documentation package retained as evidence of controls over the payment approval process. We also recommend that Education strengthen processes to ensure that only authorized personnel approve payments in accordance with the Education Administrative Manual.

Department’s View and Corrective Action Plan:

Education has strengthened processes to ensure that only authorized personnel approve payments in accordance with the Department of Education Administrative Manual. Specifically, the Accounting Office will review all invoices and payment requests to ensure that all authorized signatures are obtained before processing payment. Although the State Controller’s Office has signature cards on file and will not process a claim for payment unless the original claim is reviewed and signed by authorized personnel, Education will retain copies of claim schedule face sheets that the accounting staff have initialed to indicate approval.

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| Reference Number: | 2006-5-1 |
| Federal Catalog Number: | 93.778 |
| Federal Program Title: | Medicaid Cluster: Medical Assistance Program |
| Federal Award Number and Calendar Year Awarded: | 05-0505CA5048; 2005, 05-0605CA5048; 2006 |
| Category of Finding: | Eligibility |
| State Administering Department: | Department of Health Services (Health Services) |

Criteria:

Social Security Act, Title XIX—Grants to State for Medical Assistance Programs, Section 1920.

(a) A state plan approved under Section 1902 may provide for making ambulatory prenatal care available to a pregnant woman during a presumptive eligibility period.

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

- (A) such forms as are necessary for a pregnant woman to make application for medical assistance under the state plan, and
- (B) information on how to assist such women in completing and filing such forms.

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

- (A) notify the State agency of the determination within five working days after the date on which determination is made, and
- (B) inform the woman at the time the determination is made that she is required to make application for medical assistance under the state plan by not later than the last day of the month following the month during which the determination is made.

Condition:

The presumptive eligibility component of this program grants immediate and temporary Medi-Cal coverage for California residents who are pregnant but do not have health insurance or Medi-Cal coverage for prenatal care. Health Services grants the right to enroll recipients under this program to qualified providers. Because the program provides immediate and temporary care prior to the approval of Medi-Cal eligibility, recipients enrolled in presumptive eligibility are not considered Medi-Cal eligible, and therefore, are not entered into Health Services' eligibility systems. Recipients presumed to be eligible are assigned a pre numbered ID card (obtained from Health Services by the provider) that begins with a county ID # and presumptive eligibility aid code. The paper documentation, including the application and the Medi-Cal presumptive eligibility identification card, are retained by the provider. The provider is required by the state plan to submit to Health Services a weekly enrollment summary of all presumptive eligibility IDs issued to Health Services for filing. Health Services is to keep the documents for a period of 3 years. Since the supporting documentation for presumptive eligibility is retained by Health Services, the State's fiscal intermediary, Electronic Data Systems (EDS), does not perform procedures over recipients presumed to be eligible. The EDS mainframe processing is set to bypass the eligibility check if it recognizes the special sequencing of the presumptive eligibility ID number.

Of our sample of fee-for-service payments, Health Services' eligibility branch was unable to provide summary enrollment forms to verify the presumptive eligibility status for 2 of the 50 payments sampled.

Questioned Costs:

\$376 of the \$256,528 sampled*

- * The amounts represent both the State and Federal dollars paid to providers. We were unable to determine the federal portion on an individual claim basis. See finding 2006-12-4 for further details.

Recommendations:

We recommend that Health Services strengthen their internal control process to track and obtain the enrollment of presumptive eligibility ID numbers issued to prevent unauthorized use of ID numbers. Further, we recommend that Health Services perform procedures to authenticate the existence of the recipient, prevent duplicate issuances, and reconcile the presumptive eligibility number against the recipient enrollment listing filed at Health Services during the claims adjudication process.

Department's View and Corrective Action Plan:

Health Services partially agrees.

Health Services is unable to reconcile the presumptive eligibility number against the enrollment listing filed with Health Services at this time because of staffing limitations. However, Health Services is pursuing an automated process to post the presumptive eligibility ID to the Medi-Cal eligibility system so that the records for these recipients can be accessed to authenticate, reconcile, and prevent duplicate issuances of the presumptive eligibility number during the claims adjudication process. Health Services is in the process of finding a consultant to begin the process of conducting an independent feasibility study and then will pursue funding to accomplish this automation, as required by Senate Bill 24, Chapter 895, Statutes of 2003.

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| Reference Number: | 2006-5-2 |
| Federal Catalog Number: | 93.778 |
| Federal Program Title: | Medicaid Cluster: Medical Assistance Program |
| Federal Award Number and Calendar Year Awarded: | 05-0505CA5048; 2005, 05-0605CA5048; 2006 |
| Category of Finding: | Eligibility |
| State Administering Department: | Department of Health Services (Health Services) |

Criteria:

TITLE 42—PUBLIC HEALTH, CHAPTER IV—CENTERS FOR MEDICARE & MEDICAID SERVICES, DEPARTMENT OF HEALTH AND HUMAN SERVICES, PART 431—STATE ORGANIZATION AND GENERAL ADMINISTRATION—Subpart A—Single State Agency, Section 431.10 Single State agency.(c) Determination of eligibility.

- (1) The plan must specify whether the agency that determines eligibility for families and for individuals under 21 is:
 - The Medicaid agency; or
 - The single State agency for the financial assistance program under Title IV-A (in the 50 States or the District of Columbia), or under Title I or XVI (AABD), in Guam, Puerto Rico, or the Virgin Islands.

- (2) The plan must specify whether the agency that determines eligibility for the aged, blind, or disabled is:
 - The Medicaid agency;
 - The single State agency for the financial assistance program under title IV-A (in the 50 States or the District of Columbia) or under Title I or XVI (AABD), in Guam, Puerto Rico, or the Virgin Islands; or
 - The Federal agency administering the supplemental security income program under Title XVI (SSI). In this case, the plan must also specify whether the Medicaid agency or the Title IV-A agency determines eligibility for any groups whose eligibility is not determined by the Federal agency.

TITLE 42—PUBLIC HEALTH, CHAPTER IV--CENTERS FOR MEDICARE & MEDICAID SERVICES, DEPARTMENT OF HEALTH AND HUMAN SERVICES, PART 435—ELIGIBILITY IN THE STATES, DISTRICT OF COLUMBIA, THE NORTHERN, Subpart J—Eligibility in the States and District of Columbia, Section 435.916 Periodic redeterminations of Medicaid eligibility.

- The agency must redetermine the eligibility of Medicaid recipients, with respect to circumstances that may change, at least every 12 months.

Condition:

States are required to operate a Medicaid Eligibility Quality Control (MEQC) system in accordance with requirements established by CMS. The MEQC system redetermines eligibility for individual sampled cases of beneficiary eligibility made by State Medicaid agencies, or their designees. The State of California (the State) had been granted a waiver from the traditional MEQC program described in regulation. This waiver differs from the traditional MEQC program by performing special studies, targeted reviews, or other activities that are designed to ensure program integrity or improve program administration. The Health Services MEQC process reviewed 2,734 cases during April 2005 through March 2006. Of the 2,734 cases sampled, Health Services determined that 244 cases were ineligible for Medicaid resulting in a 9 percent error rate.

We evaluated the accuracy of the MEQC system by obtaining a listing of all eligibility case reviews performed by the State during the fiscal year and chose a sample of 120 cases to reperform the State's MEQC review at 10 different counties. Our sample of 120 Medicaid recipients included 103 that were deemed eligible and 17 that were deemed ineligible by the MEQC review process.

1. Our reexamination indicated 1 of the 103 Medicaid recipients deemed eligible by the MEQC process was actually ineligible for Medicaid benefits. We noted a deceased beneficiary had remained Medi-Cal eligible for almost two years post mortem. The beneficiary was a Supplemental Social Security 2.3% cut beneficiary who had been discontinued from Supplemental Social Security (SSI) in 1994, but was still eligible for Medi-Cal benefits as his/her income level was below Supplemental Social Security payment levels. This sample was examined by MEQC reviewers who performed limited scope reviews (by examining the information noted in the Medi-Cal Eligibility Determination System) and was not cited as a finding.

The results of the MEQC review were incorrect as the individual was deceased in the month of review and was erroneously classified as eligible for Medi-Cal benefits. There is a risk that claims can be submitted on behalf of this individual (or using the individual's Medi-Cal ID) post mortem.

2. Further, of the 120 MEQC sampled cases re-examined, the State did not take appropriate corrective action to follow up for two cases and the MEQC eligibility determination was incorrect for one case. The results of these two MEQC errors are as follows:
 - One recipient had not undergone the required eligibility redetermination and was ineligible for Medi-Cal benefits in the month of review (September 2005). Although the error was noted by the MEQC reviewers, no corrective action was taken. Per examination of the case file in September 2006, the individual had not performed an annual redetermination of eligibility since 2004, but was still active as a Medi-Cal beneficiary. There is the risk that the individual/family will continue to receive medical benefits and be able to submit claims for medical services provided for which the individual is no longer eligible.
 - Another recipient had not undergone the required eligibility redetermination and was ineligible for Medi-Cal benefits in the month of review (January 2006). This case was examined by the MEQC review in April 2006. The individual had re-applied for benefits in

March 2006, and therefore, at the time of the MEQC review in April 2006, there was no corrective action necessary as eligibility was re-established. However, it was discovered that the beneficiary had an increase in income that had not been updated in the State eligibility system in March 2006, which potentially could cause the beneficiary to no longer be eligible for Medi-Cal benefits, as the income increase appeared to exceed the income limitations for the 1931(b) sub program of Medi-Cal under which the individual was receiving aid.

Recommendations:

We recommend that Health Services strengthen internal controls over the MEQC process. We also recommend procedures be implemented to ensure cases with errors are addressed and resolved within a timely manner.

Questioned Costs:

Unknown

Department's View and Corrective Action Plan:

1. Health Services agrees with the condition #2 noted above. Counties are aware of the expectation of Health Services that all errors identified through the MEQC review process are to be corrected in a timely manner. Health Services has a Corrective Action Review (CAR) process for MEQC that requires that Program Review Section (PRS) complete follow up reviews on eligibility and procedural errors semi-annually with all counties.

The county that was cited for these exceptions was advised of the need for corrective action at the time the error citation was issued and again through the CAR process when the corrective action did not occur. Historically, counties have consistently corrected 97% of all errors. The referenced error was one of the few that counties did not correct. PRS staff followed up with the affected county and reiterated our expectations.

2. Health Services generally agrees with condition #1 noted above. The Medi-Cal beneficiary was a SSI-SSP 2.3% cut beneficiary. Please note the following from All County Welfare Directors' Letter 94-81, "2.3% beneficiaries who lost their SSI-SSP due to this cut will receive zero SOC-Medi-Cal until their incomes, aside from any Cost Of Living Adjustments (COLA), exceed the SSI-SSP benefit levels had the September 1, 1994 benefit reduction not occurred or their living arrangements, resources, and/or residency change in a way that would make them ineligible. Even though 2.3% beneficiaries are not required, at this time, to go to the county welfare departments (CWDs), CWDs may sometimes be informed of a 2.3% beneficiary's change in financial situation (such as becoming resource ineligible or entering a long-term care facility), death, or change of address."

Thus, the county did not have a case record on file for the beneficiary. As the county was never informed of the death of the beneficiary, no action was taken to discontinue Medi-Cal.

Health Services will evaluate the feasibility of adding a death match alert notification as part of the Eligibility Worker alert process that is part of the Medi-Cal Eligibility Data Systems (MEDS). Although MEDS currently has a data field that displays this information, an automated update cannot be completed when a death match or automated death data is received. The State must confirm that the beneficiary is deceased before benefits can be terminated. This process would provide an additional control so that counties may be apprised of the death of a beneficiary in the event that the responsible relatives do not report this information directly.

Because the responsibility for this group of Medi-Cal beneficiaries is the responsibility of the State and not the counties, procedures for controlling these cases will be reviewed with the appropriate State policy staff.

Reference Number: 2006-5-4
Federal Catalog Number: 93.778
Federal Program Title: Medicaid Cluster: Medical Assistance Program
Federal Award Number and Calendar Year Awarded: 5-0505CA5048; 2005, 5-0605CA5048; 2006
Category of Finding: Eligibility
State Administering Department: Department of Health Services (Health Services)

Criteria:

TITLE 42—PUBLIC HEALTH, CHAPTER IV—CENTERS FOR MEDICARE & MEDICAID SERVICES, DEPARTMENT OF HEALTH AND HUMAN SERVICES, PART 431—STATE ORGANIZATION AND GENERAL ADMINISTRATION, Subpart P Quality Control, Section 431.806 state plan requirements.

- MEQC program—A state plan must provide for operating a Medicaid eligibility quality control (MEQC) program that meets the requirements of Section 431.810 through Section 431.822 of this subpart.

Condition:

Health Services performs limited follow up on errors noted through their focused reviews. While all errors are communicated to the counties once they have been encountered, Health Services only performs corrective action reviews on the focused reviews with less than 90% accuracy within 12 months of the initial review. Therefore, there is the risk that errors, although reported, may continue to remain uncorrected. In the counties in which follow up reviews are performed, there is the risk of the error continuing to exist for up to a full year without appropriate corrective action being taken.

Questioned Costs:

Not applicable

Recommendations:

We recommend that Health Services strengthen their systems of internal controls to ensure errors noted on the Focused Reviews are being corrected. We also recommend that Health Services receive verification of the corrective action performed over all errors encountered during focused reviews performed. This would mitigate the risk of errors continuing to be uncorrected.

Department’s View and Corrective Action Plan:

Health Services generally agrees.

The purpose of Focused Reviews (FR) is to evaluate a county’s performance on a specific area of Medi-Cal eligibility. Unlike the Med-Cal Eligibility Quality Control (MEQC) review process, a full eligibility evaluation is not always conducted during FRs.

For FRs, when a county performs below expected performance standards, state and county staff discuss and reach agreement on review issues and required remedial actions, commit to a follow up review after a reasonable time interval to implement remedial actions, and review specific requirements and expectations. As of January 1, 2007, all future FR findings letters will include the following statement in terms of correction of all negative review findings:

“We have confirmed with NAME that NAME County staff will take corrective action on all cases identified with eligibility errors, procedural errors or pertinent information issues.”

In addition, state staff will selectively monitor county efforts to address and correct FR case issues, based on experience, magnitude and significance of error findings, circumstances, and loss potential.

| | |
|---|--|
| Reference Number: | 2006-7-8 |
| Federal Catalog Number: | 93.994 |
| Federal Program Title: | Maternal and Child Health Services Block Grant to the States |
| Federal Award Number and Calendar Year Awarded: | B04MC04274-01-03; 2004, B04MC06558-01-03; 2004 |
| Category of Finding: | Earmarking |
| State Administering Department: | Department of Health Services (Health Services) |

Criteria:

TITLE 42—THE PUBLIC HEALTH AND WELFARE, CHAPTER 7—SOCIAL SECURITY, SUBCHAPTER V—MATERNAL AND CHILD HEALTH SERVICES BLOCK GRANT, Section 705. Application for block grant funds

- The State will use:
 - a. at least 30% of such payment amounts for preventive and primary care services for children, and
 - b. at least 30% of such payment amounts for services for children with special health care needs (as specified in Section 701(a)(1)(D) of this title);

Condition:

During procedures performed over program earmarking requirements, we noted the Maternal and Child Health Program (MCH) did not track the 30% spending requirement for (a) preventive and primary care for children, or (b) children with special health care needs during the fiscal year ended June 30, 2006. The amounts actually spent for these activities cannot be determined due to inadequate support for earmarking requirements, therefore, we are unable to assess the State's compliance with Federal earmarking requirements.

Questioned Costs:

Unknown

Recommendations:

We recommend that management develop an accounting information system that will properly track and provide timely reporting of grant fund expenditures for the categories—(a) preventive and primary care for children, and (b) children with special health care needs—prescribed by the MCH's earmarking requirements.

Department's View and Corrective Action Plan:

We concur that sufficient documentation was not available to support final expenditures for the 30% spending requirement for Component (a) preventive and primary care for children, and Component (b) children with special health care needs. In establishing sub-recipient budgets, MCH estimates the funding percentages that will be expended for Components a and b. MCH will ensure documentation is complete showing how budgeted funds were ultimately expended for Components a and b.

| | |
|---|---|
| Reference Number: | 2006-8-2 |
| Federal Catalog Number: | 93.268 |
| Federal Program Title: | Immunization Grants |
| Federal Award Numbers and Calendar Years Awarded: | H23/CCH922507-03-5; 2005, H23/CCH922507-04-1; 2006 |
| Category of Finding: | Period of Availability |
| State Administering Department: | Department of Health Services (Health Services) |

Criteria:

TITLE 45—PUBLIC WELFARE, SUBTITLE A—DEPARTMENT OF HEALTH AND HUMAN SERVICES, PART 92—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE, LOCAL, AND TRIBAL GOVERNMENTS—Subpart C—Post-Award Requirements, Section 92.23 Period of availability of funds.

- General. Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period.
- Liquidation of obligations. A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation) to coincide with the submission of the annual Financial Status Report (SF-269). The Federal agency may extend this deadline at the request of the grantee.

Condition:

We noted that Health Services did not have the appropriate controls in place to ensure that it charged the Immunization Grants program only for those costs resulting from obligations incurred during the funding period. Although we did not note any instances of noncompliance, without the appropriate controls in place, Health Services risks funds not being obligated within the funding period of the grant and having to return the funds to the federal awarding agency. We understand that Health Services is in the process of implementing controls to ensure that funds are obligated within the funding period.

Questioned Costs:

Not applicable

Recommendations:

We recommend that Health Services ensure that it obligates funds within the appropriate funding period of each grant award.

Department’s View and Corrective Action Plan:

Health Services concurs with the finding and subsequent recommendation. To correct this condition Health Services has put check points in place to ensure that contracts are executed during the period of availability. In addition, Health Services has communicated with all contractors to explain the consequential denial of funding if contracts are not signed and submitted to Health Services by the stated deadline.

| | |
|---|--|
| Reference Number: | 2006-8-3 |
| Federal Catalog Number: | 93.575 & 93.596 |
| Federal Program Title: | Child Care Development Fund (CCDF) Cluster: Child Care and Development Block Grant & Child Care of the Child Care and Development Fund |
| Mandatory and Matching Funds | |
| Federal Award Number and Calendar Year Awarded: | G-0301CACCDF; 2003, G-0501CACCDF; 2005 |
| Category of Finding: | Period of Availability |
| State Administering Department: | Department of Education (Education) |

Criteria:

TITLE 45—PUBLIC WELFARE, SUBTITLE A—DEPARTMENT OF HEALTH AND HUMAN SERVICES, PART 98—CHILD CARE AND DEVELOPMENT FUND—Subpart G—Financial Management, Section 98.60 Availability of funds.

The following obligation and liquidation provisions apply to States and Territories:

- Discretionary Fund allotments shall be obligated in the fiscal year in which funds are awarded or in the succeeding fiscal year. Unliquidated obligations as of the end of the succeeding fiscal year shall be liquidated within one year.
- Mandatory Funds for States requesting Matching Funds per Section 98.53 shall be obligated in the fiscal year in which the funds are granted and are available until expended. Mandatory Funds for States that do not request Matching Funds are available until expended.
- Both the Federal and non-Federal share of the Matching Fund shall be obligated in the fiscal year in which the funds are granted and liquidated no later than the end of the succeeding fiscal year.
- For purposes of the CCDF, funds for child care services provided through a child care certificate will be considered obligated when a child care certificate is issued to a family in writing that indicates: the amount of funds that will be paid to a child care provider or family, and the specific length of time covered by the certificate, which is limited to the date established for redetermination of the family's eligibility, but shall be no later than the end of the liquidation period.
- Any funds not obligated during the obligation period specified in paragraph (d) of this section will revert to the Federal government. Any funds not liquidated by the end of the applicable liquidation period specified in paragraph (d) of this section will also revert to the Federal government.

Condition:

During our procedures performed over period of availability we noted Education records subrecipient contracts payments essentially on a cash basis into the program year (e.g., work phase) that is open at the time the payment request is submitted. If the contract payment relates to the prior year work phase but it has been closed they record the encumbrance in the next year work phase that is open. This method of recording contract encumbrances increases the risk that material encumbrances would be recorded and thus reported in the improper period, which could also cause non-compliance with liquidation guidelines. In our sample of 50 payments made, we noted 9 of the 50 where the service period did not coincide with the Federal fiscal year recorded due to this methodology.

- 3 of the 9 exceptions had a service period beginning before the 1st day to obligate program funds in the Federal fiscal year recorded. The estimated total incurred before the 1st day to obligate totaled \$11,197,738. The exceptions were as follows:
 - Contract advance for \$1,000,000 with a service period from June 15, 2003 through January 31, 2005 was recorded into the Federal fiscal year 2003 award where the 1st day to obligate was October 1, 2003.
 - Contract advance for \$6,302,702 with a service period July to November 2005 was recorded into the Federal fiscal year 2005 award where the 1st day to obligate was October 1, 2005.

- Contract advance for \$12,042,013 with a service period from July to November 2005 was recorded into the Federal fiscal year 2005 award where the 1st day to obligate was October 1, 2005.
- 6 of the 9 exceptions were encumbered during the obligation period, however, the service period and contract execution date is past the last day to obligate program funds. The estimated total incurred after the last day to obligate totaled \$513,850. The exceptions were as follows:
 - Contract advances totaling \$1,894,407 with service periods from July to October 2005 were recorded into the Federal fiscal year 2004 award where the last day to obligate was September 30, 2005.

We also noted 4 of the 50 sample payments to subrecipient contractors were paid after the last date to liquidate funds. All four sample items totaling \$89,044 were recorded in the Federal fiscal year 2003 award, which was appropriate for the June 2004 service period: however, the payments were made on October 31, 2005 and December 12, 2005 and the last day to liquidate obligations was September 30, 2005.

Questioned Costs:

\$11,800,632 of the \$59,621,026 sampled (\$11,711,588 recorded in improper period + \$89,044 paid after last day to liquidate)

Recommendations:

We recommend that Education enhance its current policies and procedures to ensure that payments made to subrecipient contractors are recorded in the corresponding Federal fiscal award year when the services are provided and any liquidations of obligations are made in a more timely manner.

Department’s View and Corrective Action Plan:

Education will enhance policies and procedures to ensure that payments to subrecipients for services provided are made in the corresponding Federal fiscal award year, and that obligations are liquidated in a timely manner. Specifically, Education is developing a list that provides the necessary information to ensure expenditures are recorded against the correct federal grant year. Beginning with the state fiscal year 2007-08, each pay-run will contain a list of subrecipients that are being reimbursed for multiple service months and identify services by quarter.

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|---|---|
| Reference Number: | 2006-8-4 |
| Federal Catalog Number: | 93.575 & 93.596 |
| Federal Program Title: | Child Care Development Fund Cluster—Child Care and Development Block Grant & Child Care Mandatory and Matching Funds of the Child Care and Development Fund |
| Federal Award Number and Calendar Year Awarded: | G-0301CACCDF; 2003 |

Category of Finding:

Period of Availability

State Administering Department:

Department of Education (Education)

Criteria:

TITLE 45—HEALTH AND HUMAN SERVICES, PART 92—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS—Subpart C—Post-Award Requirements, Section 92.20 Standards for financial management systems:

- A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds.
- Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors must be sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

TITLE 20—EDUCATION, CHAPTER 31—GENERAL PROVISIONS CONCERNING EDUCATION, SUBCHAPTER II—APPROPRIATIONS AND EVALUATIONS, Part 1—Appropriations, Section 1225. Availability of appropriations on academic or school- year basis; additional period for obligation of funds, (b) Succeeding fiscal year

- Notwithstanding any other provision of law, unless enacted in specific limitation of the provisions of this subsection, any funds from appropriations to carry out any programs to which this chapter is applicable during any fiscal year, which are not obligated and expended by educational agencies or institutions prior to the beginning of the fiscal year succeeding the fiscal year for which such funds were appropriated shall remain available for obligation and expenditure by such agencies and institutions during such succeeding fiscal year.
- Any funds under any applicable program which, pursuant to paragraph (1), are available for obligation and expenditure in the year succeeding the fiscal year for which they were appropriated shall be obligated and expended in accordance with:
 - the Federal statutory and regulatory provisions relating to such program which are in effect for such succeeding fiscal year, and
 - any program plan or application submitted by such educational agencies or institutions for such program for such succeeding fiscal year.

Condition:

During our procedures performed over period of availability, we reviewed the general ledger for any adjusting journal entries made during the fiscal year and noted twelve adjusting entries totaling \$6,776,681 were recorded to transfer expenditures of funds between different grant award years. We reviewed Education's process for approval of these journal entries and noted Education does not maintain support for the adjusting entries which include the specific transactions that were actually transferred. Rather, the journal entry process approval consists of a review of the totals of pools of funds that it believes meet the criteria to be transferred to a different fiscal year. Upon further follow up Education was able to reproduce support to the level of detail to enable tests to be performed to ascertain if these transactions that were adjusted occurred during the proper period of availability.

Previous correspondence with the Federal Department of Education regarding exceptions noted in prior year audits indicated that unambiguous support should be maintained to support the first-in, first-out (FIFO) close out journal entries, "To the extent that a recipient relies on principles of FIFO accounting, the recipient must also establish that such a method has been consistently used from year to year and must document clearly and unambiguously that the transactions giving rise to the obligations in question arose before the relevant Tydings cutoff date." Without this unambiguous detailed support that identifies specific transactions to support that they were incurred during the proper period transferred, the reviewer cannot verify that transactions are being transferred between the appropriate grant award years.

Questioned Costs:

Not applicable

Recommendations:

We recommend that Education enhance its current polices and procedures to ensure appropriate documentation is attached to all closeout FIFO journal entries to adequately support specific transactions that are being transferred between grant periods so that appropriate review and approval can be made.

Department's View and Corrective Action Plan:

To ensure proper review and approval, Education has implemented procedures requiring the retention of the appropriate documentation to support FIFO expenditure transfers.

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|---|---|
| Reference Number: | 2006-12-2 |
| Federal Catalog Number: | 93.767 |
| Federal Program Title: | State Children's Insurance Program |
| Federal Award Number and Calendar Year Awarded: | 05-05A5CA5021; 2005, 05-06A5CA5021; 2006 |
| Category of Finding: | Reporting |
| State Administering Department: | Department of Health Services (Health Services) |

Criteria:

TITLE 45—PUBLIC WELFARE, SUBTITLE A—DEPARTMENT OF HEALTH AND HUMAN SERVICES, PART 92—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE, LOCAL, AND TRIBAL GOVERNMENTS—Subpart C—Post-Award Requirements, Section 92.20 Standards for financial management systems. Financial Administration

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

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

Condition:

Health Services does not ensure that amounts reported on its *Quarterly Children’s Health Insurance Program Statement of Expenditures for Title XXI CMS-21* report are classified correctly. Although the total amounts spent on the program reported by Health Services are accurate, we were unable to verify the accuracy of detailed expenditures reported by line item or category of service. Our review of the first and second quarter reports for fiscal year 2005–06 revealed that Health Services was unable to provide supporting documentation for amounts totaling \$108,350 and \$922,422, respectively, which were reported in the Outpatient Hospital Category.

Health Services states that it does not receive enough information from its fiscal intermediary to be able to reconcile and accurately report program expenditures by category of service as required.

Questioned Costs:

Not determined

Recommendations:

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

Department’s View and Corrective Action Plan:

Health Services agrees with the recommendation. Health Services has been meeting with Electronic Data Systems (EDS) staff for the past several months in an attempt to determine the underlying issues with the Children’s Medical Services (CMS) 21 report. It has been determined that the manual process utilized by accounting for the CMS 21 reporting does not provide enough flexibility to categorize the EDS financial reports by category of service. The automated CMS 64 process provides accounting with program expenditures by category of service. Fiscal Intermediary—Information Technology Management Branch (FI-ITMB) and accounting staff will determine if the CMS 21 reporting process can utilize the existing automated CMS 64 system logic and processes, thus providing accounting with the program expenditures by category of services. Accounting and FI-ITMB will work together to craft a System Development Notice (SDN) to automate some, if not all, of the manual processes used to generate the CMS 21 report. The SDN will ensure that accounting receives the data in a format that will allow reconciliation of program expenditures and accurate reporting by category of service as required.

| | |
|-------------------------|---|
| Reference Number: | 2006-12-3 |
| Federal Catalog Number: | 93.575 & 93.596 |
| Federal Program Title: | Child Care Development Fund Cluster—Child Care and Development Block Grant & Child Care Mandatory and Matching Funds of the Child Care and Development Fund |

Federal Award Number and
Calendar Year Awarded: 0301CACCDF; 2003

Category of Finding: Reporting

State Administering Department: Department of Education (Education)

Criteria:

TITLE 45—PUBLIC WELFARE, SUBTITLE A—DEPARTMENT OF HEALTH AND HUMAN SERVICES, PART 98—CHILD CARE AND DEVELOPMENT FUND—Subpart G—Financial Management, Section 98.67 Fiscal requirements.

Fiscal control and accounting procedures shall be sufficient to permit:

- Preparation of reports required by the Secretary under this subpart and under subpart H; and
- The tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the provisions of this part.

Condition:

During procedures performed over reporting where Education reported their compliance with various matching, level of effort and earmarking requirements, we noted Education performs a manual process to compile the data that is reported on the U.S. Department of Health and Human Services Administration for Children and Families Child Care and Development Fund ACF—696 Financial Report. In our review of the final report for 2003, which ended on September 30, 2005, we noted one error made in the computation and one instance where Education did not maintain supporting documentation for a number reported, as follows:

- In order to compile the State Share of Expenditures, which is reported on a September 30th fiscal year end, Education uses the expenditures for the fiscal year ended June 30th and extracts detailed expenditure reports from the general ledger for the 1st quarter of the prior and current fiscal year based on batch dates and manually performs adjustments on a spreadsheet. We noted expenditures of \$135,682 that were erroneously included in the adjustment of the 1st quarter of the prior year, causing an understatement of the State Share of Expenditures. Although this error was not material to the September 30, 2005 report nor did it cause noncompliance of Education's level of effort requirements, this manual process presents a higher risk of material errors being reported without a thorough detail review process.
- Education did not maintain supporting documentation for the non-direct services (local administration and other related child care expenditures) of \$124,409,392 that was reported in the CCDF Discretionary Fund. Per further inquiry, the data is generated from Education's PARIS system at a point in time and cannot be recreated.

By not maintaining supporting documentation for required reporting, Education is not in compliance with Federal reporting requirements.

Questioned Costs:

Not determined

Recommendations:

We recommend that Education enhance its current policies and procedures and investigate more possible automated process to compile reporting data and perform a detailed review to reduce the risk of material inaccurate reporting. Also, maintain all supporting documentation for required reporting for the required document retention period.

Department's View and Corrective Action Plan:

Education will retain quarterly reports for the required retention period to support the non-direct expenditures for local administration and other related child care costs.

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|---|---|
| Reference Number: | 2006-12-4 |
| Federal Catalog Number: | 93.778 |
| Federal Program Title: | Medicaid Cluster: Medical Assistance Program |
| Federal Award Number and Calendar Year Awarded: | 5-0505CA5048; 2005, 5-0605CA5048; 2006 |
| Category of Finding: | Reporting |
| State Administering Department: | Department of Health Services (Health Services) |

Criteria:

TITLE 42—PUBLIC HEALTH, CHAPTER IV—CENTERS FOR MEDICARE & MEDICAID SERVICES, DEPARTMENT OF HEALTH AND HUMAN SERVICES, PART 431—STATE ORGANIZATION AND GENERAL ADMINISTRATION, Subpart A Single State Agency, Section 431.17 Maintenance of records.

- Content of records. A state plan must provide that the Medicaid agency will maintain or supervise the maintenance of the records necessary for the proper and efficient operation of the plan. The records must include:
 - Statistical, fiscal, and other records necessary for reporting and accountability as required by the Secretary.

Condition:

The federal expenditures noted in the quarterly CMS-64, *Quarterly Statement of Expenditures for the Medical Assistance Program*, reports are not traceable to individual claims.

Questioned Costs:

Not applicable

Recommendations:

We recommend that Health Services implement an audit trail such that funding sources for individual claims may be identified.

Department’s View and Corrective Action Plan:

The expenditures in the CMS-64 reports are not traceable to individual claims. This is correct. Health Services agrees with the recommendation that the CMS-64 system (the system) should have an audit trail to individual claims. The purpose of the system is to meet the report summary needs for the Health Services accounting section. The system was designed to calculate the federal funding participation (FFP) for programs administered by Health Services. It does this by importing the CA-MMIS weekly checkwrite data into CMS-64, which is organized by service and aid categories codes. The payments systems division will submit a Systems Development Notice to redesign the system to incorporate the capability to trace summary reports that are submitted to CMS and the California State Accounting and Reporting System (CALSTARS), back to individual claims. It will be a significant design change to both mainframe and non-mainframe applications. Due to the substantial scope of this change, and the resources needed to achieve the objectives, the estimated completion date for this project will be approximately January of 2009.

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| Reference Number: | 2006-13-12 |
| Federal Catalog Number: | 93.917 |
| Federal Program Title: | HIV Care Formula Grants |
| Federal Award Number and Calendar Year Awarded: | 6X07HA00041-15-02; 2005 |
| Category of Finding: | Subrecipient Monitoring |
| State Administering Department: | Department of Health Services (Health Services) |

Criteria:

TITLE 31—MONEY AND FINANCE, SUBTITLE V—GENERAL ASSISTANCE ADMINISTRATION, CHAPTER 75—REQUIREMENTS FOR SINGLE AUDITS, Section 7502. Audit requirements; exemptions,

(f) Each pass-through entity shall:

- Provide such subrecipient the program names (and any identifying numbers) from which such assistance is derived, and the Federal requirements which govern the use of such awards and the requirements of this chapter;
- Review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the Director, pertaining to Federal awards provided to the subrecipient by the pass-through entity; and

(h) The non-Federal entity shall transmit the reporting package, which shall include the non-Federal entity's financial statements, schedule of expenditures of Federal awards, corrective action plan defined under subsection (i), and auditors' reports developed pursuant to this section, to a Federal clearinghouse designated by the Director, and make it available for public inspection within the earlier of:

- 30 days after receipt of the auditors' report; or
- 9 months after the end of the period audited, or within a longer timeframe authorized by the Federal agency, determined under criteria issued under Section 7504, when the 9-month timeframe would place an undue burden on the non-Federal entity.

Condition:

During our procedures performed over subrecipient monitoring, we noted that Health Services was unable to locate the A-133 audit report for one of the four community based organizations (CBOs) selected for test work for the Care Services Program (CSP). We also found that one of the 15 CBOs from the Case Management Program (CMP) had not submitted their A-133 report. Health Services had not taken appropriate actions to ensure that all subrecipients comply with Federal A-133 single audit requirements.

Questioned Costs:

Not determined

Recommendations:

Health Services should strengthen controls to ensure appropriate receipt of A-133 reports and impose sanctions as necessary.

Department's View and Corrective Action Plan:

Health Services generally agrees with the recommendation to strengthen controls to ensure that, for those subrecipients who do not submit their A-133 reports within the required timeframes, A-133 single audit reports are received within the required timeframes. Health Services will continue to closely monitor audit responses using appropriate tracking tools.

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| Reference Number: | 2006-13-13 |
| Federal Catalog Number: | 93.268 |
| Federal Program Title: | Immunization Grants |
| Federal Award Numbers and Calendar Years Awarded: | H23/CCH922507-04-1; 2006 H23/CCH922507-03-5; 2005 |
| Category of Finding: | Subrecipient Monitoring |
| State Administering Department: | Department of Health Services (Health Services) |

Criteria:

TITLE 31—MONEY AND FINANCE, SUBTITLE V—GENERAL ASSISTANCE ADMINISTRATION, CHAPTER 75—REQUIREMENTS FOR SINGLE AUDITS, Section 7502. Audit requirements; exemptions:

- Each pass-through entity shall:
 - Provide such subrecipient the program names (and any identifying numbers) from which such assistance is derived, and the Federal requirements which govern the use of such awards and the requirements of this chapter;
 - Review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the Director, pertaining to Federal awards provided to the subrecipient by the pass-through entity; and
- The non-Federal entity shall transmit the reporting package, which shall include the non-Federal entity's financial statements, schedule of expenditures of Federal awards, corrective action plan defined under subsection (i), and auditor's reports developed pursuant to this section, to a Federal clearinghouse designated by the Director, and make it available for public inspection within the earlier of:
 - 30 days after receipt of the auditor's report; or
 - 9 months after the end of the period audited, or within a longer timeframe authorized by the Federal agency, determined under criteria issued under Section 7504, when the 9-month timeframe would place an undue burden on the non-Federal entity.

Condition:

Health Services does not have adequate controls in place to identify and obtain A-133 reports from subrecipients expending \$500,000 or more in federal funds. Without an effective system to identify subrecipients required to have audits and to track the timely receipt of these required audit reports, Health Services has reduced assurance that its subrecipients are spending federal assistance according to applicable laws and regulations.

Questioned Costs:

Not determined

Recommendations:

Health Services should establish procedures to identify those subrecipients required to submit audit reports and should obtain audit reports from them in a timely manner. We understand that Health Services has subsequently implemented procedures to ensure compliance with this requirement.

Department's View and Corrective Action Plan:

Health Services concurs with the finding and recommendation. Health Services has updated contract language to notify subrecipients of their responsibility to submit annual audits. Health Services has also drafted communications to remind subrecipients of this requirement and has put check points in place to ensure that audit reports are received and reviewed in a timely manner.

Reference Number: 2006-13-14

Federal Catalog Numbers: 93.575 & 93.596

Federal Program Title: Child Care Development Fund Cluster: Child Care and Development Block Grant & Child Care Mandatory and Matching Funds of the Child Care and Development Fund

Federal Award Number and Calendar Year Awarded: G-0501CACCDF; 2005

Category of Finding: Subrecipient monitoring

State Administering Department: Department of Education (Education)

Criteria:

TITLE 31—MONEY AND FINANCE, SUBTITLE V—GENERAL ASSISTANCE ADMINISTRATION, CHAPTER 75—REQUIREMENTS FOR SINGLE AUDITS, Section 7502. Audit requirements; exemptions, (f)(2) Each pass-through entity shall:

- Provide such subrecipient the program names (and any identifying numbers) from which such assistance is derived, and the Federal requirements which govern the use of such awards and the requirements of this chapter;
- Monitor the subrecipient's use of Federal awards through site visits, limited scope audits, or other means;
- Review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the Director, pertaining to Federal awards provided to the subrecipient by the pass-through entity; and;
- Require each of its subrecipients of Federal awards to permit, as a condition of receiving Federal awards, the independent auditor of the pass-through entity to have such access to the subrecipient's records and financial statements as may be necessary for the pass-through entity to comply with this chapter.

TITLE 45—PUBLIC WELFARE, SUBTITLE A—DEPARTMENT OF HEALTH AND HUMAN SERVICES, PART 92—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS—Subpart C—Post-Award Requirements, Section 92.40 Monitoring and reporting program performance, (a) Monitoring by grantees:

- Grantees are responsible for managing the day-to-day operations of the grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.

Condition:

During procedures performed over subrecipient monitoring, we noted the Child Care Development Fund program Local Educational Agencies (LEAs) are monitored by the Consolidated Program Monitoring (CPM) unit of Education and the non-LEA contractors are monitored by the Contract Monitoring Review (CMR) team. The CPM unit performs program monitoring site reviews on its subrecipients, where Education selects a subrecipient and monitors a number of its larger programs. We selected a sample of schools that had been monitored by CPM and reviewed the documentation retained to support the review's findings and conclusions and noted the following:

- Documentation of the monitoring visit is evidenced by the *Cross-Program Instrument (CP)*. This CP is the only official documentation that is retained to support the procedures performed during the monitoring visit. The program does not retain detail work paper documentation of the samples tested, interviews performed, etc. to support the conclusions reached.
- The monitoring procedures contained limited fiscal procedures and should be enhanced to cover all major functions and activities of the program.
- There was no documented signoff of approval for the procedures performed and conclusions reached for the monitoring visit on the CP by someone other than the preparer.

By not maintaining adequate documentation of the procedures performed or ensuring that appropriate reviews and approvals are performed, Education is not able to adequately support conclusions reached during its monitoring visits.

We also selected a sample of 25 subrecipients that had been monitored by the CMR during 2006 and noted there was no evidence of follow up for 9 of the 25 reports with findings. We also noted there was no signature of the agency representative on the report issued for 4 of the 25 samples, which is a required step of the unit's required procedures. Nontimely follow up of monitoring findings increases the risk that those findings will be repeated in future years causing prolonged noncompliance.

Since the majority of program funds are passed through to subrecipients, there is an increased need for strong subrecipient monitoring procedures to reduce the risk of potential material noncompliance by its subrecipient contractors.

Questioned Costs:

Not applicable

Recommendations:

We recommend that Education strengthen its current policies and procedures over subrecipient monitoring, specifically the during-the-award monitoring (i.e., monitoring visits), to ensure that sufficient documentation is retained in enough detail to support the conclusions reached and that there is evidence that this documentation is reviewed by someone other than the preparer before final reports are issued.

We also recommend Education enhance the extent of the monitoring procedures performed or documentation maintained to support tests of fiscal elements (i.e., sampling expenditures from the general ledger to test for allowability, etc.) to support they are being adequately reviewed and to ensure that these monitoring procedures cover each program, function, and activity of the LEA that

is sampled. This additional documentation of procedures will support Education's assertions that its subrecipients are complying with program laws, regulations, and grant award provisions and that its performance goals and objectives are being achieved.

Department's View and Corrective Action Plan:

Education will strengthen procedures over subrecipient monitoring by requiring reviewers to notate in more detail the documents or evidence used to support the conclusions on the site visitation form. With regard to testing fiscal elements, Education follows up on information reported by the LEA's independent certified public accountant's A-133 single audit reports. Additionally, Education follows up on any fiscal concerns identified in other subrecipient monitoring reviews (e.g., categorical program monitoring and contract monitoring reviews). If more extensive fiscal procedures are deemed necessary, Education's Audits and Investigations Division can be requested to assist in determining an LEA's compliance with required fiscal elements.

Auditors' Comment on Department's View and Corrective Action Plan:

The Auditor believes that Education's view of placing significant reliance on subrecipient A-133 audits does not adequately address the risk of material noncompliance of all programmatic and fiscal requirements by its LEAs. Education should consider the complexity of the requirements and the risk that LEAs may not assess compliance correctly. Education, as a pass through entity, is responsible to provide technical advice to the LEAs and auditors of those LEAs, testing key fiscal elements is a valuable tool to assess the understanding of those requirements. Information obtained during its sampled LEAs monitoring visits can then be used to develop more effective guidance to LEAs to assist in complying with required rules and regulations.

Its comment regarding following up on fiscal concerns identified in other monitoring reviews is not applicable, since the condition of the finding indicates the inadequacy of those specific monitoring review procedures that Education indicated where it would follow up.

The Department's view and corrective action plan does not address the recommendation regarding the review and approval of the monitoring reports issued by Education. A documented supervisory review is a valuable control to help ensure that the conclusions reached in the report are adequately supported.

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| Reference Number: | 2006-13-15 |
| Federal Catalog Number: | 93.575 & 93.596 |
| Federal Program Title: | Child Care Development Fund Cluster—Child Care and Development Block Grant & Child Care Mandatory and Matching Funds of the Child Care and Development Fund |
| Federal Award Number and Calendar Year Awarded: | G-0601CACCDF; 2006 |
| Category of Finding: | Subrecipient monitoring |
| State Administering Department: | Department of Education (Education) |

Criteria:

TITLE 45—PUBLIC WELFARE, SUBTITLE A—DEPARTMENT OF HEALTH AND HUMAN SERVICES, PART 92—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE, LOCAL, AND TRIBAL GOVERNMENTS— Subpart C—Post-Award Requirements, Section 92.26 Non-Federal audit.

- (a) Basic rule. Grantees and subgrantees are responsible for obtaining audits in accordance with the Single Audit Act Amendments of 1996 (31 U.S.C. 7501-7507) and revised OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The audits shall be made by an independent auditor in accordance with generally accepted *Government Auditing Standards* covering financial audits.
- (b) Subgrantees. State or local governments, as those terms are defined for purposes of the Single Audit Act Amendments of 1996, that provide Federal awards to a subgrantee, which expends \$300,000 or more (or other amount as specified by OMB) in Federal awards in a fiscal year, shall:
- Determine whether State or local subgrantees have met the audit requirements of the Act and whether subgrantees covered by OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, have met the audit requirements of the Act. Commercial contractors (private for-profit and private and governmental organizations) providing goods and services to State and local governments are not required to have a single audit performed. State and local governments should use their own procedures to ensure that the contractor has complied with laws and regulations affecting the expenditure of Federal funds;
 - Determine whether the subgrantee spent Federal assistance funds provided in accordance with applicable laws and regulations. This may be accomplished by reviewing an audit of the subgrantee made in accordance with the Act, Circular A-110, or through other means (e.g., program reviews) if the subgrantee has not had such an audit;
 - Ensure that appropriate corrective action is taken within six months after receipt of the audit report for an instance of noncompliance with Federal laws and regulations;

Condition:

During procedures performed over subrecipient monitoring, we noted the A-133 single audits of the subrecipient Local Educational Agencies (LEAs) are initially collected by the State Controller's Office who ensures the completeness and timeliness of all LEA reports. The LEA reports are simultaneously sent to Education to address the findings and recommendations noted. Education maintains a central department entitled Management Assistance, Categorical Programs and Audit Resolution that is responsible for addressing and resolving findings noted in the A-133 reports. The data from these reports is entered into a central database to track the status of findings and recommendations.

- Education relies upon this database as its sole tracking device for subrecipient audit findings that need to be addressed by Education. There does not appear to be adequate segregation of duties or an independent review process by the consultants who are responsible for the database. The A-133 reports are input into the database by the consultants; however the review of the data input is checked by the same consultant who performed the input. There is no independent review of the database information by the department administrator to assess its accuracy or completeness.

- There is no formal report generated from the database to be reviewed by Education management that summarizes the status of the LEAs findings that are required to have Education management decisions issued within 6 months after receipt of the report. This information is needed by management to adequately monitor the audit finding resolution process being performed by its consultants to ensure timeliness of the management decisions required to be made. Of the 50 June 30, 2005 A-133 LEA reports sampled, we noted 12 LEAs with audit findings that required Education management decisions. Of those 12 LEAs requiring management decisions, we noted 2 with unresolved findings outstanding after 10 months and two additional LEAs with findings resolved later than 6 months after the receipt of the report.
- Findings are resolved with the LEAs by the consultants in the Management Assistance, Categorical Programs and Audit Resolution, unit. We noted some informal e-mail communications discussing some of the findings contained in the reports, however there is no formal notification from the Audit Resolution Department to the respective Education program departments or Consolidated Performance Monitoring Unit nor are copies of any audit resolution correspondence forwarded to the respective program department regarding the A-133 single audit findings of its subrecipients. This information is important to the program departments to assist in the development of their monitoring procedures to be performed over its program subrecipients. With this information the program department could more accurately determine subrecipient risk and focus its monitoring efforts on higher risk LEAs that either had audit findings or did not have its program audited as a major program in the last year or last several years.

Without appropriately designed segregation of duties and formal checks, balances and communications, Education risks that noncompliance noted in subrecipient A-133 audits are not being timely addressed in accordance with Federal regulations.

Questioned Costs:

Not applicable

Recommendations:

We recommend that Education strengthen its current policies and procedures over its A-133 audit finding resolution process by formalizing communications and resolutions. The files should contain formal evidence of input, reviews and approvals that supports the timing, agreement with the proposed corrective action, and notification of the respective program department.

We also recommend that Education generate a periodic status of findings and corrective actions for review by the audit resolution department administrator to assist in monitoring the timeliness of Education's resolution of audit findings.

We further recommend that Education disseminate the information obtained from the A-133 reports captured in the database (i.e., number of LEAs with ChildCare audited as a major program, identification of findings for ChildCare program, etc.) to the appropriate program staff and consolidated program monitoring unit to assist in the determination of subrecipient risk, which is an important component of determining the extent of monitoring procedures that should be performed on specific LEAs.

Department's View and Corrective Action Plan:

To assist in monitoring the timeliness of an LEA's resolution of audit findings, Education will disseminate a summary report of A-133 audit findings to respective program staff. Additionally, Education will provide a status report of A-133 audit findings to the administrator of the Audit Resolution Unit for review, approval, and to manage the resolution of A-133 audit findings.

Reference Number: 2006-14-1
Federal Catalog Number: 93.777
Federal Program Title: Medicaid Cluster: State Survey and Certification of Health Care Providers and Supplies
Federal Award Number and Calendar Year Awarded: 05-0505CA5000; 2005, 05-0605CA5000; 2006
Category of Finding: Special Tests and Provisions, Provider Eligibility
State Administering Department: Department of Health Services (Health Services)

Criteria:

TITLE 42—PUBLIC HEALTH, CHAPTER IV—CENTERS FOR MEDICARE & MEDICAID SERVICES, DEPARTMENT OF HEALTH AND HUMAN SERVICES, PART 431—STATE ORGANIZATION AND GENERAL ADMINISTRATION, Subpart C, Administrative Requirements: Provider Relations, Section 431.107 Required provider agreement. (b) Agreements.

- A state plan must provide for an agreement between the Medicaid agency and each provider or organization furnishing services under the plan in which the provider or organization agrees to:
 - (1) Keep any records necessary to disclose the extent of services the provider furnishes to recipients;
 - (2) On request, furnish to the Medicaid agency, the Secretary, or the State Medicaid fraud control unit (if such a unit has been approved by the Secretary under Section 455.300 of this chapter), any information maintained under paragraph (b)(1) of this section and any information regarding payments claimed by the provider for furnishing services under the plan;
 - (3) Comply with the disclosure requirements specified in part 455, subpart B of this chapter; and

Condition:

Of the sample providers tested, 25 of the 50 did not have a Provider Agreement on file at the Provider Eligibility Branch and License & Certification Unit. This is a repeat finding from prior years.

Questioned Costs:

Not determined

Recommendations:

We recommend that Health Services strengthen controls to retain all provider agreements and continue its re-enrollment process to ensure that it obtains the appropriate certifications, agreements, and disclosures.

Department's View and Corrective Action Plan:

Health Services concurs with the recommendation that it should continue its re-enrollment process to ensure that it obtains all required certifications, agreements, and disclosures.

The auditor's review indicates that four files at the Provider Enrollment Branch did not have a Provider Agreement. Four files did not contain these documents, as they did not exist as separate forms at the time these applicants were initially enrolled in 1995 and 1998.

As part of Health Services' re-enrollment plan, all Medi-Cal providers will be re-enrolled, as a continuous process, to verify and update their original enrollment information and to ensure compliance with current state and federal regulations. The Provider Enrollment Branch continues to work in conjunction with Audits and Investigations (A&I) to re-enroll providers identified as high risk using an on-going risk assessment analysis and the annual Medi-Cal Payment Error Study (MPES) to prioritize these providers for re-enrollment. Currently, Health Services is completing the re-enrollment of optometrists and several phases are underway to re-enroll identified high-risk physicians and physician groups.

The remaining 21 files identified in this finding are non-long term care providers under the purview of the Licensing and Certification Division (L&C). L&C is underway in modifying the Medi-Cal Participation Agreement for long-term care facilities to apply to non-long term care facilities, by incorporating provisions of the Medi-Cal Provider Agreement (DHS 6208). When this is completed and has cleared legal review, L&C will implement the new agreement for all non-long term care facilities it certifies. L&C estimates completion of this implementation to be in October 2007, to concur with the issuance of new long-term care provider agreements under the aegis of the new California Department of Public Health.

L&C respectfully notes, however, that the absence of provider agreements for non-long term care facilities does not mean the program is unable to ensure that Medi-Cal payments are made only to eligible health facilities, as indicated in the prior audit findings. Under Federal and State Regulations, all non-long term care facilities under the purview of L&C must be preapproved by the U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services (CMS) as eligible for Medicare reimbursement in order to participate in Medi-Cal. Therefore, through the program's periodic on-site health inspections and approval documentation received from CMS, L&C reasonably ensures eligibility of all non-long term care facilities it certifies for Medi-Cal participation.

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U.S. DEPARTMENT OF HOMELAND SECURITY

Summary of Findings and Questioned Costs

June 30, 2006

Reference Number: 2006-7-3

Federal Catalog Number: 97.004

Federal Program Title: State Domestic Preparedness Equipment Support Program

Federal Award Number and Calendar Year Awarded: 2004-GE-T4-0045; 2004

Category of Finding: Earmarking

State Administering Department: Governor's Office of Homeland Security (Homeland Security)
Governor's Office of Emergency Services (Emergency Services).¹

CRITERIA:

TITLE 42—THE PUBLIC HEALTH AND WELFARE, CHAPTER 46—JUSTICE SYSTEM IMPROVEMENT, SUBCHAPTER I—OFFICE OF JUSTICE PROGRAMS, Section 3714. Grant program for State and local domestic preparedness support, (c) Authorization of appropriations, (2) Limitations:

Of the amount made available to carry out this section in any fiscal year not more than 3% may be used by the Attorney General for salaries and administrative expenses.

Additionally, the grant agreement for 2004-GE-T4-0045;2004 states that no more than 3% of the total amount allocated to the State for each program may be used for management and administrative purposes. Further, any portion of the 3% retained by the State must be included within the 20% of the total funds to the State.

Condition:

Homeland Security and Emergency Services did not adequately monitor the level of administrative expenditures of funds for the State Domestic Preparedness Equipment Support Program for the fiscal year ended June 30, 2006. According to the Assistant Deputy Director of Grants Management, Emergency Services has expended approximately 15.25% or \$12.9 million of the \$84.6 million of total cumulative expenditures through June 30, 2006 on administrative costs. This amounts to an over expenditure of \$10.4 million of administrative costs as of June 30, 2006. Per review of the grant adjustment notice dated June 24, 2005 and subsequent communications, the grant expenditure period was extended through spring 2007. However, even if the remaining \$90.8 million is expended 100% on local assistance, the grant has exceeded its earmarking limit by approximately \$7.6 million.

¹ Until March 2005, the Governor's Office of Emergency Services administered the State Domestic Preparedness Equipment Support Program. Beginning in March 2005, the Governor's Office of Homeland Security took over this Program's administration.

Emergency Services believes the excessive administrative expenditures were caused by incorrectly coding expenditures between local assistance and administration, which resulted in it exceeding the earmarking requirement.

Questioned Costs:

Not determined

Recommendations:

We recommend Homeland Security and Emergency Services develop processes and controls to track state operations (administrative costs) expenditures separately to determine that the 3% threshold is not exceeded. In addition, Homeland Security should track the breakout of expenditures relating to local assistance and state operations.

Department's View and Corrective Action Plan:

Homeland Security and Emergency Services concur with the recommendation. Emergency Services has put into place an accounting process of checks and balances to ensure that payments are properly coded and charged to the appropriate programmatic areas. In this process, Emergency Services has implemented protections for the future by changing the process. In addition, Emergency Services has begun an audit process of prior practices to determine any erroneous charges that may have contributed to the finding. These actions will bring us into overall compliance and will ensure that the 3% maximum allowance of the total grant is not exceeded.

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|---|---|
| Reference Number: | 2006-9-1 |
| Federal Catalog Number: | 97.039 |
| Federal Program Title: | Hazard Mitigation Grants |
| Federal Award Number and Calendar Year Awarded: | FEMA-1498-DR, 2003, FEMA-1529-DR, 2004 FEMA-1505-DR, 2004 |
| Category of Finding: | Procurement, Suspension and Debarment |
| State Administering Department: | Governor's Office of Emergency Services (Emergency Services) |

Criteria:

TITLE 44—EMERGENCY MANAGEMENT AND ASSISTANCE, CHAPTER I—FEDERAL EMERGENCY MANAGEMENT AGENCY, DEPARTMENT OF HOMELAND SECURITY, PART 13—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS—Subpart C—Post-Award Requirements, Section 13.35 Subawards to debarred and suspended parties.

Grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, *Debarment and Suspension*.

Condition:

During procedures performed over suspension and debarment of subrecipients, we noted Emergency Services utilizes a *Project Application for Federal Assistance Form (Form 89)* for its subrecipients participating in the Hazard Mitigation Grant Program (HMGP). The latest revision of Form 89 implemented in January 2005 includes the appropriate required language for the subrecipient to certify that they have not been suspended or debarred from participating in a Federally funded program. However, we noted HMGP did not require 18 of the 30 subrecipients we reviewed who received grant awards prior to January 2005 to complete an updated Form 89 that contained the required certifications, nor did it review the Federal excluded parties list system (EPLS) website to verify that the subrecipient was neither suspended or debarred. The prior noncompliant Form 89 was carried forward into the subrecipients' new projects. Consequently, there are no signed certifications on file for those subrecipients of the HMGP.

Questioned Costs:

Not determined

Recommendation

We recommend that Emergency Services ensure adequate policies, procedures, and documentation exist to support verification that subrecipients are not suspended or debarred before awarding program funds by querying the EPLS, collecting a certification from the other party, or adding a clause or condition to the covered transaction with that party.

Department's View and Corrective Action Plan:

Emergency Services concurs with the finding and has implemented the following corrective actions:

1. The Hazard Mitigation Branch will be revising the List of Assurance (Form 89) for the HMGP to add the following:

As the duly authorized representative of the applicant, I certify that the applicant: Is not debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549 and 12689, "Debarment and Suspension" and will not make any award or permit any award (subgrant or contract) to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549 and 12689, *Debarment and Suspension*.

2. HMGP Application Process Change:

Emergency Services as the Grantee, will have each approved subgrantee sign a new List of Assurance (2007 rev. Form 89) with the initial obligation for each subgrant (no longer allowing the use of a "Universal" Form 89) and will revise the Standard Operating Procedures for processing HMGP applications accordingly.

Reference Number: 2006-12-1

Federal Catalog Number: 97.036

Federal Program Title: Disaster Grants—Public Assistance
(Presidentially Declared Disasters)
Hazard Mitigation Grants Program

Federal Award Number and
Calendar Year Awarded: FEMA-845-DR; 1989
FEMA-3120-EM; 1996
FEMA-919-DR; 1991
FEMA-1203-DR; 1998
FEMA-935-DR; 1992
FEMA-1498-DR; 2003
FEMA-942-DR; 1992
FEMA-1505-DR; 2004
FEMA-943-DR; 1992
FEMA-1529-DR; 2004
FEMA-947-DR; 1992
FEMA-1577-DR; 2005
FEMA-979-DR; 1993
FEMA-1585-DR; 2005
FEMA-1005-DR; 1993
FEMA-3140-EM; 1999
FEMA-1008-DR; 1994
FEMA-3248-EM; 2005
FEMA-1044-DR; 1995
FEMA-1628-DR; 2006
FEMA-1046-DR; 1995
FEMA-1646-DR; 2006
FEMA-1155-DR; 1996

Federal Catalog Number: 97.039

Federal Program Title: Hazard Mitigation Grant

Federal Award Number and
Calendar Year Awarded: FEMA-845-DR; 1989
FEMA-1155-DR; 1996
FEMA-872-DR; 1990
FEMA-1203-DR; 1998
FEMA-919-DR; 1991
FEMA-1267-DR; 1999
FEMA-935-DR; 1992
FEMA-1342-DR; 2000
FEMA-942-DR; 1992
FEMA-1498-DR; 2003
FEMA-943-DR; 1992
FEMA-1505-DR; 2004
FEMA-947-DR; 1992
FEMA-1529-DR; 2004
FEMA-979-DR; 1993
FEMA-1577-DR; 2005
FEMA-1005-DR; 1993
FEMA-1585-DR; 2005

FEMA-1008-DR; 1994
FEMA-3248-EM; 2005
FEMA-1044-DR; 1995
FEMA-1628-DR; 2006
FEMA-1046-DR; 1995
FEMA-1646-DR; 2006

Category of Finding: Reporting

State Administering Department: Governor's Office of Emergency Services
(Emergency Services)

Criteria:

TITLE 44—EMERGENCY MANAGEMENT AND ASSISTANCE, CHAPTER I—FEDERAL EMERGENCY MANAGEMENT AGENCY, DEPARTMENT OF HOMELAND SECURITY, PART 13—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS—Subpart C—Post-Award Requirements, Section 13.20 Standards for financial management systems. Financial Administration

A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to:

- Permit preparation of reports required by this part and the statutes authorizing the grant, and
- Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

Condition:

Emergency Services is required to report total recipient and subrecipient nonfederal expenditures and administrative expenses on quarterly Financial Status Reports (FSR), which are submitted to the Federal Emergency Management Agency. In our sample of FSR's selected for the Hazard Mitigation Grant program, we noted 4 of the 18 did not contain all the required expenditure information (FEMA-845-DR; 1989, FEMA-919-DR; 1991 FEMA-979-DR; 1993, and FEMA-1005-DR; 1993). We also noted in our sample of FSR's selected for the Public Assistance Grants Program, 1 of the 23 did not report recipient share of outlays (FEMA-3248-EM; 2005). In addition, none of the FSR samples selected reported subrecipient nonfederal expenditures and administrative expenses.

Emergency Services states it does not currently have a process to capture the nonfederal and administrative expenditures for subrecipients, which causes the incomplete reporting. Emergency Services is out of compliance with the reporting requirement to include all requisite information in the FSR.

Questioned Costs:

Not determined

Recommendation

We recommend that Emergency Services enhance its current procedures to ensure that recipient and subrecipient nonfederal expenditures and administrative expenses are properly reported in the FSR.

Department's View and Corrective Action Plan:

Emergency Services concurs with this finding. California State Accounting and Reporting System (CALSTARS) has functional limitations, which limits our ability to use the accounting system to report the recipient/subrecipient share of outlays. Emergency Services is working on system modifications to its grants tracking system (Automated Ledger System) to track the nonfederal expenditures for reporting purposes for current and future grants and disasters.

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| Reference Number: | 2006-13-3 |
| Federal Catalog Number: | 97.036 |
| Federal Program Title: | Disaster Grants—Public Assistance (Presidentially Declared Disasters) |
| Federal Award Number and Calendar Year Awarded: | FEMA-845-DR; 1989 FEMA-3120-EM; 1996 FEMA-919-DR; 1991 FEMA-1203-DR; 1998 FEMA-935-DR; 1992 FEMA-1498-DR; 2003 FEMA-942-DR; 1992 FEMA-1505-DR; 2004 FEMA-943-DR; 1992 FEMA-1529-DR; 2004 FEMA-947-DR; 1992 FEMA-1577-DR; 2005 FEMA-979-DR; 1993 FEMA-1585-DR; 2005 FEMA-1005-DR; 1993 FEMA-3140-EM; 1999 FEMA-1008-DR; 1994 FEMA-3248-EM; 2005 FEMA-1044-DR; 1995 FEMA-1628-DR; 2006 FEMA-1046-DR; 1995 FEMA-1646-DR; 2006 FEMA-1155-DR; 1996 |

Federal Catalog Number: 97.039
Federal Program Title: Hazard Mitigation Grant

Federal Award Number and
Calendar Year Awarded: FEMA-845-DR; 1989
FEMA-1155-DR; 1996
FEMA-872-DR; 1990
FEMA-1203-DR; 1998
FEMA-919-DR; 1991
FEMA-1267-DR; 1999
FEMA-935-DR; 1992
FEMA-1342-DR; 2000
FEMA-942-DR; 1992
FEMA-1498-DR; 2003
FEMA-943-DR; 1992
FEMA-1505-DR; 2004
FEMA-947-DR; 1992
FEMA-1529-DR; 2004
FEMA-979-DR; 1993
FEMA-1577-DR; 2005
FEMA-1005-DR; 1993
FEMA-1585-DR; 2005
FEMA-1008-DR; 1994
FEMA-3248-EM; 2005
FEMA-1044-DR; 1995
FEMA-1628-DR; 2006
FEMA-1046-DR; 1995
FEMA-1646-DR; 2006

Category of Finding: Subrecipient Monitoring

State Administering Department: Governor's Office of Emergency Services
(Emergency Services)

Criteria:

TITLE 31—MONEY AND FINANCE, SUBTITLE V—GENERAL ASSISTANCE ADMINISTRATION, CHAPTER 75—REQUIREMENTS FOR SINGLE AUDITS, Section 7502. Audit requirements; exemptions, (f)(2) Each pass-through entity shall:

- Monitor the subrecipient's use of Federal awards through site visits, limited scope audits, or other means;
- Review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the Director, pertaining to Federal awards provided to the subrecipient by the pass-through entity; and

TITLE 44—EMERGENCY MANAGEMENT AND ASSISTANCE, CHAPTER I—FEDERAL EMERGENCY MANAGEMENT AGENCY, DEPARTMENT OF HOMELAND SECURITY, PART 13—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS—Subpart C—Post-Award Requirements, Section 13.40 Monitoring and reporting program performance. (a) Monitoring by grantees.

Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.

Condition:

Emergency Services did not adequately monitor its subrecipients of funds for either of its Public Assistance or Hazard Mitigation Grant Program for the fiscal year ended June 30, 2006. According to the chief of its Grants Management Branch, Emergency Services, there is a backlog in performing the reviews and preparing management letters due to lack of staffing. Emergency Services has not reviewed an estimated combined 1,575 audit reports submitted by subrecipients dating back to 2002. In addition, Emergency Services has not followed up with subrecipients who have not submitted their single audit reports. Further, Emergency Services does not have processes or controls in place to accurately track whether subrecipients' audit reports have been submitted or reviewed.

Emergency Services states that it lacks sufficient staff to adequately monitor the receipt of the reports, review them, issue management decisions on the findings contained in them, and ensure that the subrecipients have taken timely and appropriate corrective action on all audit findings. Without performing these procedures, Emergency Services could not ensure that subrecipients were complying with federal program requirements.

Questioned Costs:

Not determined

Recommendations:

We recommend that Emergency Services develop a process to review subrecipient audit reports, respond and resolve findings noted in those reports, and ensure appropriate corrective action is taken within six months after receipt of the subrecipient A-133 audit report in accordance with Federal guidelines.

Department's View and Corrective Action Plan:

Emergency Services concurs with the finding and has implemented corrective action. An audit coordinator was hired in December 2006, and that person's responsibilities include the review of A-133 audit reports and the resolution of any findings in programs administered by Emergency Services. Emergency Services expects to complete the review of all backlogged reports, and be current on newly received reports, by June 30, 2007.

Clifton Gunderson LLP

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CONDITION

Subrecipients were not notified of all required federal award information pertaining to the federal award as noted in (1) above. Additionally, single audits were not completed or not properly completed by certain subrecipients in accordance with (4) above.

EFFECT

California State Water Resources Control Board, Water Pollution Control Revolving Fund (Fund) is not in compliance with certain pass-through entity responsibilities.

QUESTIONED COSTS

\$26,061,094

CONTEXT

Generally, the subrecipients of the federal awards have June 30 year ends, and as a result due to the fiscal year ends and the completion of audits by subrecipients, testing was limited to single audits submitted for the fiscal year ended June 30, 2005. Six of ten subrecipients required to have single audits completed in accordance with OMB Circular A-133 either did not have them completed or the audits were not properly completed. Four of the six did not have a single audit completed and two of the six had single audits completed, however the Capitalization Grant for Clean Water State Revolving Funds (CFDA No. 66.458) was not listed on the Schedule of Expenditures of Federal Awards. Neither the California State Controller's Office or the Fund followed up with the entities regarding the lack of completed single audits or improperly completed single audits for the year ended June 30, 2005. The total federal funds disbursed to the six subrecipients by the Fund for the year ended June 30, 2005 for which no single audit was completed or was improperly completed was \$26,061,094. The total reported expenditures of federal awards reported by the Fund on the Schedule of Expenditures of Federal Awards for the year ended June 30, 2005 was \$64,450,038, of which \$61,005,181 was passed through to subrecipients.

CAUSE

Required federal award information was not included in the loan contracts with subrecipients or otherwise communicated to subrecipients. Additionally, the Water Pollution Control Revolving Fund and the California State Controller's Office have not developed an effective process to ensure that subrecipients receiving federal awards in excess of \$500,000 are having single audits completed and submitted when required. Additionally, there is not timely follow-up in instances where single audits are required to be submitted but are not received.

RECOMMENDATION

We recommend the Water Pollution Control Revolving Fund communicate all required federal award identification information in their contracts with subrecipients. Additionally, we recommend that all subrecipients receiving federal awards be notified annually of the amount of federal awards disbursed to them. The subrecipient should also be notified that a single audit is to be completed if

total federal awards received from all sources during the fiscal year exceeded \$500,000. The California State Controller Office should be included in this communication so that appropriate follow-up can be performed on the single audits received.

MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

Management agrees with the comment, except for the questioned costs. The management of the Fund has implemented significant review processes regarding the disbursement of federal awards to subrecipients to ensure that federal awards are disbursed for allowable activities and allowable costs. Accordingly, management of the Fund believes this to be a compliance finding with no questioned costs.

Management was aware of this requirement and had already begun notifying all agencies that received more than \$500,000 in Federal funds for the year June 30, 2006. Management is following up with the State Controller's Office of California for missing or improperly performed single audits for the years ended June 30, 2005, and 2006. Management of the Fund will develop a method of communicating the required information to subrecipients. Management will also report, on an annual basis, to subrecipients, the amount of Federal awards disbursed to the subrecipients. In addition, management will work in conjunction with the SCO to develop a process to ensure that all subrecipients that are required to have single audits have them completed and forwarded to SCO and the Fund annually. Management will review the single audits timely and issue management decisions on any findings noted the timeframe outlined in OMB Circular A-133.

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AUDITEE'S SECTION

Schedule of Federal Assistance

**Prepared by
Department of Finance**

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**STATE OF CALIFORNIA
SCHEDULE OF FEDERAL ASSISTANCE
FISCAL YEAR ENDED JUNE 30, 2006**

| Federal Agency/Program Title | Federal Catalog Number | Grant Amount Received |
|---|------------------------|-----------------------|
| Department of Agriculture | | |
| Agricultural Research Service - Basic and Applied Research | 10.001 | \$ 1,746 |
| Plant and Animal Disease, Pest Control, and Animal Care | 10.025 | 193,167* |
| Wetlands Reserve Program | 10.072 | 3,900 |
| Market Protection and Promotion | 10.163 | 370,475 |
| Food Donation | 10.550 | 93,078,423* |
| Special Supplemental Nutrition Program for Women, Infants, and Children | 10.557 | 829,211,277 |
| Child and Adult Care Food Program | 10.558 | 236,699,329 |
| State Administrative Expenses for Child Nutrition | 10.560 | 17,179,259 |
| Commodity Supplemental Food Program | 10.565 | 3,122,831 |
| Nutrition Services Incentive | 10.570 | 67,663 |
| WIC Farmers' Market Nutrition Program (FMNP) | 10.572 | 2,506,772 |
| Team Nutrition Grants | 10.574 | 34,562 |
| Senior Farmers Market Nutrition Program | 10.576 | 504,940 |
| Cooperative Forestry Assistance | 10.664 | 9,199,870 |
| Schools and Roads - Grants to States | 10.665 | 64,609,518 |
| National Forest-Dependent Rural Communities | 10.670 | 4,304 |
| Urban and Community Forestry Program | 10.675 | 127,798 |
| Forest Legacy Program | 10.676 | 114 |
| Forest Land Enhancement Program | 10.677 | 3,228 |
| Environmental Quality Incentives Program | 10.912 | 35,242 |
| Wildlife Habitat Incentive Program | 10.914 | 1,683 |
| Other - U.S. Department of Agriculture | 10.999 | 32,100,832 |
| Total Excluding Clusters | | 1,289,056,933 |
| Food Stamp Cluster | | |
| Food Stamps | 10.551 | 2,358,515,817* |
| State Administrative Matching Grants for Food Stamp Program | 10.561 | 418,149,569 |
| Total Food Stamp Cluster | | 2,776,665,386 |
| Child Nutrition Cluster | | |
| School Breakfast Program | 10.553 | 247,537,942 |

| Federal Agency/Program Title | Federal Catalog Number | Grant Amount Received |
|---|------------------------|-----------------------------|
| National School Lunch Program | 10.555 | 963,768,416 |
| Special Milk Program for Children | 10.556 | 670,717 |
| Summer Food Service Program for Children | 10.559 | 13,032,848 |
| Total Child Nutrition Cluster | | <u>1,225,009,923</u> |
| Emergency Food Assistance Cluster | | |
| Emergency Food Assistance Program (Administrative Costs) | 10.568 | 7,686,783 |
| Emergency Food Assistance Program (Food Commodities) | 10.569 | 29,698,204* |
| Total Emergency Food Assistance Cluster | | <u>37,384,987</u> |
| Research & Development Cluster | | |
| Agricultural Research - Basic and Applied Research | 10.001 | 16,314 |
| Plant and Animal Disease, Pest Control, and Animal Care | 10.025 | 565,275 |
| Total Research and Development Cluster | | <u>581,589</u> |
| Total U.S. Department of Agriculture | | <u><u>5,328,698,818</u></u> |
| Department of Commerce | | |
| Economic Development-Support for Planning Organizations | 11.302 | 50,000 |
| Anadromous Fish Conservation Act Program | 11.405 | 750,963 |
| Interjurisdictional Fisheries Act of 1986 | 11.407 | 139,237 |
| Coastal Zone Management Administration Awards | 11.419 | 5,063,057 |
| Coastal Zone Management Estuarine Research Reserves | 11.420 | 630,214 |
| Pacific Coast Salmon Recovery-Pacific Salmon Treaty Program | 11.438 | 10,814,468 |
| Coastal Services Center | 11.473 | 9,285 |
| Other - U.S. Department of Commerce | 11.999 | 422,179 |
| Total U.S. Department of Commerce | | <u><u>17,879,403</u></u> |
| Department of Defense | | |
| Navigation Projects | 12.107 | 51,171 |
| Planning Assistance to States | 12.110 | 465,000 |
| State Memorandum of Agreement Program for the Reimbursement of Technical Services | 12.113 | 11,776,673 |

| Federal Agency/Program Title | Federal Catalog Number | Grant Amount Received |
|--|------------------------|-----------------------|
| Military Construction, National Guard | 12.400 | 7,945,410 |
| National Guard Military Operations and Maintenance (O&M) Projects | 12.401 | 49,094,096 |
| National Guard Civilian Youth Opportunities | 12.404 | 3,308,436 |
| Community Economic Adjustment Planning Assistance | 12.607 | 384,968 |
| Community Economic Adjustment Planning Assistance for Joint Land Use Studies | 12.610 | 44,581 |
| Other - U.S. Department of Defense | 12.999 | 2,314,916 |
| Total U.S. Department of Defense | | 75,385,251 |
| Department of Housing and Urban Development | | |
| Manufactured Home Construction and Safety Standards | 14.171 | 265,363 |
| Community Development Block Grants/State's Program | 14.228 | 35,820,446 |
| Emergency Shelter Grants Program | 14.231 | 6,281,968 |
| Supportive Housing Program | 14.235 | 3,484,509** |
| HOME Investment Partnerships Program | 14.239 | 92,652,102** |
| Housing Opportunities for Persons with AIDS | 14.241 | 2,884,736 |
| Equal Opportunity in Housing | 14.400 | 2,188,975 |
| Lead-Based Paint Hazard Control in Privately-Owned Housing | 14.900 | 660,105 |
| Total Excluding Clusters | | 144,238,204 |
| Section 8 Tenant-Based Cluster | | |
| Section 8 Rental Voucher Program | 14.855 | 3,760,312 |
| Total U.S. Department of Housing and Urban Development | | 147,998,516 |
| Department of Interior | | |
| Recreation Resource Management | 15.225 | 25,000 |
| National Fire Plan - Wildland Urban Interface Community Fire Assistance | 15.228 | 691,402 |
| Small Reclamation Projects | 15.503 | 115,167 |
| Anadromous Fish Conservation | 15.600 | 97,929 |
| Endangered Species Conservation | 15.612 | 135,365 |
| Coastal Wetlands Planning, Protection and Restoration Act | 15.614 | 87,789 |

| Federal Agency/Program Title | Federal Catalog Number | Grant Amount Received |
|--|------------------------|-----------------------|
| Cooperative Endangered Species Conservation Fund | 15.615 | 5,330,851 |
| Clean Vessel Act | 15.616 | 2,191,246 |
| Sportfishing and Boating Safety Act | 15.622 | 390,000 |
| Wildlife Conservation and Restoration | 15.625 | 80,668 |
| Landowner Incentive | 15.633 | 109,874 |
| State Wildlife Grants | 15.634 | 289,036 |
| Earthquake Hazards Reduction Program | 15.807 | 65,002 |
| U.S. Geological Survey-Research and Data Collection | 15.808 | 371,409 |
| Historic Preservation Fund Grants-In-Aid | 15.904 | 944,648 |
| Outdoor Recreation-Acquisition, Development and Planning | 15.916 | 6,349,599 |
| Research Information | 15.975 | 722,297 |
| Other - U.S. Department of the Interior | 15.999 | 43,897,922 |
| Total Excluding Clusters | | 61,895,204 |
| Fish and Wildlife Cluster | | |
| Sport Fish Restoration | 15.605 | 15,357,227 |
| Wildlife Restoration | 15.611 | 10,981,976 |
| Total Fish and Wildlife Cluster | | 26,339,203 |
| Research and Development Cluster | | |
| Coastal Wetlands Planning, Protection and Restoration Act | 15.614 | 18,848 |
| Total U.S. Department of Interior | | 88,253,255 |
| Department of Justice | | |
| State Domestic Preparedness Equipment Support Program | 16.007 | 50,492,797 |
| Prisoner Reentry Initiative Demonstration (Offender Reentry) | 16.202 | 111,288 |
| Juvenile Accountability Incentive Block Grants | 16.523 | 4,326,483 |
| Juvenile Justice and Delinquency Prevention-Allocation to States | 16.540 | 6,842,762 |
| Title V-Delinquency Prevention Program | 16.548 | 1,035,885 |
| Part E-State Challenge Activities | 16.549 | 629,856 |
| State Justice Statistics Program for Statistical Analysis Centers | 16.550 | 19,501 |
| National Criminal History Improvement Program (NCHIP) | 16.554 | 1,993,938 |
| National Institute of Justice Research, Evaluation, and Development Project Grants | 16.560 | 1,644,611 |

| Federal Agency/Program Title | Federal Catalog Number | Grant Amount Received |
|---|------------------------|-----------------------|
| Crime Laboratory Improvement-Combined Offender DNA Index System Backlog Reduction | 16.564 | 1,349,267 |
| Crime Victim Assistance | 16.575 | 45,674,586 |
| Crime Victim Compensation | 16.576 | 11,449,842 |
| Edward Byrne Memorial Formula Grant Program | 16.579 | 16,988,444 |
| Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program | 16.580 | 539,836 |
| Drug Court Discretionary Grant Program | 16.585 | 22,336 |
| Violent Offender Incarceration and Truth in Sentencing Incentive Grants | 16.586 | 50,149,912 |
| Violence Against Women Formula Grants | 16.588 | 12,817,196 |
| Rural Domestic Violence and Child Victimization Enforcement Grant Program | 16.589 | 2,393,294 |
| Local Law Enforcement Block Grant Program | 16.592 | 374,732 |
| Residential Substance Abuse Treatment for State Prisoners | 16.593 | 2,377,522 |
| State Criminal Alien Assistance Program | 16.606 | 85,953,191 |
| Community Prosecution and Project Safe Neighborhoods | 16.609 | 1,025,287 |
| Regional Information Sharing Systems | 16.610 | 5,672,200 |
| Public Safety Partnership and Community Policing Grants ("COPS" Grants) | 16.710 | 3,811,939 |
| Enforcing Underage Drinking Laws Program | 16.727 | 308,249 |
| Protecting Inmates and Safeguarding Communities Discretionary Grant Program | 16.735 | 53,650 |
| Edward Byrne Memorial Justice Assistance Grant Program | 16.738 | 36,125,542 |
| Other - U.S. Department of Justice | 16.999 | 1,007,559 |
| Total Excluding Clusters | | 345,191,705 |
| Research and Development Cluster | | |
| National Institute of Justice Research, Evaluation, and Development Project Grants | 16.560 | 5,280 |
| Total U.S. Department of Justice | | 345,196,985 |
| Department of Labor | | |
| Labor Force Statistics | 17.002 | 8,315,918 |
| Compensation and Working Conditions | 17.005 | 557,800 |
| Labor Certification for Alien Workers | 17.203 | 2,222,599 |
| Unemployment Insurance | 17.225 | 4,907,245,997 |
| Senior Community Service Employment Program | 17.235 | 6,676,628 |

| Federal Agency/Program Title | Federal Catalog Number | Grant Amount Received |
|--|------------------------|-----------------------------|
| Trade Adjustment Assistance | 17.245 | 22,460,215 |
| WIA Pilots, Demonstrations, and Research Projects | 17.261 | 633,127 |
| Work Incentives Grant | 17.266 | 2,080,281 |
| Occupational Safety and Health-State Program | 17.503 | 24,302,283 |
| Consultation Agreements | 17.504 | 5,747,024 |
| Mine Health and Safety Grants | 17.600 | 224,201 |
| Disability Employment Policy Development | 17.720 | 635,157 |
| Total Excluding Clusters | | <u>4,981,101,230</u> |
| Employment Services Cluster | | |
| Employment Service/Wagner-Peyser Funded Activities | 17.207 | 100,615,439 |
| Disabled Veterans' Outreach Program (DVOP) | 17.801 | 11,936,001 |
| Local Veterans' Employment Representative Program | 17.804 | 7,305,355 |
| Total Employment Services Cluster | | <u>119,856,795</u> |
| WIA Cluster | | |
| WIA Adult Program | 17.258 | 134,746,725 |
| WIA Youth Activities | 17.259 | 142,411,871 |
| WIA Dislocated Workers | 17.260 | 183,125,577 |
| Total WIA Cluster | | <u>460,284,173</u> |
| Total U.S. Department of Labor | | |
| | | <u><u>5,561,242,198</u></u> |
| Department of Transportation | | |
| Boating Safety Financial Assistance | 20.005 | 3,467,890 |
| Airport Improvement Program | 20.106 | 30,512 |
| Motor Carrier Safety | 20.217 | 12,584,738 |
| National Motor Carrier Safety | 20.218 | 85,420 |
| High Speed Ground Transportation-Next Generation High Speed Rail Program | 20.312 | 143,808 |
| Federal Transit - Metropolitan Planning Grants | 20.505 | 45,395,256 |
| Formula Grants for Other Than Urbanized Areas | 20.509 | 12,513,710 |
| Pipeline Safety | 20.700 | 1,467,255 |
| Interagency Hazardous Materials Public Sector Training and Planning Grants | 20.703 | 932,645 |
| Total Excluding Clusters | | <u>76,621,234</u> |

| Federal Agency/Program Title | Federal Catalog Number | Grant Amount Received |
|--|------------------------|-----------------------|
| Highway Planning and Construction Cluster | | |
| Highway Planning and Construction | 20.205 | 2,240,110,849** |
| Federal Transit Cluster | | |
| Federal Transit - Capital Investment Grants | 20.500 | 7,358,162 |
| Highway Safety Cluster | | |
| State and Community Highway Safety | 20.600 | 48,508,282 |
| Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants | 20.601 | 7,204,368 |
| Total Highway Safety Cluster | | 55,712,650 |
| Research and Development Cluster | | |
| Formula Grants for Other than Urbanized Areas | 20.509 | 202,039 |
| Total U.S. Department of Transportation | | 2,380,004,934 |
| Equal Employment Opportunity Commission | | |
| Employment Discrimination-State and Local Fair Employment Practices Agency Contracts | 30.002 | 2,265,200 |
| General Services Administration | | |
| Donation of Federal Surplus Personal Property | 39.003 | 2,164,145*** |
| National Foundation on the Arts and the Humanities | | |
| Promotion of the Arts-Partnership Agreements | 45.007 | 961,000 |
| Grants to States | 45.310 | 17,425,586 |
| Total National Foundation on the Arts and Humanities | | 18,386,586 |
| Department of Veterans Affairs | | |
| Grants to States for Construction of State Home Facilities | 64.005 | 3,454,714 |

| Federal Agency/Program Title | Federal Catalog Number | Grant Amount Received |
|--|------------------------|-----------------------|
| Veterans State Domiciliary Care | 64.014 | 9,406,788 |
| Veterans State Nursing Home Care | 64.015 | 12,125,263 |
| Veterans State Hospital Care | 64.016 | 84,816 |
| Veterans Housing-Guaranteed and Insured Loans | 64.114 | 62,664,844**** |
| All-Volunteer Force Educational Assistance | 64.124 | 117,941 |
| State Cemetery Grants | 64.203 | 7,674,358 |
| Other-U.S. Department of Veterans Affairs | 64.999 | 1,173,940 |
| Total U.S. Department of Veteran's Affairs | | 96,702,664 |
| Environmental Protection Agency | | |
| Air Pollution Control Program Support | 66.001 | 9,633,599 |
| State Indoor Radon Grants | 66.032 | 177,073 |
| Compliance Assistance Support for Services to the Regulated Community and Other Assistance Providers | 66.305 | 16,962 |
| Water Pollution Control State, Interstate, and Tribal Program Support | 66.419 | 4,863,250 |
| State Underground Water Source Protection | 66.433 | 813,084 |
| Water Quality Management Planning | 66.454 | 746,051 |
| National Estuary Program | 66.456 | 287,978 |
| Capitalization Grants for Clean Water State Revolving Funds | 66.458 | 38,170,069 |
| Nonpoint Source Implementation Grants | 66.460 | 10,393,545 |
| Regional Wetland Program Development Grants | 66.461 | 182,725 |
| Water Quality Cooperative Agreements | 66.463 | 553,772 |
| Capitalization Grants for Drinking Water State Revolving Funds | 66.468 | 98,962,463 |
| State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs | 66.471 | 594,978 |
| Beach Monitoring and Notification Program Implementation Grants | 66.472 | 461,041 |
| Water Protection Grants to the States | 66.474 | 320,845 |
| Environmental Protection-Consolidated Research | 66.500 | 6,486,493 |
| Office of Research and Development Consolidated Research/Training | 66.511 | 224,780 |
| Congressionally Mandated Projects | 66.606 | 606,438 |
| Consolidated Pesticide Enforcement Cooperative Agreements | 66.700 | 1,576,188 |
| Toxic Substances Compliance Monitoring Cooperative Agreements | 66.701 | 54,950 |

| Federal Agency/Program Title | Federal Catalog Number | Grant Amount Received |
|---|------------------------|-----------------------|
| TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals | 66.707 | 273,508 |
| Pollution Prevention Grants Program | 66.708 | 54,516 |
| Pesticide Environmental Stewardship-Regional Grants | 66.714 | 23,742 |
| Surveys, Studies, Investigations, Training Demonstrations and Educational Outreach | 66.716 | 3,031 |
| Hazardous Waste Management State Program Support | 66.801 | 7,592,303 |
| Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements | 66.802 | 1,097,107 |
| State and Tribal Underground Storage Tanks Program | 66.804 | 190,016 |
| Leaking Underground Storage Tank Trust Fund Program | 66.805 | 4,093,049 |
| Solid Waste Management Assistance Grants | 66.808 | 52,025 |
| Superfund State and Indian Tribe Core Program Cooperative Agreements | 66.809 | 170,449 |
| State and Tribal Response Program Grants | 66.817 | 1,608,819 |
| Brownfield Assessment and Cleanup Cooperative Agreements | 66.818 | 477 |
| Environmental Education Grants | 66.951 | 22,899 |
| Total Excluding Clusters | | 190,308,225 |
| Research and Development Cluster | | |
| Pollution Prevention Grants Program | 66.708 | 19,934 |
| Total U.S. Environmental Protection Agency | | 190,328,159 |
| Office of State and Tribal Programs, Nuclear Regulatory Commission | | |
| Radiation Control-Training Assistance and Advisory Counseling | 77.001 | 98,800 |
| Department of Energy | | |
| State Energy Program | 81.041 | 3,402,607 |
| Weatherization Assistance for Low-Income Persons | 81.042 | 6,065,351 |
| Environmental Restoration | 81.092 | 282,996 |
| Other - U.S. Department of Energy | 81.999 | 745,628 |
| Total Department of Energy | | 10,496,582 |

| Federal Agency/Program Title | Federal Catalog Number | Grant Amount Received |
|--|------------------------|-----------------------|
| Federal Emergency Management Agency | | |
| Community Assistance Program-State Support Services Element (CAP-SSSE) | 83.105 | 400,682 |
| State Disaster Preparedness Grants | 83.505 | 65,507 |
| Flood Mitigation Assistance | 83.536 | 620,759 |
| Emergency Management Performance Grants | 83.552 | 87,275 |
| Pre-Disaster Mitigation | 83.557 | 8,739 |
| State and Local All Hazards Emergency Operations Planning | 83.562 | 323,198 |
| Total Federal Emergency Management Agency | | 1,506,160 |
| Department of Education | | |
| Adult Education-State Grant Program | 84.002 | 67,928,774 |
| Title I Grants to Local Educational Agencies | 84.010 | 2,060,366,982 |
| Migrant Education-State Grant Program | 84.011 | 132,760,620 |
| Title I Program for Neglected and Delinquent Children | 84.013 | 1,530,691 |
| Vocational Education-Basic Grants to States | 84.048 | 106,922,671 |
| Vocational Education-State Councils | 84.053 | 343,786 |
| Leveraging Educational Assistance Partnership | 84.069 | 12,420,761 |
| Rehabilitation Services - Vocational Rehabilitation Grants to States | 84.126 | 246,498,779 |
| Rehabilitation Services-Service Projects | 84.128 | 1,444,820 |
| Independent Living-State Grants | 84.169 | 3,837,156 |
| Rehabilitation Services-Independent Living Services for Older Individual Who are Blind | 84.177 | 3,368,685 |
| Special Education-Grants for Infants and Families with Disabilities | 84.181 | 54,185,481 |
| Safe and Drug-Free Schools and Communities-National Programs | 84.184 | 4,180,667 |
| Byrd Honors Scholarships | 84.185 | 4,182,125 |
| Safe and Drug-Free Schools and Communities-State Grants | 84.186 | 55,202,816 |
| Supported Employment Services for Individuals with Severe Disabilities | 84.187 | 1,774,262 |
| Education for Homeless Children and Youth | 84.196 | 8,720,640 |
| Even Start-State Educational Agencies | 84.213 | 26,299,850 |
| Assistive Technology | 84.224 | 545,765 |
| Rehabilitation Services Demonstration and Training Programs | 84.235 | 284,013 |
| Tech-Prep Education | 84.243 | 8,281,791 |

| Federal Agency/Program Title | Federal Catalog Number | Grant Amount Received |
|---|------------------------|-----------------------|
| Rehabilitation Training-State Vocational Rehabilitation Unit In-Service Training | 84.265 | 497,236 |
| Eisenhower Professional Development State Grants | 84.281 | 8,832,750 |
| Charter Schools | 84.282 | 28,978,024 |
| Twenty-First Century Community Learning Centers | 84.287 | 185,470,536 |
| State Grants for Innovative Programs | 84.298 | 21,127,259 |
| Education Technology State Grants | 84.318 | 105,773,642 |
| Special Education-State Personnel Development | 84.323 | 2,094,212 |
| Advanced Placement Program | 84.330 | 1,120,042 |
| Grants to States for Incarcerated Youth Offenders | 84.331 | 1,740,697 |
| Comprehensive School Reform Demonstration | 84.332 | 32,161,433 |
| Reading First State Grants | 84.357 | 142,748,332 |
| Rural Education | 84.358 | 1,129,604 |
| English Language Acquisition Grants | 84.365 | 69,700,844 |
| Mathematics and Science Partnerships | 84.366 | 17,520,449 |
| Improving Teacher Quality State Grants | 84.367 | 71,924,357 |
| Grants for State Assessments and Related Activities | 84.369 | 35,790,338 |
| Total Excluding Clusters | | 3,527,690,890 |
| Student Financial Aid Cluster | | |
| Federal Family Education Loans | 84.032 | 26,929,831,756** |
| Special Education Cluster | | |
| Special Education - Grants to States | 84.027 | 1,154,061,602 |
| Special Education - Preschool Grants | 84.173 | 39,286,549 |
| Total Special Education Cluster | | 1,193,348,151 |
| Total U.S. Department of Education | | 31,650,870,797 |
| National Archives and Records Administration | | |
| National Historical Publications and Records Grants | 89.003 | 88,540 |
| Department of Health and Human Services | | |
| Public Health and Social Services Emergency Fund | 93.003 | 50,907,417 |
| Project Grants for Facilities to Improve the Health Status of Minority Populations | 93.005 | 49,976 |

| Federal Agency/Program Title | Federal Catalog Number | Grant Amount Received |
|---|------------------------|-----------------------|
| Special Programs for the Aging-Title VII, Chapter 3-Programs for Prevention of Elder Abuse, Neglect, and Exploitation | 93.041 | 504,291 |
| Special Programs for the Aging-Title VII, Chapter 2-Long Term Care Ombudsman Services for Older Individuals | 93.042 | 1,343,203 |
| Special Programs for the Aging-Title III, Part D-Disease Prevention and Health Promotion Services | 93.043 | 2,016,843 |
| Special Programs for the Aging - Title IV and Title II - Discretionary Projects | 93.048 | 560,091 |
| National Family Caregiver Support | 93.052 | 16,793,181 |
| Food and Drug Administration-Research | 93.103 | 1,082,648 |
| Maternal and Child Health Federal Consolidated Programs | 93.110 | 412,536 |
| Environmental Health | 93.113 | 12,940 |
| Project Grants and Cooperative Agreements for Tuberculosis Control Programs | 93.116 | 7,237,701* |
| Emergency Medical Services for Children | 93.127 | 128,928 |
| Primary Care Services Resource Coordination and Development | 93.130 | 239,561 |
| Injury Prevention and Control Research and State and Community Based Programs | 93.136 | 9,377,947 |
| Projects for Assistance in Transition from Homelessness (PATH) | 93.150 | 6,983,618 |
| Health Program for Toxic Substances and Disease Registry | 93.161 | 825,394 |
| Grants to State for Loan Repayment Program | 93.165 | 713,536 |
| Disabilities Prevention | 93.184 | 288,919 |
| Consolidated Knowledge Development and Application (KD&A) Program | 93.230 | 2,258,070 |
| Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement | 93.238 | 63,692 |
| State Rural Hospital Flexibility Program | 93.241 | 326,004 |
| Substance Abuse and Mental Health Services-Projects of Regional and National Significance | 93.243 | 3,251,165 |
| Universal Newborn Hearing Screening | 93.251 | 164,512 |
| Rural Access to Emergency Devices Grant | 93.259 | 169,914 |
| Immunization Grants | 93.268 | 216,735,595* |
| Substance Abuse and Mental Health Services - Access to Recovery | 93.275 | 6,097,671 |
| Centers for Disease Control and Prevention-Investigations and Technical Assistance | 93.283 | 81,799,321*^ |
| Small Rural Hospital Improvement Grant Program | 93.301 | 263,580 |
| Promoting Safe and Stable Families | 93.556 | 60,667,416 |
| Temporary Assistance for Needy Families | 93.558 | 3,144,770,307 |
| Job Opportunities and Basic Skills Training | 93.561 | 16,893,547 |
| Child Support Enforcement | 93.563 | 550,942,368 |
| Child Support Enforcement Research | 93.564 | 13,203 |

| Federal Agency/Program Title | Federal Catalog Number | Grant Amount Received |
|---|------------------------|-----------------------|
| Refugee and Entrant Assistance-State Administered Programs | 93.566 | 26,825,209 |
| Low-Income Home Energy Assistance | 93.568 | 104,953,261 |
| Community Services Block Grant | 93.569 | 55,674,290 |
| Community Services Block Grant Formula and Discretionary Awards-Community Food and Nutrition Programs | 93.571 | 461,671 |
| Refugee and Entrant Assistance-Discretionary Grants | 93.576 | 1,331,822 |
| U.S. Repatriation | 93.579 | 62,391 |
| Refugee and Entrant Assistance-Targeted Assistance Grants | 93.584 | 4,172,680 |
| State Court Improvement Program | 93.586 | 1,028,208 |
| Community-Based Child Abuse Prevention Grants | 93.590 | 3,067,185 |
| Grants to States for Access and Visitation Programs | 93.597 | 913,710 |
| Chafee Education and Training Vouchers Program (ETV) | 93.599 | 6,351,947 |
| Head Start | 93.600 | 199,324 |
| Mentoring Children of Prisoners | 93.616 | 204,686 |
| Voting Access for Individuals with Disabilities-Grants to States | 93.617 | 337,909 |
| Developmental Disabilities Basic Support and Advocacy Grants | 93.630 | 7,430,223 |
| Children's Justice Grants to States | 93.643 | 2,113,787 |
| Child Welfare Services-State Grants | 93.645 | 36,788,567 |
| Social Services Research and Demonstration | 93.647 | 34,952 |
| Adoption Opportunities | 93.652 | 316,197 |
| Foster Care-Title IV-E | 93.658 | 1,231,932,089 |
| Adoption Assistance | 93.659 | 289,356,153 |
| Social Services Block Grant | 93.667 | 389,244,542 |
| Child Abuse and Neglect State Grants | 93.669 | 2,281,612 |
| Family Violence Prevention and Services/Grants for Battered Women's Shelters - Grants to States and Indian Tribes | 93.671 | 8,249,012 |
| Chafee Foster Care Independence Program | 93.674 | 28,443,906 |
| State Children's Insurance Program | 93.767 | 1,075,124,318 |
| Medicare-Supplementary Medical Insurance | 93.774 | 5,616,342 |
| Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations | 93.779 | 2,013,837 |
| Grants to States for Operation of Offices of Rural Health | 93.913 | 144,603 |
| HIV Care Formula Grants | 93.917 | 116,049,728 |
| Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems | 93.938 | 615,616 |
| HIV Prevention Activities - Health Department Based | 93.940 | 14,141,016 |
| HIV Demonstration, Research, Public and Professional Education Projects | 93.941 | 94,257 |

| Federal Agency/Program Title | Federal Catalog Number | Grant Amount Received |
|---|------------------------|-----------------------|
| Human Immunodeficiency Virus (HIV)/Acquired Immuno-deficiency Virus Syndrome (AIDS) Surveillance | 93.944 | 2,937,085 |
| Trauma Care Systems Planning and Development | 93.952 | 36,197 |
| Block Grants for Community Mental Health Services | 93.958 | 53,983,996 |
| Block Grants for Prevention and Treatment of Substance Abuse | 93.959 | 270,968,630 |
| Preventive Health Services-Sexually Transmitted Diseases Control Grants | 93.977 | 5,237,707 |
| Preventive Health Services- Sexually Transmitted Diseases Research, Demonstrations, and Public Information and Education Grants | 93.978 | 1,871,436 |
| Mental Health Disaster Assistance and Emergency Mental Health | 93.982 | 16 |
| Health Program for Refugees | 93.987 | 575,329 |
| Cooperative Agreements for State-Based Diabetes Control Program and Evaluation of Surveillance Systems | 93.988 | 932,702 |
| Preventive Health and Health Services Block Grant | 93.991 | 7,967,106 |
| Maternal and Child Health Services Block Grant to the States | 93.994 | 43,264,559 |
| Other-Department of Health and Human Services | 93.999 | 14,406,221 |
| Total Excluding Clusters | | 8,001,651,129 |
| Aging Cluster | | |
| Special Programs for the Aging - Title III, Part B - Grants for Supportive Services & Senior Centers | 93.044 | 34,741,471 |
| Special Programs for the Aging - Title III, Part C - Nutrition Services | 93.045 | 50,923,106 |
| Nutrition Services Incentive Program | 93.053 | 10,704,685 |
| Total Aging Cluster | | 96,369,262 |
| Child Care Development Fund Cluster | | |
| Child Care and Development Block Grant | 93.575 | 743,400,877 |
| Child Care Mandatory and Matching Funds of the Child Care and Development Fund | 93.596 | 156,254,389 |
| Total Child Care Development Fund Cluster | | 899,655,266 |
| Medicaid Cluster | | |
| State Medicaid Fraud Control Units | 93.775 | 18,715,101 |
| State Survey and Certification of Health Care Providers and Suppliers | 93.777 | 25,501,473 |
| Medical Assistance Program | 93.778 | 18,282,991,680 |
| Total Medicaid Cluster | | 18,327,208,254 |

| Federal Agency/Program Title | Federal Catalog Number | Grant Amount Received |
|---|------------------------|-----------------------|
| Research and Development Cluster | | |
| Project Grants and Cooperative Agreements for Tuberculosis Control Programs | 93.116 | 288,846 |
| Consolidated Knowledge Development and Application (KD&A) Program | 93.230 | 68,099 |
| Substance Abuse and Mental Health Services-Projects of Regional and National Significance | 93.243 | 124,551 |
| Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations | 93.779 | 616,500 |
| Total Research and Development Cluster | | 1,097,996 |
| Total U.S. Department of Health and Human Services | | 27,325,981,907 |
| Corporation for National and Community Service | | |
| CalServ America | 94.001 | 62,452 |
| State Commissions | 94.003 | 1,479,220 |
| Learn and Serve America-School and Community Based Programs | 94.004 | 2,265,578 |
| AmeriCorps | 94.006 | 27,123,106 |
| Total Excluding Clusters | | 30,930,356 |
| Foster Grandparent/Senior Companion Cluster: | | |
| Foster Grandparent Program | 94.011 | 1,470,035 |
| Total U.S. Corporation for National and Community Service | | 32,400,391 |
| Social Security Administration | | |
| Disability Insurance/SSI Cluster | | |
| Social Security-Disability Insurance | 96.001 | 182,061,660 |
| Department of Homeland Security | | |
| State Domestic Preparedness Equipment Support Program | 97.004 | 70,489,642 |
| Urban Areas Security Initiative | 97.008 | 44,429,022 |
| Pre-Disaster Mitigation (PDM) Competitive Grants | 97.017 | 2,270,000 |
| Flood Mitigation Assistance | 97.029 | 61,690 |
| Crisis Counseling | 97.032 | 108,963 |
| Disaster Unemployment Assistance | 97.034 | 3,430 |

| Federal Agency/Program Title | Federal Catalog Number | Grant Amount Received |
|--|------------------------|-------------------------|
| Individual and Family Grants | 97.035 | 75 |
| Disaster Grants-Public Assistance (Presidentially Declared Disasters) | 97.036 | 176,910,593 |
| Hazard Mitigation Grant | 97.039 | 49,290,450 |
| Emergency Management Performance Grants | 97.042 | 5,106,499 |
| Cooperating Technical Partners | 97.045 | 66,994 |
| Fire Management Assistance Grant | 97.046 | 49,314,755 |
| Pre-Disaster Mitigation Disaster Resistant Universities | 97.063 | 46,221 |
| Homeland Security Grant Program | 97.067 | 12,567,692 |
| Map Modernization Management Support | 97.070 | 706,606 |
| State Homeland Security Program | 97.073 | 6,233 |
| Total Department of Homeland Security | | 411,378,865 |
| | | |
| Office of National Drug Control Policy | | |
| High Intensity Drug Trafficking Area | See Note 4 | 3,773,122 |
| | | |
| Miscellaneous Grants and Contracts | | |
| Shared Revenue-Flood Control Lands | 99.002 | 287,917 |
| Shared Revenue-Grazing Land | 99.004 | 194,591 |
| Foreign Assistance to American Schools and Hospitals Abroad (ASHA) (2004) | 99.006 | 287 |
| U.S. Department of the Interior-Fire Prevention/Suppression Agreement | 99.014 | 634,000 |
| U.S. Department of Agriculture and Various Other U.S. Department-Fire Prevention/Suppression | 99.016 | 13,087,882 |
| Miscellaneous Federal Receipts | 99.099 | 385,002 |
| Miscellaneous Federal Receipts | 99.999 | 2,000,055 |
| Total Miscellaneous | | 16,589,734 |
| Total Federal Awards Received | | \$73,889,752,672 |

* Amount includes value of commodities or food stamps.

** Amount includes loans and/or loan guarantees outstanding as of June 30, 2006.

*** Amount includes donated property.

**** Amount includes insurance in effect as of June 30, 2006.

^ Amount consists of several programs, including \$75,558,247 for the Public Health and Preparedness and Response for Bioterrorism programs and \$6,241,074 for the Breast and Cervical Cancer Control program.

**NOTES TO THE SCHEDULE OF FEDERAL ASSISTANCE
FISCAL YEAR ENDED JUNE 30, 2006**

1. GENERAL

The accompanying State of California Schedule of Federal Assistance presents the total amount of federal financial assistance programs received by the State of California for the fiscal year ended June 30, 2006. This schedule does not include expenditures of federal grants received by the University of California, the California State University, and the California Housing Finance Agency. The expenditures of the University of California, California State University, and California Housing Finance Agency are audited by other independent auditors in accordance with the U.S. Office of Management and Budget, Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133).

The \$73,889,752,672 in total federal assistance consists of the following:

| | |
|---------------------------------------|-------------------------|
| Cash assistance received | \$44,175,255,797 |
| Noncash federal awards | 2,677,456,445 |
| Loans and loan guarantees outstanding | 26,974,375,586 |
| Insurance in effect | 62,664,844 |
| Total | <u>\$73,889,752,672</u> |

2. BASIS OF ACCOUNTING

OMB Circular A-133 and the Single Audit Act of 1984 (Amended 1996) require the Schedule of Federal Assistance to present total expenditures for each federal assistance program. However, although the state accounting system separately identifies revenues for each federal assistance program, it does not separately identify expenditures for each program. As a result, the State prepares its Schedule of Federal Assistance on a cash receipts basis. The schedule shows the amount of cash and noncash federal assistance received, loans and loan guarantees outstanding, and insurance in effect for the year ended June 30, 2006.

3. UNEMPLOYMENT INSURANCE

Of the \$4,907,245,997 in total unemployment insurance funds (federal catalog number 17.225) received by the Employment Development Department during fiscal year 2005–06, \$4,539,802,443 was State Unemployment Insurance funds that were drawn down from the Unemployment Trust Fund in the U.S. Treasury.

4. OTHER

The California Department of Justice (DOJ) receives cash reimbursements from local law enforcement agencies under the Office of National Drug Control Policy's High Intensity Drug Trafficking Area program. During the period July 1, 2005 through June 30, 2006, the DOJ received the following cash reimbursements from pass-through entities:

| Federal Agency/Program | Pass-through Entity | Grant Number | Amount |
|--|---|-------------------|--------------------|
| Office of National Drug Control Policy High Intensity Drug Trafficking Area | | | |
| | LA Clear/LA Police Chief's Association/ City of Hawthorne | I5PLAP534 | \$ 1,086,350 |
| | CV HIDTA/LA Police Chief's Association/ Stanislaus County | I4PVCP501 | 28,232 |
| | CV HIDTA/LA Police Chief's Association/ Stanislaus County | I5PVCP501 | 118,589 |
| | INCH/LA Police Chief's Association/ Riverside County | I5PLAP540Z | 66,422 |
| | INCH/LA Police Chief's Association/ Riverside County | I6PLAP540Z | 24,393 |
| | NV HIDTA/LA Police Chief's Association/ Las Vegas Metro PD | I3PNVP501Z | 60,026 |
| | NV HIDTA/LA Police Chief's Association/ Las Vegas Metro PD | I4PNVP501Z | 52,578 |
| | NV HIDTA/LA Police Chief's Association/ Las Vegas Metro PD | I5PNVP501Z | 816 |
| | NV HIDTA/LA Police Chief's Association/ Las Vegas Metro PD | I6PNVP501Z | 10,278 |
| | CA Border Alliance Group/ City of San Diego | I4PSCP575 | 85,045 |
| | CA Border Alliance Group/ City of San Diego | I5PSCP575 | 1,415,993 |
| | Northwest HIDTA/Washington State | I5PNWP505Z | 46,500 |
| | Clallam Co Sheriff's Office | WASPC 04-WSMI-003 | 9,345 |
| | Clallam Co Sheriff's Office | 2005CKWX0392 | 9,288 |
| | Criminal Information Sharing Alliance | DCA1000310001 | 638,268 |
| | Institute of Intergovernmental Research | 2003RSCX1002 | 120,999 |
| | Total | | <u>\$3,773,122</u> |

The State was also loaned Federal Excess Personal Property (FEPP) from the U.S. Forest Service during the period July 1, 2005 to June 30, 2006. According to the California Department of Forestry and Fire Protection, the amount loaned from July 1, 2005 to June 30, 2006, was \$5,686,390. The U.S. Forest Service and the State maintain the FEPP program at federal acquisition costs of the property.

Summary Schedule of Prior Audit Findings

**Prepared by
Department of Finance**

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Reference Number: **2005-12-1**

Federal Program: All Programs

State Administering Department: Department of Finance

Fiscal Year Initially Reported: 1995–96

Audit Finding: Reporting. Because of limitations in its automated accounting systems, the State has not complied with the provision of OMB Circular A-133 requiring a schedule showing total expenditures for each federal program.

Status of Corrective Action: Remains uncorrected. The State's accounting system will require substantial modification to comply with federal and State requirements. Given the State's current limited resources, the Department of Finance has no plans at this time to enhance the State's accounting system or to implement a new system.¹

Reference Number: **2005-13-1**

Federal Program: 10.557

State Administering Department: Department of Health Services

Fiscal Year Initially Reported: 2003–04

Audit Finding: Subrecipient Monitoring. Health Services does not ensure the prompt resolution of all findings resulting from its monitoring reviews of local agencies' administration of their WIC programs.

Status of Corrective Action: Fully corrected.

Reference Number: **2005-12-3**

Federal Program: 16.575

State Administering Department: Governor's Office of Emergency Services

Fiscal Year Initially Reported: 2003–04

Audit Finding: Reporting. Certain reports Emergency Services submitted in fiscal year 2004–05 do not comply with applicable reporting requirements.

Status of Corrective Action: Partially corrected. Financial Status Reports: The reconstruction is still in progress. The final report in the reconstruction effort is due to the Legislature in March 2007; however, the Victims of Crime Act (VOCA)

grant for federal fiscal year 2002 has been closed. The final 269 report was submitted March 10, 2006, and a close-out letter was received April 4, 2006.

Performance Reports: There are four responses by the Victim Services Branch to this finding with the following explanations:

Response 1: *Emergency Services has requested that our project manager for the federal Victims of Crime Act (VOCA) provide training to staff on how to complete the VOCA state performance report. Specifically, training is required on interpreting the VOCA definitions as they relate to the services provided and victims served with VOCA funds.*

Emergency Services did request training and a site visit from our project manager, Delano Foster. Due to other work commitments, the visit has been postponed and is tentatively set for the week of September 11, 2006. In the interim, Mr. Foster has been very responsive to questions raised by the Federal Fund Project Manager regarding definitions, appropriate categories, etc. that are to be used when completing the Annual Report and also the Subgrant Award Reports. The majority of this correspondence has been by e-mails, and the responses have been shared with Victim Service Branch staff who work on VOCA-funded grants.²

Response 2: *A representative from each section has volunteered to be on a committee to correlate the statistics requested on our progress reports with the appropriate categories and definitions requested on the VOCA state performance report. A matrix will be developed indicating each of the VOCA categories/ definitions with the corresponding objective information from our progress reports.*

This has been completed. The matrix was used in compiling the statistics for the 2004–05 Annual Report.

Response 3: *Instructions for staff are also being developed on how the data is to be collected and reported for the VOCA state performance report. This will insure consistency among sections.*

This has been completed. For the 2004–05 report, all Managers were provided (in writing) with the report requirements and timeframe and given a copy of the federal instructions and definitions for the 2004–05 Report. This information was then disseminated to staff at Section meetings. The Federal Project Manager also

reviewed the reporting requirements with the Section Chiefs at a Managers meeting prior to compiling the statistics for the report.

Response 4: The Victim Services Branch has instituted internal controls regarding the documentation that is retained to support the data supplied on the VOCA state performance report. In 2003–04 these controls were lacking and some of the supporting documentation was missing from the branch files. Now this supporting documentation is not only retained at the branch level but also by the federal funds project manager.

This has been completed. All the spread sheets used to compile the statistics for the report are contained in a file outside of the Branch Chief's office, and another copy is kept by the Federal Funds Project Manager. In addition, all of this data is also kept electronically, both the statistical and narrative portions provided by each Section and also the completed report.

| | |
|---------------------------------|---|
| Reference Number: | 2005-13-2 |
| Federal Program: | 16.575; 97.004 (formerly 16.007); 97.036; 97.039 |
| State Administering Department: | Governor's Office of Emergency Services Governor's Office of Homeland Security |
| Fiscal Year Initially Reported: | 2001–02 |
| Audit Finding: | <u>Subrecipient Monitoring.</u> The Governor's Office of Emergency Services (OES) did not adequately monitor subrecipients of funds for the Crime Victim Assistance, State Domestic Preparedness Equipment Support, Public Assistance Grants, and Hazard Mitigation Grant programs. |
| Status of Corrective Action: | A-133 Reports: Remains uncorrected/Agree with finding. OES has agreed that it did not fully comply with all pass through agency requirements included in OMB Circular A-133. OES did not fully comply because it lacked adequate staffing levels to perform all required work, and has submitted an 2007-08 budget change proposal to request additional staff to perform subrecipient monitoring. When OES has adequate staff to perform all required work, OES will fully comply with all OMB Circular A-133 subrecipient monitoring requirements. Site Visits: Partially corrected. The following corrective actions have been completed: |

- The Victim Services Branch developed a tracking process through an Excel spreadsheet as a management information tool. This spreadsheet tracks the dates site visits are scheduled, conducted, corrective action is taken, findings resolved, etc. Spreadsheets for each of the Branches within the Victim Services Branch are located on the shared drive.
- Staff instructions and corresponding forms for the Domestic Violence and Sexual Assault Sections, created as a consequence of Senate Bill 914, have been finalized. The instructions specify how to: prepare for a visit, conduct the visit, and identify issues found to be deficient; identify correction action required of the grant recipient; and, identify the timeline that corrective action must be taken. The instructions also provide information on how to follow-up on the satisfactory completion of corrective action. All of the dates for the above actions are also entered into the site visit spreadsheet.

Domestic Violence and Sexual Assault Section staff have begun to use the new instructions and forms. It is anticipated that the other Sections within Victim Services will be using the new forms or a similar variation by the end of 2006.

The following corrective action has not been completed:

- The Victim Services Branch is not currently staffed to capacity and this has impacted the Branch's ability to conduct site visits, follow up on issues and document the results of the visits. OES had indicated, in their prior response to this finding, that this issue was being resolved as the Branch was in the process of hiring staff, although staff retention had become a new concern.

Although hiring of new staff has taken place, the Branch has lost staff and therefore there are again vacancies. To compound the problem, it has now become more difficult to hire new staff as there is a limited pool of individuals to select from. OES is working on this problem and will be giving a new Criminal Justice Specialist exam by the end of 2006 which will create a new pool of candidates for the current vacancies.

In addition, to ensure adequate staffing to conduct the necessary site visits and follow up on corrective actions as well as perform other required duties, OES will be requesting five additional positions and part of

their job duties will be to conduct and document sites visits and to follow up on findings. If these positions are approved, they are effective July 1, 2007, and new staff would be hired and ready to begin conducting visits by January 1, 2008.³

Reference Number: **2005-2-2**

Federal Program: 17.207; 17.801; 17.804; 17.225; 17.258; 17.259; 17.260

State Administering Department: Employment Development Department

Fiscal Year Initially Reported: 1998–99

Audit Finding: Allowable Costs and Cost Principles. The Employment Development Department (EDD) allocated five of ten operating expense and equipment transactions we reviewed, even though it had not obtained federal approval to do so as part of its indirect cost rate proposal. In its indirect cost rate proposal for fiscal year 2005–06, EDD included documentation to support its use of allocated costs and, as of December 2005, is working with the U.S. Department of Labor to obtain approval of its indirect cost rate proposal.

Status of Corrective Action: Partially corrected. On June 30, 2005, the EDD submitted the indirect cost rate proposal (ICRP) for the period July 1, 2005 through June 30, 2006 to the U.S. Department of Labor Regional Cost Negotiator (RCN) for review and approval. The ICRP describes all cost pools that the EDD began using starting July 1, 2005. The use of cost pools eliminates the need for 151 allocation codes. The ICRP explains how costs will be distributed to programs in accordance with benefits received per federal regulations.

The EDD met with the RCN after the original submission. The RCN agreed with the basis for most of the EDD's cost pool allocations, and identified only limited areas of concern. The RCN believed there is a need to revisit the current "tax sharing ratio" considering the most recent agreement was established in fiscal year 1991–92. A revised ICRP was submitted on May 1, 2006 to the RCN that included the results of a study to update the tax-sharing ratio based on the use of character count as the basis for applying the costs to benefiting federal and state tax programs. The RCN will be meeting with EDD staff in August 2006 to review the revised ICRP.⁴

Reference Number: **2005-12-5**

Federal Program: 17.207; 17.801; 17.804; 17.225

State Administering Department: Employment Development Department

Fiscal Year Initially Reported: 2004–05
Audit Finding: Reporting. EDD did not have a process in place to review the accuracy of a reconciliation it used to complete its quarterly SF 272 reports.
Status of Corrective Action: Fully corrected.

Reference Number: **2005-9-2**
Federal Program: 20.205
State Administering Department: Department of Transportation
Fiscal Year Initially Reported: 2003–04
Audit Finding: Suspension and Debarment. Although the California Department of Transportation (Caltrans) included the suspension and debarment provision in all seven of its agreements with private contractors that we tested, it did not always include such a provision in its agreements with local governments (subrecipients).
Status of Corrective Action: Partially corrected. The Caltrans Division of Local Assistance, Office of Project Implementation anticipated development and implementation of a new Master Agreement for all federally funded projects by June 2006 that would address the Bureau’s finding. However, the issuance of the new Master Agreement has been delayed until September 2006 due to the need to implement new program requirements recently issued by the Federal Highway Administration.⁵

Reference Number: **2005-2-3**
Federal Program: 39.011
State Administering Department: Office of the Secretary of State
Fiscal Year Initially Reported: 2003–04
Audit Finding: Allowable Costs; Procurement and Suspension and Debarment. Although the Office of the Secretary of State took steps to improve its administration of ERP funds during fiscal year 2004–05, it has not corrected some of the deficiencies we reported last year. As a result, some of the same types of problems we reported last year, such as questionable procurement and contracting practices, lack of support for personal service costs, and failure to obtain suspension and debarment certifications, continue to exist.
Status of Corrective Action: Fully corrected.

Reference Number: **2005-2-1**
Federal Program: 84.010; 84.011
State Administering Department: Department of Education
Fiscal Year Initially Reported: 2004–05
Audit Finding: Allowable Costs and Cost Principles. The Department of Education (Education) inappropriately charged a portion of two employees' salaries and fringe benefits (personal services costs) to the Title I, Part A and Migrant Education programs.
Status of Corrective Action: Fully corrected.

Reference Number: **2005-3-1**
Federal Program: 84.010
State Administering Department: Department of Education
Fiscal Year Initially Reported: 2001–02
Audit Finding: Cash Management. The Department of Education (Education) does not have adequate procedures to ensure that Title I Part A subrecipients demonstrate the ability to minimize the time between receipt and disbursement of federal funds. Education disburses program funds to subrecipients based on predetermined percentages of program funds, rather than assessing and disbursing these funds based on each subrecipient's immediate cash needs. Education's lack of procedures to assess each subrecipient's cash needs, combined with its predetermined advance-payment process, does not adequately ensure that subrecipients minimize the time between receipt and disbursement of program funds.
Status of Corrective Action: Partially corrected. With limited resources available to monitor whether subrecipients' advance payments are expended before subsequent payments are issued, Education continues to explore various options for an optimal approach on monitoring, including seeking guidance from the United States Department of Education (ED). In May 2006, Education met with the ED Management Improvement Team, comprised of representatives from the ED Office of Under Secretary and ED Elementary and Secondary Education, to discuss risk management issues including cash management. The ED Risk Management Team understands that cash management for Education is multifaceted progressive process.

In the interim, Education continues to allocate funds proportionate to the unpaid months that have elapsed prior to and including the month of the current

apportionment, based on the principle that local educational agencies (LEAs) incur federal expenditures fairly constantly through the year. Education's apportionment letters include language notifying LEAs of a potential delay in funding if significant carry over balances exist.⁶

Reference Number: **2005-3-2**

Federal Program: 84.365

State Administering Department: Department of Education

Fiscal Year Initially Reported: 2002–03

Audit Finding: Cash Management. The Department of Education (Education) does not have adequate procedures to ensure that English Language Acquisition Grant subrecipients demonstrate the ability to minimize the time between receipt and disbursement of federal program funds. Education disburses 100 percent of the program funds to subrecipients without assessing each subrecipient's immediate cash needs. In addition, Education does not require its subrecipients to report any expenditure information until nine months after they receive the first of three payments. As a result of these weaknesses, Education disbursed approximately \$154.9 million during fiscal year 2004–05 with no assurance that these subrecipients minimized the time between the receipt and disbursement of federal funds.

Status of Corrective Action: Fully corrected.⁷

Reference Number: **2005-3-3**

Federal Program: 84.318

State Administering Department: Department of Education

Fiscal Year Initially Reported: 2002–03

Audit Finding: Cash Management. The Department of Education (Education) does not have adequate procedures to ensure that Education Technology subrecipients demonstrate the ability to minimize the time between receipt and disbursement of federal programs funds.

Status of Corrective Action: Partially corrected. Education Technology competitive grants are disseminated in three payments each year. The first payment of 45 percent is released after the grant award document is signed by the Superintendent or designee and returned to Education. By February 15 of each year, Education will require subrecipients to submit an expenditure report of actual expenditures to date along

with the semi-annual performance report. If a subrecipient spent 50 percent or more of the first payment the second 45 percent payment will be released. If a subrecipient spent less than 50 percent of the first payment, it will not receive a second payment until it certifies that the required percentage of funds has been spent. Final payments will be released after the end-of-period expenditure reports are received by Education, and at least 50 percent of the funds from the first two payments have been spent.

Education Technology formula grants provide subrecipients advance payments to implement their approved technology plan, which may require significant purchases of hardware and software. Therefore, Education proposes to provide the subrecipients an advance payment of 50 percent of their initial grant award amount. By February 15 of each year, Education will require subrecipients to submit an expenditure report of actual expenditures to date. If a subrecipient spent 80 percent of the first payment, the second payment will be released. If a subrecipient spent less than 80 percent of the first payment, it will not receive the final payment until it certifies that the required percentage of funds has been spent. An end-of-period expenditure report that provides signed assurances that funds were expended in accordance with the grant award documents will still be required and Education will bill for any unspent funds. It is anticipated that this process will begin with the 2006–07 grant year, depending upon completion of Education’s web-based reporting system.⁸

| | |
|---------------------------------|--|
| Reference Number: | 2005-3-4 |
| Federal Program: | 84.367 |
| State Administering Department: | Department of Education |
| Fiscal Year Initially Reported: | 2002–03 |
| Audit Finding: | <u>Cash Management</u> . The Department of Education does not have adequate procedures to ensure that subrecipients of the Improving Teacher Quality program demonstrate the ability to minimize the time between receipt and disbursement of federal funds. |
| Status of Corrective Action: | Fully corrected. ⁹ |

| | |
|-------------------|-----------------|
| Reference Number: | 2005-3-5 |
| Federal Program: | 84.298 |

State Administering Department: Department of Education

Fiscal Year Initially Reported: 2001–02

Audit Finding: Cash Management. The Department of Education (Education) does not have adequate procedures to ensure that subrecipients of the Innovative Education Program demonstrate the ability to minimize the time between receipt and disbursement of federal funds.

Status of Corrective Action: Partially corrected. Education implemented revisions to the Consolidated Application to capture LEA expenditure data for the Innovative Education Program. Education’s fiscal and program offices are working together to establish a procedure to use the expenditure data prior to releasing subsequent Innovative Education funds.¹⁰

Reference Number: **2005-5-1**

Federal Program: 84.126

State Administering Department: Department of Rehabilitation

Fiscal Year Initially Reported: 1996–97

Audit Finding: Eligibility. The Department of Rehabilitation does not always determine applicant eligibility for Vocational Rehabilitation services within the required period.

Status of Corrective Action: Fully corrected.

Reference Number: **2005-7-1**

Federal Program: 84.027

State Administering Department: Department of Education

Fiscal Year Initially Reported: 2003–04

Audit Finding: Level of Effort—Maintenance of Effort. In response to our fiscal year 2003–04 recommendation, the Department of Education (Education) implemented a system for monitoring its compliance with the maintenance of effort requirement; however, it did not clarify with USDE which funds should be included in its maintenance of effort determination. Thus, we cannot conclude that it has met this requirement.

Status of Correction Action: Partially corrected. Education continues to seek guidance from the USDE as to what should be included or excluded from maintenance-of-effort calculations. In May 2006,

Education sent a letter to the USDE Office of Special Education Programs with mental health expenditures for 2002–03 along with an explanation of Education’s concerns of incorporating the mental health expenditures in the maintenance-of-effort calculation. Although Education is working with the Department of Mental Health (DMH) on data issues, not all of Education’s concerns have been fully resolved. For example, DMH data currently does not distinguish whether mental health expenditures were required by an individualized education program, versus being provided for medical reasons.¹¹

Reference Number: **2005-7-2**

Federal Program: 84.298

State Administering Department: Department of Education

Fiscal Year Initially Reported: 2003–04

Audit Finding: Level of Effort—Supplement Not Supplant. The Department of Education (Education) does not have a system in place for monitoring the State’s compliance with the requirement that it use revenues from Innovative Education to supplement, rather than supplant, existing funds for grant-related activities.

Status of Corrective Action: Partially corrected. Education continues to develop a process to determine whether the federal grant revenues supplement, rather than supplant, other funding for the Innovative Education program.¹²

Reference Number: **2005-8-3**

Federal Program: 84.002; 84.287; 84.357

State Administering Department: Department of Education

Fiscal Year Initially Reported: 2004–05

Audit Finding: Period of Availability. The Department of Education (Education) did not obtain the USDE’s approval to liquidate obligations beyond the 90-day liquidation period for three of its grant awards. Although the liquidation period of these grant awards expired December 31, 2004, Education liquidated obligations totaling \$300,000 for its Reading First program and \$200,500 for its Twenty-First Century Program in February 2005

Status of Corrective Action: Fully corrected.¹³

Reference Number: **2005-14-1**

Federal Program: 84.011

State Administering Department: Department of Education

Fiscal Year Initially Reported: 2002–03

Audit Finding: Special Tests and Provisions. The Department of Education (Education) did not take into account all the required information when it awarded subgrants to LEAs for Migrant Education. During fiscal year 2004–05, Education allocated funds to LEAs using current data on the numbers and needs of migrant children in the State. Although Education uses its applications to obtain limited information about the availability of funds from other programs, it did not consider even limited information when it determined the amount of subgrants it awarded to LEAs.

Status of Corrective Action: Fully corrected.

Reference Number: **2005-14-3**

Federal Program: 84.032

State Administering Department: California Student Aid Commission

Fiscal Year Initially Reported: 2001–02

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

Status of Corrective Action: Partially corrected. Entity-wide Security Program Plan: In early federal fiscal year 2005–06, the auxiliary’s Information Security Officer (ISO) developed an entity-wide security program plan. The auxiliary (EdFund) has since hired a new ISO who has developed a comprehensive enterprise information security policy/program which includes information security training awareness, as well as specific processes to improve the protection of FFEL Program data and sensitive applications.

Removal of Employee Electronic Access: The Internal Audit Department has reviewed the three instances identified by the auditor to determine if existing procedures are being followed and/or whether additional controls are necessary to help ensure prompt removal of access for terminated employees. Internal Audit completed this review on August 28, 2006, and noted the following:

- In the first instance, the employee resigned from EdFund on Wednesday, August 4, 2004 without written notice. On this date, the Human Resources (HR) representative responsible for preparing the paperwork for exiting employees and sending the notification to EdFund's Technology Solutions & Services Division (TSS) was absent from work. Therefore, the notification was not sent and the employee's access was not terminated until the HR representative returned to work on Friday, August 6, 2004.

At the time of BSA's testwork, EdFund Procedure 07.31.01.641 *Notification of Exiting Employees for Removal of Information Systems Access* stated that an employee's access should be deleted no later than one business day from the employee's effective exiting date.

Internal Audit noted that there was no back-up individual assigned to perform the notification function in the absence of the HR representative assigned to perform the task. Internal Audit noted that effective December 2005, HR assigned a back-up individual to perform the function in the absence of the assigned HR representative.

Internal Audit recommended to HR to develop and implement a procedure that documents the step-by-step process in which management is required to follow when notifying HR of employee terminations. This procedure should include at a minimum a timeframe in which the steps within the procedure must occur and the HR personnel who must be contacted to report a termination, including the back-up staff. This will help ensure the prompt removal of employee access to EdFund's systems. HR management will develop such a procedure by September 15, 2006.

In the second instance, Internal Audit noted that there is no procedure in place that provides guidance to EdFund management, or TSS, as to when an employee's access to EdFund's systems should be either suspended and/or deleted in the instance an employee fails to show up for work. EdFund's HR department will work collaboratively with TSS and the Information Security Officer (ISO) to develop and

implement a company wide procedure that defines the time line in which system access should be suspended and/or deleted for employees who have failed to show up for work without notice. Management will develop such a procedure by September 15, 2006.

- In the third instance, as stated above in the first instance reviewed by Internal Audit, HR assigned a back-up individual to perform the function in the absence of the assigned HR representative effective December 2005.

Data Maintenance: During fiscal year 2005–06, the auxiliary performed an inventory of the key data maintenance changes currently performed, determined the cause(s) and criticality of such changes as well as the volume and associated risk(s) of such changes. The auxiliary determined that for certain updates that are currently performed using data maintenance; modifications could be made to its information which would provide a systematic process for performing these updates including the creation of an automated audit trail. A project to implement these enhancements was developed and provided to executive management in March 2006. A start date, however, for the project has not been established. All updates/actions, however, continue to be performed using the data maintenance process implemented during fiscal year 2005–06.

The two divisions that currently perform data maintenance updates, Loan Operations and Default Management, created a centralized log that documents all types of data maintenance updates that are currently occurring or requested. Information documented in the log includes a description of the type of data change, impact to the business unit or borrower if the error is not corrected, and the action taken. TSS is also responsible for reviewing and approving requests for new types of data maintenance updates to ensure that there is no systematic means to perform the requested change. Loan Operations and Default Management have also both developed and implemented formal procedures for requesting, authorizing and performing data maintenance changes.

Internal Audit is scheduled to perform a review of these newly implemented data maintenance processes during the 2006–07 fiscal year. The timing of this review provides Loan Operations and Default Management adequate time to accumulate sufficient documentation for Internal Audit to perform the review.

Operating Agreement: The California Student Aid Commission and EdFund intend to execute a new Operating Agreement no later than January 31, 2007, which will include such terms as are necessary to implement or respond to recommendations made by the Bureau of State Audits. In the interim, to allow sufficient time for development of the new Operating Agreement, the parties have agreed to enter into an extension of the current Operating Agreement. The new Operating Agreement will include such terms as are necessary to ensure that the auxiliary organization maintains strong controls over its information systems.¹⁴

Reference Number: **2005-1-1**
Federal Program: 93.778
State Administering Department: Department of Health Services
Fiscal Year Initially Reported: 2004–05
Audit Finding: Activities Allowed. The Department of Health Services does not always ensure that its fiscal intermediary pays Medicaid claims correctly.
Status of Corrective Action: CALPOS Claim - Fully corrected.

Inpatient Care Claim—Partially corrected. The Department of Health Services has issued Operating Instruction Letter #138-06 on April 28, 2006 to the fiscal intermediary, Electronic Data Systems, to do the mass update of the Provider Master File for the administrative day revenue codes for dates of service August 1, 2001 to August 1, 2005. In addition, a provider bulletin was published in June 2006 to notify inpatient providers regarding this update and the upcoming Erroneous Payment Correction (EPC). This EPC, which is estimated to be completed in September 2006, will adjust previously adjudicated claims that paid the incorrect rate and pay them the correct rate at the time the services are rendered.¹⁵

Reference Number: **2005-2-4**
Federal Program: 93.283
State Administering Department: Department of Health Services
Fiscal Year Initially Reported: 2004–05

Audit Finding: Allowable Costs. The Department of Health Services did not ensure that employees who worked full-time on the Bioterrorism program consistently completed the required certifications.

Status of Corrective Action: Fully corrected. ¹⁶

Reference Number: **2005-3-6**

Federal Program: 93.283

State Administering Department: Department of Health Services

Fiscal Year Initially Reported: 2004–05

Audit Finding: Cash Management. The Department of Health Services (Health Services) does not ensure that the Public Health Preparedness and Response for Bioterrorism program's subrecipients demonstrate the ability to minimize the time between receipt and disbursement of federal program funds.

Status of Corrective Action: Remains uncorrected/Disagree with finding. Health Services disagrees with the finding, and therefore the process for making quarterly advance payments to subrecipients remains unchanged. Health Services disagrees with the finding because: (1) Health Services is required by federal law to comply with state law, which expressly requires quarterly payments; (2) there is no guidance nor criteria upon which to base a finding that a quarterly payment is inconsistent with the federal timely disbursement requirement; and (3) the federal regulations provide for, contemplate, and acknowledge alternative methods of disbursing grant funds and circumstances under which a grantee would not be able to meet the requirement to minimize the time between receipt and disbursement of funds.

Health Services concludes that both the State and federal requirements for grant financial funding apply. Both contain timely administration of payment criteria which are not inconsistent. State disbursement requirements are quarterly. Federal requirements must ensure a procedure to limit any time lags between receipt and disbursement of funds. It is unclear how a quarterly disbursement is inconsistent or noncompliant with a procedure that minimizes the time between receipt of grant funds and disbursements. Without specific criteria, there is nothing upon which to base a finding that these timeframes are inconsistent. Moreover, with the federal regulation requiring states administer grant funds in accordance with state requirements, doing anything other than quarterly disbursements (or whatever methodology required by state law) would violate this federal requirement. Assuming the state is disbursing funds in accordance with state law

(including but not limited to H&S 101317), and has a procedure in place that minimizes the lapse in time between receipt and disbursement of grant funds, then it is reasonable to conclude that the grant funds are being administered in accordance with federal requirements.¹⁷

Reference Number: **2005-5-2**
Federal Program: 93.044
State Administering Department: Department of Aging
Fiscal Year Initially Reported: 2003–04
Audit Finding: Eligibility. The Department of Aging (Aging) does not have adequate procedures to ensure that case management providers are public or nonprofit private agencies. Specifically, Aging did not screen case management providers for public or nonprofit status during fiscal year 2004–05.
Status of Corrective Action: Fully corrected.

Reference Number: **2005-5-3**
Federal Program: 93.767
State Administering Department: Managed Risk Medical Insurance Board
Fiscal Year Initially Reported: 2004–05
Audit Finding: Eligibility. Although the Managed Risk Medical Insurance Board delegates the day-to-day eligibility and enrollment operation for the State Children’s Insurance Program to a contractor, it does not always ensure that its contractor maintains critical documentation to support eligibility determinations.
Status of Corrective Action: Fully corrected.

Reference Number: **2005-8-1**
Federal Program: 93.569
State Administering Department: Department of Community Services and Development
Fiscal Year Initially Reported: 2004–05
Audit Finding: Period of Availability. The Department of Community Services and Development did not ensure that it obligated federal funds within the applicable period of availability for the Community Services Block Grant.
Status of Corrective Action: Fully corrected.

Reference Number: **2005-8-2**

Federal Program: 93.268

State Administering Department: Department of Health Services

Fiscal Year Initially Reported: 2004–05

Audit Finding: Period of Availability. The Department of Health Services (Health Services) did not always ensure that it charged the Immunization Grants program only for costs resulting from obligations incurred during the funding period.

Status of Corrective Action: Remains uncorrected/Agree with finding. Anticipated correction date is 12/31/06. Health Services communicated to staff the correct definition of encumbering funds. To ensure compliance with federal requirements, a monthly document is generated titled Status of Contracts. This document contains the name of each subrecipient, the funding award amount, contract term, and the status of the contract. Each subrecipient that does not have an executed contract is listed in bold to differentiate them from the remainder of the list. This document is monitored by contract staff and management staff to ensure that each contract is executed during the period of eligibility.

In addition, each subrecipient has been notified of the consequences of not returning signed contracts by the deadline. The first notification occurred by conference call. Each subrecipient was told they must return signed contracts by the July 1st deadline. In June 2006, a written communication was also disseminated to subrecipients providing them with a deadline for submission of signed contracts and explaining that noncompliance could result in loss of funding.¹⁸

Reference Number: **2005-8-4**

Federal Program: 93.283

State Administering Department: Department of Health Services

Fiscal Year Initially Reported: 2004–05

Audit Finding: Period of Availability. The Department of Health Services liquidated obligations incurred under its fiscal year 2003–04 grant award more than 90-days after the award's funding period had expired without requesting an extension from the U.S. Department of Health and Human Services to do so.

Status of Corrective Action: Fully corrected.

Reference Number: **2005-9-1**
Federal Program: 93.563
State Administering Department: Department of Child Support Services
Fiscal Year Initially Reported: 2004–05
Audit Finding: Suspension and Debarment. The Department of Child Support Services (DCSS) did not obtain the required suspension and debarment certification from any local child support agencies. Without obtaining the required certification, DCSS risks unknowingly allowing suspended or debarred parties to participate in the federal program. DCSS plans to include the suspension and debarment certification in its fiscal year 2005–06 agreements with local child support agencies. The Bureau of State Audits used an alternative test to determine that the local child support agencies had not been suspended or debarred.
Status of Corrective Action: Fully corrected.

Reference Number: **2005-12-4**
Federal Program: 93.767
State Administering Department: Department of Health Services
Fiscal Year Initially Reported: 2003–04
Audit Finding: Reporting. The Department of Health Services (Health Services) does not ensure that amounts reported on its quarterly CMS-21 report are classified correctly. Although the total amounts spent on the program reported by Health Services are accurate, we were unable to verify the accuracy of detailed expenditures reported by line item or category of service.
Status of Corrective Action: Fully corrected.¹⁹

Reference Number: **2005-13-3**
Federal Program: 93.575; 93.596
State Administering Department: Department of Education
Fiscal Year Initially Reported: 2003–04
Audit Finding: Subrecipient Monitoring. Education did not adequately fulfill its subrecipient monitoring responsibilities for the child care cluster programs.
Status of Corrective Action: Fully corrected.²⁰

Reference Number: **2005-13-4**

Federal Program: 93.917

State Administering Department: Department of Health Services

Fiscal Year Initially Reported: 2002–03

Audit Finding: Subrecipient Monitoring. In its state application for funding to administer the HIV Care Formula Grants program, the Department of Health Services (Health Services) identified site visits as a key component of its subrecipient monitoring process. However, Health Services did not perform site visits as frequently as the timeframes specified in its state application and did not always provide written reports to subrecipients within required timeframes.

Status of Corrective Action: Health Services did not conduct site visits for 11 of 37 subrecipients. Partially corrected.

During the last BSA audit of February 2006, Care Services Program was sited for incomplete monitoring of 11 counties. In our response to the BSA, we agreed the monitoring for those counties was not completed as of the date specified in the report. To date, four counties have been fully monitored, three are scheduled to be complete within the next eight weeks, and two are undergoing an extensive audit by the DHS Audits and Investigations unit with a follow up monitoring scheduled soon after completion of the audit. (In addition to monitoring by program and fiscal staff, CSP funds a full time auditor within Audits and Investigations.) Two remaining counties, both with very small funding allocations and remotely located, have not been scheduled for an onsite monitoring visit due to limited staffing. Alternative oversight processes are being utilized to ensure program and contract compliance in those two counties, while site monitoring processes are scheduled for spring 2007.

Health Services did not conduct site visits within the 18 month period ending June 30, 2005. Fully corrected.

Health Services did not provide written reports documenting the results of the site visits. Fully Corrected.

Health Services did not follow its procedures to ensure that it promptly received audit reports from non-profit subrecipients. Fully corrected.²¹

Reference Number: **2005-13-6**
Federal Program: 93.268
State Administering Department: Department of Health Services
Fiscal Year Initially Reported: 2004–05
Audit Finding: Subrecipient Monitoring. The Department of Health Services did not fulfill its subrecipient monitoring responsibilities for its Immunization Grants program.
Status of Corrective Action: Fully corrected.²²

Reference Number: **2005-14-2**
Federal Program: 93.053
State Administering Department: Department of Aging
Fiscal Year Initially Reported: 2004–05
Audit Finding: Special Tests and Provisions. Although Aging has implemented a process to ensure the prompt and equitable distribution of the cash it receives in lieu of commodities to its area agencies for its Nutrition Services Incentive Program, we found that it did not follow its process during fiscal year 2004–05.
Status of Corrective Action: Fully corrected.

Reference Number: **2005-14-4**
Federal Program: 93.778
State Administering Department: Department of Health Services
Fiscal Year Initially Reported: 1997–98
Audit Finding: Special Tests and Provisions. Our review of selected Medicaid providers revealed that the Department of Health Services (Health Services) did not always have the required agreements, disclosures, and certifications on file.
Status of Corrective Action: Partially corrected. Health Services concurs with this recommendation. Health Services continues to categorize reenrollment of those providers originally enrolled prior to 1998, as a high priority in its effort to reduce fraud in the Medi-Cal program, by assuring that only those eligible providers will be allowed to bill Medi-Cal, Health Services is actively reenrolling individual physician providers identified as providers originally enrolled prior to 1998. This reenrollment effort includes 6 of the 14 providers identified in the compliance review that required agreements, disclosures, and certifications on file. The

most recent reenrollment phase, is anticipated to be completed in fiscal year 2006–07. Reenrollment of physician group providers originally enrolled prior to 1998 will ensue, ensuring that these providers have updated enrollment and disclosure agreement documents, and are in compliance with state and federal statute/regulations. Reenrollment of providers enrolled prior 1998 will continue until all of the identified providers have been reenrolled.

The Provider Enrollment Branch (PEB) continues to implement procedures to more efficiently review and process reenrollment applications based upon based upon data driven targeting of established fraud indicators (consistent with the Malcolm Sparrow anti-fraud model). PEB annually reviews their practices to identify and prioritize policies and procedures that can be updated and streamlined, facilitating the reenrollment process.

Consistent with Health Services' Medi-Cal Fraud Control Strategic Plan, high-risk provider types will continue to be identified jointly, by PEB and Audits and Investigations (A&I), utilizing an on-going risk assessment analysis and the annual Medi-Cal Payment Error Study (MPES). The identified provider types will be subjected to continued reenrollment efforts, as has been the case over the last year.

Health Services has implemented a plan for reenrollment of all high-risk provider types that were identified in the 2004 MPES during fiscal year 2005–06. As a result of this plan, PEB has commenced the reenrollment of optometrist, optometry groups, and physician group providers. Reenrollment efforts for years 2006–07 and 2007–08, will look to the results of the newly published 2005 MPES.

With respect to providers identified in the compliance review that required certifications on file, as well as agreements, disclosure statements, Health Services' Licensing and Certification Division (L&C) will be including review of these facilities during their December 2006, roll-out.

Health Services considers the finding to be partially corrected and will continue to reenroll providers until it is assured that all disclosure requirements are met.

The Licensing and Certification Program (L&C) has successfully amended its application forms to include the disclosure requirements under 42 CFR 455.104-106, and these forms have been fully integrated into the health facility provider application process.

L&C is currently reviewing the newly implemented Medi-Cal Provider Agreement (OHS 6208) to determine whether this document can be applied to non-long term care health facilities. Options being evaluated include the adoption of the OHS 6208, with an addendum that will provide direction on what sections will be required of health facilities, or the development of a health facility-specific provider agreement that is more closely aligned with the existing provider agreement for long-term care facilities. The Program intends to complete this task by December 2006, and will plan for a roll-out strategy wherein all non-long term care facilities certified by L&C will have in file a provider agreement.²³

Reference Number: **2005-9-3**

Federal Program: 97.004 (formerly 16.007)

State Administering Department: Governor's Office of Emergency Services
Governor's Office of Homeland Security

Fiscal Year Initially Reported: 2004-05

Audit Finding: Suspension and Debarment. The Governor's Office of Emergency Services did not have adequate procedures to ensure that subrecipients receiving funds from the State Domestic Preparedness Equipment Support Program were not suspended or debarred.

Status of Corrective Action: Fully corrected.

Reference Number: **2005-12-2**

Federal Program: 97.036

State Administering Department: Governor's Office of Emergency Services

Fiscal Year Initially Reported: 2003-04

Audit Finding: Reporting. The Governor's Office of Emergency Services reported incorrect financial information in its March 2005 quarterly progress report.

Status of Corrective Action: Fully corrected.

Reference Number: **2005-12-6**

Federal Program: 97.036 & 97.039

State Administering Department: Governor's Office of Emergency Services

Fiscal Year Initially Reported: 1999-00

Audit Finding: Reporting. The Governor's Office of Emergency Services' (Emergency Services) financial status reports do not always contain complete expenditure information.

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

Additionally, although many of the on-going disasters date back to 1990, Emergency Services will pursue a review of its internal fiscal and grant tracking systems to determine the availability of information. The systems currently in place may not have historical information available thus creating a monumental task to compile the old data with limited resources available.²⁴

Reference Number: **2005-14-5**

Federal Program: 97.067

State Administering Department: Governor's Office of Homeland Security

Fiscal Year Initially Reported: 2004-05

Audit Finding: Special Tests and Provisions. The Governor's Office of Homeland Security did not obligate 80 percent of the 2005 Homeland Security Grant Program funds to subrecipients within 60 days of receiving the grant award for the four programs to which this requirement applies.

Status of Corrective Action: Fully corrected.

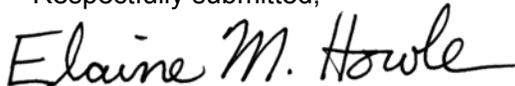
ENDNOTES—AUDITOR COMMENTS

- ¹ The status of this issue has changed. Please refer to reference number 2006-12-10 for additional information.
- ² Emergency Services subsequently informed KPMG auditors that the visit Emergency Services had tentatively set for September 11, 2006 has been postponed indefinitely.
- ³ We reported a similar weakness in our audit of fiscal year 2005–06. Please refer to reference numbers 2006-13-2 and 2006-13-3 for additional information.
- ⁴ The U.S. Department of Labor approved the Employment Development Department's Indirect Cost Rate Proposal for the fiscal years ending June 30, 2001 through 2006 on September 21, 2006.
- ⁵ Although Caltrans indicates that it has only partially implemented its corrective action plan, we did not find any reportable exceptions during our testing for fiscal year 2005-06.
- ⁶ We reported a similar weakness in our audit of fiscal year 2005–06. Please refer to reference number 2006-3-5 for additional information.
- ⁷ We reported a similar weakness in our audit of fiscal year 2005–06. Please refer to reference number 2006-3-8 for additional information.
- ⁸ We reported a similar weakness in our audit of fiscal year 2005–06. Please refer to reference number 2006-3-6 for additional information.
- ⁹ We reported a similar weakness in our audit of fiscal year 2005–06. Please refer to reference number 2006-3-9 for additional information.
- ¹⁰ We reported a similar weakness in our audit of fiscal year 2005–06. Please refer to reference number 2006-3-1 for additional information.
- ¹¹ We reported a similar weakness in our audit of fiscal year 2005–06. Please refer to reference number 2006-7-5 for additional information.
- ¹² We reported a similar weakness in our audit of fiscal year 2005–06. Please refer to reference number 2006-7-2 for additional information.
- ¹³ Although Education indicates that it is obtaining the U.S. Department of Education's (USDOE) written approval before making payments that fall outside of the liquidation period moving forward, the USDOE indicated that it could not retroactively approve the transactions that Education paid during fiscal year 2004–05 beyond the 90-day liquidation period.
- ¹⁴ We reported a similar weakness in our audit of fiscal year 2005–06. Please refer to reference number 2006-14-7 for additional information.
- ¹⁵ We reported a similar weakness in our audit of fiscal year 2005–06. Please refer to reference number 2006-1-1 for additional information.
- ¹⁶ We reported a similar weakness in our audit of fiscal year 2005–06. Please refer to reference number 2006-2-1 for additional information.
- ¹⁷ We reported a similar weakness in our audit of fiscal year 2005-06. Please refer to reference number 2006-3-11 for additional information. Also, according to the Bureau of State Audits Legal Counsel, the California Health and Safety Code, Subsection 101317(d)(1) does not preclude Health Services from assessing its subrecipients' cash needs and adjusting the quarterly payments, when necessary to comply with federal regulations. However, if Health Services believes state law requires it to make quarterly payments without regard to federal regulations pertaining to cash management, it should seek clarification from the U.S. Department of Health and Human Services.

- 18 We reported a similar weakness in our audit of fiscal year 2005–06. Please refer to reference number 2006-8-2 for additional information.
- 19 We reported a similar weakness in our audit of fiscal year 2005–06. Please refer to reference number 2006-12-2 for additional information.
- 20 We reported a similar weakness in our audit of fiscal year 2005–06. Please refer to reference numbers 2006-13-14 and 2006-13-15 for additional information.
- 21 We reported a similar weakness in our audit of fiscal year 2005–06. Please refer to reference number 2006-13-12 for additional information.
- 22 We reported a similar weakness in our audit of fiscal year 2005–06. Please refer to reference number 2006-13-13 for additional information.
- 23 We reported a similar weakness in our audit of fiscal year 2005–06. Please refer to reference number 2006-14-1 for additional information.
- 24 We reported a similar weakness in our audit of fiscal year 2005–06. Please refer to reference number 2006-12-1 for additional information.

We conducted this audit to comply with Section 8546.3 of the California Government Code. The Independent Auditor's Report provides the opinions we expressed on the State of California's internal controls and on compliance and other matters.

Respectfully submitted,



ELAINE M. HOWLE
State Auditor

Date: May 10, 2007

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Agency's comments provided as text only.

Department of Finance
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April 26, 2007

Ms. Elaine M. Howle, State Auditor
Bureau of State Audits
555 Capitol Mall, Suite 300
Sacramento, CA 95814

Dear Ms. Howle:

State of California: Internal Control and State and Federal Compliance Audit Report for the Fiscal Year Ended June 30, 2006

Thank you for the opportunity to respond to the internal control and state and federal compliance audit report. This report was the result of your examination of the state's general purpose financial statements and administration of federal programs for the fiscal year ended June 30, 2006, and will be part of the Single Audit Report covering this period. We accept the reported findings and recommendations and recognize that several compliance findings resulted in qualified opinions for 18 major programs. We also recognize that our internal controls and administration of federal awards needs to be improved. As a result, the state has taken a proactive approach by implementing recent changes to the Financial Integrity and State Manager's Accountability Act (FISMA) reporting requirements. Beginning in the current year, each agency now must conduct an internal review of their controls and prepare a report of the findings. A certification letter alone will not meet the FISMA requirements. The state will continue to emphasize its commitment to sound and effective fiscal oversight.

California provides its citizens with numerous state and federal programs and activities and is much more complex and vast than most economic entities in the world. Moreover, such operations must exist within a system of internal and administrative control that safeguards assets and resources and produces reliable financial information. Attaining these objectives and overseeing the financial and business practices of the state continues to be an important part of the Department of Finance's leadership.

In meeting our responsibility for financial leadership and oversight, the Department of Finance conducts internal control reviews of state departments and also reviews areas of potential weakness in the state's fiscal systems. In addition, we provide oversight of departmental internal audit units by issuing audit guidelines and conducting quality assurance reviews. Further, we have an ongoing process of issuing audit memos to departments that establish statewide policy and provide technical advice on various audit related issues. We will soon issue an audit memo concerning the results of the fiscal year 2005-06 Single Audit and remind all departments of the new internal auditing standards and processes included in Chapter 452, Statutes of 2006 (SB 1452).

The head of each state department is responsible for establishing and maintaining a system of internal accounting and administrative control within their department. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified for changing conditions.

Ms. Elaine M. Howle
April 26, 2007
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Moreover, all levels of state management must be involved in assessing and strengthening their systems of internal accounting and administrative controls to minimize fraud, errors, abuse, and waste of government funds.

Individual departments have separately responded to the report's findings and recommendations. Accordingly, their viewpoints and corrective action plans are included in the report. We will monitor the findings and reported corrective actions to identify potential changes in statewide fiscal procedures.

The Department of Finance is committed to ensuring the proper financial operations and business practices of the state and ensuring that internal controls exist for the safeguarding and effective use of assets and resources.

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

Sincerely,

(Signed by Fred Klass for:)

MICHAEL C. GENEST

Director

cc: Members of the Legislature
Office of the Lieutenant Governor
Milton Marks Commission on California State
Government Organization and Economy
Department of Finance
Attorney General
State Controller
State Treasurer
Legislative Analyst
Senate Office of Research
California Research Bureau
Capitol Press