

## Interim Reporting: Fiscal Year 2009–10 Single Audit

Aging  
Community Services and Development  
Developmental Services  
Industrial Relations  
Mental Health  
Military  
Rehabilitation  
Social Services

December 2010 Report 2010-002.1



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December 14, 2010

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

Dear Governor and Legislative Leaders:

Pursuant to guidance issued by the U.S. Office of Management and Budget (OMB), the California State Auditor's Office (State Auditor's Office) presents its interim report concerning various state departments' administration of federal programs during fiscal year 2009–10. With the passage of the American Recovery and Reinvestment Act of 2009 (Recovery Act) comes a renewed emphasis on accountability and public transparency to ensure federal funds are spent properly. A key component of such accountability and transparency is the annual report from the State Auditor's Office on internal control and compliance with federal laws and regulations. OMB's June 2010 guidance stresses the importance of auditors communicating promptly any identified internal control deficiencies to management and those charged with governance. In addition, the guidance states that it is imperative that deficiencies in internal control be corrected by management as soon as possible to ensure proper accountability and transparency for expenditures of Recovery Act awards.

This interim report summarizes audit results pertaining to 20 federal programs administered by eight departments. Five of the eight departments received Recovery Act funding through nine programs during fiscal year 2009–10. The State Auditor's Office has currently identified 17 findings regarding the eight departments' administration of these federal programs during fiscal year 2009–10. In many cases the findings are recurring issues we identified in past audits. The findings focused on various federal requirements including those regarding allowable costs, reporting, and monitoring subrecipients—such as counties—use of funds. We also reported that the departments fully corrected 28 findings that we included in last year's annual audit report. The specific federal programs, and their administering state departments, are listed in the table of contents.

Respectfully submitted,



ELAINE M. HOWLE, CPA  
State Auditor

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## Summary

### Results in Brief

On February 17, 2009, the federal government enacted the American Recovery and Reinvestment Act of 2009 (Recovery Act) to help fight the negative effects of the United States' economic recession. California expects that over time its state departments and other entities located within the State will receive \$85 billion in Recovery Act funding. With this increased funding comes a strong emphasis on accountability and public transparency to ensure federal funds are spent properly. A key component of such accountability and public transparency is the California State Auditor's Office (State Auditor's Office) annual report on the State's compliance with federal requirements, such as those identified in the Recovery Act.

The State Auditor's Office prepares its annual report in accordance with the requirements described in the U.S. Office of Management and Budget's (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. In June 2010 OMB encouraged auditors to communicate promptly any identified internal control deficiencies to management and those charged with governance. By encouraging prompt communication, OMB intends for recipients, including states, to correct these findings as soon as possible to ensure proper accountability and transparency for expenditures of Recovery Act awards. Based on OMB's June 2010 guidance, the State Auditor's Office presents its interim report concerning the State's administration of selected federal programs. Although OMB's guidance regarding prompt communication focused on Recovery Act programs, we have also included audit results for certain departments that did not receive Recovery Act funding in the interests of maximizing the benefits of prompt communication.

This interim report summarizes audit results pertaining to 20 federal programs administered by eight departments. Five of the eight departments received Recovery Act funding through nine programs during fiscal year 2009–10. The State Auditor's Office has currently identified 17 findings regarding the eight departments' administration of these federal programs during fiscal year 2009–10. In many cases the findings are recurring issues we identified in past audits. The findings focused on various federal requirements including those regarding allowable costs, reporting, and monitoring subrecipients'—such as counties—use of funds. We also reported that the departments fully corrected 28 findings that we included in last year's annual audit report. Finally, we made numerous recommendations to the respective departments.

**The Department of Aging (Aging)** administers the Aging Cluster of programs, which includes: Special Programs for the Aging—Title III, Part B—Grants for Supportive Services and Senior Centers (Federal Catalog Number 93.044); Special Programs for the Aging—Title III, Part C—Nutrition Services (Federal Catalog Number 93.045); Nutrition Services Incentive Program (Federal Catalog Number 93.053); ARRA—Aging Home-Delivered Nutrition Services for States (Federal Catalog Number 93.705); and ARRA—Aging Congregate Nutrition Services for States (Federal Catalog Number 93.707). The State reported receiving \$113.5 million in federal funds for these programs for fiscal year 2009–10, which included Recovery Act funds totaling \$7.6 million. Aging distributes funds for these programs to 33 area agencies (subgrantees) that provide services and meals to seniors. The State Auditor's Office identified two findings as of August 31, 2010, that pertain to Aging's administration of the Aging Cluster, which generally concerned federal regulations governing reporting and subrecipient monitoring. For example, Aging did not detect errors totaling \$38.5 million in one of the financial status reports that it submits to the federal government. Finally, our testing this year confirmed that Aging corrected four other findings that we included in last year's annual report.

**The Department of Community Services and Development (CSD)** administers the Low-Income Home Energy Assistance Program (LIHEAP) (Federal Catalog Number 93.568) block grant program in which states, territories, and Indian tribes can design their own program, within very broad federal guidelines. The objectives of LIHEAP are to help low-income people meet the costs of home energy (defined as the heating and cooling of residences), increase their energy self-sufficiency, and reduce their vulnerability resulting from energy needs. During fiscal year 2009–10, the State reported receiving \$175.7 million in federal funds for LIHEAP, none of which were Recovery Act funds. The State Auditor’s Office identified four findings as of September 3, 2010, that pertain to CSD’s administration of this federal program, which concerned a variety of different federal regulations including those governing earmarking, suspension and debarment, and subrecipient monitoring. Although CSD has taken steps to address some of the issues we reported in last year’s annual audit related to these four findings, these actions either did not affect transactions during fiscal year 2009–10 or additional actions are required. For example, although we found that CSD implemented a new policy requiring its staff to check the federal Excluded Parties List System before issuing subawards to ensure that subrecipients are not ineligible to receive federal funds, this new policy was not in place when CSD issued subawards during fiscal year 2009–10. CSD has begun the corrective action process for other findings we reported last year but has not finalized them. For instance, CSD contracted with a third party to assist it in developing written procedures, processes, and policies. Finally, our testing this year revealed that CSD corrected one other finding that we included in last year’s annual audit report.

**The Department of Developmental Services (Developmental Services)** administers the Special Education—Grants for Infants and Families (Federal Catalog Number 84.181) and the ARRA—Special Education—Grants for Infants and Families (Federal Catalog Number 84.393), which comprise the Early Intervention Services (IDEA) Cluster. The State reported receiving \$83.5 million for the cluster during fiscal year 2009–10, including Recovery Act funds totaling \$59.5 million. Additionally, Developmental Services administers a portion of the Social Services Block Grant (Block Grant) (Federal Catalog Number 93.667). The federal government originally awarded the Block Grant to the Department of Social Services, which then transferred \$204 million of the Block Grant to Developmental Services for its use during fiscal year 2009–10. The State Auditor’s Office did not identify any findings as of December 1, 2010, that pertain to Developmental Services’ administration of these federal programs. Further, our testing this year revealed that Developmental Services corrected five findings related to the cluster and one finding related to the Block Grant that we included in last year’s annual audit report.

**The Department of Industrial Relations (Industrial Relations)** administers the Occupational Safety and Health—State Program (program) (Federal Catalog Number 17.503). The State reported receiving \$22.7 million for the program during fiscal year 2009–10, including Recovery Act funds totaling about \$4,000. The State Auditor’s Office did not identify any findings as of August 1, 2010, that pertain to Industrial Relations’ administration of this federal program. Further, our testing this year revealed that Industrial Relations corrected two findings related to this program that we included in last year’s annual audit report.

**The Department of Mental Health (Mental Health)** administers the Block Grants for Community Mental Health Services (block grant) program (Federal Catalog Number 93.958). The objectives of this program include providing financial assistance to states to carry out their plans for providing comprehensive community mental health services to adults with a serious mental illness and to children with a serious emotional disturbance. Almost all of the federal block grant funds Mental Health receives are passed down to county mental health agencies. During fiscal year 2009–10 the

State reported receiving almost \$41 million in federal funds for the block grant program, none of which were Recovery Act funds. The State Auditor's Office identified four findings as of August 31, 2010, that pertain to Mental Health's administration of this federal program, which concerned a variety of different federal regulations including those governing allowable activities and costs, earmarking, and maintenance of effort. Although Mental Health has taken steps to address some of the issues we reported in last year's annual audit related to these four findings, it still needs to do more to fully correct the issues. For example, although we found that the program budgets and narratives submitted by the counties for fiscal year 2009–10 contained sufficient detail to determine how counties intended to spend their allocation of block grant funds, Mental Health has not yet developed a process to verify that the counties' actual expenditure of federal grant funds is for allowable activities and costs. Finally, our testing this year revealed that Mental Health corrected five other findings that we included in last year's annual audit report.

**The Military Department (Military)** administers the National Guard Military Operations and Maintenance Projects program (Federal Catalog Number 12.401). During fiscal year 2009–10, the State reported receiving \$56.8 million for this program, none of which were Recovery Act funds. The State Auditor's Office identified one finding as of August 31, 2010, that pertains to Military's administration of this federal program. This finding focused on the federal requirement pertaining to allowable activities and costs. Specifically, we found that Military lacked internal controls that would allow it to prevent and/or detect instances when personnel costs are being inappropriately charged to this federal program. We reported a similar finding in the last two years' annual audits.

**The Department of Rehabilitation (Rehabilitation)** administers the Rehabilitation Services—Vocational Rehabilitation Grants to States (Vocational Rehabilitation) program (Federal Catalog Number 84.126) and the related Recovery Act grant (Federal Catalog Number 84.390). Under this program states are awarded formula grants that may be used to cover the costs of providing vocational rehabilitation services. The objectives of the Vocational Rehabilitation program are to assist states in operating comprehensive, coordinated, effective, and accountable programs of vocational rehabilitation that assess, plan, develop, and provide vocational rehabilitation services to individuals with disabilities so they may prepare for and engage in competitive employment. During fiscal year 2009–10 the State reported receiving approximately \$252 million in federal funds for the Vocational Rehabilitation program, including approximately \$18 million in Recovery Act funds. The State Auditor's Office identified two findings as of October 2010 that pertain to Rehabilitation's administration of this federal program, which concerned federal regulations governing eligibility, matching, and reporting. Although Rehabilitation has taken steps to address some of the issues we reported in last year's annual audit related to these two findings, additional actions are required. For example, although Rehabilitation implemented a new process for reviewing the spreadsheets that staff prepare to track and total certified expenditure information submitted by its vendors to help it meet its nonfederal funds matching obligation, we still found errors on the spreadsheet. Finally, our testing this year revealed that Rehabilitation corrected three other findings that we included in last year's annual audit report.

**The Department of Social Services (Social Services)** administers a variety of programs that have been awarded Recovery Act funds during fiscal year 2009–10 including the State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP) (Federal Catalog Number 10.561), which is part of the SNAP Cluster; Foster Care—Title IV-E (Foster Care) program (Federal Catalog Number 93.658); Adoption Assistance program (Federal Catalog Number 93.659); the Temporary Assistance for Needy Families (TANF) (Federal Catalog Number 93.558); and the ARRA—Emergency Contingency Fund for Temporary Assistance for Needy Families State Programs (Federal

Catalog Number 93.714). The last two programs listed are part of the TANF Cluster. Social Services also administers the Social Services Block Grant (SSBG) program (Federal Catalog Number 93.667) and the Social Security—Disability Insurance program (Federal Catalog Number 96.001). The State reported that these seven programs collectively received \$6.9 billion for fiscal year 2009–10, including Recovery Act funds totaling \$680 million. The State Auditor’s Office identified four findings as of December 1, 2010, that pertain to Social Services’ administration of these federal programs. In general, these findings focused on federal requirements pertaining to allowable costs, eligibility, and subrecipient monitoring. For example, although the federal government indicated it had reviewed three findings we included in our report last year and concluded that certain procedures Social Services performs when making payments to counties for SNAP, Foster Care, Adoption Assistance, SSBG, and the TANF Cluster are appropriate, the federal government also indicated that these procedures still do not meet the monitoring requirements outlined in federal regulations. Thus, it determined that Social Services still needed to implement onsite monitoring procedures of the counties. We reported all three of these findings in the last two years’ annual audits. Finally, our testing this year revealed that Social Services corrected seven other findings that we included in last year’s annual audit report.

### **Agency Comments**

We summarized the department’s responses. In general, the departments concurred with the audit findings discussed in this interim report and plan to take corrective action.

## Department of Aging

Based on the U.S. Office of Management and Budget's (OMB) June 2010 guidance, the California State Auditor's Office (State Auditor's Office) presents its interim report concerning the Department of Aging's (Aging) administration of the Aging Cluster of federal programs during fiscal year 2009–10. The State reported receiving \$113.5 million in federal funds for these programs for fiscal year 2009–10, which included American Recovery and Reinvestment Act of 2009 (Recovery Act) funds totaling \$7.6 million. Aging distributes funds for these programs to 33 area agencies (subgrantees) that provide services and meals to seniors.

The issues contained in this interim report represent the results of our internal control and compliance audit that require Aging's corrective action. The State Auditor's Office identified two findings as of August 31, 2010, that pertain to Aging's administration of these federal programs. These two findings include certain issues that we have disclosed in previous annual reports. Our testing this year also confirmed that Aging corrected four other findings that we included in last year's annual audit report.

### Name of Federal Programs Audited and Federal Catalog Number:

#### Aging Cluster

- Special Programs for the Aging—Title III, Part B—Grants for Supportive Services and Senior Centers (93.044)
- Special Programs for The Aging—Title III, Part C—Nutrition Services (93.045)
- Nutrition Services Incentive Program (93.053)
- ARRA—Aging Home-Delivered Nutrition Services for States (93.705)
- ARRA—Aging Congregate Nutrition Services for States (93.707)

### **Aging Still Needs to Address Some Concerns Related to Its Oversight of Its Subgrantees' Use of Federal Funds**

OMB Circular A-133 establishes responsibilities for pass-through entities such as Aging when they make federal awards to subgrantees. Additionally, federal law and regulations impose certain requirements for awarding and using federal funds. Although Aging has made significant improvements in this area since our previous annual audit report, it still needs to address some remaining concerns related to its oversight of its subgrantees.

### ***Aging Did Not Comply With All Award Identification Requirements for Its Recovery Act Funds***

Aging did not identify all the required federal award information at the time it awarded Recovery Act funds to its subgrantees. OMB Circular A-133 requires pass-through entities to identify federal awards made by informing its subrecipients of the catalog of federal domestic assistance title and number, award name and number, award year, if the award is for research and development, and the name of the federal agency. Although Aging addressed our prior-year concern by modifying its contract review and approval process to ensure that it identifies required federal award information in the annual standard agreements it sends to its 33 subgrantees, it still did not ensure that its staff identified the federal award name and number and the award year for its Recovery Act funds within the standard agreement. Consequently, Aging is not fully complying with federal requirements related to the Recovery Act funds.

We recommend that Aging modify its contract review and approval process to ensure that it includes the federal award name and number, and award year for its Recovery Act funds within the standard agreements with its subgrantees. In its corrective action plan, Aging agreed with our finding, stating that it did not become aware of this oversight until well after the contracts and subsequent amendments had already been issued to the subgrantees for Recovery Act funds. Aging also stated that since the award period was one time, ending June 30, 2010, Aging did not send out anything additional to the existing Recovery Act subgrantees. However, according to Aging, it provided this information to its one new Recovery Act subgrantee by including it in its contract package for fiscal year 2010–11.

### ***Aging Did Not Always Comply With Its Monitoring Procedures***

Federal regulation makes award recipients, such as Aging, responsible for monitoring grant- and subgrant-supported activities to assure compliance with applicable federal requirements and that performance goals are being achieved.

In response to our findings reported in our annual audit reports for fiscal years 2007–08 and 2008–09, we found that Aging has appropriately refined its policies and procedures for monitoring subgrantees' use of funds. However, during our current review we found that Aging did not always fully comply with these policies and procedures. Specifically, Aging's policy requires its program staff to conduct on-site comprehensive assessments of each subgrantee every four years, as resources permit. As part of this assessment process, Aging requires its staff to issue their final reports and corrective action plans to the subgrantees 75 working days after the exit conference it holds at the conclusion of the on-site assessment. The subgrantees then have 30 calendar days to respond to the final report and corrective action plan. During fiscal year 2009–10 Aging completed six comprehensive assessments and held the related exit conferences. Our review of these six assessments found that Aging did not issue its final reports and corrective action plans within 75 working days for three of them. Specifically, Aging issued one report almost six weeks late and, as of July 28, 2010, it had not yet issued the remaining two reports, which at that time were about 5 days and 4 weeks late, respectively. According to Aging, it did not meet its 75-day requirement for two of the assessments for reasons that included an increase in workload and the loss of one of its monitoring staff. Finally, two of the three remaining subgrantees that received Aging's final report and corrective action plan within the 75-day deadline did not submit their responses to Aging within the 30-day requirement—one response was more than one month late and the second response was more than two months late. When Aging does not issue its final reports and corrective action plans and does not ensure that subgrantees submit their responses by the required deadlines, it cannot assure that its subgrantees are promptly addressing the issues identified during its on-site assessments.

We recommend that Aging ensure it complies with its 75-working day requirement for issuing final reports and corrective action plans for all of the on-site comprehensive assessments it performs annually and ensure that subgrantees respond to its final reports and corrective action plans within the required 30 days. In its corrective action plan, Aging did not specifically address how it plans to meet the 75-day requirement in the future. However, it did indicate that it plans to calculate all due dates and include them in applicable communications to its subgrantees. In addition, Aging plans to modify its policies and procedures to specify action steps and dates to ensure that subgrantees' corrective action plans are received timely.

### **Aging Did Not Detect Errors in One of Its Federal Financial Status Reports**

Aging needs to refine its procedures to ensure that the financial status reports it submits to the federal government reflect accurate information. Similar to our audit findings for fiscal years 2007–08 and 2008–09, we found errors in the revised final financial status report that Aging submitted to the federal government for the federal fiscal year 2006 grant concerning the Title III portion of the Aging Cluster. When we review the final financial status report a department is required to submit during the fiscal year we are auditing, it may be for an award the State received two or three fiscal years ago, as was the case here. Our review of the report found that Aging overreported its in-kind contributions by \$7.1 million as well as the other recipient outlays by \$31.4 million. This error caused Aging to also overreport total program outlays less program income—it reported \$239 million when it should have reported \$200 million. Aging uses an accounting report tool to extract and categorize data from its accounting system in a format that allows it to use the data to complete the financial status report. However, these errors occurred because Aging lacked specific procedures identifying the process staff should use to review this accounting report tool. As a result, staff failed to identify that the accounting report tool was incorrectly extracting amounts from certain categories in the accounting system identified as in-kind contributions and other recipient outlay when, in fact, these amounts should not have been included on the financial status report. Although Aging’s fiscal manager indicated that she or the accounting administrator reviews the accounting report tool annually for accuracy, she cited several reasons why these errors were not detected. The reasons she gave included miscommunication during a time of turnover and transition in the Fiscal Branch and the accounting administrator’s misunderstanding of the guidance she was provided as to what should or should not be included in these line items. We believe some of the miscommunication and misunderstanding resulted because Aging lacked specific procedures detailing a process for reviewing the accounting report tool used to prepare the financial status report, which may have provided the new staff with the necessary guidance to appropriately review and ensure the tool is capturing the correct categories and amounts from the accounting system.

We recommend that Aging develop procedures for reviewing the accounting report tool used to prepare the financial status report to ensure that the report includes only the appropriate amounts, is supported by the accounting records, and is fairly presented. In September 2010 Aging submitted to the federal government a corrected financial status report. Additionally, in its corrective action plan, Aging indicated that, by December 2010, it will have revised its desk procedures to detail the process for reviewing the accounting report tool that it uses to extract specific expenditures to ensure the accuracy of the financial status report in the future.

### **Aging Took Steps to Correct Four Findings Reported for Fiscal Year 2008–09**

During our current audit, we determined that Aging had fully corrected four of six findings we reported for fiscal year 2008–09. We confirmed that Aging had corrected all four of these findings during fiscal year 2009–10. Table 1 on the following page presents a listing of the corrected findings and a reference to the finding description as it was reported in the California State Auditor’s annual report titled *State of California: Internal Control and State and Federal Compliance Audit Report for the Fiscal Year Ended June 30, 2009* (report number 2009-002, dated March 2010). In addition, the table indicates whether the State received Recovery Act funds for the federal programs listed.

**Table 1**  
**Findings Reported for Fiscal Year 2008–09 That the Department of Aging Has Corrected**

FEDERAL PROGRAM TITLE	FEDERAL CATALOG NUMBER	CATEGORY OF FINDING	REPORT 2009-002, ISSUED MARCH 2010: REFERENCE NUMBER/PAGE NUMBER	RECEIVED RECOVERY ACT FUNDS DURING FISCAL YEAR	
				2008–09	2009–10
Special Programs for the Aging—Title III, Part B—Grants for Supportive Services and Senior Centers	93.044	Eligibility	2009-5-3/page 98	No	No
Special Programs for the Aging—Title III, Part C—Nutrition Services	93.045			No	No
ARRA—Aging Home-Delivered Nutrition Services for States	93.705			Yes	Yes
ARRA—Aging Congregate Nutrition Services for States	93.707			Yes	Yes
Special Programs for the Aging—Title III, Part B—Grants for Supportive Services and Senior Centers	93.044	Matching, Level of Effort, Earmarking	2009-7-6/page 107	No	No
Special Programs for the Aging—Title III, Part C—Nutrition Services	93.045			No	No
Special Programs for the Aging—Title III, Part B—Grants for Supportive Services and Senior Centers	93.044	Period of Availability	2009-8-4/page 114	No	No
Special Programs for the Aging—Title III, Part C—Nutrition Services	93.045			No	No
Nutrition Services Incentive Program	93.053			No	No
ARRA—Aging Home-Delivered Nutrition Services for States	93.705			Yes	Yes
ARRA—Aging Congregate Nutrition Services for States	93.707			Yes	Yes
Nutrition Services Incentive Program	93.053	Special Tests and Provisions	2009-14-5/page 156	No	No

Source: California State Auditor's Office analysis of corrective action taken on the Department of Aging's findings.

# Department of Community Services and Development

## LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM FEDERAL CATALOG NUMBER 93.568

Based on the U.S. Office of Management and Budget's (OMB) June 2010 guidance, the California State Auditor's Office (State Auditor's Office) presents its interim report concerning the Department of Community Services and Development's (CSD) administration of the Low-Income Home Energy Assistance Program (LIHEAP) (Federal Catalog Number 93.568) during fiscal year 2009–10. The State reported receiving \$175.7 million in federal funds for LIHEAP for fiscal year 2009–10. CSD did not receive any funds from the American Recovery and Reinvestment Act of 2009 for LIHEAP during this period.

The issues contained in this report represent the interim results of our internal control and compliance audit that require CSD's corrective action. The State Auditor's Office identified four findings as of August 1, 2010, that pertain to CSD's administration of LIHEAP. These four findings include certain issues that we have disclosed in previous annual audit reports. Our testing this year also revealed that CSD corrected one other finding that we included in last year's annual audit report.

### **CSD Continues to Lack Processes to Ensure Compliance With the Earmarking Requirement**

Federal law places certain limits on the amount of LIHEAP funds that can be used for various purposes. Specifically, federal law states that CSD may not use more than 10 percent of LIHEAP funds for planning and administrative costs. It further requires that no more than 15 percent of the greater of the funds allotted or the funds available to CSD for a federal fiscal year be used for low-cost residential weatherization or other energy-related home repairs. This limit is increased to 25 percent if a waiver is granted. CSD may use up to 5 percent of LIHEAP funds, at its option, to provide services that encourage and enable households to reduce their home energy needs and thereby the need for energy assistance, including needs assessments, counseling, and assistance with energy vendors. In addition, federal law allows CSD to spend the greater of 0.08 percent of CSD's LIHEAP funds or \$35,000 each year to identify, develop, and demonstrate leveraging programs. Under the leveraging program, leveraging incentive funds are awarded to grantees that use their own or other nonfederal funds to supplement or leverage federal LIHEAP funding. In addition, federal regulations require that CSD obligate and expend LIHEAP funds in accordance with the laws and procedures applicable to the obligation and expenditure of its own funds. CSD must have sufficient fiscal controls and accounting procedures to allow for the preparation of required federal reports and the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the restrictions and prohibitions imposed by federal laws.

In our fiscal year 2008–09 audit we reported that CSD's accounting records did not segregate administrative expenditures claimed by subrecipients, which would allow CSD to ensure that total administrative costs do not exceed the maximum 10 percent allowed. Similarly, its accounting records did not segregate amounts spent for "energy need reduction services," which would allow CSD to ensure that these costs do not exceed 5 percent of its LIHEAP funding. Also, CSD's accounting records did not segregate weatherization or other energy-related home repair expenses paid from different funding sources to ensure that expenditures paid from the appropriate grants did not exceed the maximum 25 percent allowed under waiver until the 2007 grant year. Finally, CSD's accounting records did not segregate amounts spent for identifying, developing, and demonstrating

leveraging programs, which would allow it to ensure that these costs do not exceed the greater of \$35,000 or 0.08 percent of total LIHEAP funding. Although CSD implemented a new accounting code to track this last earmarking requirement beginning with the 2008 grant year, CSD could not provide sufficient evidence for us to verify that it had not exceeded this maximum amount for grant years preceding 2008. According to the chief financial officer at CSD, no other procedures have been implemented as of August 2010 to address our prior-year finding. Because it does not have a mechanism in place to track final LIHEAP expenditures related to the earmarking requirements previously discussed, CSD cannot reasonably assure that the earmarking requirements have been met.

We recommend that CSD develop and implement sufficient internal controls to ensure that it can effectively track and monitor its progress toward meeting the earmarking requirements. In its corrective action plan CSD agreed that it needs to set up procedures that accurately track the various earmarking requirements. It noted that its program, contract, and accounting staff will set up the line-item budget detail in CSD's Expenditure Activity Reporting System and in its Payable, Accounts Receivable, and Contracts databases and that LIHEAP funds will be assigned an object code in CSD's accounting records and tracked separately. It noted that the timeline for this corrective action is June 2011.

### **CSD Implemented a New Policy to Ensure Subgrantees and Contractors Are Eligible to Receive Federal Funds, but It Was Not in Place During Fiscal Year 2009–10**

Federal regulations and the grant agreements between the U.S. Department of Health and Human Services, Administration of Children and Families (ACF), and CSD require that CSD informs its subgrantees concerning the requirements that a debarred or suspended party may not participate in ACF programs. In addition, the grant agreements require that CSD consult the Excluded Parties List System (EPLS) before it issues subawards or contracts to ensure that the entities it is considering for funding are eligible.

In response to our finding from the prior year, CSD developed and implemented a process to consult the federal EPLS to ensure that the subrecipients are not suspended or debarred; however, because of the timing of its implementation, this control was not in effect before CSD issued its fiscal year 2009–10 subawards or contracts.

We recommend that CSD ensure that it consults the EPLS before issuing subawards or contracts to its subrecipients. In its corrective action plan, CSD noted that as of June 30, 2010, it has instituted a policy requiring that all subrecipients be verified against the EPLS annually or when there is change in subrecipient leadership. As of October 2010 CSD stated that all its current subrecipients have been verified against the EPLS and are eligible to receive federal funds.

### **Although CSD Has Taken Some Steps, Its Lack of an Adequate Process for the Reporting Requirement Remains Uncorrected**

Federal regulations require that after the close of each statutory period for the obligation of block grant funds, each grantee must report the total funds it obligated during the applicable statutory period, and the date of the last obligation. Further, the regulations require that grantees submit the required information on a Financial Status Report (status report) within 90 days of the close of the applicable statutory grant period. The instructions for the status report instruct the user to enter total program outlays after subtracting any rebates, refunds, or other credits.

Our review found that CSD's procedures do not include steps to reconcile the federal share of program outlays shown in its internally developed spreadsheets to its accounting records. In response to a similar finding from our fiscal year 2008–09 audit, CSD contracted with a third party to assist it in developing written policies, procedures, and processes. However, it acknowledged that these policies, procedures, and processes were not in place during fiscal year 2009–10. By failing to reconcile the amounts in its internal spreadsheets to its accounting records, CSD is less assured that the federal share of program outlays it reports in its status reports are accurate, thus increasing its risk of reporting errors.

We recommend that CSD continue its efforts to develop policies, procedures, and processes for completing its status reports that include steps to reconcile the federal share of program outlays included in its internally developed spreadsheets to its accounting records. In its corrective action plan, CSD noted that it implemented a monthly process to reconcile the amounts in its internally developed spreadsheets to its accounting records. In addition, CSD stated that its accounting unit has reconciled all its internal spreadsheets to its accounting reports for the past five years, including making any corrections that were needed. However, our review indicated that as of November 2010, it still has not drafted procedures and could not demonstrate how accounting records reconciled to its internally developed spreadsheets.

### **CSD Did Not Ensure That It Issues Management Decisions on Subrecipients' Audit Findings Within the Required Period**

OMB Circular A-133 requires CSD to ensure that all subrecipients that spend \$500,000 or more in federal awards during the subrecipient's fiscal year submit a single audit. Further, it requires that CSD issue a management decision on audit findings within six months of receiving a subrecipient's audit report and ensure that prompt and appropriate corrective action is taken.

CSD's audit services unit (ASU) does not always ensure that it issues management decisions—or, as ASU calls them, follow-up letters—on audit findings within six months of receipt of subrecipients' OMB Circular A-133 reports. In our review of eight subrecipients' audit reports, in one case CSD did not issue a follow-up letter within six months. When ASU does not issue its follow-up letters within the required six-month deadline, it cannot assure that its subrecipients are promptly addressing audit findings and increases the potential for misuse of LIHEAP funds.

The audit manager for ASU agreed that although CSD has contracted with the Department of Finance to assist CSD in issuing management decisions on audit findings within six months of receiving the audits, this requirement was generally not met during fiscal year 2009–10. He also stated that CSD expects to begin meeting this requirement sometime during fiscal year 2010–11.

We recommended that CSD's ASU continue to strengthen its monitoring efforts by ensuring that it issues management decisions for all applicable subrecipient A-133 audit reports within six months of the receipt of the report. In its corrective action plan CSD noted that in May 2010 it entered into a contract with the Department of Finance to assist it in meeting its obligation to review single audits and issue management decisions within the required six months. The Department of Finance has reviewed the backlog of audit reports, but is still in the process of finalizing its management review. According to CSD, all current incoming audit reports are being reviewed within the required time. However, to be in compliance with the federal requirement, CSD must issue its management decision letters within six months, not merely have the audit reports reviewed within six months.

### CSD Took Steps to Correct One Finding Reported for Fiscal Year 2008–09

During our current audit, we determined that CSD had fully corrected one of five findings we reported for fiscal year 2008–09. We confirmed that CSD had corrected this finding during fiscal year 2009–10. Table 2 presents the corrected finding and a reference to the finding description as it was reported in the California State Auditor’s annual report titled *State of California: Internal Control and State and Federal Compliance Audit Report for the Fiscal Year Ended June 30, 2009* (report number 2009-002, dated March 2010).

**Table 2**  
**Finding Reported for Fiscal Year 2008–09 That the Department of Community Services and Development Has Corrected**

FEDERAL PROGRAM TITLE	FEDERAL CATALOG NUMBER	CATEGORY OF FINDING	REPORT 2009-002, ISSUED MARCH 2010: REFERENCE NUMBER/PAGE NUMBER	RECEIVED RECOVERY ACT FUNDS DURING FISCAL YEAR	
				2008–09	2009–10
Low-Income Home Energy Assistance Program	93.568	Eligibility	2009-5-8/page 101	No	No

Source: California State Auditor’s Office analysis of corrective action taken on the Department of Community Services and Development’s findings.

# Department of Developmental Services

## EARLY INTERVENTION SERVICES (IDEA) CLUSTER

**SPECIAL EDUCATION—GRANTS FOR INFANTS AND FAMILIES  
 FEDERAL CATALOG NUMBER 84.181**

**ARRA—SPECIAL EDUCATION—GRANTS FOR INFANTS AND FAMILIES  
 FEDERAL CATALOG NUMBER 84.393**

**SOCIAL SERVICES BLOCK GRANT  
 FEDERAL CATALOG NUMBER 93.667**

Based on the U.S. Office of Management and Budget’s (OMB) June 2010 guidance, the California State Auditor’s Office (State Auditor’s Office) presents its interim reporting on the Department of Developmental Services’ (Developmental Services) administration of the Special Education—Grants for Infants and Families (Federal Catalog Number 84.181) and the ARRA—Special Education—Grants for Infants and Families (Federal Catalog Number 84.393), which comprise the Early Intervention Services (IDEA) Cluster, and the Social Services Block Grant (Block Grant) (Federal Catalog Number 93.667). The State reported receiving \$83.5 million for the cluster during fiscal year 2009–10, including American Recovery and Reinvestment Act of 2009 funds totaling \$59.5 million. Additionally, the federal government originally awarded Block Grant funds to the Department of Social Services, which then transferred \$204 million of the Block Grant to Developmental Services for its use during fiscal year 2009–10. The State Auditor’s Office did not identify any findings as of December 1, 2010, that pertain to Developmental Services’ administration of these federal programs. However, our testing this year confirmed that Developmental Services corrected six findings that we included in last year’s annual audit report.

### Developmental Services Took Steps to Correct Six Findings Reported for Fiscal Year 2008–09

During our current audit, we determined that Developmental Services had fully corrected all six findings we reported for fiscal year 2008–09. We confirmed that Developmental Services had corrected three of these findings before the start of fiscal year 2009–10 and corrected three findings during the fiscal year. Table 3 presents a listing of the corrected findings and a reference to the finding description as it was reported in the California State Auditor’s annual report titled *State of California: Internal Control and State and Federal Compliance Audit Report for the Fiscal Year Ended June 30, 2009* (report number 2009-002, dated March 2010).

**Table 3**  
**Findings Reported for Fiscal Year 2008–09 That the Department of Developmental Services Has Corrected**

FEDERAL PROGRAM TITLE	FEDERAL CATALOG NUMBER	CATEGORY OF FINDING	REPORT 2009-002, ISSUED MARCH 2010: REFERENCE NUMBER/PAGE NUMBER	RECEIVED RECOVERY ACT FUNDS DURING FISCAL YEAR	
				2008–09	2009–10
Special Education—Grants for Infants and Families	84.181	Activities Allowed/Allowable Costs	2009-1-1/page 51	No	No

*continued on next page...*

FEDERAL PROGRAM TITLE	FEDERAL CATALOG NUMBER	CATEGORY OF FINDING	REPORT 2009-002, ISSUED MARCH 2010: REFERENCE NUMBER/PAGE NUMBER	RECEIVED RECOVERY ACT FUNDS DURING FISCAL YEAR	
				2008-09	2009-10
Special Education— Grants for Infants and Families	84.181	Level of Effort—Maintenance of Effort	2009-7-1/page 60	No	No
Social Services Block Grant	93.667	Procurement, and Suspension and Debarment Subrecipient Monitoring	2009-9-3/page 122	No	No
Special Education— Grants for Infants and Families	84.181	Subrecipient Monitoring	2009-13-1/page 66	No	No
ARRA—Special Education— Grants for Infants and Families	84.393			No	Yes
Special Education— Grants for Infants and Families	84.181	Subrecipient Monitoring	2009-13-2/page 68	No	No
Special Education— Grants for Infants and Families	84.181	Special Tests and Provisions	2009-14-1/page 71	No	No

Source: California State Auditor's Office analysis of corrective action taken on the Department of Developmental Services' findings.

# Department of Industrial Relations

## OCCUPATIONAL SAFETY AND HEALTH—STATE PROGRAM FEDERAL CATALOG NUMBER 17.503

Based on the U.S. Office of Management and Budget’s (OMB) June 2010 guidance, the California State Auditor’s Office (State Auditor’s Office) presents its interim reporting on the Department of Industrial Relations’ administration of the Occupational Safety and Health—State Program (Federal Catalog Number 17.503). The State reported receiving \$22.7 million for the program during fiscal year 2009–10, including American Recovery and Reinvestment Act of 2009 funds totaling about \$4,000. The State Auditor’s Office did not identify any findings as of August 1, 2010, that pertain to the Department of Industrial Relations’ (Industrial Relations) administration of this federal program. However, our testing this year confirmed that Industrial Relations corrected two findings that we included in last year’s annual audit report.

### The Department of Industrial Relations Took Steps to Correct Two Findings Reported for Fiscal Year 2008–09

During our current audit, we determined that Industrial Relations had fully corrected two findings we reported for fiscal year 2008–09. We confirmed that Industrial Relations had corrected these two findings during fiscal year 2009–10. Table 4 presents a listing of the corrected findings and a reference to the finding description as it was reported in the California State Auditor’s annual report titled *State of California: Internal Control and State and Federal Compliance Audit Report for the Fiscal Year Ended June 30, 2009* (report number 2009-002, dated March 2010).

**Table 4**  
**Findings Reported for Fiscal Year 2008–09 That the Department of Industrial Relations Has Corrected**

FEDERAL PROGRAM TITLE	FEDERAL CATALOG NUMBER	CATEGORY OF FINDING	REPORT 2009-002, ISSUED MARCH 2010: REFERENCE NUMBER/PAGE NUMBER	RECEIVED RECOVERY ACT FUNDS DURING FISCAL YEAR	
				2008-09	2009-10
Occupational Safety and Health—State Program	17.503	Period of Availability	2009-8-2/page 198	No	Yes
Occupational Safety and Health—State Program	17.503	Reporting	2009-12-2/page 201	No	Yes

Source: California State Auditor’s Office analysis of corrective action taken on the Department of Industrial Relations’ findings.

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## Department of Mental Health

### **BLOCK GRANTS FOR COMMUNITY MENTAL HEALTH SERVICES FEDERAL CATALOG NUMBER 93.958**

Based on the U.S. Office of Management and Budget's (OMB) June 2010 guidance, the California State Auditor's Office (State Auditor's Office) presents its interim report concerning the Department of Mental Health's (Mental Health) administration of the Block Grants for Community Mental Health Services (block grant) program (Federal Catalog Number 93.958) during fiscal year 2009–10. The State reported receiving almost \$41 million in federal funds for the block grant program for fiscal year 2009–10. Mental Health did not receive any funds from the American Recovery and Reinvestment Act of 2009 for the block grant during this period.

The issues contained in this report represent the interim results of our internal control and compliance audit that require Mental Health's corrective action. The State Auditor's Office identified four findings as of August 31, 2010, that pertain to Mental Health's administration of the block grant. These four findings include certain issues that we have disclosed in previous annual audit reports. Our testing this year also revealed that Mental Health corrected five other findings that we included in last year's annual audit report.

#### **Mental Health Does Not Ensure That Counties' Expenditures Were Only for Allowable Activities and Costs**

Although Mental Health receives some assurance from counties that they will expend block grant funds appropriately, it does not ensure that the counties actually spent the federal funds on allowable activities and costs. Federal law states that block grant funds are to be spent on activities related to a state's plan for providing comprehensive community mental health services, but places specific restrictions on the use of the funds, such as prohibiting the use of block grant funds for inpatient services.

In our audit reports for fiscal years 2006–07 through 2008–09, we reported that Mental Health relied on the counties' budget and program description components of their applications for block grant funds to determine if funds would be used for allowable activities and costs. Specifically, the grant renewal application instructions for the block grant directs counties to include in their program narrative a description that specifies what is actually being paid for by the block grant funds. However, we reported that our review of program narratives found that counties provided a general outline of program activities and did not explain each budget item. We reported in fiscal year 2008–09 that Mental Health added language to its fiscal year 2009–10 renewal application package directing counties to explain each budget item in the application, but because the applications were not due at the time of our follow up in 2008–09, we were unable to verify whether the counties actually submitted such explanations. Additionally, we reported that Mental Health did not require the counties to submit invoices, receipts, or payroll information to verify amounts they reported as expenditures. Finally, Mental Health did not perform regular site visits to the counties to verify whether their programs' costs and activities were allowable.

During our follow-up procedures for fiscal year 2009–10, we found that Mental Health partially corrected this finding. Specifically, the program budgets and narratives submitted by the counties for fiscal year 2009–10 contained sufficient detail to determine how counties intended to spend their

allocation of block grant funds. However, Mental Health has not yet developed a process to verify whether the counties' actual expenditure of block grant funds is for allowable activities and costs. According to Mental Health, it established a workgroup in March 2010 to determine the feasibility of having its Program Compliance Division conduct audits of the counties in accordance with Mental Health's risk analysis procedures and federal requirements. Mental Health originally anticipated that it would fully address this finding by September 2010, but due to extensive discussions and issues raised, it revised its anticipated completion date to December 2010.

We recommend that Mental Health complete its efforts to establish a process to ensure that only allowable activities and costs are paid for with block grant funds. In its corrective action plan, Mental Health indicated that during the workgroup's meetings, it focused on reviewing federal regulations, its risk analysis procedures, and its Program Compliance Division's audit program. Mental Health stated the workgroup will continue to work on developing and implementing its corrective actions.

### **Mental Health Is Beginning to Conduct Peer Reviews as Required**

As a condition of receiving block grant funds, federal law requires that states provide for independent peer reviews to assess the quality, appropriateness, and efficacy of mental health treatment services provided in the state that are funded by the block grant. States are required to ensure that 5 percent of the entities providing services are reviewed each fiscal year. As a result, Mental Health needs to ensure that at least three counties receive peer reviews in order to meet the 5 percent requirement.

In our audit reports for fiscal years 2006–07 through 2008–09, we reported that Mental Health did not facilitate peer reviews. In our audit report for fiscal year 2008–09, we reported that Mental Health and the California Mental Health Planning Council (council) had drafted a memorandum of understanding that would have the council perform the peer reviews. Mental Health further explained that the memorandum of understanding should be executed by early spring 2010.

During our follow-up audit for fiscal year 2009–10, we found that Mental Health made progress towards correcting this finding. Specifically, Mental Health executed the memorandum of understanding to perform peer reviews with the council in April 2010. However, the council did not complete its first peer review report until July 2010, after the end of fiscal year 2009–10. Mental Health stated that the council planned to issue the minimum three reports in fiscal year 2010–11, including the report it issued in July 2010.

We recommend that Mental Health continue to implement the planned independent peer reviews, as required by federal law. In its corrective action plan, Mental Health indicated it will continue to work with the council to implement the planned independent peer reviews.

### **Mental Health Continues to Lack Policies and Procedures to Adhere to the Earmarking Requirement**

Federal law requires that Mental Health expend no more than 5 percent of the block grant for administrative expenses. For fiscal year 2009–10, Mental Health allocated the entire 5 percent, or \$2.7 million, for administrative costs.

In our audit reports for fiscal years 2006–07 through 2008–09, we reported that Mental Health did not have official written policy or procedures in place to ensure that administrative costs were charged appropriately to its block grant. Mental Health charged all or a portion of salaries for certain key staff to the block grant, based on approved timesheets, but other expenditures, such as travel, were allocated to the block grant by staff's choice.

During our follow-up procedures for fiscal year 2009–10, we found that Mental Health still had not developed written policies and procedures to ensure that it consistently and properly applied administrative costs to the block grant. Mental Health stated that it formed a workgroup in February 2010 to develop a written policy, processes, and procedures to ensure that only allowable costs are used to meet the earmarking requirement. Mental Health originally expected it would complete this task in September 2010, but due to extensive discussion and the issues raised, it revised its anticipated completion date to December 2010.

We recommend that Mental Health complete its efforts to establish a written policy, as well as processes and procedures, to ensure that only allowable costs are used to meet the earmarking requirement. In its corrective action plan, Mental Health stated that during initial meetings, it focused on reviewing expenditures for personnel services, operating expenses, and equipment, as well as the roles and responsibilities for the three entities within Mental Health that administer the federal grant. Mental Health also indicated the workgroup will continue to work on developing and implementing its corrective actions.

### **Mental Health's Calculation of Its Expenditures for Certain Activities Related to Its Maintenance of Effort Requirements Remain Problematic**

Federal law requires, as a condition of receiving the block grant, that a state spend at least as much on systems of integrated services for children with serious emotional disturbance (SED) as it did in fiscal year 1994–95. Similarly, federal law requires a state to spend at least as much on community mental health services for children with SED and adults with serious mental illness (SMI) as it averaged in the preceding two fiscal years. Laws and regulations that require the recipient of a federal grant to maintain a certain level of expenditures are referred to as maintenance of effort (MOE) requirements.

Although it has partially addressed some of the conditions we reported in fiscal years 2006–07 through 2008–09 related to its process for complying with the MOE requirements, during our follow-up procedures for fiscal year 2009–10, we found that Mental Health still needs to make further refinements. Specifically, Mental Health did not provide documentation to support the percentages it applied against the total of managed care and realignment dollars to arrive at the amount it reported as expenditures for children with SED. Additionally, Mental Health was unable to provide documentation that showed the components and expenditures used to generate the fiscal year 1994–95 threshold of \$160 million. For the MOE requirement related to the State's expenditures for community mental health services, we found that Mental Health did not report all state expenditures for adults with SMI and children with SED. Specifically, it did not include any expenditures from the Mental Health Services Act, and it could not positively state whether other state agencies fund community mental health programs for adults with SMI or children with SED.

Mental Health stated that it had established a workgroup in February 2010 to address this finding. Specifically, Mental Health indicated that the workgroup would research the percentage of the amount spent on managed care and realignment used in its calculation of MOE for children with SED and

retain the supporting documentation. Mental Health also stated that the workgroup would look into revising its methodology for the MOE calculation for community mental health services for adults with SMI. Mental Health originally estimated these tasks would be completed by September 2010, but due to extensive discussions and the issues raised, it revised its estimated completion date to December 2010. Mental Health also provided evidence that it has been attempting to locate the fiscal year 1994–95 financial statements used to establish the baseline for SED expenditures, but as of the time of our follow-up audit, they had not been found.

We recommend that Mental Health reevaluate the percentages of the amount spent on managed care and realignment used in its MOE calculation and retain the supporting documentation. We also recommend that Mental Health use the dollar amounts reported in the audited financial statements for the fiscal year 1994–95 threshold, and that if it does not believe that it can locate the necessary documents, Mental Health should seek guidance from its federal awarding agency to determine how it can adequately determine the threshold. Finally, we recommend that Mental Health revise its methodology for calculating the community mental health services MOE requirement to accurately capture and report all state expenditures for adults with SMI and children with SED. In its corrective action plan, Mental Health stated that its workgroup has researched legislation on managed care and realignment, as well as internal documents, which explained the MOE requirements. Mental Health stated the workgroup will continue to work on developing and implementing its corrective actions. Mental Health also stated it would seek guidance from its federal awarding agency in regards to determining the threshold dollar amount.

### Mental Health Took Steps to Correct Five Findings Reported for Fiscal Year 2008–09

During our current audit, we determined that Mental Health had fully corrected five of nine findings we reported for fiscal year 2008–09. We confirmed that Mental Health had corrected four of these findings before the start of fiscal year 2009–10 and corrected the remaining finding during the fiscal year. Table 5 presents a listing of the corrected findings and a reference to the finding description as it was reported in the California State Auditor’s annual report titled *State of California: Internal Control and State and Federal Compliance Audit Report for the Fiscal Year Ended June 30, 2009* (report number 2009-002, dated March 2010).

**Table 5**

#### Findings Reported for Fiscal Year 2008–09 That the Department of Mental Health Has Corrected

FEDERAL PROGRAM TITLE	FEDERAL CATALOG NUMBER	CATEGORY OF FINDING	REPORT 2009-002, ISSUED MARCH 2010: REFERENCE NUMBER/ PAGE NUMBER	RECEIVED RECOVERY ACT FUNDS DURING FISCAL YEAR	
				2008–09	2009–10
Block Grants for Community Mental Health Services	93.958	Cash Management	2009-3-1/page 91	No	No
Block Grants for Community Mental Health Services	93.958	Period of Availability	2009-8-3/page 113	No	No
Block Grants for Community Mental Health Services	93.958	Procurement and Suspension and Debarment	2009-9-5/page 124	No	No
Block Grants for Community Mental Health Services	93.958	Reporting	2009-12-5/page 127	No	No
Block Grants for Community Mental Health Services	93.958	Subrecipient Monitoring	2009-13-8/page 136	No	No

Source: California State Auditor’s Office analysis of corrective action taken on the Department of Mental Health’s findings.

## Military Department

### NATIONAL GUARD MILITARY OPERATIONS AND MAINTENANCE PROJECTS FEDERAL CATALOG NUMBER 12.401

Based on the U.S. Office of Management and Budget's (OMB) June 2010 guidance, the California State Auditor's Office (State Auditor's Office) presents its interim report concerning the Military Department's (Military) administration of the National Guard Military Operations and Maintenance Projects (O&M projects) program (Federal Catalog Number 12.401) during fiscal year 2009–10. The State reported receiving \$56.8 million for this program during fiscal year 2009–10, none of which were American Recovery and Reinvestment Act of 2009 funds. The issue contained in this interim report represents the results of our internal control and compliance audit that require Military's corrective action. The State Auditor's Office identified one finding as of August 31, 2010, that pertains to Military's administration of this federal program, which we also disclosed in our fiscal years 2007–08 and 2008–09 annual audit reports.

#### **Military Lacks Internal Controls to Ensure Personnel Costs Are Appropriately Charged to Its Federal Award**

Federal regulations require that when federally funded employees work exclusively on a single federal program, charges for their salaries and wages will be supported by a semiannual certification. Additionally, if employees do not work exclusively on a single federal program, the distribution of their salaries and wages will be supported by personnel activity reports or equivalent documentation.

As we reported in our annual audits for fiscal years 2007–08 and 2008–09, Military lacked internal controls that would allow it to prevent and/or detect instances when personnel costs are being inappropriately charged to the O&M projects program. Specifically, when Military creates a new position or fills an existing position, it reviews the associated job duties and decides whether charging this federal program is allowable. However, we found that Military lacked a process to identify when personnel may no longer be working on allowable activities. Further, we reported that Military did not comply with the requirements of OMB Circular A-87 as it did not have adequate documentation, such as certifications or personnel activity reports, to support personnel costs it charged to the federal awards. Although personnel costs were associated with time sheets, these time sheets did not describe what activities the employee worked on for the stated time period.

During our follow-up procedures for fiscal year 2009–10, we found that Military had not yet addressed this finding. However, according to Military, it planned to develop a process by August 2010 to account for actual time spent on federal activities to comply with OMB Circular A-87. Specifically, Military indicated that it planned to implement a semiannual certification for those employees whose time is spent 100 percent on the O&M projects program and it planned to implement a monthly time sheet process for all other staff that spend time on multiple cost objectives, including some that are not related to the O&M projects program.

We recommend that Military should do as it has proposed by requiring the use of semiannual certifications and monthly time sheets for staff who are funded under the O&M projects program to ensure it is complying with the requirements of OMB Circular A-87 and to ensure that only allowable activities and costs are charged to this program. In its corrective action plan, Military stated that it developed a semiannual certification process in which supervisors will certify the duties of those employees that work solely on a single federal award or cost objective. It also indicated that it would develop a certification form to account for employees who work on multiple activities or cost objectives. Military anticipated implementing the use of both forms with the September 2010 payroll.

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# Department of Rehabilitation

## VOCATIONAL REHABILITATION CLUSTER

### REHABILITATION SERVICES—VOCATIONAL REHABILITATION GRANTS TO STATES FEDERAL CATALOG NUMBER 84.126

### ARRA—REHABILITATION SERVICES—VOCATIONAL REHABILITATION GRANTS TO STATES FEDERAL CATALOG NUMBER 84.390

Based on the U.S. Office of Management and Budget's (OMB) June 2010 guidance, the California State Auditor's Office (State Auditor's Office) presents its interim report concerning the Department of Rehabilitation's (Rehabilitation) administration of the Rehabilitation Services—Vocational Rehabilitation Grants to States (Federal Catalog Number 84.126) and ARRA—Rehabilitation Services—Vocational Rehabilitation Grants to States (Federal Catalog Number 84.390) programs during fiscal year 2009–10. The State reported receiving approximately \$252 million in federal funds for these programs for fiscal year 2009–10, including approximately \$18 million in American Recovery and Reinvestment Act of 2009 funds.

The issues contained in this report represent the interim results of our internal control and compliance audit that require Rehabilitation's corrective action. The State Auditor's Office identified two findings as of October 2010 that pertain to Rehabilitation's administration of the programs. These two findings include certain issues that we disclosed for the first time in last year's annual audit report. Our testing this year also revealed that Rehabilitation corrected three other findings that we included in last year's annual audit report.

### **Rehabilitation Does Not Always Make Prompt Eligibility Decisions and Does Not Always Adequately Document Extensions to the Eligibility Determination Period**

Federal law requires that Rehabilitation determine within 60 days whether applicants for vocational rehabilitation services are eligible for such services, unless such a determination is not possible within this time frame and Rehabilitation and the applicant agree to an extension.

Rehabilitation did not always determine applicant eligibility for services within the required period and did not properly document extensions to eligibility periods for six of the 40 applicant cases we reviewed. Although Rehabilitation had a signed extension on file for one case, the extension was signed by the applicant 171 days after Rehabilitation had already made its eligibility determination. In the other five cases, Rehabilitation lacked the documentation necessary to show that the applicant had agreed to an extension. When Rehabilitation does not determine an applicant's eligibility within the required period or does not document extensions in accordance with its policies, it reduces the assurance that applicants promptly receive the required vocational rehabilitation services. Rehabilitation has processes in place to monitor the timeliness of its eligibility decisions; however, these tools and instructions were not effective in identifying and correcting these six exceptions. We reported a similar finding in our prior-year audit.

We recommend that Rehabilitation more closely monitor the timeliness of its eligibility decisions and ensure that it maintains adequate documentation of extensions to the eligibility determination period. In its corrective action plan, Rehabilitation indicated it agrees with this finding. Rehabilitation also indicated that its current field computer system lacks the functionality necessary to effectively track and monitor extensions of an applicant's eligibility determination. Therefore, Rehabilitation identified short- and long-term solutions to remedying this finding. In the short term, Rehabilitation will continue to emphasize the importance of manually tracking eligibility timelines and extensions using available reports and remind counselors and managers of the most effective tracking tools available. Rehabilitation's long-term solution is implementing an electronic records system called AWARE. Rehabilitation expects the AWARE system to be fully implemented statewide by October 2011 and that eligibility extensions will be more effectively tracked and monitored by staff through the use of this system.

### **Rehabilitation Is Still Making Errors in Its Accounting for Meeting the Matching Requirement**

Federal regulations state that grantees may satisfy a matching requirement by using the value of third party in-kind contributions or allowable nonfederal costs incurred by the grantee, subgrantee, or a contractor. Federal regulations further specify that the financial management systems of grantees must be accurate and have effective internal controls.

Rehabilitation lacks adequate internal controls to ensure compliance with the matching requirement. Specifically, in response to our prior-year finding, Rehabilitation implemented a new process for reviewing the spreadsheets that staff prepare to track certified expenditure information submitted by its vendors. Rehabilitation contracts with vendors, such as state and local governments, to provide vocational rehabilitation services. Under its contract agreement, each vendor must submit a certified expenditure report. An accounting officer-specialist compiles the data from these certifications into a summary spreadsheet that Rehabilitation uses to track and total the amounts it uses in helping to meet its nonfederal funds matching obligation. Rehabilitation also uses information from this spreadsheet when calculating amounts to include on its federal financial reports. Although Rehabilitation's new process requires the accounting officer-specialist's supervisor to review these spreadsheets each month, we found that Rehabilitation did not always ensure that the spreadsheet contained accurate amounts.

Specifically, in our review of the summary spreadsheet Rehabilitation created to support the amounts in its final financial status report for the 2008 grant that it submitted in September 2010, we noted two instances out of the 40 items sampled in which Rehabilitation erroneously entered into the spreadsheet different amounts than those reported by the vendors. Because Rehabilitation uses the totals from this summary spreadsheet to calculate and report the certified expenditure portion of its nonfederal funding, it overreported the amount of its nonfederal matching share for the 2008 grant by \$111,189.

We recommend that Rehabilitation establish an effective process for ensuring the accuracy of the amounts entered into its summary certified expenditure spreadsheet used in support of its final financial status report. In its corrective action plan, Rehabilitation indicated it concurs with the finding and will implement additional controls to improve the accuracy of the summary certified expenditure spreadsheet.

### Rehabilitation Took Steps to Correct Three Findings Reported for Fiscal Year 2008–09

During our current audit, we determined that Rehabilitation had fully corrected three of five findings we reported for fiscal year 2008–09. We confirmed that Rehabilitation had corrected these findings during the fiscal year. Table 6 presents a listing of the corrected findings and a reference to the finding description as it was reported in the California State Auditor’s annual report titled *State of California: Internal Control and State and Federal Compliance Audit Report for the Fiscal Year Ended June 30, 2009* (report number 2009-002, dated March 2010).

**Table 6**

**Findings Reported for Fiscal Year 2008–09 That the Department of Rehabilitation Has Corrected**

FEDERAL PROGRAM TITLE	FEDERAL CATALOG NUMBER	CATEGORY OF FINDING	REPORT 2009-002, ISSUED MARCH 2010: REFERENCE NUMBER/PAGE NUMBER	RECEIVED RECOVERY ACT FUNDS DURING FISCAL YEAR	
				2008–09	2009–10
Rehabilitation Services— Vocational Rehabilitation Grants to States	84.126	Activities Allowed/ Allowable Costs	2009-1-2/page 52	No	Yes
Rehabilitation Services— Vocational Rehabilitation Grants to States	84.126	Activities Allowed/ Allowable Costs	2009-1-3/page 53	No	Yes
Rehabilitation Services— Vocational Rehabilitation Grants to States	84.126	Reporting	2009-12-1/page 64	No	Yes

Source: California State Auditor’s Office analysis of corrective action taken on the Department of Rehabilitation’s findings.

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## Department of Social Services

Based on the U.S. Office of Management and Budget's (OMB) June 2010 guidance, the California State Auditor's Office (State Auditor's Office) presents its interim reporting on the Department of Social Services' (Social Services) administration of the programs listed in the textbox. The State reported that these seven programs collectively received \$6.9 billion for fiscal year 2009–10, which included American Recovery and Reinvestment Act of 2009 (Recovery Act) funds totaling \$680 million for four of these programs. The issues contained in this interim report represent the results of our internal control and compliance audit that require Social Services' corrective action.

The State Auditor's Office identified four findings as of December 1, 2010, that pertain to Social Services' administration of these federal programs. Three findings include certain issues that we have disclosed in previous annual audit reports. Our testing this year also confirmed that Social Services corrected seven other findings that we included in last year's annual audit report.

### Name of Federal Programs Audited and Federal Catalog Number:

#### SNAP Cluster

State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (10.561)

#### TANF Cluster

- Temporary Assistance for Needy Families (93.558)
- ARRA—Emergency Contingency Fund for Temporary Assistance for Needy Families State Programs (93.714)

#### Other Programs

- Foster Care—Title IV-E (93.658)
- Adoption Assistance (93.659)
- Social Services Block Grant (93.667)
- Social Security—Disability Insurance (96.001)

### Social Services Cannot Ensure That Amounts the Counties Include on Their Claims Are Allowable

Although the federal Department of Health and Human Services, Administration for Children and Families (ACF) found that certain procedures Social Services performs when making payments to counties were appropriate, ACF also indicated that these procedures still do not meet the monitoring requirements outlined in federal regulations for six of the programs we reviewed—the Supplemental Nutrition Assistance Program (SNAP), Foster Care—Title IV-E (Foster Care), Adoption Assistance, the Social Services Block Grant (SSBG), the Temporary Assistance for Needy Families (TANF), and the ARRA—Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Programs. Four of these programs—SNAP, Foster Care, Adoption Assistance, and the Emergency Contingency Fund for TANF State Programs—received Recovery Act funds. These regulations require that Social Services, as the entity responsible for managing the day-to-day operations of any subgrants it provides others, such as the counties, to monitor the activities supported by its subgrants to ensure that the activities comply with applicable federal requirements and that any performance goals are achieved.

For fiscal years 2007–08 and 2008–09, we reported three findings related to Social Services’ process for reviewing and authorizing the counties’ expense and assistance claims (claims). More specifically, we found that Social Services’ process did not provide reasonable assurance regarding the following:

- Federal funds were spent only for allowable activities.
- The costs reflected on the county claims were calculated in accordance with the cost-allocation plan (CAP) for local agencies.
- Adjustments included on the county claims were for expenditures made within two years after the calendar quarter in which the expenditures were either initially paid or incurred or within two years after the program funds were awarded.

Expense claims that the counties submit to Social Services include administrative costs, and their assistance claims include a summary total of county assistance payments to beneficiaries by program. Social Services requires counties to submit their claims in an electronic template it provides, but it does not require counties to submit detailed documentation to support the line items on their claims, nor does it conduct site visits during the award year to review the supporting documentation or to review the counties’ processes for capturing and allocating the costs reported on the claims. By not reviewing the underlying supporting documentation for these claims, Social Services cannot ensure that federal funds are expended only for allowable activities, that federal funds are expended only in accordance with its approved CAP, and that adjustments included on the claims are being made within the two-year limit for claiming payment.

However, Social Services believed it was complying with applicable federal requirements and, for fiscal year 2008–09, cited several reasons for this belief. These reasons included the desk reviews Social Services performs of county claims, the review and approval of the expenses included on the claims by the county auditor’s office, and the fact that each county must have an independent audit conducted annually in conformance with the single audit act and OMB’s Circular A-133. Consequently, we recommended that if Social Services believes its processes comply with federal requirements concerning allowable activities, allowable costs, and the period of availability, it should seek written concurrence from the applicable federal agencies.

In a letter to Social Services dated May 20, 2010, ACF indicated that it had completed its review of our fiscal year 2008–09 interim report, which included these three findings.<sup>1</sup> According to the letter, Social Services provided ACF with a comprehensive statement in a February 26, 2010 draft response, in which Social Services indicated that it performs fiscal oversight for federally funded programs, which includes three main phases: pre-award activities, ongoing monitoring activities, and post-award activities. In this letter, ACF concluded that the documentation required by Social Services to approve and pay county claims is adequate. However, ACF also concluded that Social Services had not demonstrated how its post-award procedures, as submitted, ensure only allowable costs are claimed, ensure costs are claimed in accordance with the CAP, and ensure only allowable adjusted claims are within the allowed time period. Therefore, it was ACF’s determination that Social Services should implement an onsite review procedure.

<sup>1</sup> As of September 2010, the equivalent federal entity to ACF from the U.S. Department of Agriculture has not reviewed these findings as they relate to SNAP.

Social Services responded to ACF in a letter dated August 11, 2010, and acknowledged the need to implement additional corrective action to meet ACF's compliance determination. According to the corrective action implementation plan included in its letter, Social Services intended to take several actions including the following:

- By September 30, 2010, identify resources for temporary redirection to develop and perform a limited onsite claims validation.
- Beginning November 1, 2010, initiate the first onsite county review to develop a limited scope of work appropriate to validate the data and/or supporting documentation used in the preparation of county claims.
- By June 30, 2011, complete reviews of approximately six counties and develop procedures for corrective action to address any discrepancies disclosed during the review process.

Accordingly, we recommend that, subject to ACF's approval of its corrective action implementation plan, Social Services should take the steps it has proposed to develop and implement onsite monitoring procedures of the county claims. In its corrective action plan, Social Services indicated, as stated in its August 11, 2010, letter to ACF, it is implementing the identified corrective action plan and should complete the last task—complete reviews of approximately six counties, develop procedures, etc.—by June 30, 2011.

### **Social Services Is Not Adequately Monitoring the Counties That Receive Adoption Assistance Program Funds**

Federal regulations require Social Services, as the entity responsible for managing the day-to-day operations of any subgrants it provides others, such as the counties, to monitor the activities supported by its subgrants to ensure that the activities comply with applicable federal requirements and that any performance goals are achieved.

Social Services lacks formal processes to ensure it fulfills its pass-through responsibility to monitor the counties during the award period for its Adoption Assistance program, which was awarded Recovery Act funds for fiscal year 2009–10. For example, Social Services does not perform monitoring procedures such as onsite visits or desk reviews of the counties' activities to ensure they are administering the program in compliance with federal laws and regulations. Although Social Services provides technical assistance to the counties by answering questions regarding eligibility determinations, these efforts are not sufficient to ensure the counties' compliance with all applicable federal laws and regulations during the award period. When it does not monitor the counties to the degree required, Social Services has no means of ensuring that counties are making correct eligibility determinations and complying with other requirements applicable to the program. Also, counties may be providing program funds to ineligible recipients. We reported a similar finding in our audits for fiscal years 2007–08 and 2008–09.

In a letter to Social Services dated May 20, 2010, ACF indicated that it had completed its review of our fiscal year 2008–09 interim report, which included this finding. According to the letter, a February 26, 2010 draft response prepared by Social Services provided examples of additional steps Social Services has taken to meet the monitoring requirements, including supervisory review of eligibility determinations at its district offices, implementation of a Program Improvement Plan, and a quality review program process that reviews counties' child welfare system services on an ongoing

basis. However, ACF determined that these actions do not meet the monitoring requirements outlined in the federal regulations. Specifically, ACF stated that Social Services had not demonstrated that it utilizes controls such as onsite reviews, desk reviews, systems, or other procedures, which would provide Social Services assurance that county eligibility determinations and related payments are appropriate. Therefore, it was ACF's determination that Social Services should implement an onsite review procedure to attain such assurances.

Social Services responded to ACF in a letter dated August 11, 2010, stating that it believes it is in substantial compliance with the monitoring requirements contained in the federal regulations citing the oversight activities it currently performs, which it described in an attachment to the letter. In this same letter, Social Services also proposed corrective actions it plans to perform at its five district offices that are responsible for the administration of the Adoption Assistance program for 28 of California's 58 counties. However, based on our review of its current activities outlined in the attachment and the proposed corrective actions, we do not believe that these activities satisfy ACF's determination that Social Services implement onsite review procedures. Specifically, these activities do not include procedures for performing onsite monitoring of the 30 counties that receive funds from Social Services to administer the Adoption Assistance program, which includes making eligibility determinations and the related payments.

We recommend that Social Services establish and implement policies and procedures for monitoring the counties during the award period to ensure they are complying with applicable laws, regulations, and the provisions of contracts or grant agreements. In its corrective action plan, Social Services stated that it is continuing its efforts to resolve the issues identified by the State Auditor's Office and as indicated in the August 11, 2010, letter to ACF.

### **Social Services Does Not Ensure That Its District Offices Retain Documentation That Would Show Compliance With Federal Requirements**

Federal regulations require Social Services, as the state agency administering the Adoption Assistance program, and the adopting parents to enter into an agreement specifying the nature and amount of the nonrecurring expenses of adoption that Social Services is to pay the parents. Nonrecurring expenses include any reasonable and necessary adoption fees and other expenses directly related to the legal adoption of a child with special needs, including payments for home study and health and psychological examinations. In addition, these regulations require that these agreements be signed prior to the final decree of adoption.

Social Services continues to need to improve its controls over its eligibility determinations for the Adoption Assistance program. Although Social Services is taking steps to correct the findings we reported during our two prior audits, during our current audit we identified similar deficiencies at the two district offices we visited. Specifically, we found that adoption case files we reviewed at both district offices did not contain completed documents that demonstrate compliance with federal regulations.

Federal regulations require that an agreement for reimbursement of the nonrecurring expenses of adoption (agreement) indicate the amount of the nonrecurring expenses to be paid to the adoptive parents and must be signed by the adoptive parents prior to the final decree of adoption. However, we found at one district office that nine of the 10 case files we reviewed contained a copy of the agreement, but the agreement was not signed or dated by the adoptive parents. Further, one agreement

was signed after the final adoptive decree and did not include the amount of nonrecurring expenses to be paid. According to the chief of the Adoption Services Bureau (Adoption Services), after we brought these issues to his attention, the district office revised its procedures to ensure that the agreements are always signed and dated by the adoptive parents prior to the final decree of adoption. At the second district office we also found that, although all 10 agreements we reviewed were signed, nine of them did not contain the date they were signed.

According to the chief of Adoption Services, although Social Services distributes standardized adoption forms to each of the five district offices, it does not conduct periodic reviews or monitor to ensure that the district offices are using the appropriate forms and completing them as required. Because Social Services does not review the forms, Adoption Services is not ensuring that they are complying with federal regulations. Consequently, Social Services cannot demonstrate that adoptive families have been informed, before the final decree of adoption is issued, of their right to receive reimbursement for nonrecurring expenses and it runs the risk of the federal government disallowing reimbursement of these costs.

We recommend that Social Services continue its efforts to implement a quality control process to ensure that staff in its five district offices are retaining and completing the appropriate documentation to demonstrate that it is following established internal control procedures and complying with federal laws and regulations. In its corrective action plan, Social Services stated that it is continuing its efforts to implement a quality control process including ensuring that the case files in its district offices contain completed adoption forms. Social Services also indicated that it has implemented a revised checklist and conducted district office training to ensure thorough management review of adoption case files.

### **Social Services Could Not Substantiate Some of the Payroll Expenditures It Charged to the Disability Insurance Program**

Federal regulations require that when federally funded employees do not work exclusively on a single federal program, the distribution of their salaries or wages be supported by personnel activity reports or equivalent documentation, unless the federal government has approved a sampling system or other system to support these costs.

Social Services could not substantiate some of the payroll expenditures it charged to the Disability Insurance program. Specifically, Social Services uses funds from various sources, including the Disability Insurance program to pay for activities performed by the four employees whose payroll expenditures we selected to review and who work in Social Services' Financial Services Bureau. However, we found that Social Services did not distribute the payroll expenditures of these employees to the Disability Insurance program using the actual time they spent working on activities related to this program. Instead, Social Services used percentages to distribute the payroll expenditures that, according to the manager in the Financial Services Bureau, were based on a time study occurring before January 2009 and which Social Services was unable to provide. During fiscal year 2009–10, the payroll expenditures for all the employees in the Financial Services Bureau that were allocated to the Disability Insurance program totaled about \$197,000. Until Social Services corrects this deficiency, it risks losing federal funds for noncompliance with federal requirements.

We recommend that Social Services develop and implement procedures that meet the federal requirements regarding support for the distribution of salaries and wages for employees who work on more than a single federal award. In its corrective action plan, Social Services stated that it concurs with our finding. Social Services indicated that it analyzed the payroll expenditures charged by the

Financial Services Bureau to the Disability Insurance program for fiscal year 2009–10 and determined that the expenditures were valid and do not represent questioned costs. Additionally, according to Social Services, as of October 25, 2010, the staff in the Financial Service Bureau began completing monthly employee time reports that reflect the actual activities the employees are performing.

### Social Services Took Steps to Correct Seven Findings Reported for Fiscal Year 2008–09

During our current audit, we determined that Social Services had fully corrected seven of 12 findings we reported for fiscal year 2008–09. As shown in the following table, these seven findings applied to multiple federal programs. We confirmed that Social Services had corrected five of these findings before the start of fiscal year 2009–10 and corrected the remaining two during the fiscal year.

Table 7 presents a listing of the corrected findings and a reference to the finding description as it was reported in the California State Auditor’s annual report titled *State of California: Internal Control and State and Federal Compliance Audit Report for the Fiscal Year Ended June 30, 2009* (report number 2009-002, dated March 2010). In addition, the table indicates whether the State received Recovery Act funds for the federal programs listed.

**Table 7**  
Findings Reported for Fiscal Year 2008–09 That the Department of Social Services Has Corrected

FEDERAL PROGRAM TITLE	FEDERAL CATALOG NUMBER	CATEGORY OF FINDING	REPORT 2009-002, ISSUED MARCH 2010: REFERENCE NUMBER/PAGE NUMBER	RECEIVED RECOVERY ACT FUNDS DURING FISCAL YEAR		
				2008–09	2009–10	
Foster Care—Title IV-E	93.658	Allowable Costs/Cost Principles	2009-2-1/page 173	Yes	Yes	
Social Security—Disability Insurance	96.001			No	No	
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	Allowable Costs/Cost Principles	2009-2-3/page 41	No	Yes	
Promoting Safe and Stable Families	93.556	Procurement, Suspension and Debarment	2009-9-1/page 118	No	No	
Temporary Assistance for Needy Families	93.558			No	Yes*	
Refugee and Entrant Assistance—						
State Administered Programs	93.566			No	No	
Child Welfare Services—State Grants	93.645			No	No	
Foster Care—Title IV-E	93.658			Yes	Yes	
Adoption Assistance	93.659			Yes	Yes	
Social Services Block Grant	93.667	No	No			
Promoting Safe and Stable Families	93.556	Procurement, Suspension and Debarment	2009-9-2/page 120	No	No	
Refugee and Entrant Assistance—						
State Administered Programs	93.566	No	No			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	Subrecipient Monitoring	2009-13-3/page 166	No	Yes	
Promoting Safe and Stable Families	93.556			No	No	
Temporary Assistance for Needy Families	93.558			No	Yes*	
Refugee and Entrant Assistance—						
State Administered Programs	93.566			No	No	
Child Welfare Services—State Grants	93.645			No	No	
Foster Care—Title IV-E	93.658			Yes	Yes	
Adoption Assistance	93.659			Yes	Yes	
Social Services Block Grant	93.667	No	No			

FEDERAL PROGRAM TITLE	FEDERAL CATALOG NUMBER	CATEGORY OF FINDING	REPORT 2009-002, ISSUED MARCH 2010: REFERENCE NUMBER/PAGE NUMBER	RECEIVED RECOVERY ACT FUNDS DURING FISCAL YEAR	
				2008-09	2009-10
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	Subrecipient Monitoring	2009-13-5/page 169	No	Yes
Temporary Assistance for Needy Families	93.558			No	Yes*
Foster Care—Title IV-E	93.658			Yes	Yes
Adoption Assistance	93.659			Yes	Yes
Social Services Block Grant	93.667			No	No
Medicaid Cluster: Medical Assistance Program	93.778			Yes	Yes
Promoting Safe and Stable Families	93.556	Subrecipient Monitoring	2009-13-6/page 135	No	No

Source: California State Auditor's Office analysis of corrective action taken on the Department of Social Services' findings.

\* Recovery Act funds for the Temporary Assistance for Needy Families program were received in fiscal year 2009-10 under Federal Catalog Number 93.714.

We conducted this review under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code and according to generally accepted government auditing standards.

Respectfully submitted,



ELAINE M. HOWLE, CPA  
 State Auditor

Date: December 14, 2010

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

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