CALIFORNIA STATE AUDITOR

State of California

Internal Control and State and Federal Compliance Audit Report for the Fiscal Year Ended June 30, 2010

March 2011 Report 2010-002

Independent NONPARTISAN TRANSPARENT Accountability

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Elaine M. Howle
State Auditor

Doug Cordiner
Chief Deputy

CALIFORNIA STATE AUDITOR

Bureau of State Audits

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March 29, 2011 2010-002

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

Dear Governor and Legislative Leaders:

As required by California Government Code, Section 8543 et seq., the State Auditor's Office presents its audit report concerning our review of the State of California's internal controls and compliance with state and federal laws and regulations for the year ended June 30, 2010.

This report concludes that the State did not materially comply with certain requirements for 10 of the 32 federal programs or clusters of programs (federal programs) we audited. Additionally, although we were able to conclude that the State materially complied with requirements for the remaining federal programs we audited, we reported various instances of noncompliance relating to those programs. Further, the State continues to experience certain deficiencies in its accounting and administrative practices that affect its internal controls over compliance with federal requirements and over financial reporting. Deficiencies in the State's internal control system could adversely affect its ability to administer federal programs in compliance with applicable requirements and to provide accurate financial information.

Respectfully submitted,

Elaine M. Howle

ELAINE M. HOWLE, CPA
State Auditor

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AUDITOR'S SECTION

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

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

The Governor and the Legislature of the State of California

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of California as of and for the year ended June 30, 2010, which collectively comprise the State of California's basic financial statements, and have issued our report thereon dated February 18, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. As described in our report on the State of California's financial statements, other auditors audited the financial statements of the following:

Government-wide Financial Statements

- Certain enterprise funds that, in the aggregate, represent 94 percent and 28 percent, respectively, of the assets and revenues of the business-type activities.

- The University of California, State Compensation Insurance Fund, California Housing Finance Agency, Public Employees' Benefits, and certain other funds that, in the aggregate, represent over 99 percent of the assets and revenues of the discretely presented component units.

Fund Financial Statements

- The following major enterprise funds: Electric Power fund, Water Resources fund, Public Building Construction fund, and State Lottery fund.

- Certain nonmajor enterprise funds that represent 95 percent and 90 percent, respectively, of the assets and revenues of the nonmajor enterprise funds.

- The funds of the Public Employees' Retirement System and the State Teachers' Retirement System, and certain other funds that, in the aggregate, represent 89 percent and 65 percent, respectively, of the assets and additions of the fiduciary funds and similar component units.

- The discretely presented component units noted above.

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of California's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an

opinion on the effectiveness of the State of California's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State of California's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, item 2010-15-1 described in the accompanying schedule of findings and questioned costs, that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

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

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

BUREAU OF STATE AUDITS

JOHN F. COLLINS II, CPA
Deputy State Auditor

February 18, 2011

Elaine M. Howle
State Auditor

Doug Cordiner
Chief Deputy

CALIFORNIA STATE AUDITOR

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Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

The Governor and the Legislature of the State of California

Compliance

We have audited the compliance of the State of California with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The State of California's major federal programs are identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State of California's management. Our responsibility is to express an opinion on the State of California's compliance based on our audit. We did not audit the State of California's compliance with the requirements of the U.S. Environmental Protection Agency's Capitalization Grants for Clean Water State Revolving Funds (CFDA Number 66.458). This program, which accounts for less than 1 percent of the total of federal assistance received by the State of California, is included in the accompanying schedule of federal assistance. Other auditors have audited the State of California's compliance with this program's requirements and their report thereon has been furnished to us. Our opinion, insofar as it relates to this program, is based solely on the report of the other auditors.

The State of California's basic financial statements include the operations of the University of California and the California State University systems, as well as the California Housing Finance Agency, a component unit of the State. However, these entities are not included in the accompanying schedule of findings and questioned costs for the year ended June 30, 2010. Further, they are generally not included in the schedule of federal assistance, except for receipts totaling $896 million that were distributed to the University of California and the California State University systems through the State Fiscal Stabilization Fund Cluster. The University of California and the California State University systems, and the California Housing Finance Agency, which reported expenditures of federal awards totaling $4.3 billion, $2.5 billion, and $79.9 million, respectively, engaged other auditors to perform an audit in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133).

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

As described in the Table on the following page and in the accompanying schedule of findings and questioned costs, the State of California did not comply with requirements that are applicable to certain major federal programs.

Table

COMPLIANCE REQUIREMENT(S)	FINDING NUMBER	FEDERAL DEPARTMENT	PROGRAM	CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER
Activities Allowed/Allowable Costs				
	2010-1-5 and 2010-1-6	Health and Human Services	Medicaid Cluster:	
			State Medicaid Fraud Control Units	93.775
			State Survey and Certification of Health Care Providers and Suppliers	93.777
			Medical Assistance Program	93.778
Cash Management				
	2010-3-3	Education	Title I, Part A Cluster:	
			Title I Grants to Local Educational Agencies	84.010
			ARRA—Title I Grants to Local Educational Agencies	84.389
			English Language Acquisition Grants	84.365
Eligibility				
	2010-5-3 and 2010-5-4	Health and Human Services	HIV Care Formula Grants	93.917
	2010-5-6	Health and Human Services	Medicaid Cluster:	
			State Medicaid Fraud Control Units	93.775
			State Survey and Certification of Health Care Providers and Suppliers	93.777
			Medical Assistance Program	93.778
Earmarking				
	2010-7-5	Health and Human Services	HIV Care Formula Grants	93.917
Subrecipient Monitoring				
	2010-13-1	Health and Human Services; Agriculture	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
			Foster Care—Title IV–E	93.658
			Adoption Assistance	93.659
			Social Services Block Grant	93.667
	2010-13-2	Health and Human Services	Adoption Assistance	93.659
	2010-13-14	Education	Career and Technical Education—Basic Grants to States	84.048
Special Tests and Provisions—Provider Eligibility				
	2010-14-4	Health and Human Services	Medicaid Cluster:	
			State Medicaid Fraud Control Units	93.775
			State Survey and Certification of Health Care Providers and Suppliers	93.777
			Medical Assistance Program	93.778

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

In our opinion, except for the noncompliance described in the Table, the State of California complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items:

2010-1-1, 2010-1-2, 2010-1-7, 2010-2-1, 2010-2-2, 2010-2-3, 2010-2-4, 2010-2-6, 2010-3-1, 2010-3-2, 2010-3-4, 2010-3-5, 2010-3-6, 2010-4-1, 2010-5-1, 2010-5-2, 2010-5-5, 2010-5-7, 2010-7-1, 2010-7-11, 2010-7-12, 2010-8-1, 2010-9-1, 2010-9-2, 2010-12-1, 2010-12-4, 2010-12-5, 2010-12-6, 2010-12-7, 2010-12-10, 2010-13-3, 2010-13-4, 2010-13-5, 2010-13-6, 2010-13-7, 2010-13-8, 2010-13-9, 2010-13-10, 2010-13-12, 2010-13-13, 2010-13-16, 2010-13-17, 2010-13-18, 2010-13-19, 2010-13-20, 2010-14-1, 2010-14-2, 2010-14-3, 2010-14-5, 2010-14-6, and 2010-14-7.

Internal Control Over Compliance

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

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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2010-1-1, 2010-1-2, 2010-1-3, 2010-1-5, 2010-1-6, 2010-3-3, 2010-5-2, 2010-5-3, 2010-5-4, 2010-5-6, 2010-7-1, 2010-7-3, 2010-7-4, 2010-7-5, 2010-7-11, 2010-12-1, 2010-13-1, 2010-13-2, 2010-13-5, 2010-13-6, 2010-13-7, 2010-13-8, 2010-13-9, 2010-13-14, 2010-14-2, 2010-14-4, 2010-14-6, and 2010-14-7 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2010-1-4, 2010-1-7, 2010-2-1, 2010-2-2, 2010-2-3, 2010-2-4, 2010-2-5, 2010-2-6, 2010-3-1, 2010-3-2, 2010-3-4, 2010-3-5, 2010-3-6, 2010-4-1, 2010-5-1, 2010-5-5, 2010-5-7, 2010-7-2, 2010-7-6, 2010-7-7, 2010-7-8, 2010-7-9, 2010-7-10, 2010-8-1, 2010-9-2, 2010-12-2, 2010-12-3, 2010-12-4, 2010-12-5, 2010-12-6, 2010-12-7, 2010-12-9, 2010-12-11, 2010-12-12, 2010-13-3, 2010-13-10, 2010-13-11, 2010-13-12, 2010-13-13, 2010-13-15, 2010-13-16, 2010-13-18, 2010-13-20, 2010-14-3, and 2010-14-5 to be significant deficiencies.

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

Schedule of Federal Assistance

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of California, as of and for the year ended June 30, 2010, and have issued our report thereon dated February 18, 2011. We did not audit the following significant amounts in the financial statements of:

Government-wide Financial Statements

- Certain enterprise funds that, in the aggregate, represent 94 percent and 28 percent, respectively, of the assets and revenues of the business-type activities.

- The University of California, State Compensation Insurance Fund, California Housing Finance Agency, Public Employees' Benefits, and certain other funds that, in the aggregate, represent over 99 percent of the assets and revenues of the discretely presented component units.

Fund Financial Statements

- The following major enterprise funds: Electric Power fund, Water Resources fund, Public Building Construction fund, and State Lottery fund.

- Certain nonmajor enterprise funds that represent 95 percent and 90 percent, respectively, of the assets and revenues of the nonmajor enterprise funds.

- The funds of the Public Employees' Retirement System and the State Teachers' Retirement System, and certain other funds that, in the aggregate, represent 89 percent and 65 percent, respectively, of the assets and additions of the fiduciary funds and similar component units.

- The discretely presented component units noted above.

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

Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the State of California's basic financial statements. The accompanying schedule of federal assistance is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. OMB Circular A-133 requires the schedule of federal assistance to present total expenditures for each federal assistance program. However, although the State's automated accounting system separately identifies receipts for each federal assistance program, it does not separately identify expenditures for each program. As a result, the State of California presents the schedule of federal assistance on a receipts basis. We discuss this matter in item 2010-12-8 in the accompanying schedule of findings and questioned costs. In addition, the schedule of federal assistance does not include expenditures of federal awards received by the University of California and the California State University systems, or the California Housing Finance Agency. These expenditures are audited by other independent auditors in accordance with OMB Circular A-133. The information in the accompanying schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

BUREAU OF STATE AUDITS

Philip Jelicich

PHILIP J. JELICICH, CPA
Deputy State Auditor

February 18, 2011

Schedule of Findings and Questioned Costs

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STATE OF CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Summary of Auditor's Results

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness (es) identified?	Yes
Significant deficiency (ies) identified that are not considered to be material weaknesses?	Yes
Type of auditor's reports issued on compliance for major programs:	
SNAP Cluster: State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (10.561)	Qualified
Title I, Part A Cluster: Title I Grants to Local Educational Agencies, ARRA—Title 1 Grants to Local Educational Agencies (84.010 and 84.389)	Qualified
Career and Technical Education—Basic Grants to States (84.048)	Qualified
English Language Acquisition Grants (84.365)	Qualified
TANF Cluster: Temporary Assistance for Needy Families Program, ARRA—Emergency Contingency Fund for Temporary Assistance for Needy Families State Programs (93.558 and 93.714)	Qualified
Foster Care—Title IV-E (93.658)	Qualified

continued on next page . . .

Adoption Assistance (93.659)	Qualified
Social Services Block Grant (93.667)	Qualified
Medicaid Cluster: State Medicaid Fraud Control Units, State Survey and Certification of Health Care Providers and Suppliers, Medical Assistance Program (93.775, 93.777, and 93.778)	Qualified
HIV Care Formula Grants (93.917)	Qualified
All other major programs	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133?	Yes
Dollar threshold used to distinguish between Type A and Type B programs	$181.0 million
Auditee qualified as low-risk auditee?	No

Identification of Major Programs:

CFDA Number	*Name of Federal Program or Cluster of Programs*
	CCDF Cluster
	Child Nutrition Cluster
	Disability Insurance/SSI Cluster
	Highway Planning and Construction Cluster
	Homeland Security Cluster
	Immunization Cluster
	Medicaid Cluster
	Special Education Cluster (IDEA)
	State Fiscal Stabilization Fund Cluster
	SNAP Cluster
	TANF Cluster
	Title I, Part A Cluster
	Vocational Rehabilitation Cluster
	WIA Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
17.225	Unemployment Insurance
64.114	Veterans Housing—Guaranteed and Insured Loans
66.458	Capitalization Grants for Clean Water State Revolving Funds
84.011	Migrant Education—State Grant Program
84.032	Federal Family Education Loans
84.048	Career and Technical Education—Basic Grants to States
84.287	Twenty-First Century Community Learning Centers
84.365	English Language Acquisition Grants
84.367	Improving Teacher Quality State Grants
93.069	Public Health Emergency Preparedness
93.563	Child Support Enforcement
93.658	Foster Care—Title IV-E
93.659	Adoption Assistance
93.667	Social Services Block Grant
93.767	Children's Health Insurance Program
93.917	HIV Care Formula Grants
93.959	Block Grants for Prevention and Treatment of Substance Abuse

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Internal Control and Compliance Issue Applicable to the Financial Statements and State Requirements

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DEPARTMENT OF CORRECTIONS AND REHABILITATION

Reference Number: 2010-15-1

Condition

The California Department of Corrections and Rehabilitation (Corrections) incorrectly reported certain capital asset balances for buildings in its fiscal year 2009–10 financial statements. In the account balances related to governmental activities, Corrections included restatements of $723 million. Corrections said that it restated the balances based on a review it performed during fiscal years 2008–09 and 2009–10, as part of a conversion to a new computer system. To test the restatements, we selected four buildings related to governmental funds, totaling about $704 million, which had corresponding large capital leases outstanding with the State Public Works Board (Board). Based on our testing of these items, we confirmed that almost all of the amounts related to the four buildings, about $677 million, were misclassified as governmental fund assets. Upon further investigation, we identified an additional potential overstatement in Corrections' buildings' balance of $817 million. The potential overstatement is related to other buildings reported in Corrections' governmental funds that may also be associated with capital leases through the Board. Because of the errors we identified and the likelihood of additional errors, we requested that the State Controller's Office (SCO) eliminate $723 million of restatements reported by Corrections for fiscal year 2009–10 related to buildings.

At fiscal year-end the SCO gathers information on California's capital assets from various sources and presents it in the Comprehensive Annual Financial Report (CAFR). Buildings and improvements within the capital assets governmental activities section of the CAFR include buildings owned by state departments as well as buildings that departments are purchasing through leases with the Board. The SCO obtains information on buildings that are owned by departments through departments' financial statements and obtains information on capital leases with the Board through the Department of General Services' reports. When departments, in their year-end financial reports to the SCO, include buildings they are buying through capital leases with the Board, they cause assets to be double counted in the CAFR. According to Corrections, it was unaware of how to report in its financial statements buildings being purchased through capital leases.

Criteria

The *State Administrative Manual*, Section 6872, states that the title of a building under lease with the Board remains with the Board until the associated debt is retired. Thus, buildings that are still under lease should not be reported in governmental funds.

The *State Administrative Manual*, sections 7977, 7978, and 8660, requires departments to report in their financial statements to the SCO all additions and deductions to real property. It also requires that departments report real property by the source of the funds used to acquire each property. The SCO uses these reports to compile the information related to capital assets that it presents in the CAFR.

Recommendations

Corrections should adjust its buildings balance for governmental funds by $723 million and identify the nongovernmental funds to which related buildings should be reclassified. Additionally, in order to assure that its remaining balance is correctly stated, Corrections should identify any other buildings in its governmental funds that are associated with capital leases through the Board and reclassify them to the appropriate nongovernmental funds.

Department's View and Corrective Action Plan

The audit identified that Corrections overstated its capital asset balances for buildings in its fiscal year 2009–10 financial statements by $723 million. It concurs with the findings and will submit the appropriate revised statements to the SCO. Corrections is committed to completing its financial

statements timely and accurately during its conversion to the new business information system. It will complete additional reviews as recommended and will assure that the remaining balances are correctly stated for capital leases on the financial statements prepared for fiscal year 2010–11.

Compliance Issue Related to All Federal Grants

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U.S. OFFICE OF MANAGEMENT AND BUDGET

Reference Number:	2010-12-8
Federal Program Title:	All Programs
Category of Finding:	Reporting
State Administering Department:	Department of Finance (Finance)

Criteria

U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133, *AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS* (OMB CIRCULAR A-133), Subpart C—Auditees, Section .310—Financial Statements

(b) Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. At a minimum, the schedule shall:

(3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.

OMB CIRCULAR A-133, Subpart E—Auditors, Section .520—Major Program Determination

(a) General. The auditor shall use a risk-based approach to determine which Federal programs are major programs. The risk-based approach shall include consideration of: Current and prior audit experience, oversight by Federal agencies and pass-through entities, and the inherent risk of the Federal program. The process in paragraphs (b) through (i) of this section shall be followed.

(b) Step 1.

(1) The auditor shall identify the larger Federal programs, which shall be labeled Type A programs. Type A programs are defined as Federal programs with Federal awards expended during the audit period exceeding the larger of:

(i) $300,000 or three percent (.03) of total Federal awards expended in the case of an auditee for which total Federal awards expended equal or exceed $300,000 but are less than or equal to $100 million.

(ii) $3 million or three-tenths of one percent (.003) of total Federal awards expended in the case of an auditee for which total Federal awards expended exceed $100 million but are less than or equal to $10 billion.

(iii) $30 million or 15 hundredths of one-percent (.0015) of total Federal awards expended in the case of an auditee for which total Federal awards expended exceed $10 billion.

Condition

State law requires Finance to maintain a complete accounting system to ensure that all revenues, expenditures, receipts, disbursements, resources, obligations, and property of the State are accounted for properly and accurately. Because of limitations in its automated accounting systems, the State has not complied with the provision of OMB Circular A-133 requiring auditees to prepare a schedule of expenditures of federal awards that includes the total federal awards expended for each individual federal program. As a result, the schedule (beginning on page 195) shows total cash receipts rather than expenditures by program. Further, without the expenditure information, we are unable to comply with the provision of OMB Circular A-133 for determining which federal programs are major programs. Instead, we use the cash receipts information to make our determination for Type A programs. We also review expenditure information for those federal programs that have cash receipts within 10 percent of the Type A program threshold to ensure that they are classified correctly as Type A programs.

During our prior-year audit, Finance reported that it anticipated completing the implementation of an integrated statewide financial management system in 2017 that would report expenditures for each individual federal program. Finance also stated that it was working with state agencies to develop an interim solution by fiscal year 2010–11. As an initial step in its interim solution, Finance informed state agencies in August 2010 that they are required to track and report expenditures separately for each federal program effective fiscal year 2010–11. State agencies are to report the information using a standard year-end financial report that was modified for that purpose.

Questioned Costs

No specific questioned costs identified.

Recommendations

As priorities and resources permit, Finance should continue modifying the State's accounting system to allow it to prepare a schedule of expenditures of federal awards that includes the total federal awards expended for each individual federal program. Finance should also work with agencies to ensure that the interim reporting process captures accurate, reliable data.

Department's View and Corrective Action Plan

Finance is aware of the importance of the reporting requirement. The State's accounting system will require substantial modification to comply with federal and state requirements. Finance is working on both a long-term and short-term plan to correct this finding.

Short-Term Plan

In a cooperative effort with state agencies, Finance is working on an interim solution for fiscal year 2010–11. Finance has directed departments via an August 2010 Budget Letter to begin tracking and reporting expenditures separately for each federal program. The federal expenditures will be reported on a year-end financial report that has been modified for that purpose (Report 13). Each department will submit a Report 13 report, and these reports will be consolidated to create the Schedule of Federal Assistance. Finance auditors are currently consulting and training departments to ensure the success of the interim solution.

Long-Term Plan

The State has received legislative approval for a new integrated statewide financial management system—the Financial Information System for California (FI$Cal Project). The FI$Cal Project is a comprehensive statewide initiative costing over $1 billion and is anticipated to be completed by 2017. Wave 1 implementation is anticipated to begin in 2012–13. The FI$Cal Project's requirements related to federal funding include the capability to record grants by Catalog of Federal Domestic Assistance (CFDA) number, and to track and record transactions for individual grants at all levels of the account classification structure by time period and by CFDA number. Finance is confident the new system, upon full implementation to all state departments (planned for 2017), will have the capability to provide total expenditures for each federal program as required by OMB Circular A-133.

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

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Bureau of State Audits

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THE CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

Reference Number:	2010-7-11
Federal Catalog Number:	94.006
Federal Program Title:	AmeriCorps
Federal Award Numbers and Years:	09RCHCA002; 2009 06ACHCA001; 2006 06AFHCA001; 2006
Category of Finding:	Matching
State Administering Department:	CaliforniaVolunteers

Criteria

TITLE 45—PUBLIC WELFARE, PART 2521—ELIGIBLE AMERICORPS SUBTITLE C PROGRAM APPLICANTS AND TYPES OF GRANTS AVAILABLE FOR AWARD, Section 2521.35—Who Must Comply with Matching Requirements?

(a) The matching requirements described in sections 2521.40 through 2521.95 apply to you if you are a subgrantee of a State commission or a direct program grantee of the Corporation. These requirements do not apply to Education Award Programs.

(b) If you are a State commission, you must ensure that your grantees meet the match requirements established in this part, and you are also responsible for meeting an aggregate overall match based on your grantees' individual match requirements.

TITLE 45—PUBLIC WELFARE, PART 2521—ELIGIBLE AMERICORPS SUBTITLE C PROGRAM APPLICANTS AND TYPES OF GRANTS AVAILABLE FOR AWARD, Section 2521.45—What are the Limitations on the Federal Government's Share of Program Costs?

(a) Member support: The Federal share, including Corporation and other Federal funds, of member support costs, which include the living allowance required under Section 2522.240(b)(1), FICA, unemployment insurance (if required under State law), worker's compensation (if required under State law), is limited as follows:

(3) Your share of member support costs must be non-Federal cash.

(b) Program operating costs: The Corporation share of program operating costs may not exceed 67 percent. These costs include expenditures (other than member support costs described in paragraph (a) of this section) such as staff, operating expenses, internal evaluation, and administration costs.

(1) You may provide your share of program operating costs with cash, including other Federal funds (as long as the other Federal agency permits its funds to be used as match), or third party in-kind contributions.

(2) Contributions, including third party in-kind must:

(i) Be verifiable from your records;

(ii) Not be included as contributions for any other Federally assisted program;

(iii) Be necessary and reasonable for the proper and efficient accomplishment of your program's objectives; and

(iv) Be allowable under applicable OMB cost principles.

Condition

In our prior-year audit, we reported that CaliforniaVolunteers had updated its fiscal desk review policies and procedures to include a process for collecting and reviewing documentation to verify that its subgrantees' matching contributions were from allowable sources. However, because it had done so five days before the end of the fiscal year, CaliforniaVolunteers was unable to ensure that its subgrantees' matching contributions were from allowable sources during the period of our testing. Further, we reported that our review of one fiscal desk review that CaliforniaVolunteers completed as of January 2010 for program year 2007–08 indicated that it was not properly following the updated fiscal desk review policies and procedures for verifying the fair market value of in-kind match contributions. CaliforniaVolunteers, in its corrective action plan, indicated that it would ensure its established policies and procedures for fiscal desk reviews are followed. In addition, it noted that it will review and update these policies to make certain that the fiscal desk review process verifies that subgrantees are keeping appropriate records on the value of in-kind match contributions reported and that these records are reviewed as part of the fiscal desk review process.

We also reported that, as of January 2010, CaliforniaVolunteers had only completed a fiscal desk review for one of the 27 subgrantees scheduled to receive such a review for program year 2007–08. CaliforniaVolunteers' chief of staff had explained that the backlog of desk reviews was due to the new and cumbersome nature of the fiscal desk review process and the need to prioritize fiscal desk reviews for subgrantees receiving American Recovery and Reinvestment Act of 2009 funds for program year 2009–10. In its corrective action plan, CaliforniaVolunteers indicated that the implementation of its work plan established to eliminate the backlog of fiscal desk reviews was on track, and it anticipated that the fiscal desk reviews for program years 2006–07 and 2007–08 would be completed by June 30, 2010.

Finally, we reported that we assessed the one fiscal desk review that CaliforniaVolunteers completed as of January 2010 for program year 2007–08, and found that CaliforniaVolunteers had not properly followed the updated fiscal desk review policies and procedures. For example, although the procedures required CaliforniaVolunteers to review a form of payment receipt and the fund into which cash contributions were deposited, it did not complete the verification. In another instance, although the subgrantee stated the fair market value of its in-kind contributions, CaliforniaVolunteers' internal records indicated that the subgrantee did not provide sufficient documentation to support the total value of the contributions. In its corrective action plan, CaliforniaVolunteers indicated that it would ensure that fiscal desk review policies related to verifying subgrantee match were implemented.

During our follow-up procedures, we found that CaliforniaVolunteers has not ensured its established policies and procedures for fiscal desk reviews are followed. Specifically, it did not verify the allowability of grantee match contributions for the fiscal desk reviews we tested where requirements to verify match contributions existed. CaliforniaVolunteers' chief of staff indicated that the Department of Finance's Office of State Audits and Evaluations (Finance) is performing the remaining desk reviews. However, the chief of staff indicated that although Finance verifies the supporting documentation for the match requirement when performing desk reviews, it does not verify the source of the match. As a result, CaliforniaVolunteers cannot assure that its subgrantees are meeting the match requirement.

In addition, we found that CaliforniaVolunteers has yet to eliminate its backlog of fiscal desk reviews. The chief of staff indicated that as of January 2011, CaliforniaVolunteers had completed only three fiscal desk reviews initially scheduled for program year 2007–08, and that it intends to have Finance complete the remaining reviews. According to a log that CaliforniaVolunteers maintains to track pending fiscal desk reviews, although Finance has completed nine of 34 pending fiscal desk reviews for program years 2007–08 and 2008–09, CaliforniaVolunteers has not yet approved these desk reviews.

Questioned Costs

No specific questioned costs identified.

Recommendations

CaliforniaVolunteers should follow its newly established policies and procedures when performing fiscal desk reviews to ensure its subgrantees' matching contributions are from allowable sources. Additionally, CaliforniaVolunteers should continue implementing its fiscal monitoring work plan to eliminate its backlog of fiscal desk reviews and to ensure timely review of documentation that supports the sources of its subgrantees' matching contributions during the grant period.

Department's View and Corrective Action Plan

In the spring of 2010, the CaliforniaVolunteers' position dedicated to eliminating the backlog of fiscal desk reviews became vacant and, as of February 2011, remains vacant due to a statewide hiring freeze. As a result, CaliforniaVolunteers entered into an interagency agreement with Finance to assist in the processing of these reviews. However, the funding originally budgeted for this agreement has been exhausted, and a significant number of 2007–08 and 2008–09 fiscal desk reviews have yet to be completed. It is not fiscally sustainable for the CaliforniaVolunteers to continue to rely on Finance for the completion of fiscal desk reviews, and it is therefore seeking to fill the position dedicated to these reviews.

During 2011, CaliforniaVolunteers intends to eliminate the backlog of 2007–08 and 2008–09 fiscal desk reviews and begin processing 2009–10 reviews. While requesting information from subgrantees for the 2009–10 fiscal desk review, California Volunteers will require subgrantees to document the source of matching funds and will review this documentation to verify they are from allowable sources.

Reference Number:	2010-13-8
Federal Catalog Number:	94.006
Federal Program Title:	AmeriCorps
Federal Award Numbers and Years:	09RCHCA002; 2009 06ACHCA001; 2006 06AFHCA001; 2006
Category of Finding:	Subrecipient Monitoring
State Administering Department:	CaliforniaVolunteers

Criteria

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

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

(3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

TITLE 45—PUBLIC WELFARE, PART 2541—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS, Subpart E—Reports, Records, Retention, and Enforcement, Section 2541.400—Monitoring and Reporting Program Performance

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

Condition

In our prior-year audit, we reported that CaliforniaVolunteers continued to evaluate its interim policy and procedures related to the review and documentation of fiscal information on site visits and that it stated it had consulted with the Corporation for National and Community Service (Corporation) regarding high-risk areas for programs and appropriate follow-up strategies. We reported that CaliforniaVolunteers had entered into an interagency agreement with the Department of Finance's Office of State Audits and Evaluations (Finance) covering 2009 to assist it, in part, with developing and documenting an ongoing risk-based grant monitoring process for the federal AmeriCorps grants. We also reported that in July 2009 Finance provided CaliforniaVolunteers with a risk-based methodology for audits of AmeriCorps grants. Lastly, we reported that CaliforniaVolunteers stated that it was considering this methodology in the evaluation of its site visits, and that it planned to contract with Finance to perform audits on high-risk cases, and expected to implement its updated site-visit policy and procedures by June 2010.

During our follow-up procedures for fiscal year 2009–10, we found that CaliforniaVolunteers did not implement its updated site-visit policy and procedures. CaliforniaVolunteers indicated that, before it formalizes its interim policy and procedures for site visits, it needs to reexamine its current process and the goals of the new policy and procedures. Specifically, it stated that it is considering using the site visit as a monitoring tool when a program's fiscal desk review raises a concern. CaliforniaVolunteers stated that it will work to more precisely define the criteria that would warrant these site visits and the extent and subjects of the site review at the program level.

CaliforniaVolunteers indicated that its capacity and staffing levels, as well as staffing transitions, had slowed its implementation of the interim policy and procedures, and that it expected to resume work on finalizing the site visit policy and procedures in spring 2011. Without proper site-visit policies and procedures, CaliforniaVolunteers cannot be assured that its subrecipients are complying with the applicable federal requirements.

Questioned Costs

No specific questioned costs identified.

Recommendation

CaliforniaVolunteers should formalize and implement its interim policy and procedures related to site visits.

Department's View and Corrective Action Plan

For the majority of 2010, CaliforniaVolunteers' Director of Finance and Administration position was unoccupied, requiring other staff members to cover those responsibilities as needed. Because of this vacancy and other ongoing staffing vacancies resulting from a hiring freeze, CaliforniaVolunteers was unable to formalize and implement its site-visit policy by July 2010.

The Director of Finance and Administration position was filled in January 2011, and it is the goal of CaliforniaVolunteers to finalize its site-visit policy and procedures by summer 2011. Guidance from Corporation and Finance regarding the identification of high-risk grantees will be used in the development of the policy and procedures. In addition, CaliforniaVolunteers has entered into an interagency agreement with Finance to conduct field audits of grantees that meet specific risk criteria in order to determine compliance with fiscal reporting requirements.

U.S. DEPARTMENT OF DEFENSE

Reference Number:	2010-1-2
Federal Catalog Number:	12.401
Federal Program Title:	National Guard Military Operations and Maintenance Projects (O&M projects program)
Federal Award Numbers and Years:	W912LA-10-02; 2010 W912LA-09-02; 2009
Category of Finding:	Activities Allowed/Allowable Costs
State Administering Department:	Military Department (Military)

Criteria

TITLE 2—GRANTS AND AGREEMENTS, CHAPTER II—OFFICE OF MANAGEMENT AND BUDGET CIRCULARS AND GUIDANCE, PART 225—COST PRINCIPLES FOR STATE, LOCAL, AND INDIAN TRIBAL GOVERNMENTS (OMB CIRCULAR A-87)—Appendix B to Part 225—Selected Items of Cost

(h) Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation.

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

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

(a) More than one Federal award,

(b) A Federal award and a non-Federal award,

(c) An indirect cost activity and a direct cost activity,

(d) Two or more indirect activities which are allocated using different allocation bases, or

(e) An unallowable activity and a direct or indirect cost activity.

(5) Personnel activity reports or equivalent documentation must meet the following standards:

(a) They must reflect an after the fact distribution of the actual activity of each employee,

(b) They must account for the total activity for which each employee is compensated,

(c) They must be prepared at least monthly and must coincide with one or more pay periods,

(d) They must be signed by the employee, and

(e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:

i. The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;

ii. At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and

iii. The budget estimates or other distributions percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

(6) Substitute systems for allocating salaries and wages to Federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort.

(7) Salaries and wages of employees used in meeting cost sharing or matching requirements of Federal awards must be supported in the same manner as those claimed as allowable costs under Federal awards.

Condition

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, 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 fiscal years' 2007 and 2008 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.

Questioned Costs

Overall, personnel expenditures accounted for more than $32.4 million—63 percent—of the $51.8 million in program expenditures for fiscal year 2009–10.

Recommendation

To comply with the requirements of OMB Circular A-87 and to ensure that only allowable activities and costs are charged to this program, 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.

Department's View and Corrective Action Plan

Military concurs and has 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. The certification form will be distributed to those supervisors by August 31, 2010, for implementation with the September 2010 payroll.

Military will develop a certification form to account for employees that work on multiple activities or cost objectives in the following situations:

a. More than one federal award.

b. A federal award and a nonfederal award.

c. An indirect cost activity and a direct cost activity.

d. Two or more indirect activities which are allocated using different allocation bases.

The certification form will be distributed to those employees by August 31, 2010, for implementation with the September 2010 payroll.

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U.S. DEPARTMENT OF EDUCATION

Reference Number:	2010-5-2
Federal Catalog Numbers:	84.126, 84.390
Federal Program Titles:	Rehabilitation Services—Vocational Rehabilitation Grants to States
	Rehabilitation Services—Vocational Rehabilitation Grants to States, Recovery Act
Federal Award Numbers and Years:	H126A100005B; 2010 H126A090005B; 2009 H126A080005D; 2008 H390A090005A; 2009
Category of Finding:	Eligibility
State Administering Department:	Department of Rehabilitation (Rehabilitation)

Criteria

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

(a)(6) Timeframe for making an eligibility determination

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

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

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

Condition

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.

Questioned Costs

No specific questioned costs identified.

Recommendations

Rehabilitation should more closely monitor the timeliness of its eligibility decisions and ensure that it maintains adequate documentation of extensions to the eligibility determination period.

Department's View and Corrective Action Plan

Rehabilitation agrees with this finding. Our current field computer system (FCS) lacks the functionality necessary to effectively track and monitor extensions of an applicant's eligibility determination.

Short-term solution—Local level monitoring of eligibility determinations

Rehabilitation Counselors and Rehabilitation Supervisors receive automated reminder notices on the FCS before the expiration of the 60 days allowed for eligibility determination. Due to the limited capabilities of the FCS, Rehabilitation will continue to emphasize the importance of manually tracking eligibility timelines and extensions using available reports. Additionally, Rehabilitation will continue to remind counselors and managers of the most effective tracking tools available.

To ensure appropriateness and compliance with federal regulations, Rehabilitation supervisors continue to conduct reviews of eligibility determinations and extensions.

Long-term solution—Implementation of the Electronic Records System, (Commercial Off-the-Shelf Product: AWARE)

Rehabilitation has committed considerable resources to replace the FCS with a new electronic records system, AWARE, now in user acceptance testing. 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 tool.

Rehabilitation continues to identify strategies to streamline procedures that will ensure the timeliness of eligibility decisions and extensions. The AWARE system has been adapted to daily display a list of consumers with activities due and their respective required completion dates, including eligibility decisions and extensions. The AWARE system is configured to automatically update an approved eligibility extension expiration date upon staff entry within the Record of Services (ROS). The AWARE system also contains ad hoc reporting features that allow easily attainable reports produced by each user, facilitating increased monitoring at the local level.

These functions were demonstrated to the Bureau of State Audits staff during their audit review in October 2010 and will be fully incorporated into the AWARE training for staff, scheduled for rollout in August 2011. However, it is important to note that auditable data within the ROS reflecting these mitigations will begin to aggregate during the federal fiscal year 2011–2012.

Reference Number:	2010-7-1
Federal Catalog Number:	84.126
Federal Program Title:	Rehabilitation Services—Vocational Rehabilitation Grants to States
Federal Award Numbers and Years:	H126A100005B; 2010 H126A090005B; 2009 H126A080005D; 2008
Category of Finding:	Matching, Reporting
State Administering Department:	Department of Rehabilitation (Rehabilitation)

Criteria

TITLE 34–EDUCATION, PART 80—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS, Subpart C–Post-Award Requirements, Section 80.20—Standards for Financial Management System

(b) The financial management systems of other grantees and subgrantees must meet the following standards:

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

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

(3) Internal control. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

TITLE 34—EDUCATION, PART 361—STATE VOCATIONAL REHABILITATION SERVICES PROGRAM, Subpart C—Financing of State Vocational Rehabilitation Programs—Section 361.60 Matching Requirements

(b) Non-Federal Share—

(1) General. Except as provided in paragraph (b)(2) and (3) of this section, expenditures made under the State plan to meet the non-Federal share under this section must be consistent with the provisions of 34 CFR 80.24.

TITLE 34—EDUCATION, PART 80—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS, Subpart C—Post-Award Requirements, Section 80.24—Matching or Cost Sharing

(a) Basic rule: Costs and contributions acceptable. With the qualifications and exceptions listed in paragraph (b) of this section, a matching or cost sharing requirement may be satisfied by either or both of the following:

(1) Allowable costs incurred by the grantee, subgrantee or a cost-type contractor under the assistance agreement. This includes allowable costs borne by non-Federal grants or by other cash donations from non-Federal third parties.

(2) The value of third party in-kind contributions applicable to the period to which the cost sharing or matching requirements apply.

Condition

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.

Questioned Costs

$111,189

Recommendation

Rehabilitation should 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.

Department's View and Corrective Action Plan

Rehabilitation concurs with the finding and will implement additional controls to improve the accuracy of the summary certified expenditure spreadsheet.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Reference Number:	2010-1-3
Federal Catalog Number:	93.958
Federal Program Title:	Block Grants for Community Mental Health Services
Federal Award Numbers and Years:	2B09SM010005-09; 2009 2B09SM010005-08; 2008 2B09SM010005-07; 2007
Category of Finding:	Activities Allowed/Allowable Costs
State Administering Department:	Department of Mental Health (Mental Health)

Criteria

TITLE 42—THE PUBLIC HEALTH AND WELFARE, CHAPTER 6A—PUBLIC HEALTH SERVICE, SUBCHAPTER XVII—BLOCK GRANTS, PART B—BLOCK GRANTS REGARDING MENTAL HEALTH AND SUBSTANCE ABUSE, Subpart i—Block Grants for Community Mental Health Services, Section 300x—Formula Grants to States

(b) Purpose of grants

A funding agreement for a grant under subsection (a) of this section is that, subject to section 300x-5 of this title, the State involved will expend the grant only for the purpose of—

(1) carrying out the plan submitted under section 300x-1(a) of this title by the State for the fiscal year involved;

(2) evaluating programs and services carried out under the plan; and

(3) planning, administration, and educational activities related to providing services under the plan.

TITLE 42—THE PUBLIC HEALTH AND WELFARE, CHAPTER 6A—PUBLIC HEALTH SERVICE, SUBCHAPTER XVII—BLOCK GRANTS, PART B—BLOCK GRANTS REGARDING MENTAL HEALTH AND SUBSTANCE ABUSE, Subpart i—Block Grants for Community Mental Health Services, Section 300x-5—Restrictions on Use of Payments

(a) In general

A funding agreement for a grant under section 300x of this title is that the State involved will not expend the grant—

(1) to provide inpatient services;

(2) to make cash payments to intended recipients of health services;

(3) to purchase or improve land, purchase, construct, or permanently improve (other than minor remodeling) any building or other facility, or purchase major medical equipment;

(4) to satisfy any requirement for the expenditure of non-Federal funds as a condition for the receipt of Federal funds; or

(5) to provide financial assistance to any entity other than a public or nonprofit private entity.

Condition

In our audit reports for fiscal years 2006–07 through 2008–09, we reported that Mental Health did not ensure that subgrantees' expenditures were only for allowable activities and costs. Mental Health relied on the counties' budget and program description components of their applications to determine if funds would be used for allowable activities and costs. Specifically, the grant renewal application instructions for the Substance Abuse and Mental Health Services Administration's Block Grants for Community Mental Health Services (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 fiscal year 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 the block grant programs' activities and costs 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 block grant funds. However, Mental Health has not yet developed a process to verify whether the counties' actual expenditure of federal 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 anticipates it will have fully addressed this finding by September 2010.

Questioned Costs

No specific questioned costs identified.

Recommendation

Mental Health should complete its efforts to establish a process to ensure that only allowable activities and costs are paid for with block grant funds.

Department's View and Corrective Action Plan

Mental Health 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 had anticipated that this finding would be fully addressed by September 2010. However, due to extensive discussions and issues raised, Mental Health will revise its implementation date to December 2010.

During the meetings that were held, Mental Health focused on reviewing the following documents:

- Code of Federal Regulations, Title 42, Chapter 6A and Title 45, Part 96
- Mental Health's risk analysis procedures, which determines whether a county receives a field audit, desk audit, or no audit
- Program Compliance Division's audit program, which includes procedures for auditing Short-Doyle/Medi-Cal program, federal grant programs, and the State Mental Health Services Act

Mental Health will reconvene the workgroup to continue its work on developing and implementing corrective actions.

Reference Number:	2010-3-6
Federal Catalog Number:	93.563
Federal Program Title:	Child Support Enforcement
Federal Award Numbers and Years:	1004CA4002; 2010 1004CA4004; 2010 0904CA4002; 2009 0904CA4004; 2009
Category of Finding:	Cash Management, Special Tests and Provisions
State Administering Department:	Department of Child Support Services (Child Support Services)

Criteria

TITLE 45—PUBLIC WELFARE PART 304—OFFICE OF CHILD SUPPORT ENFORCEMENT (CHILD SUPPORT ENFORCEMENT PROGRAM), ADMINISTRATION FOR CHILDREN AND FAMILIES, DEPARTMENT OF HEALTH AND HUMAN SERVICES—FEDERAL FINANCIAL PARTICIPATION, Section 304.10—General Administrative Requirements

As a condition for Federal financial participation, the provisions of part 74 of this title (with the exception of 45 CFR 74.23, Cost Sharing or Matching and 45 CFR 74.52, Financial Reporting) establishing uniform administrative requirements and cost principles shall apply to all grants made to states under this part.

TITLE 45—PUBLIC WELFARE PART 74—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR AWARDS AND SUBAWARDS TO INSTITUTIONS OF HIGHER EDUCATION, HOSPITALS, OTHER NONPROFIT ORGANIZATIONS, AND COMMERCIAL ORGANIZATIONS—
Subpart C—Post-Award Requirements—Financial and Program Management

Section 74.21—Standards for Financial Management Systems

(b)(3) Recipients' financial management systems shall provide for the following: Effective control over and accountability for all funds, property, and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes.

Section 74.22—Payment

(a) Unless inconsistent with statutory program purposes, payment methods shall minimize the time elapsing between the transfer of funds from the U.S. Treasury and the issuance or redemption of checks, warrants, or payment by other means by the recipients. Payment methods of State agencies or instrumentalities shall be consistent with Treasury-State CMIA agreements, or the CMIA default procedures codified at 31 CFR 205.9, to the extent that either applies.

TITLE 31—MONEY AND FINANCE: TREASURY—REGULATIONS RELATING TO MONEY AND FINANCE, CHAPTER II—FISCAL SERVICE, DEPARTMENT OF THE TREASURY,
PART 205—RULES AND PROCEDURES FOR EFFICIENT FEDERAL–STATE FUNDS TRANSFERS,
Subpart A—Rules Applicable to Federal Assistance Programs Included in a Treasury-State Agreement,
Section 205.6—What is a Treasury-State agreement?

(a) A Treasury-State agreement documents the accepted funding techniques and methods for calculating interest agreed upon by us and a State and identifies the Federal assistance programs governed by this subpart A. If anything in a Treasury-State agreement is inconsistent with this subpart A, that part of the Treasury-State agreement will not have any effect and this subpart A will govern.

Section 205.9—What is included in a Treasury-State agreement?

(c) Funding techniques to be applied to Federal assistance programs subject to this subpart A.

CASH MANAGEMENT IMPROVEMENT ACT AGREEMENT BETWEEN THE STATE OF CALIFORNIA AND THE SECRETARY OF THE TREASURY, UNITED STATES DEPARTMENT OF THE TREASURY

PART 6—FUNDING TECHNIQUES—Section 6.2 Description of Funding Techniques

Pre-Issuance

The State shall request funds such that they are deposited in a State account not more than three business days prior to the day the State makes a disbursement. The request shall be made in accordance with the appropriate Federal agency cut-off time specified in Exhibit I. The amount of the request shall be the amount the State expects to disburse. This funding technique is not interest neutral.

Section 6.3 Application of Funding Techniques to Programs, Section 6.3.2 Programs

93.563—Child Support Enforcement

Component:	Payments to local agencies
Technique:	Pre-issuance

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

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

Condition

Child Support Services did not always adhere to cash management requirements for drawing federal funds for the Child Support Enforcement program. The Child Support Enforcement program is subject to the Treasury-State Agreement (TSA), which requires the State to disburse payments for local assistance not more than three business days after it deposits federal funds. However, Child Support Services sometimes exceeded this three-day limit. Child Support Services also did not ensure that it accurately recorded its Recovery Act funds in the State's accounting records. In each case, insufficient communication with the State Controller's Office (SCO) was partly responsible for these conditions.

For two of 15 transactions that we reviewed for fiscal year 2009–10, Child Support Services issued payments 37 and 19 business days after drawing federal funds, exceeding the three-day limit required by the TSA. The delay for both transactions occurred because the State's cash crisis at the beginning of fiscal year 2009–10 caused the SCO to delay paying certain transactions that had a General Fund

component. On July 17, 2009, the SCO issued a letter notifying departments that, as a result of the crisis, transactions involving the General Fund would be subject to delay. The letter instructed departments to submit separate requests for the federally funded portion of transactions so that they could be paid. However, Child Support Services had already drawn federal funds and submitted a payment request for one of the transactions we reviewed, which combined General Fund and federal funds, on July 7, 2009, 10 days prior to the release of the SCO letter. This transaction was not paid by the SCO until September 10, 2009. Further, according to a Child Support Services' accounting administrator, Child Support Services did not receive the letter from the SCO. She also stated that current Child Support Services' accounting staff were not on the e-mail distribution list used by the SCO to send out the letter.

Because it remained unaware of the SCO's instructions, Child Support Services submitted an additional transaction from our sample that included General Fund monies on August 17, 2009, one month after the release of the letter. As a result, this draw was not paid by the SCO until September 22, 2009. After we brought this issue to its attention, Child Support Services contacted the SCO and requested that two of its accounting administrators be added to the distribution list to ensure they receive future notices. Without ensuring that it is receiving all relevant communications from state control agencies such as the SCO, Child Support Services cannot ensure that it follows all requirements for federal awards.

We also found that Child Support Services did not correctly identify all Recovery Act funds it received in the State's accounting records. Federal regulations require all recipients of Recovery Act funds to maintain records that identify the source and application of these funds. However, Child Support Services did not properly report all of the $113.1 million of Recovery Act funds received in fiscal year 2009–10 to the SCO.

In August 2009 the California Recovery Task Force (Task Force) advised all state departments that the SCO would create a separate accounting code to ensure Recovery Act receipts were tracked separately from other federal awards. The Task Force instructed departments to use the new Recovery Act account code for all accounting transactions related to the Recovery Act, and advised them to submit corrections to reclassify all Recovery Act receipts to the new account code if they had used a non-Recovery Act account for prior Recovery Act draws. However, miscommunication with the SCO while Child Support Services was attempting to reclassify funds it received before the creation of the new account code contributed to errors. For example, $39.2 million of Recovery Act funds Child Support Services drew between July and September 2009 remained classified as non-Recovery Act federal funds.

In addition, Child Support Services did not correctly report all Recovery Act draws that took place after the creation of the new account code. Specifically, due to an oversight, Child Support Services incorrectly reported two Recovery Act draws totaling $13.5 million that took place in December 2009 and January 2010—several months after the creation of the Recovery Act account code—as non-Recovery Act federal funds.

Recommendations

Child Support Services should ensure that it is included in state control agency distribution lists for policy and procedure notifications and that its staff are informed of any applicable policy or procedure changes. Child Support Services should work closely with the SCO to ensure that all Recovery Act funds are correctly recorded in the State's accounting records. Child Support Services should also strengthen its internal controls to ensure that it follows applicable requirements when drawing and reporting all federal funds, including Recovery Act awards.

Questioned Costs

No specific questioned costs identified.

Department's View and Corrective Action Plan

Child Support Services has taken steps to ensure that staff are included in state control agency distribution lists for policy and procedure notifications. Child Support Services has also verified that Recovery Act funds for state fiscal year 2010–11 have been correctly recorded in the State's accounting records.

Reference Number:	2010-5-1
Federal Catalog Number:	93.659
Federal Program Title:	Adoption Assistance
Federal Award Numbers and Years:	1001CA1407; 2010 1001CA1403; 2010 0901CA1407; 2009 0901CA1403; 2009
Category of Finding:	Eligibility
State Administering Department:	Department of Social Services (Social Services)

Criteria

TITLE 45—PUBLIC WELFARE, PART 1356—REQUIREMENTS APPLICABLE TO TITLE IV-E, Section 1356.41—Nonrecurring Expenses of Adoption

(a) The amount of the payment made for nonrecurring expenses of adoption shall be determined through agreement between the adopting parent(s) and the State agency administering the program. The agreement must indicate the nature and amount of the nonrecurring expenses to be paid.

(b) The agreement for nonrecurring expenses may be a separate document or a part of an agreement for either State or Federal adoption assistance payments or services. The agreement for nonrecurring expenses must be signed prior to the final decree of adoption, with two exceptions that do not apply to the cases we reviewed.

Condition

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 adoptions. 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.

Questioned Costs

No specific questioned costs identified.

Recommendation

Social Services should 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 Social Services is following established internal control procedures and complying with federal laws and regulations.

Department's View and Corrective Action Plan

Social Services indicated that it is continuing its efforts to implement a quality control process including complete (required signatures and corresponding dates) adoption forms in the district office case files. It also stated that Social Services has implemented a revised checklist and conducted district office training to ensure thorough management review of adoption case files. Finally, according to Social Services, it will ensure that the Adoption Assistance program follows established internal control procedures and complies with federal laws and regulations.

Reference Number:	2010-7-2
Federal Catalog Number:	93.958
Federal Program Title:	Block Grants for Community Mental Health Services
Federal Award Numbers and Years:	2B09SM010005-09; 2009 2B09SM010005-08; 2008 2B09SM010005-07; 2007
Category of Finding:	Earmarking
State Administering Department:	Department of Mental Health (Mental Health)

Criteria

TITLE 42—THE PUBLIC HEALTH AND WELFARE, CHAPTER 6A—PUBLIC HEALTH SERVICE, SUBCHAPTER XVII—BLOCK GRANTS, PART B—Block Grants Regarding Mental Health and Substance Abuse, Subpart i—Block Grants for Community Mental Health Services, Section 300X-5—Restrictions on Use of Payments

(b) Limitation on administrative expenses—

A funding agreement for a grant under section 300x of this title is that the State involved will not expend more than 5 percent of the grant for administrative expenses with respect to the grant.

Condition

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 the Substance Abuse and Mental Health Service's Administration's Block Grants for Community Mental Health Services (block grant). Mental Health charged all or a portion of salaries for certain key Substance Abuse and Mental Health Services Administration staff to the block grant, based on approved time sheets, 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 expected it would complete this task in September 2010.

Questioned Costs

No specific questioned costs identified.

Recommendation

Mental Health should 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.

Department's View and Corrective Action Plan

Mental Health established a workgroup in February 2010 to establish a written policy, as well as processes and procedures, to ensure that only allowable costs are used to meet the earmarking requirement. Mental Health had anticipated that this finding would be fully addressed by September 2010. However, due to extensive discussions and issues raised, Mental Health will revise its implementation date to December 2010.

During the initial meetings, Mental Health focused on reviewing the following:

- personnel services expenditures
- operating expenses and equipment expenditures
- roles and responsibilities for three entities within Mental Health that administer the federal grant

Mental Health will reconvene the workgroup to continue its work on developing and implementing corrective actions.

Reference Number:	2010-7-3
Federal Catalog Number:	93.958
Federal Program Title:	Block Grants for Community Mental Health Services
Federal Award Numbers and Years:	2B09SM010005-09; 2009 2B09SM010005-08; 2008 2B09SM010005-07; 2007
Category of Finding:	Level of Effort—Maintenance of Effort
State Administering Department:	Department of Mental Health (Mental Health)

Criteria

TITLE 42—THE PUBLIC HEALTH AND WELFARE, CHAPTER 6A—PUBLIC HEALTH SERVICE, SUBCHAPTER XVII—BLOCK GRANTS, Part B—Block Grants Regarding Mental Health and Substance Abuse, Subpart i—Block Grants for Community Mental Health Services, Section 300x-2—Certain Agreements

(a) Allocation for systems of integrated services for children

(1) In general

With respect to children with a serious emotional disturbance, a funding agreement for a grant under section 300x of this title is that—

(A) in the case of a grant for fiscal year 1993, the State involved will expend not less than 10 percent of the grant to increase (relative to fiscal year 1992) funding for the system of integrated services described in section 300x-1(b)(9)(1) of this title;

(B) in the case of a grant for fiscal year 1994, the State will expend not less than 10 percent of the grant to increase (relative to fiscal year 1993) funding for such a system; and

(C) in the case of a grant for any subsequent fiscal year, the State will expend for such a system not less than an amount equal to the amount expended by the State for fiscal year 1994.

(2) Waiver

(A) Upon the request of a State, the Secretary may provide to the State a waiver of all or part of the requirement established in paragraph (1) if the Secretary determines that the State is providing an adequate level of comprehensive community mental health services for children with a serious emotional disturbance, (2) as indicated by a comparison of the number of such children for which such services are sought with the availability in the State of the services.

(B) The Secretary shall approve or deny a request for a waiver under subparagraph (A) not later than 120 days after the date on which the request is made.

(C) Any waiver provided by the Secretary under subparagraph (A) shall be applicable only to the fiscal year involved.

TITLE 42—THE PUBLIC HEALTH AND WELFARE, CHAPTER 6A—PUBLIC HEALTH SERVICE, SUBCHAPTER XVII—BLOCK GRANTS, Part B—Block Grants Regarding Mental Health and Substance Abuse, Subpart i—Block Grants for Community Mental Health Services, Section 300x-4—Additional Provisions

(b) Maintenance of effort regarding State expenditures for Mental Health

(1) In general

A funding agreement for a grant under section 300x of this title is that the State involved will maintain State expenditures for community mental health services at a level that is not less than the average level of such expenditures maintained by the State for the 2-year period preceding the fiscal year for which the State is applying for the grant.

(2) Exclusion of certain funds

The Secretary may exclude from the aggregate State expenditures under subsection (a) of this section, funds appropriated to the principal agency for authorized activities which are of a non-recurring nature and for a specific purpose.

(3) Waiver

The Secretary may, upon the request of a State, waive the requirement established in paragraph (1) if the Secretary determines that extraordinary economic conditions in the State justify the waiver.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Federal Register Vol. 66, No. 130 (July 6, 2001), contains a notice from the Substance Abuse and Mental Health Service Administration (SAMHSA) executive officer specifying that states are required as a condition of receipt of funds to maintain State expenditures for community based mental health services for adults with serious mental illness (SMI) and children with serious emotional disturbance (SED) at a level that was equal to the average expenditures for such purposes over the previous two years. The federal register also stated that the Secretary, as a matter within his discretion, had the authority to exclude from the calculation of the maintenance of effort "funds appropriated to the principal agency for authorized activities which are of a non-recurring nature and for a specific purpose."

Condition

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 maintenance of effort (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 used to support the managed care and realignment dollars 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. Mental Health

estimates these tasks will be completed by September 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 procedures, they had not been found.

Questioned Costs

No specific questioned costs identified.

Recommendations

Mental Health should reevaluate the percentages used to support the managed care and realignment dollars used in its MOE calculation and retain the supporting documentation. Mental Health should also use the dollar amounts reported in the audited financial statements for the fiscal year 1994–95 threshold. 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.

Mental Health should 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 only.

Department's View and Corrective Action Plan

Mental Health established a workgroup in February 2010 to research the percentages used to support the managed care and realignment dollars used in its calculation of MOE for children with SED, and examine for revision its methodology for the MOE calculation for community mental health services. Mental Health had anticipated that this finding would be fully addressed by September 2010. However, due to extensive discussions and issues raised, Mental Health revised its implementation date to December 2010.

Initially, Mental Health researched legislation on Managed Care and Realignment, as well as internal documents, which explained the MOE requirements. Mental Health will reconvene the workgroup to continue its work on developing and implementing corrective actions. In addition, Mental Health will seek guidance from its federal awarding agency in regards to determining the threshold dollar amount.

Reference Number:	2010-7-4
Federal Catalog Number:	93.568
Federal Program Title:	Low-Income Home Energy Assistance Program (LIHEAP)
Federal Award Numbers and Years:	G-10B1CALIEA; 2010 G-09B1CALIEA; 2009 G-08B1CALIEA; 2008 G-07B1CALIEA; 2007 G-06B1CALIEA; 2006
Category of Finding:	Earmarking
State Administering Department:	Department of Community Services and Development (CSD)

Criteria

TITLE 42—THE PUBLIC HEALTH AND WELFARE—CHAPTER 94—LOW-INCOME ENERGY ASSISTANCE, Subchapter II—Low-Income Home Energy Assistance, Section 8624—Application and Requirements

(b) Certifications required for covered activities

As part of the annual application required by subsection (a) of this section, the chief executive officer of each State shall certify that the State agrees to—

(9) provide that—

(A) the State may use for planning and administering the use of funds under this subchapter an amount not to exceed 10 percent of the funds payable to such State under this subchapter for a fiscal year; and

(B) the State will pay from non-Federal sources the remaining costs of planning and administering the program assisted under this subchapter and will not use Federal funds for such remaining costs (except for the costs of the activities described in paragraph (16));

(16) use up to 5 percent of such 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, and report to the Secretary concerning the impact of such activities on the number of households served, the level of direct benefits provided to those households, and the number of households that remain unserved.

(k) Limitation on use of funds; waiver

(1) Except as provided in paragraph (2), not more than 15 percent of the greater of—

(A) the funds allotted to a State under this subchapter for any fiscal year; or

(B) the funds available to such State under this subchapter for such fiscal year; may be used by the State for low-cost residential weatherization or other energy-related home repair for low-income households, particularly those low-income households with the lowest incomes that pay a high proportion of household income for home energy.

(2) (A) If a State receives a waiver granted under subparagraph (B) for a fiscal year, the State may use not more than the greater of 25 percent of—

(i) the funds allotted to a State under this subchapter for such fiscal year; or

(ii) the funds available to such State under this subchapter for such fiscal year; for residential weatherization or other energy-related home repair for low-income households, particularly those low-income households with the lowest incomes that pay a high proportion of household income for home energy.

Section 8626a—Incentive Program for Leveraging Non-Federal Resources

(c) Formula for distribution of amounts

(2) A State may expend funds allocated under this subchapter as are necessary, not to exceed 0.08 percent of such allocation or $35,000 each fiscal year, whichever is greater, to identify, develop, and demonstrate leveraging programs. Funds allocated under this section shall only be used for increasing or maintaining benefits to households.

TITLE 45—PUBLIC WELFARE, PART 96—BLOCK GRANTS, Subpart C—Financial Management, Section 96.30—Fiscal and Administrative Requirements

(a) Fiscal control and accounting procedures. Except where otherwise required by Federal law or regulation, a State shall obligate and expend block grant funds in accordance with the laws and procedures applicable to the obligation and expenditure of its own funds. Fiscal control and accounting procedures must be sufficient to:

(a) permit preparation of reports required by the statute authorizing the block grant and

(b) permit 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 of the statute authorizing the block grant.

Condition

CSD lacks sufficient internal controls to ensure that it meets earmarking requirements. Specifically, it does not have a mechanism in place to track final expenditures related to earmarking requirements as we reported in our prior-year audit.

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 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, CSD cannot reasonably assure that the earmarking requirements have been met.

Questioned Costs

No specific questioned costs identified.

Recommendation

CSD should develop and implement sufficient internal controls to ensure that it can effectively track and monitor its progress toward meeting the earmarking requirements.

Department's View and Corrective Action Plan

CSD concurs that it needs to set up procedures that accurately track earmarking requirements. Program, Contracts and Accounting will set up the line-item budget detail in the Expenditure Activity Reporting System/Program Audit Report Contracts and those dollars will be assigned an object code and tracked separately. The timeline for this corrective action is June 2011.

Reference Number:	2010-8-1
Federal Catalog Number:	93.959
Federal Program Title:	Block Grants for Prevention and Treatment of Substance Abuse (SAPT)
Federal Award Number and Year:	2B08TI010005-08; 2008
Category of Finding:	Period of Availability
State Administering Department:	Department of Alcohol and Drug Programs (ADP)

Criteria

TITLE 42—THE PUBLIC HEALTH AND WELFARE, CHAPTER 6A—PUBLIC HEALTH SERVICE, SUBCHAPTER XVII—BLOCK GRANTS, Part B—Block Grants Regarding Mental Health And Substance Abuse, Subpart iii—General Provisions, Section 300x-62—Availability to States of Grant Payments

Any amounts paid to a State for a fiscal year under section 300x or 300x-21 of this title shall be available for obligation and expenditure until the end of the fiscal year following the fiscal year for which the amounts were paid.

SAPT NOTICE OF FORMULA GRANT AWARD, AWARD YEAR 2008, Terms and Conditions

Funds awarded under this grant must be obligated and expended by September 30, 2009.

Condition

ADP charged expenditures to the federal fiscal year 2008 grant after the period of availability totaling $7,640. Our review of a sample of five transactions charged to the 2008 SAPT Block Grant after the period of availability found that two of the five transactions were for expenditures obligated in October 2010, after the grant's period of availability ended. An accounting manager at ADP agreed that ADP incorrectly charged these two expenditures to the federal fiscal year 2008 grant after the period of availability and stated that ADP should have charged the expenditures to the federal fiscal year 2009 grant instead. The accounting manager stated that these two transactions were initially paid out of the wrong grant because they were assigned to the wrong federal award. As a result, ADP is not in compliance with federal program requirements for the period of availability and potentially limited its use of available grant funds for program purposes. The accounting manager stated that the ADP contracts desk had been advised of the error and given further instructions on determining the correct federal year, and that she spoke with and specifically instructed the supervisor to look for these types of errors in the future when signing claim schedules. In October 2010, after we informed ADP of the errors, its accounting staff promptly corrected the errors in the accounting records. ADP also initiated a refund to the federal government, which was completed in December 2010.

Questioned Costs

$7,640

Recommendation

ADP should ensure its staff follows established policies and procedures to avoid charging expenditures outside the period of availability.

Department's View and Corrective Action Plan

ADP agrees with the Bureau of State Audits' (BSA) finding and recommendation that ADP should ensure its staff follows established policies and procedures to avoid charging expenditures outside the period of availability.

ADP has corrected the errors in its accounting records and has initiated a refund to the federal government to cover the amount of the questioned costs. As indicated in BSA's finding, ADP has provided additional training and implemented procedures to ensure its staff avoid charging expenditures outside the period of availability in the future.

Reference Number:	2010-9-1
Federal Catalog Number:	93.568
Federal Program Title:	Low-Income Home Energy Assistance Program (LIHEAP)
Federal Award Numbers and Years:	G-10B1CALIEA; 2010 G-09B1CALIEA; 2009
Category of Finding:	Procurement and Suspension and Debarment
State Administering Department:	Department of Community Services and Development (CSD)

Criteria

TITLE 45—PUBLIC WELFARE, PART 92—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE, LOCAL, AND TRIBAL GOVERNMENTS, Subpart C—Post-Award Requirements, Changes, Property, and Subawards, Section 92.35—Subawards to Debarred and Suspended Parties

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

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES—ADMINISTRATION FOR CHILDREN AND FAMILIES TERMS AND CONDITIONS—FISCAL YEARS 2009 and 2010, SURECIPIENTS AND VENDORS UNDER GRANTS

No organization may participate in this project in any capacity or be a recipient of Federal funds designated for this project if the organization has been debarred or suspended or otherwise found to be ineligible for participation in Federal assistance programs under Executive Order 12549, "Debarment and Suspension." (See 45 CFR 92.35.) States must include a similar term and/or condition for all sub awards or contracts awarded under this program. Prior to issuing sub-awards or contracts under this grant, the State must consult the ineligible parties list to ensure that organizations under funding consideration are not ineligible.

Condition

CSD did not comply with the suspension and debarment requirements in the Administration for Children and Families grants' terms and conditions. Specifically, although in response to our finding from the prior year, CSD developed and implemented a process to consult the federal Excluded Parties

List System (EPLS) to ensure that the subrecipients are not suspended or debarred; because of the timing of its implementation, this control was not in effect before CSD issued its fiscal year 2009–10 subawards or contracts.

Questioned Costs

No specific questioned costs identified.

Recommendation

CSD should ensure that it consults the EPLS before issuing subawards or contracts to its subrecipients.

Department's View and Corrective Action Plan

As of June 30, 2010, CSD instituted a policy requiring all subcontractors be verified against the EPLS annually or when there is a change in leadership. As of this date, all current CSD contractors have been verified against the EPLS and are eligible to receive federal funds.

Reference Number:	2010-12-1
Category of Finding:	Reporting
State Administering Department:	Department of Aging (Aging)
Federal Catalog Number:	93.044
Federal Program Title:	Special Programs for the Aging—Title III, Part B—Grants for Supportive Services and Senior Centers
Federal Award Number and Year:	06AACAT3SP; 2006
Federal Catalog Number:	93.045
Federal Program Title:	Special Programs for the Aging—Title III, Part C—Nutrition Services
Federal Award Number and Year:	06AACAT6SP; 2006

Criteria

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

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

(1) Permit preparation of reports required by this part and the statutes authorizing the grant, and

(2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

TITLE 45—PUBLIC WELFARE, PART 92—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE, LOCAL, AND TRIBAL GOVERNMENTS—Subpart C—Post-Award Requirements, Section 92.41—Financial Reporting

(b) Financial Status Report—(1) Form. Grantees will use Standard Form 269 or 269A, Financial Status Report, to report the status of funds for all nonconstruction grants and for construction grants when required in accordance with Section 92.41(e)(2)(iii)

Condition

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.

Questioned Costs

No specific questioned costs identified.

Recommendation

Aging should 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.

Department's View and Corrective Action Plan

A corrected 2006 Financial Status Report SF-269 (FSR) that removed the nonmatch cash and in-kind expenditures was sent to the Administration on Aging on September 13, 2010. To ensure the accuracy of future FSRs, Aging is revising the desk procedures to detail the process for reviewing the accounting report that is used to isolate expenditures for financial status report preparation. The procedure will include a list of checkpoints for accuracy. Aging anticipates the revision of the desk procedures to be completed by December 2010.

Reference Number:	2010-12-2
Federal Catalog Number:	93.568
Federal Program Title:	Low-Income Home Energy Assistance Program (LIHEAP)
Federal Award Numbers and Years:	G-10B1CALIEA; 2010 G-09B1CALIEA; 2009 G-08B1CALIEA; 2008 G-07B1CALIEA; 2007 G-06B1CALIEA; 2006
Category of Finding:	Reporting
State Administering Department:	Department of Community Services and Development (CSD)

Criteria

TITLE 45—PUBLIC WELFARE, PART 96—BLOCK GRANTS, Subpart C—Financial Management, Section 96.30—Fiscal and Administrative Requirements

(b) Financial summary of obligation and expenditure of block grant funds—

(2) *Block grants containing time limits* only on obligation of funds. After the close of each statutory period for the obligation of block grant funds, each grantee shall report to the Department:

(i) Total funds obligated by the grantee during the applicable statutory period; and

(ii) The date of the last obligation.

(4) *Submission of information.* Grantees shall submit the information required by paragraph (b)(1), (2), and (3) of this section on OMB standard form 269A, Financial Status Report (short form). Grantees are to provide the requested information within 90 days of the close of the applicable statutory grant periods.

Financial Status Report (Short Form)—SF-269A, Instructions

10a *Total Outlays*. Enter total program outlays less any rebates, refunds, or other credits. For reports prepared on a cash basis, outlays are the sum of actual cash disbursements for direct costs for goods and services, the amount of indirect expense charged, the value of in-kind contributions applied, and the amount of cash advances and payments made to subrecipients. For reports prepared on an accrual basis, outlays are the sum of actual cash disbursements for direct charges for goods and services, the amount of indirect expense incurred, the value of in-kind contributions applied, and the net increase or decrease in the amounts owed by the recipient for goods and other property received, for services performed by employees, contractors, subgrantees and other payees, and other amounts becoming owed under programs for which no current services or performances are required, such as annuities, insurance claims, and other benefit payments.

Condition

CSD lacks sufficient internal controls to ensure that it meets reporting requirements. Specifically, 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 financial status reports are accurate, thus increasing its risk of reporting errors.

Questioned Costs

No specific questioned costs identified.

Recommendation

CSD should continue its efforts to develop policies, procedures, and processes for completing its financial status reports that include steps to reconcile the federal share of program outlays included in its internally developed spreadsheets to its accounting records.

Department's View and Corrective Action Plan

CSD stated that it implemented a monthly process which reconciles the internally developed spreadsheets to the official accounting records (CALSTARS). In addition to the implementation of the reconciliation process, the Accounting Unit has gone back and reconciled all internal spreadsheets to the CALSTARS reports for the past five years. This includes making any corrections that were needed.

Auditor's Comments on Department's View

Although CSD states that it has taken corrective actions, 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.

Reference Number:	2010-13-2
Federal Catalog Number:	93.659
Federal Program Title:	Adoption Assistance
Federal Award Numbers and Years:	1001CA1407; 2010 1001CA1403; 2010 0901CA1407; 2009 0901CA1403; 2009
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Social Services (Social Services)

Criteria

TITLE 45—PUBLIC WELFARE, PART 92—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE, LOCAL, AND TRIBAL GOVERNMENTS, Section 92.40, Monitoring and Reporting Program Performance

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

Condition

Social Services lacks formal processes to ensure it fulfills its pass-through responsibility to monitor the counties during the award period. For example, Social Services does not perform monitoring procedures such as on-site 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, the federal Department of Health and Human Services, Administration for Children and Families (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 on-site 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 on-site 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 on-site review procedures. Specifically, these activities do not include procedures for performing on-site 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.

Questioned Costs

No specific questioned costs identified.

Recommendation

Social Services should 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.

Department's View and Corrective Action Plan

Social Services stated that it is continuing its efforts to implement the Bureau of State Audits' recommendations to resolve the identified issues (as stated in Social Services August 11, 2010, letter to ACF). Additionally, Social Services indicated that it will continue to use all available resources to implement the bureau's recommendations.

Reference Number:	2010-13-3
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Aging (Aging)
Federal Catalog Number:	93.044
Federal Program Title:	Special Programs for the Aging—Title III, Part B—Grants for Supportive Services and Senior Centers
Federal Award Numbers and Years:	10AACAT3SP; 2010 09AACAT3SP; 2009

Federal Catalog Number:	93.045
Federal Program Title:	Special Programs for the Aging—Title III, Part C—Nutrition Services
Federal Award Numbers and Years:	10AACAT3SP; 2010 09AACAT3SP; 2009

Federal Catalog Number:	93.053
Federal Program Title:	Nutrition Services Incentive Program
Federal Award Numbers and Years:	10AACANSIP; 2010 09AACANSIP; 2009

Federal Catalog Number:	93.705
Federal Program Title:	ARRA—Aging Home-Delivered Nutrition Services for States
Federal Award Number and Year:	09AACAC2RR; 2009

Federal Catalog Number:	93.707
Federal Program Title:	ARRA—Aging Congregate Nutrition Services for States
Federal Award Number and Year:	09AACAC1RR; 2009

Criteria

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

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

(1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.

(3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

TITLE 2—GRANTS AND AGREEMENTS, CHAPTER I—OFFICE OF MANAGEMENT AND BUDGET GOVERNMENTWIDE GUIDANCE FOR GRANTS AND AGREEMENTS, PART 176—AWARD TERMS FOR ASSISTANCE AGREEMENTS THAT INCLUDE FUNDS UNDER THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009 (Recovery Act), Subpart D—Single Audit Information for Recipients of Recovery Act Funds, Section 176.210—Award Term—Recovery Act Transactions Listed in Schedule of Expenditures of Federal Awards and Recipient Responsibilities for Informing Subrecipients

(c) Recipients agree to separately identify to each subrecipient and document at the time of subaward and at the time of disbursement of funds, the Federal award number, CFDA number, and amount of Recovery Act funds. When a recipient awards Recovery Act funds for an existing program, the information furnished to subrecipients shall distinguish the subawards of incremental Recovery Act funds from regular subawards under the existing program.

TITLE 45—PUBLIC WELFARE, SUBTITLE A—DEPARTMENT OF HEALTH AND HUMAN SERVICES, PART 92—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE, LOCAL, AND TRIBAL GOVERNMENTS, Subpart C—Post-Award Requirements, Section 92.40—Monitoring and Reporting Program Performance

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

Condition

Award Identification

Aging did not identify all the required federal award information at the time it awarded Recovery Act funds to its subgrantees. 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.

During-the-Award Monitoring

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 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 five days and four weeks late, respectively. According to Aging, it did not meet its 75-working-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-working-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.

Questioned Costs

No specific questioned costs identified.

Recommendations

Award Identification

Aging should modify its contract review and approval process to ensure that it includes the federal award name and number, and award year within the standard agreements with its subgrantees.

During-the-Award Monitoring

Aging should ensure that 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.

Department's View and Corrective Action Plan

Award Identification

Aging concurs it did not identify some of the federal award information to the Recovery Act grantees. We did not become aware of this oversight until well after the contracts and subsequent amendments had already been issued to the grantees. Since the award period was one-time, ending June 30, 2010, and the finding was after-the-fact, Aging did not send out anything additional to the existing Recovery Act contractors. However, in response to the original audit finding, internal procedures were issued via Administrative Memo 10–01, to ensure that any future contracts include this information. Further, this information has been provided to our new Recovery Act grantee by including it in Exhibit D, Special Terms and Conditions, Article X, Audits section of their contract package for 2010–11. In addition, this information is included in the program memos that transmit all of the contracts and amendments to our grantees for our other regular federal grants.

During-the-Award Monitoring

Aging will modify its policies and procedures for monitoring subrecipient activities to specify that Aging has 75 working days <u>from the date of the on-site exit conference</u> to issue its final monitoring report and that subgrantees have 30 working days <u>from the date the final monitoring report is issued</u> to submit their Corrective Action Plan. All due dates will be calculated and included

in applicable communications to subgrantees. In addition, these policies and procedures will be modified to specify action steps and dates to ensure subrecipient Corrective Action Plans are received timely. Aging anticipates this to be completed by November 2010.

Reference Number:	2010-13-4
Federal Catalog Number:	93.568
Federal Program Title:	Low-Income Home Energy Assistance Program (LIHEAP)
Federal Award Numbers and Years:	G-10B1CALIEA; 2010 G-09B1CALIEA; 2009 G-08B1CALIEA; 2008 G-07B1CALIEA; 2007 G-06B1CALIEA; 2006 G-05B1CALIEA; 2005
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Community Services and Development (CSD)

Criteria

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

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

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

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

Condition

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 (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.

Questioned Costs

No specific questioned costs identified.

Recommendation

CSD's ASU should 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.

Department's View and Corrective Action Plan

CSD's ASU is committed to meeting its mandated obligations for obtaining and reviewing OMB A-133 reports within six months. In May 2010 CSD entered into a contract with Finance to assist it in meeting its obligation to review single audits within the required six months. Finance has reviewed the backlog of audit reports, but Finance is still in the process of finalizing its management review. All current incoming audit reports are reviewed within the required time.

Auditor's Comments on Department's View

CSD's corrective action plan does not fully address our recommendation. Specifically, 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.

Reference Number:	2010-13-5
Federal Catalog Number:	93.563
Federal Program Title:	Child Support Enforcement
Federal Award Numbers and Years:	1004CA4002; 2010 1004CA4004; 2010 0904CA4002; 2009 0904CA4004; 2009
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Child Support Services (Child Support Services)

Criteria

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

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

(3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

TITLE 45—PUBLIC WELFARE—CHAPTER III—OFFICE OF CHILD SUPPORT ENFORCEMENT (CHILD SUPPORT ENFORCEMENT PROGRAM), ADMINISTRATION FOR CHILDREN AND FAMILIES, DEPARTMENT OF HEALTH AND HUMAN SERVICES PART 302—STATE PLAN REQUIREMENTS—Section 302.10—Statewide Operations

(c)(2) Regular planned examination and evaluation of operations in local offices by regularly assigned State staff, including regular visits by such staff; and through reports, controls, or other necessary methods.

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

(c) Recipients agree to separately identify to each subrecipient, and document at the time of subaward and at the time of disbursement of funds, the Federal award number, CFDA number, and amount of Recovery Act funds. When a recipient awards Recovery Act funds for an existing program, the information furnished to subrecipients shall distinguish the subawards of incremental Recovery Act funds from regular subawards under the existing program.

(d) Recipients agree to require their subrecipients to include on their Schedule of Expenditures of Federal Awards (SEFA) information to specifically identify Recovery Act funding similar to the requirements for the recipient SEFA. This information is needed to allow the recipient to properly monitor subrecipient expenditure of Recovery Act funds as well as oversight by the Federal awarding agencies, Offices of Inspector General and the Government Accountability Office.

Condition

Child Support Services continues to have problems fulfilling its subrecipient monitoring responsibilities for the Child Support Enforcement program. In the prior year, we reported that Child Support Services did not effectively monitor local child support agencies' (LCSAs) use of federal funds through site visits, limited scope audits, or other means. Specifically, we reported that its use of limited scope audits conducted by the Department of Finance (Finance) provided insufficient assurance of LCSAs' compliance with federal requirements. We reported that Finance completed fiscal audits of only two LCSAs, out of a total of 52 LCSAs, during fiscal year 2008–09. At the time, Child Support Services indicated that it chose to discontinue its contract with Finance in June 2009, and that it planned to have Child Support Services' staff audit 12 to 14 LCSAs each year, beginning in fiscal year 2009–10. However, although Child Support Services indicated that it held entrance conferences to begin audits with nine LCSAs during fiscal year 2009–10, it was unable to complete any of these audits by the end of the fiscal year. Instead, only one LCSA audit—begun by Finance in fiscal year 2008–09—was released in fiscal year 2009–10. According to the audits manager, her staff has not been able to devote as much time to the LCSA audits as had been planned because other audits her staff are responsible for have required more hours than expected. Nonetheless, these audits are central to Child Support Services' oversight of the LCSAs' compliance with federal requirements, and according to Child Support Services, are the key control for allowability of costs at the LCSA level. Without audits such as these, Child Support Services' current procedures do not provide reasonable assurance that the LCSAs meet federal requirements, such as spending federal funds only on allowable activities and costs.

Further, Child Support Services did not provide all required federal award information to LCSAs. Federal regulations state that in the case of Recovery Act funds, the recipient must identify to each subrecipient at the time of the subaward and at the time of disbursement of funds certain information such as the federal award number and amount of Recovery Act funds. Federal regulations also state that recipients must require subrecipients to include on their SEFAs information to specifically identify Recovery Act funding. We reported in the prior year that Child Support Services did not provide this required information to LCSAs in fiscal year 2008–09. By not identifying Recovery Act funding and communicating proper reporting requirements to LCSAs, Child Support Services cannot ensure that its subrecipients use and report these funds as required by the Recovery Act.

However, after we informed management of this requirement during the prior-year's audit, Child Support Services sent a letter to LCSAs in January 2010 identifying the amount of Recovery Act funds awarded in fiscal years 2008–09 and 2009–10 and the federal fiscal year 2010 award number. The letter also included a requirement that LCSAs separately identify Recovery Act expenditures on their SEFAs. Further, Child Support Services began informing LCSAs of the amount of Recovery Act funds awarded in each disbursement in April 2010, when it added a statement indicating the amount awarded in each monthly payment. As a result, although Child Support Services did not inform subrecipients of all required information at the time of the subaward or for all disbursements in fiscal year 2009–10, it took steps to resolve these concerns during the fiscal year under review. Nonetheless, we noted that the January 2010 letter sent to LCSAs did not include the award number for the federal fiscal year 2009 award, which authorized Recovery Act funding for the first three months of fiscal year 2009–10. This could cause subrecipients to exclude required federal award information on their SEFAs.

Questioned Costs

No specific questioned costs identified.

Recommendations

Child Support Services should ensure that it annually completes fiscal audits of its LCSAs as planned, and assess if these audits provide it with sufficient oversight over LCSAs' use of funds. Once these audits are complete, Child Support Services should promptly follow up to ensure that corrective action has been taken.

Child Support Services should provide LCSAs with the required Recovery Act information for any remaining Recovery Act transactions.

Department's View and Corrective Action Plan

Child Support Services will continue completing the audits started during fiscal year 2009–10 and will focus on achieving the number of audits required for a four year plan of reviewing all LCSAs. In addition, follow-up will be performed to ensure that corrective action has been taken if applicable. The 2009–10 fiscal year has been a transitional period of assuming the responsibility from Finance and closing other audit assignments with limited resources.

Child Support Services will ensure that allocation letters to the LCSAs (subrecipient) includes their federal award number, CFDA number, and amount of Recovery Act funds. In addition, each letter will include language requiring the subrecipient to include on their SEFA information to specifically identify Recovery Act funding.

Reference Number:	2010-13-20
Federal Catalog Number:	93.959
Federal Program Title:	Block Grants for Prevention and Treatment of Substance Abuse (SAPT)
Federal Award Numbers and Years:	2B08TI010005-10; 2010 2B08TI010005-09; 2009 2B08TI010005-08; 2008
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Alcohol and Drug Programs (ADP)

Criteria

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

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

(3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

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

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

STATE ADMINISTRATIVE MANUAL, Section 20070—Federal Pass-Through Funds

The Federal Single Audit Act of 1984 as amended by the Single Audit Act Amendment of 1996 and amendments in conjunction with the OMB Circular A-133, defines a pass-through entity as a non-federal entity that provides a federal award to a subrecipient to carry out a federal program. The OMB Circular A-133, Subpart D describes the responsibilities of federal agencies and pass-through entities. Specifically, Section .400(d) prescribes the responsibilities of a pass-through entity for the federal awards it makes.

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

2. The State Controller's Office (SCO) will coordinate single audit compliance with local governments.

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

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

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

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

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

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

Condition

ADP's county monitoring unit (CMU) did not follow written policies and procedures requiring supervisory review and approval of all desk and site review reports completed by its staff. The CMU performs reviews of counties as part of ADP's efforts to ensure compliance with the terms of SAPT grant funds and compliance with terms of its contracts. In fiscal year 2009–10, CMU temporarily deviated from its written policies and procedures requiring supervisory review of all review reports. According to CMU's manager, because of a backlog in workload caused by resource reductions and turnover, temporary changes to the process were needed to meet workload demands. CMU's manager stated that after conducting a risk assessment with unit staff, she determined that senior staff had the capability and experience to finalize and sign off on desk and site-visit reports. With approval of the deputy director of the program services division, the CMU manager temporarily modified the review process. Under the temporary process, the CMU manager would continue to review all reports completed by the new analysts and senior analysts could sign off their own reports after a peer review was performed by another senior analyst. During our review of a sample of six desk and site review files, we found staff did not always follow the temporary process. Specifically, we identified four reviews that were completed by senior analysts and required peer reviews under the temporary policy. However, peer reviews were not completed for these four. When we asked ADP about these instances, ADP stated that the CMU manager initially did not require the senior analysts to conduct peer reviews and later, based on her risk assessment, directed them to complete peer reviews. Because ADP did not formally document the temporary policy changes including specific time frames, we were unable to determine whether staff complied with the temporary policy. When ADP does not comply with its established policies and procedures for reviewing desk and site-visit reports, it unnecessarily increases the risk that reviews are completed incorrectly and reports on subrecipient performance are issued with inaccurate results.

We also found that CMU did not formally track the resolution of all corrective actions identified in its site and desk reviews of subrecipients. According to ADP's written procedures, all required actions denoted within the report will be followed up on by the analyst with submitted documents reviewed and approved. However, based on our testing of six county reviews completed by CMU, we found that for five of the reviews, CMU did not formally track resolution of all corrective actions it identified. According to the CMU manager, some corrective actions are referred to other ADP units for follow-up with the counties. This occurs when CMU determines the program unit has technical expertise and staff resources to help the counties complete the corrective actions. The CMU manager stated that while its analysts are required to follow up with the other ADP units to ensure the corrective actions are completed, this update may be verbal or written, and is not tracked by CMU. The CMU manager also stated that formal tracking is not always completed because CMU works closely with the other units in ADP, and therefore it is difficult for items to "fall through the cracks." Because CMU is not formally tracking the resolution of all corrective actions identified, it cannot demonstrate that it is ensuring subrecipients are addressing corrective actions promptly.

In addition, during our review of ADP's monitoring of subrecipients related to OMB Circular A-133 audits, we found that it did not issue one of five management decisions within six months as required. The SCO notified ADP that five counties had findings related to the SAPT program for fiscal year 2008–09 audits. The SCO notified ADP of an audit finding for Alameda County and ADP had until

November 8, 2010, to issue a management decision. However, as of January 24, 2011, ADP had not issued a management decision. According to the auditor responsible for reviewing county A-133 audits and following up to ensure corrective action, ADP has been working closely with the county but has not yet received all the necessary information to close the issue. When ADP does not issue management decisions within six months as required, it is not meeting its obligation to ensure that subrecipients are taking appropriate and timely corrective action.

Finally, during our review of subrecipient monitoring activities, we found that ADP's audit services branch—another unit with responsibility for monitoring to ensure county and provider compliance with applicable federal and state laws, regulations, and guidelines related to grant funds—did not complete and issue a final report for the one county it selected as part of its annual audit plan for fiscal year 2009–10. In its SAPT uniform application for federal fiscal year 2010, ADP stated that it conducts financial and compliance audits on some number of SAPT recipients each year. ADP states that a primary focus of the audits is to ensure that SAPT and various other federal and state funding sources are charged for their fair share of costs and to ensure that costs are allowable in accordance with the funding source requirements. Effective August 2006, ADP established procedures requiring its audit staff to review the quarterly federal financial management reports and the underlying documentation when they conduct audits of counties. Although the audit services branch was scheduled to conduct one county audit during fiscal year 2009–10, as of February 2011, it had not issued a final report. The manager of the audit services branch stated that it has not issued a final audit report as a result of delays in the state budget passing and changes in staff working on the audit. When ADP does not issue final audit reports promptly after the completion of the audit, subrecipients may not take necessary corrective actions as quickly as possible to avoid continuing noncompliance.

Questioned Costs

No specific questioned costs identified.

Recommendations

ADP should ensure that CMU staff follow policies and procedures regarding supervisory reviews of its desk and site-visit review reports. Additionally, if CMU continues using a modified approach for those reviews, it should update its written policies and procedures.

ADP should also ensure that CMU staff track and maintain documentation to demonstrate that its subrecipients promptly address corrective actions identified during desk and site reviews completed by CMU.

Further, ADP should continue working with Alameda County to ensure appropriate corrective action is taken and issue a management decision as soon as possible.

Finally, ADP's audit services branch should complete audits within its audit plan and issue final reports promptly so that subrecipients can take corrective action and avoid continuing noncompliance.

Department's View and Corrective Action Plan

ADP agrees with the Bureau of State Audits' (BSA) finding and recommendation that ADP should ensure that CMU's staff follow policies and procedures regarding supervisory reviews of its desk and site visit review reports. Additionally, ADP agrees that if CMU continues using a modified approach for those reviews, it should update its written policies and procedures.

The CMU temporarily modified the report review process in March 2010 in order to manage the workload due to staff shortages. The modified process received management approval verbally and was communicated to staff verbally. In the future, any temporary modifications to the review process will be appropriately documented. Also, the County Monitoring Operations Manual, County Monitoring and

Negotiated Net Amount (NNA) Compliance Procedures, PMB-1 is updated annually to reflect ongoing process improvements. The policy and procedures related to review and approval of desk and site review reports will be reviewed and any determined changes will be made in PMB-1.

ADP agrees with BSA's finding and recommendation that ADP should ensure that CMU's staff track and maintain documentation to demonstrate that its subrecipients promptly address corrective actions identified during desk and site reviews completed by CMU.

ADP has taken several measures to ensure that CMU's staff track and maintain documentation to demonstrate that its subrecipients promptly address corrective actions identified during desk and site reviews completed by CMU. In particular, CMU has updated its corrective action tracking spreadsheet and revised its procedure manual to include a step-by-step process for proper documentation and tracking throughout the course of the review. In addition, CMU management will provide training and follow-up at regularly scheduled staff meetings to ensure staff understands and are appropriately carrying out the new process and procedure.

ADP agrees with BSA's finding and recommendation that ADP continue working with Alameda County to ensure appropriate corrective action is taken and issue a management decision as soon as possible.

ADP began the follow-up process within the six-month time frame and has continued to work closely with Alameda County. Because the finding/corrective action affects multiple agencies at the county level, the department and county agreed upon a reasonable time frame in order for this to be completed.

ADP agrees with BSA's finding and recommendation that ADP's audit services branch complete audits within its audit plan and issue final reports promptly so that subrecipients can take corrective action and avoid continuing noncompliance. ADP will:

1. Establish and maintain policies and procedures, by July 1, 2011, for issuing final reports promptly so subrecipients can take corrective action and avoid continuing noncompliance. ADP will hold an exit conference after the conclusion of the audit fieldwork and prior to the issuance of the final report. The purpose of the exit conference will be to present the audit findings and recommendations to the subrecipient; allow the subrecipient to present relevant information; and to consider any corrective actions proposed by the subrecipient to address the audit findings. ADP will issue its final reports no later than 60 days after holding the exit conference. Exceptions to this policy may be allowed for good cause.

2. Dedicate audit staff to reviewing quarterly federal financial management reports and the underlying documentation as part of its annual audit plan beginning with fiscal year 2011–12.

Reference Number:	2010-14-1
Federal Catalog Number:	93.958
Federal Program Title:	Block Grants for Community Mental Health Services
Federal Award Number and Year:	2B09SM010005-09; 2009
Category of Finding:	Special Tests and Provisions
State Administering Department:	Department of Mental Health (Mental Health)

Criteria

TITLE 42—THE PUBLIC HEALTH AND WELFARE, CHAPTER 6A—PUBLIC HEALTH SERVICE, SUBCHAPTER XVII—BLOCK GRANTS, Part B—Block Grants Regarding Mental Health and Substance Abuse, Subpart iii—General Provisions, Section 300x-53—Additional Requirements

(a) In general

A funding agreement for a grant under section 300x or 300x-21 of this title is that the State involved will—

(1)(A) for the fiscal year for which the grant involved is provided, provide for independent peer review to assess the quality, appropriateness, and efficacy of treatment services provided in the State to individuals under the program involved; and

(B) ensure that, in the conduct of such peer review, not fewer than 5 percent of the entities providing services in the State under such program are reviewed (which 5 percent is representative of the total population of such entities).

Condition

In our audit reports for fiscal years 2006–07, 2007–08, and 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 procedures 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 three reports in fiscal year 2010–11, including the report it issued in July 2010. These three peer reviews account for approximately 5 percent of the counties that receive federal block grant funds.

Questioned Costs

No specific questioned costs identified.

Recommendation

Mental Health should continue to implement the planned independent peer reviews, as required by federal law.

Department's View and Corrective Action Plan

Mental Health will continue to work with the council to implement the planned independent peer reviews, as required by federal law.

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

Reference Number:	2010-13-1
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Social Services (Social Services)
Federal Catalog Number:	10.561
Federal Program Title:	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program
Federal Award Numbers and Years:	7CA440CA4; 2010 7CA400CA4; 2010 7CA440CA4; 2009 7CA400CA4; 2009 7CA400CA4; 2008

Federal Catalog Number:	93.558
Federal Program Title:	Temporary Assistance for Needy Families (TANF)
Federal Award Numbers and Years:	G-1002CATANF; 2010 G-0902CATANF; 2009 G-0802CATANF; 2008

Federal Catalog Number:	93.658
Federal Program Title:	Foster Care—Title IV-E
Federal Award Numbers and Years:	1001CA1402; 2010 1001CA1401; 2010 0901CA1402; 2009 0901CA1401; 2009 0801CA1401; 2008

Federal Catalog Number:	93.659
Federal Program Title:	Adoption Assistance
Federal Award Numbers and Years:	1001CA1407; 2010 1001CA1403; 2010 0901CA1407; 2009 0901CA1403; 2009 0801CA1407; 2008

Federal Catalog Number:	93.667
Federal Program Title:	Social Services Block Grant
Federal Award Numbers and Years:	G-1001CASOSR; 2010 G-0901CASOSR; 2009 G-0801CASOSR; 2008

Federal Catalog Number:	93.714
Federal Program Title:	ARRA—Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Programs
Federal Award Numbers and Years:	G-1001CATAN2; 2010 G-0901CATAN2; 2009

Criteria

TITLE 7—AGRICULTURE, PART 3016 And TITLE 45—PUBLIC WELFARE, PART 92—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE, LOCAL, AND TRIBAL GOVERNMENTS, Subpart C—Post-Award Requirements, sections 3016.40 and 92.40, Monitoring and Reporting Program Performance

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

Condition

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 its 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 the Office of Management Budget 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, the federal Department of Health and Human Services, Administration for Children and Families (ACF), indicated that it had completed its review of our fiscal year 2008–09 interim report, which included these three findings.[1] 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 on-site review procedure.

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 its 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 on-site claims validation.
- Beginning November 1, 2010, initiate the first on-site 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.

Questioned Costs

No specific questioned costs identified.

Recommendation

Subject to ACF's approval of its corrective action implementation plan, Social Services should take the steps it has proposed to develop and implement on-site monitoring procedures of the county expense claims.

Department's View and Corrective Action Plan

Social Services indicated that it is continuing its efforts to resolve the three remaining issues. Specifically, it is taking several actions to ensure:

1) only allowable costs are claimed,
2) costs are claimed in accordance with its CAP, and
3) only allowable adjusted claims are submitted within the allowed time period.

Social Services also indicated that, as stated in the August 11, 2010, letter to ACF, Social Services is implementing its identified corrective action plan and should complete the last task (complete reviews of approximately six counties, develop procedures, etc.) by June 30, 2011.

[1] 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.

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U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Reference Number:	2010-2-6
Federal Catalog Number:	14.239
Federal Program Title:	HOME Investment Partnerships Program (HOME Program)
Federal Award Number and Year:	M09-SG060100; 2009
Category of Finding:	Allowable Costs; Subrecipient Monitoring
State Administering Department:	Department of Housing and Community Development (Housing)

Criteria

TITLE 2—GRANTS AND AGREEMENTS, PART 225—COST PRINCIPLES FOR STATE, LOCAL, AND INDIAN TRIBAL GOVERNMENTS (OMB CIRCULAR A-87), Appendix A to Part 225—General Principles for Determining Allowable Costs

C. Basic Guidelines

(1) Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria.

a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.

j. Be adequately documented.

(2) Reasonable costs. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when governmental units or components are predominantly federally-funded. In determining reasonableness of a given cost, consideration shall be given to:

d. Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the governmental unit, its employees, the public at large, and the Federal Government.

TITLE 24—HOUSING AND URBAN DEVELOPMENT, PART 92—HOME INVESTMENT PARTNERSHIPS PROGRAM, Subpart E—Program Requirements, Section 92.201—Distribution of Assistance

(b)(2) A State may carry out its own HOME Program without active participation of units of general local government or may distribute HOME funds to units of general local government to carry out HOME Programs in which both the State and all or some of the units of general local government perform specified program functions. A unit of general local government designated by a State to receive HOME funds from a State is a State recipient.

(3)(ii) The State shall conduct such reviews and audit of its State recipients as may be necessary or appropriate to determine whether the State recipient has met the requirements of this part, particularly eligible activities, income targeting, affordability, and matching contribution requirements.

TITLE 24—HOUSING AND URBAN DEVELOPMENT, PART 92—HOME INVESTMENT PARTNERSHIPS PROGRAM, Subpart K—Program Administration, Section 92.504—Participating Jurisdiction Responsibilities; Written Agreements; On-Site Inspection

(a) Responsibilities. The participating jurisdiction is responsible for managing the day to day operations of its HOME Program, ensuring that HOME funds are used in accordance with all program requirements and written agreements, and taking appropriate action when performance problems arise. The use of State recipients, subrecipients, or contractors does not relieve the participating jurisdiction of this responsibility.

Condition

In our prior-year audit, we reported that Housing could not demonstrate that the HOME Program funds it disbursed to state recipients were necessary and reasonable in accordance with OMB Circular A-87. State recipients are local governments—such as cities and counties—that have been authorized by Housing to administer certain components of the HOME Program. During fiscal year 2008–09, Housing disbursed approximately $40 million in HOME Program funds to more than 100 state recipients. However, Housing did not require state recipients to submit supporting documentation for the costs they claimed. Instead, Housing only required state recipients to submit a form indicating the amount requested and certifying that such costs met federal requirements. Although Housing indicated that it relied on its *close-out monitoring process*—a process where Housing's staff review the overall performance of a state recipient by inspecting a sample of its HOME-funded programs and projects, including the eligibility of claimed costs—we reported that Housing had not performed its close-out monitoring process on a consistent basis. Specifically, we noted that Housing did not perform any close-out monitoring reviews for state recipients administering HOME-funded projects, such as when funds are used to build housing for low-income individuals. In our prior-year audit, we also noted that Housing did not always communicate the results of its reviews to state recipients in a timely manner, raising concerns that state recipients might not quickly take corrective action in response to Housing's concerns. In response to the prior year's finding, Housing indicated that it would follow a risk-based approach for selecting and reviewing state recipients. Specifically, Housing indicated that it would perform annual risk assessments for state recipients by June 30, 2010, and stated that it would conduct reviews of 40 of the highest-risk state recipients with either program or project awards in 2010. Housing also indicated that it would send finding notification letters to state recipients within 30 days following its reviews.

During our audit for fiscal year 2009–10, we found that Housing has taken partial corrective action to address the previous year's finding. Specifically, we found that Housing fell short of its goal to monitor 40 state recipients, and in selecting which state recipients it monitored, it did not consistently choose those that it had determined to be at greater risk for noncompliance. Specifically, Housing performed reviews of 10 projects and 10 programs administered by state recipients, for a total of 20 projects reviewed during fiscal year 2009–10. However, of the 10 projects reviewed, only five were in Housing's "top ten" listing of projects with the highest risk. According to Housing's project manager, projects with lower risk scores were scheduled for review to maximize the number of projects visited, taking into consideration the required travel time and the weekly work schedule of Housing's staff. Housing's federal program branch chief (branch chief) indicated that he does not believe it will be possible for his staff to review 40 programs and projects annually based on staff furloughs, the State's hiring freeze, and Housing's other higher priority goals. Beginning with 2011, the branch chief expects Housing staff to perform 20 inspections of state recipients annually, encompassing the 10 highest risk projects and the 10 highest risk programs.

Our review for fiscal year 2009–10 also found that Housing has not issued letters notifying state recipients of the results of the reviews that were performed. Housing's branch chief again cited staff furloughs, hiring freezes, and other higher priorities within Housing as the cause for the delay. The branch chief is hopeful that Housing will issue its letters by March 31, 2011, for the monitoring reviews performed in 2010.

Questioned Costs

No specific questioned costs identified.

Recommendation

Housing should continue to implement its risk-based approach for monitoring state recipients and take steps to ensure that it can communicate the results of its reviews to state recipients in a timely manner.

Department's View and Corrective Action Plan

By June 30, 2011, Housing will send letters to grantees for monitoring done in calendar year 2010. By June 30, 2011, Housing will perform a risk assessment on all state recipients that have had significant activity and develop a plan to monitor the 20 highest-risk state recipients. By December 31, 2011, Housing will conduct on-site monitoring of these 20 highest-risk state recipients and send letters containing findings and concerns to the state recipients within 30 days of the monitoring visit.

Reference Number:	2010-7-12
Federal Catalog Number:	14.239
Federal Program Title:	HOME Investment Partnerships Program (HOME Program)
Federal Award Number and Year:	M08-SG060100; 2008
Category of Finding:	Matching; Reporting
State Administering Department:	Department of Housing and Community Development (Housing)

Criteria

TITLE 24—HOUSING AND URBAN DEVELOPMENT, PART 92—HOME INVESTMENT PARTNERSHIPS PROGRAM, Subpart E—Program Requirements, Section 92.218—Amount of Matching Contribution

a) General. Each participating jurisdiction must make contributions to housing that qualifies as affordable housing under the HOME Program, throughout the fiscal year. The contributions must total not less than 25 percent of the funds drawn from the jurisdiction's HOME Investment Trust Fund Treasury account in that fiscal year, excluding funds drawn for purposes indentified in paragraph (c) of this section.

TITLE 24—HOUSING AND URBAN DEVELOPMENT, PART 92—HOME INVESTEMENT PARTNERHSHIPS PROGRAM, Subpart K—Program Administration, Section 92.508—Recordkeeping

a) General. Each participating jurisdiction must establish and maintain sufficient records to enable the U.S. Department of Housing and Urban Development (HUD) to determine whether the participating jurisdiction has met the requirements of this part. At a minimum, the following records are needed.

(ix) Records demonstrating compliance with the matching requirements of Section 92.218 through Section 92.222 including a running log and project records documenting the type and amount of match contributions by project.

Condition

In our audit for fiscal year 2008–09, we reported that Housing overstated its match contribution as a result of its computer system double-counting certain match amounts. We also noted that HUD allows Housing to consider excess match amounts from prior federal fiscal years when reporting whether it met its annual match contribution. Thus, Housing's overstatements of match amounts from prior fiscal years accumulates and contributes to an overstated excess match balance on its report to HUD. We recommended that Housing adjust the excess match amounts it carries forward to future years after determining the extent of its annual overstatements.

During our audit for fiscal year 2009–10, we found that Housing has taken partial corrective action on this finding. Although Housing has corrected the double-counting issue with its match amounts, it has not resolved the uncertainty surrounding the accuracy of its excess match balances that carry forward from prior years. According to Housing's federal program branch chief (branch chief), Housing is in the process of transitioning from its old computer system, which double-counted a small number of match contribution entries. The branch chief also indicated that Housing is validating its balance of excess match amounts and testing a sample of current fiscal year match contributions and disbursements for accuracy. HUD has allowed Housing to delay submitting its match report for federal fiscal year 2009–10 until it has finished reviewing and adjusting its excess match balance.

Questioned Costs

No specific questioned costs identified.

Recommendation

Housing should continue its efforts to adjust its excess match balances so it can provide an accurate match report to HUD.

Department's View and Corrective Action Plan

Housing is validating HOME Program balances of excess match and testing a sample of the current fiscal year match contributions and disbursements for accuracy. HUD has instructed Housing to complete its verification of the starting match balance before filing the fiscal year 2009–10 report. Housing will file the fiscal year 2009–10 report by April 29, 2011.

Reference Number:	2010-12-9
Federal Catalog Number:	14.228
Federal Program Title:	Community Development Block Grants/ State's Program (CDBG)
Federal Award Number and Year:	B-08-DC-06-0001; 2008
Category of Finding:	Reporting
State Administering Department:	Department of Housing and Community Development (Housing)

Criteria

TITLE 24—HOUSING AND URBAN DEVELOPMENT, PART 135—ECONOMIC OPPORTUNITIES FOR LOW- AND VERY LOW-INCOME PERSONS, Subpart E—Reporting and Recordkeeping, Section 135.90—Reporting

Each recipient which receives directly from the U.S. Department of Housing and Urban Development (HUD) financial assistance that is subject to the requirements of this part shall submit to the Assistant Secretary an annual report in such form and with such information as the Assistant Secretary may request, for the purpose of determining the effectiveness of Section 3.

Condition

In our previous audits for fiscal years 2007–08 and 2008–09, we reported that Housing lacked adequate internal controls to ensure the completeness of the Section 3 Summary Report that it submits to HUD. Housing did not maintain a central list or tracking system to ensure that it receives Section 3 data from all applicable subrecipients, and instead relied on the subrecipients to determine whether they met the expenditure threshold that requires them to submit Section 3 data to Housing. In response to this finding, Housing began using a computer system to identify and report on those subrecipients that should provide Section 3 data based on the amounts of their subawards. Housing used this computer system to assist with preparing the Section 3 Summary Report for fiscal year 2008–09, which it submitted to HUD in December 2009.

During our audit of fiscal year 2009–10, we tested the effectiveness of Housing's computer-based report to determine whether it was identifying all subrecipients that were required to submit Section 3 data to Housing—which serves as the basis for Housing's Section 3 Summary Report to HUD. After testing the completeness of Housing's computer-generated report and interviewing Housing's staff, we determined that the computer-generated report was not an effective control. Specifically, we found that Housing did not establish the correct parameters when programming the report, which resulted in excluding certain subrecipients that were required to submit Section 3 data. For context, Housing's computer-based report initially identified 106 subrecipients that were required to submit information for Housing's Section 3 Summary Report. However, after we brought this matter to Housing's attention, it reproduced its computer-based report and identified 130 subrecipients that should have submitted Section 3 data. As a result, Housing's computer-based report did not identify 24 subrecipients—or just over 18 percent—of the 130 subrecipients required to submit Section 3 data.

Questioned Costs

No specific questioned costs identified.

Recommendation

Housing should strengthen its internal controls to ensure that it reports complete Section 3 information to HUD. One way Housing might achieve this is through having a second-level management review of the programming used to generate its computer-based report.

Department's View and Corrective Action Plan

The CDBG program has strengthened its internal controls related to Section 3 information that is reported to HUD. This year, the CDBG program analyzed all reports submitted that were not on the tracking list to determine why they reported. While the majority did not need to report, some (less than significant) were incorrectly excluded (one missing activity code) from the list. The CDBG program has incorporated the missing activity into the report for next year.

Corrective action is complete. However, the CDBG program will continue to improve the Section 3 tracking report to ensure it covers all potential contracts that it is required to report.

Reference Number:	2010-12-10
Federal Catalog Number:	14.239
Federal Program Title:	HOME Investment Partnerships Program (HOME Program)
Federal Award Number and Year:	M09-SG060100; 2009
Category of Finding:	Reporting
State Administering Department:	Department of Housing and Community Development (Housing)

Criteria

U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133, *AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS* (OMB CIRCULAR A-133), Subpart C—Auditees, Section .310—Financial Statements

(b) Schedule of expenditures of Federal Awards. The auditee shall also prepare a schedule of expenditures of federal awards for the period covered by the auditee's financial statements. At a minimum, the schedule shall:

(3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.

U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133, *AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS*, (OMB CIRCULAR A-133), Subpart B—Audits, Section .205—Basis for determining Federal awards expended.

(b) Loan and loan guarantees (loans). Since the Federal Government is at risk for loans until the debt is repaid, the following guidelines shall be used to calculate the value of Federal awards expended under loan programs, except as noted in paragraphs (c) and (d) of this section:

(1) Value of new loans made or received during the fiscal year; plus

(2) Balance of loans from previous years for which the Federal Government imposes continuing compliance requirements; plus

(3) Any interest subsidy, cash, or administrative cost allowance received.

Condition

In our previous audit for fiscal year 2007–08, we initially reported that Housing did not report its outstanding loans for the HOME Program to the Department of Finance (Finance) for inclusion in the Schedule of Federal Assistance. In our audit for fiscal year 2008–09, we reported a similar finding, indicating that Housing did not provide Finance with the correct amount of its outstanding loans under the HOME Program, for which affordability requirements continue for five to 20 years. In response to this finding, Housing indicated that it would reconcile its accounting records to its loan records.

During our audit for fiscal year 2009–10, we found that Housing reported to Finance that it had more than $93 million in outstanding loans under the HOME Program. However, Housing had not yet completed its reconciliation at the time it reported this information and expects its outstanding loan balance to increase. As a result, the amount included on the Schedule of Federal Assistance has potentially been understated. Housing indicated that it expects to complete its reconciliation by May 31, 2011, and anticipates that the total loan amount at that time will be approximately $95 million.

Questioned Costs

No specific questioned costs identified.

Recommendation

Housing should continue with its efforts to identify the total amount of loans outstanding under the HOME Program.

Department's View and Corrective Action Plan

Housing will identify the total amount of loans outstanding and complete its reconciliation by May 31, 2011.

Reference Number:	2010-12-11
Federal Catalog Number:	14.239
Federal Program Title:	HOME Investment Partnerships Program (HOME Program)
Federal Award Number and Year:	M08-SG060100; 2008
Category of Finding:	Reporting
State Administering Department:	Department of Housing and Community Development (Housing)

Criteria

TITLE 24—HOUSING AND URBAN DEVELOPMENT, PART 135—ECONOMIC OPPORTUNITIES FOR LOW- AND VERY LOW-INCOME PERSONS, Subpart E—Reporting and Recordkeeping, Section 135.90—Reporting

Each recipient which receives directly from the U.S. Department of Housing and Urban Development (HUD) financial assistance that is subject to the requirements of this part shall submit to the Assistant Secretary an annual report in such form and with such information as the Assistant Secretary may request, for the purpose of determining the effectiveness of Section 3.

Condition

In our audit for fiscal year 2008–09, we reported that Housing lacked adequate internal controls over the accuracy and completeness of the data it included in its Section 3 Summary Report. This report includes information on various aspects of the HOME Program, such as the number of employees hired that are low or very-low income residents (Section 3 employees) and the amount of contracts awarded to businesses that are owned by low or very low-income persons or that employ a certain percentage of Section 3 employees (Section 3 businesses). The information contained in Housing's Section 3 Summary Report is based on the data it collects from its subrecipients. However, only subrecipients that meet certain requirements—such as those with subawards greater than $200,000—are required to report information to Housing for inclusion in its Section 3 Summary Report. Our finding from the prior year noted that Housing did not have a central list or other tracking system that would allow it to identify those subrecipients required to report.

During our audit for fiscal year 2009–10, Housing's corrective actions are still in progress. According to Housing's federal program branch chief, Housing plans to implement internal controls that include testing 10 percent of subrecipients that do not report data for the Section 3 report, verifying that these subrecipients meet the nonreporting criteria.

Questioned Costs

No specific questioned costs identified.

Recommendation

Housing should continue with its efforts to independently identify which of its subrecipients are required to provide Section 3 information, following up with those subrecipients that do not comply.

Department's View and Corrective Action Plan

Housing will identify its subrecipients required to provide Section 3 information and complete its testing by April 29, 2011.

Reference Number:	2010-13-17
Federal Catalog Number:	14.228
Federal Program Title:	Community Development Block Grants/ State's Program (CDBG)
Federal Award Number and Year:	B-09-DC-06-0001; 2009
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Housing and Community Development (Housing)

Criteria

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

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

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

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

STATE ADMINISTRATIVE MANUAL, Section 20070—Federal Pass-Through Funds

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

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

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

2. The State Controller's Office (SCO) will coordinate single audit compliance with local governments.

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

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

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

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

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

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

Condition

During our prior year's audit for fiscal year 2008–09, we found that Housing did not issue management decisions on audit findings within six months after the State's receipt of a local agency's audit report. We also reported that Housing's internal controls could be improved since it was tracking the due dates of its management decisions based on when it received the findings from the SCO as opposed to when the SCO received the findings from local auditors. We recommended that Housing coordinate with the SCO to ensure that the required management decisions are issued within six months of the State's receipt of local audit reports.

During our audit for fiscal year 2009–10, we found that Housing corrected its internal control deficiency by tracking the due dates of its management decisions based on when the SCO received the findings. However, we found that Housing did not comply with the requirement to issue management decisions within six months. Housing was late in issuing management decisions for four of the seven subrecipients we reviewed, ranging between 16 days and six months late.

Questioned Costs

No specific questioned costs identified.

Recommendation

Housing should take steps to ensure that its management staff issue management decisions in a timely manner.

Department's View and Corrective Action Plan

The OMB Circular A-133 audit reports are received from the SCO, via the Audit Division, which distributes the audit finding information to program staff for action. The Audit Division has a Single Audit Information System database and a Findings Tracking Excel spreadsheet that has been used for the last 16 years. The Audit Division has a process to track the date the A-133 audits are sent to program staff, the date that findings are sent to recipients, and the date findings are resolved. Program staff issue management decisions for those findings that have been resolved.

However, not all of the management decision letters were issued within the six-month deadline. As a result, on December 22, 2010, management provided the Audit Division with the name of program staff assigned to issue each management decision letter and the date each management decision letter is expected to be issued. As of January 28, 2011, all remaining management decision letters were issued. The Audit Division will monitor the due dates for the management decision letter so these letters will be issued in a timely manner.

Reference Number:	2010-13-18
Federal Catalog Number:	14.228
Federal Program Title:	Community Development Block Grants/ State's Program (CDBG)
Federal Award Number and Year:	B-09-DC-06-0001; 2009
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Housing and Community Development (Housing)

Criteria

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

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

(3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

TITLE 24—HOUSING AND URBAN DEVELOPMENT, PART 570—COMMUNITY DEVELOPMENT BLOCK GRANTS, Subpart I—State Community Development Block Grant Program, Section 570.492—State's Reviews and Audits

(a) The state shall make reviews and audits, including on-site reviews, of units of general local government as may be necessary or appropriate to meet the requirements of section 104(e)(2) of the Act.

Condition

In our audits for fiscal years 2007–08 and 2008–09, we reported that Housing's process for reviewing subrecipients' payment requests did not provide reasonable assurance that expenditures of CDBG funds were only for allowable activities and allowable costs. Further, we reported that Housing did not always follow its monitoring procedures, such as performing risk assessments to identify high-risk subrecipients and performing site visits to ensure that these subrecipients were complying with program requirements. In response to this finding, Housing had indicated that it would continue to follow its new procedures that require subrecipients to submit documentation to support their requests for funds until it has developed a specific monitoring schedule based on the results of an annual risk assessment. Further, Housing stated it would conduct 16 Economic Development monitoring site visits and 24 general site visits, for a total of 40 visits in 2010.

During our audit of fiscal year 2009–10, we found that Housing has taken partial corrective action to address the prior year's finding. For example, Housing's staff have completed risk assessments for CDBG projects that met certain risk factors, such as those active projects with contracts dating back to 2004 through 2006. Further, Housing has continued to implement its policy requiring subrecipients to submit supporting documentation with their funding requests.

However, we noted that Housing did not complete an adequate number of monitoring site visits. In the Summary Schedule of Prior Audit Findings, Housing indicated that it was on track to complete 16 site visits for Economic Development projects and another 24 site visits for general projects for a total of 40 projects to be reviewed during 2010. We reviewed Housing's site-visit tracking log and noted that it had completed three site visits of general projects and 13 site visits of Economic Development projects, for a total of 16 site visits completed during 2010. Most of these visits took place between May and June 2010. We also noted that these site visits were not always focused on projects identified by Housing as having the highest risk. For example, of the four general CDBG projects with the highest risk score of 100 points each, Housing did not complete any site visits. Although two of the four projects were visited in April 2010, these reviews are identified with a "pending" status and are not shown as "complete." The remaining two projects do not appear on Housing's monitoring report. The CDBG section chief indicated that a monitoring schedule has not been developed and not all of the high-risk grants have been monitored because he is in the process of trying to coordinate the regular monitoring schedules of the program representatives with a high-risk monitoring schedule.

Questioned Costs

No specific questioned costs identified.

Recommendations

To ensure that it provides adequate monitoring over its subrecipients, Housing should develop and adhere to a site-visit monitoring schedule that covers all components of the CDBG program. To improve the efficiency of its reviews, Housing should focus on performing site visits of projects that pose the highest risk of noncompliance with federal requirements.

Department's View and Corrective Action Plan

The CDBG Section will continue to improve its monitoring process. Beginning June 30, 2011, CDBG will complete a risk-based review of all active jurisdictions (those who have active contracts) by December 30 of each year to determine the 15 highest risk jurisdictions and monitor them. This will be the basis for the monitoring schedule created each year. Staff will be trained each year on the risk factors, the monitoring process, and correct data entry procedures for inputting monitoring data into Housing's tracking system.

Reference Number:	2010-13-19
Federal Catalog Number:	14.239
Federal Program Title:	HOME Investment Partnerships Program (HOME Program)
Federal Award Number and Year:	M09-SG060100; 2009
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Housing and Community Development (Housing)

Criteria

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

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

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

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

STATE ADMINISTRATIVE MANUAL, Section 20070—Federal Pass-Through Funds

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

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

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

2. The State Controller's Office (SCO) will coordinate single audit compliance with local governments.

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

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

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

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

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

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

Condition

During our prior year's audit for fiscal year 2008–09, we found that Housing did not issue management decisions on audit findings within six months after the State's receipt of a local agency's audit report. We also reported that Housing's internal controls could be improved since it was tracking the due dates of its management decisions based on when it received the findings from SCO as opposed to when the SCO received the findings from local auditors. We recommended that Housing coordinate with the SCO to ensure that the required management decisions are issued within six months of the State's receipt of local audit reports.

During our audit for fiscal year 2009–10, we found that Housing corrected its internal control deficiency by tracking the due dates of its management decisions based on when the SCO received the findings. However, we found that Housing did not comply with the requirement to issue management decisions within six months. On March 5, 2010, the SCO provided Housing with an audit finding from the city of Anderson, indicating that the State received the finding on March 3, 2010, and that Housing's management decision was due by August 30, 2010. However, Housing did not issue its management decision until December 1, 2010, nearly nine months after it first received the finding from the SCO. No other findings associated with the HOME Program required Housing's management decision during our review. According to Housing's federal program branch chief, Housing did not issue the management decision because of staff turnover and the State's hiring freeze.

Questioned Costs

No specific questioned costs identified.

Recommendation

Housing should take steps to ensure that its management staff issue management decisions in a timely manner.

Department's View and Corrective Action Plan

The OMB Circular A-133 audit reports are received from SCO, via the Audit Division, which distributes the audit finding information to program staff for action. The Audit Division has a Single Audit Information System database and a Findings Tracking Excel spreadsheet that has been used for the last 16 years. The Audit Division has a process to track the date the A-133 audits are sent to program staff, the date that findings are sent to recipients, and the date findings are resolved. Program staff issue management decisions for those findings that have been resolved.

However, not all of the management decision letters were issued within the six-month time frame. As a result, on December 22, 2010, management provided the Audit Division with the name of program staff assigned to issue each management decision letter and the date each management decision letter is expected to be issued. The Audit Division will monitor the due dates for the management decision letter so these letters will be issued in a timely manner. By February 28, 2011, Housing will issue the remaining management decision letters and be compliant with the six-month time frame.

U.S. DEPARTMENT OF JUSTICE

Reference Number:	2010-1-7
Federal Catalog Number:	16.606
Federal Program Title:	State Criminal Alien Assistance Program (SCAAP)
Federal Award Number and Year:	2009-AP-BX-0166; 2009
Category of Finding:	Activities Allowed/Allowable Costs
State Administering Department:	Department of Corrections and Rehabilitation (Corrections)

Criteria

TITLE 8—ALIENS AND NATIONALITY, CHAPTER 12—IMMIGRATION AND NATIONALITY, SUBCHAPTER II—IMMIGRATION, Part IV—Inspection, Apprehension, Examination, Exclusion, and Removal, Section 1231—Detention and Removal of Aliens Ordered Removed

(i) Incarceration

(1) If the chief executive officer of a State (or if appropriate, a political subdivision of the State) exercising authority with respect to the incarceration of an undocumented criminal alien submits a written request to the Attorney General, the Attorney General shall, as determined by the Attorney General—

(A) enter into a contractual arrangement which provides for compensation to the State or a political subdivision of the State, as may be appropriate, with respect to the incarceration of the undocumented criminal alien; or

(B) take the undocumented criminal alien into the custody of the Federal Government and incarcerate the alien.

(3) For purposes of this subsection, the term "undocumented criminal alien" means an alien who—

(B)(i) entered the United States without inspection or at any time or place other than as designated by the Attorney General;

(ii) was the subject of exclusion or deportation proceedings at the time he or she was taken into custody by the State or political subdivision of the State; or

(iii) was admitted as a nonimmigrant and at the time he or she was taken into custody by the State or a political subdivision of the State has failed to maintain the nonimmigrant status in which the alien was admitted or to which it was changed under Section 1258 of this title, or to comply with the conditions of any such status.

Condition

Corrections submitted ineligible inmate data in its federal fiscal year 2009 application for SCAAP funding. Specifically, Corrections' application included nearly 2,000 additional records in instances where an inmate had more than one Alien Registration Number for the same incarceration period. However, according to a policy advisor from the U.S. Department of Justice, a single inmate should not be submitted as multiple records with different alien numbers.

In addition, of the 44,922 inmate records that Corrections submitted, we selected a random sample of 29 records and reviewed these records to determine the inmates' citizenship status. For 10 inmates in our sample, Corrections had information in its files that these inmates were either U.S. citizens or

permanent residents. Federal fiscal year 2009 SCAAP application guidelines state that applicants may submit records for inmates who "[w]ere born outside of the United States or one of its territories and had no reported or documented claim to U.S. citizenship." In addition, the guidelines state ". . . the detailed inmate file reflects the jurisdiction's good faith and due diligence efforts to identify and list undocumented criminal aliens housed in its correctional facilities." According to Corrections, because it does not receive citizenship information for all inmates and does not record citizenship information in any data system, it assumes all foreign born inmates are not U.S. citizens.

Questioned Costs

No specific questioned costs identified.

Recommendations

Corrections should seek guidance from the federal government to ensure it practices due diligence in its SCAAP application and, as necessary, develops procedures to ensure it does so. In addition, Corrections should work with U.S. Immigration and Customs Enforcement to resolve which Alien Registration Number it should use prior to submitting the SCAAP application.

Department's View and Corrective Action Plan

The Bureau of State Audits' audit of the SCAAP fiscal year 2009–2010 application recommended that Corrections seek guidance from the federal government surrounding the submittal of multiple records for a single inmate with multiple alien numbers. As such, Corrections sought clarification from the United States Department of Justice, Bureau of Justice Assistance (USDOJ–BJA). In addition, Corrections provided inmate data from the previous fiscal year's SCAAP application period of 2008–2009 to determine whether it received duplicate funding for multiple records submitted. At the conclusion of USDOJ–BJA's review of the data, USDOJ–BJA informed Corrections that no duplicate payments were made. In further due diligence efforts, to help determine which alien number to use in the application and to determine citizenship or permanent resident information, Corrections has initiated contact with the U.S. Immigration and Customs Enforcement to request the vetting of inmate data before submitting next year's SCAAP application.

Corrections will continue to partner with USDOJ–BJA and the U.S. Immigration and Customs Enforcement to ensure that it is presenting its applications in a manner that complies with federal standards.

U.S. DEPARTMENT OF LABOR

Reference Number:	2010-1-1
Federal Catalog Number:	17.245
Federal Program Title:	Trade Adjustment Assistance
Federal Award Numbers and Years:	TA-17843-09-55-A-6; 2008 UI-18009-09-55-A-6; 2009
Category of Finding:	Activities Allowed/Allowable Costs; Eligibility
State Administering Department:	Employment Development Department (EDD)

Criteria

TITLE 20—EMPLOYEES' BENEFITS, Part 617—TRADE ADJUSTMENT ASSISTANCE FOR WORKERS UNDER THE TRADE ACT OF 1974, Subpart C—Reemployment Services, Section 617.22—Approval of Training

(a) Conditions for approval. Training shall be approved for an adversely affected worker if the State agency determines that:

(1) There is no suitable employment (which may include technical and professional employment) available for an adversely affected worker.

(2) The worker would benefit from appropriate training.

(3) There is a reasonable expectation of employment following completion of such training.

(4) Training approved by the Secretary is reasonably available to the worker from either governmental agencies or private sources (which may include area vocational technical education schools, as defined in Carl D. Perkins Vocational and Applied Technology Education Act, and employers).

(5) The worker is qualified to undertake and complete such training.

(6) Such training is suitable for the worker and available at a reasonable cost.

Condition

In our fiscal year 2006–07 audit report, we reported that EDD lacked adequate controls to ensure that its field offices made appropriate eligibility determinations for the Trade Adjustment Assistance (TAA) program. We noted that EDD's field offices lacked the information necessary to determine how to document the six conditions of training eligibility on the Trade Adjustment Assistance Training Plan, DE-8751 (TAA training plan). Additionally, we reported that the state trade act coordinator (coordinator) conducted quarterly desk reviews of files sent by field offices despite a 2006 report by the U.S. Department of Labor (Federal Labor) recommending that the coordinator conduct on-site monitoring and randomly select files to review.

During our follow-up procedures for fiscal year 2007–08, we reported that EDD made policy and procedure changes, but did not implement those changes during fiscal year 2007–08. EDD stated it revised and published the TAA training plan in October 2008 and that the training plan would serve as a control document. Additionally, EDD stated it had procedures in place to randomly monitor TAA document files on a quarterly basis and that the Workforce Services Branch was coordinating with the Compliance and Review Division to develop on-site document monitoring one quarter of every year.

In our prior-year audit, we found that EDD revised its TAA training plan in September 2008 and developed new TAA monitoring guidelines in July 2009. However, because the revised TAA training plan and the TAA monitoring guidelines were not in place for the full fiscal year 2008–09, we were unable to determine whether this audit finding had been fully corrected.

During our follow-up procedures for fiscal year 2009–10, we found that while EDD had policies and procedures in place for the entire 2009–10 fiscal year, it only recently implemented them. Specifically, according to an analyst at EDD, the first desk review conducted using the procedures for random selection was not complete until May 2010. Further, although the desk review examined records for the second quarter of fiscal year 2009–10, the first on-site monitoring report covered the period from July 2010 through September 2010. Thus, part of the monitoring occurred after the end of fiscal year 2009–10. Because EDD had not completed full implementation of its policies and procedures until after our period of review, this finding remains uncorrected for fiscal year 2009–10.

Questioned Costs

No specific questioned costs identified.

Recommendation

EDD should continue to implement its monitoring procedures.

Department's View and Corrective Action Plan

The federal TAA program is administered on a Federal Fiscal Year (FFY), not a State Fiscal Year (SFY), and the federal Department of Labor's reporting structure for TAA is in accordance with a FFY. To comply with this reporting structure, EDD develops and implements procedures in accordance with the federal guidelines of the TAA program.

EDD implemented new TAA monitoring guidelines prior to the beginning of FFY 2009–2010 and has completed monitoring reviews for the first, second, and third quarters of FFY 2009–2010. EDD is now completing the monitoring review for the fourth quarter of FFY 2009–2010. EDD also completed the required on-site review in the fourth quarter of FFY 2009–2010; consistent with federal requirements that this review be completed by the end of the FFY; not the SFY. Accordingly, EDD is fully complying with the program's monitoring requirements for FFY 2009–2010.

Reference Number:	2010-9-2
Federal Catalog Numbers:	17.207, 17.801, 17.804
Federal Program Titles:	Employment Service/Wagner-Peyser Funded Activities; Disabled Veterans' Outreach Program (DVOP); Local Veterans' Employment Representative Program (LVER)
Federal Award Numbers and Years:	E-9-5-9-5085; 2009 ES-19190-09-55-A-6; 2009
Category of Finding:	Procurement, Suspension and Debarment
State Administering Department:	Employment Development Department (EDD)

Criteria

TITLE 29—LABOR, PART 98—GOVERNMENTWIDE DEBARMENT AND SUSPENSION (NONPROCUREMENT), Subpart B—Covered Transactions, Section 98.220—Are Any Procurement Contracts Included as Covered Transactions?

(b) Specifically, a contract for goods or services is a covered transaction if any of the following applies:

(1) The contract is awarded by a participant in a nonprocurement transaction that is covered under section 98.210, and the amount of the contract is expected to equal or exceed $25,000.

TITLE 29—LABOR, PART 98—GOVERNMENTWIDE DEBARMENT AND SUSPENSION (NONPROCUREMENT), Subpart C—Responsibilities of Participants Regarding Transactions, Doing Business With Other Persons, Section 98.300—What Must I Do Before I Enter Into a Covered Transaction With Another Person at the Next Lower Tier?

When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

a) Checking the Excluded Parties List System (EPLS); or

b) Collecting a certification from that person if allowed by this rule; or

c) Adding a clause or condition to the covered transaction with that person.

Condition

In our fiscal year 2007–08 audit, we reported that EDD did not have adequate policies or procedures in place to comply with federal suspension and debarment requirements. Although EDD ensured that service contracts over $25,000 included a suspension and debarment certification, it did not obtain such a certification for the purchase of goods over $25,000. Additionally, EDD did not check the EPLS to verify that entities it purchases goods from were not suspended or debarred. By not obtaining suspension and debarment certifications or performing an independent check on the EPLS, EDD ran the risk of entering into a covered transaction with a party that is excluded from doing business with the federal government. In order to correct this finding, we recommended that EDD establish policies and procedures to ensure that it is performing the required verifications for suspension and debarment for contracts equal to or more than $25,000.

During our follow-up procedures for fiscal year 2008–09, we noted that EDD had not fully corrected the finding. Specifically, although EDD implemented the recommended policies and procedures to address suspension and debarment, it did not do so until April 2009. As a result, EDD did not have adequate policies and procedures in place for the majority of fiscal year 2008–09.

During our follow-up procedures for fiscal year 2009–10, we found that although EDD's procedures related to suspension and debarment were in place for the entirety of fiscal year 2009–10, EDD did not fully implement those procedures. Specifically, EDD's updated desk procedures require that every contract over $25,000 have either a suspension and debarment certificate included in the file or an EPLS printout verifying that the proposed vendor is not excluded or disqualified. Also, according to a procurement section chief, for any service contract over $5,000, a signed debarment certificate must be obtained from the vendor. However, for one of the 12 contracts we reviewed, EDD checked the vendor against the EPLS on September 23, 2010, even though the contract was awarded in April 2010. According to EDD's procurement section chief, this procurement was a "leveraged procurement" and EDD is not required to check the EPLS if there is a certification in the Department of General Services' (DGS) file. However, according to an EDD procurement section chief, there was no such certification in the DGS contract file. Therefore, we cannot conclude that EDD effectively implemented its procedure to verify that a vendor is not suspended or debarred by consulting the EPLS.

Questioned Costs

No specific questioned costs identified.

Recommendation

EDD should ensure that the official procurement files include documentation that demonstrates that EDD is following its adopted procedures.

Department's View and Corrective Action Plan

To assist EDD procurement staff with their roles in the procurement process and to ensure every procurement file contains required documents, a Procurement Checklist (Checklist) is being developed and will be provided to each procurement analyst and manager within 30 days. The Checklist provides detailed information on what documents shall be included in the file. Analysts will be required to complete the Checklist upon the completion of each procurement and the Checklist must be included in the file. Additionally, to ensure every procurement file contains the required documents, the EDD Procurement Section has adopted the following review and approval processes:

1. EDD procurement analysts are required to adhere to the procurement desk procedures. For procurements over $25,000, analysts shall check vendors against the EPLS website and print out findings immediately, or obtain certifications from vendors to ensure the vendors are qualified to do business with the federal government. If the EPLS system returns "no record found", the procurement may be awarded as planned. In the event the EPLS system generates a result, this is considered a negative finding and the procurement cannot be awarded to the proposed vendor. Upon the completion of verification of a vendor's status on debarment and other procurement requirements, the analyst shall package the procurement file, including the EPLS printout or certification, quotes, and other required documentation, and submit the entire package to a procurement manager for signature.
2. Once the procurement manager receives the procurement file, he or she will be responsible for verifying the Checklist against what is included in the file and ensure the EPLS printout or certification and other required documents are in the file. In the event a discrepancy is found, the package will be returned to the analyst for correction and research; otherwise, the document will be approved and signed.
3. Once the procurement is completed, the entire procurement file will be forwarded to the Procurement Section Chief or designee for post procurement review and validation. In the event the EPLS printout or certification is missing from the file, and the result of a new query from the EPLS system shows a negative finding, the vendor will be notified and the procurement with this vendor will be cancelled immediately. Once it is cancelled, a new procurement will be started and the same rules will be followed.

EDD is confident that using the newly developed Checklist, implementing the multi-level review and approval processes, and maintaining its commitment of continually improving our procurement processes, will result in eliminating out of compliance procurement files.

Reference Number:	2010-13-7
Federal Catalog Numbers:	17.258, 17.259, 17.260
Federal Program Titles:	Workforce Investment Act (WIA) Adult Program, WIA Youth Activities, WIA Dislocated Workers
Federal Award Number and Year:	AA-18628-09-55-A-6; 2009
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Employment Development Department (EDD)

Criteria

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

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

(3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

TITLE 20—EMPLOYEES' BENEFITS, PART 667—ADMINISTRATIVE PROVISIONS UNDER TITLE 1 OF THE WORKFORCE INVESTEMENT ACT, Subpart D—Oversight and Monitoring, Section 667.410—What Are the Oversight Roles and Responsibilities of Recipients and Subrecipients?

(a) Roles and responsibilities for all recipients and subrecipients of funds under WIA Title 1 in general. Each recipient and subrecipient must conduct regular oversight and monitoring of its WIA activities and those of its subrecipients and contractor.

(b) State roles and responsibilities for grants under WIA sections 127 and 132.

(1) The Governor is responsible for the development of the State monitoring system. The Governor must be able to demonstrate, through a monitoring plan or otherwise, that the State monitoring system meets the requirements of paragraph (b)(2) of this section.

(2) The State monitoring system must:

i. Provide for annual on-site monitoring reviews of local areas' compliance with DOL uniform administrative requirements, as required by WIA section 184(a)(4);

ii. Ensure that established policies to achieve program quality and outcomes meet the objectives of the Act and the WIA regulations, including policies relating to: the provision of services by One-Stop Centers; eligible providers of training services; and eligible providers of youth activities;

iii. Enable the Governor to determine if subrecipients and contractors have demonstrated substantial compliance with WIA requirements;

iv. Enable the Governor to determine whether a local plan will be disapproved for failure to make acceptable progress in addressing deficiencies, as required in WIA section 118(d)(1); and

v. Enable the Governor to ensure compliance with the nondiscrimination and equal opportunity requirements of WIA section 188 and 29 CFR part 37. Requirements for these aspects of the monitoring system are set forth in 29 CFR 37.54(d)(2)(ii).

(3) The State must conduct an annual on-site monitoring review of each local area's compliance with DOL uniform administrative requirements, including the appropriate administrative requirements for subrecipients and the applicable cost principles indicated at section 667.200 for all entities receiving WIA Title I funds.

Condition

As we found in prior years, EDD has not monitored some WIA subrecipients. OMB Circular A-133 requires that pass-through entities such as EDD monitor the activities of subrecipients to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

The purpose of the WIA is to promote an increase in the employment, job retention, earnings, and occupational skills improvement by participants. EDD allots WIA funds and funds from the American Recovery and Reinvestment Act of 2009 (Recovery Act) to both Local Workforce Investment Areas (LWIAs) and non-Local Workforce Investment Areas (non-LWIAs) for use in a range of workforce development activities. LWIAs include both cities and counties. Non-LWIAs include community-based organizations and various state entities including the California Department of Corrections and Rehabilitation and the California Community Colleges Chancellor's Office. For fiscal year 2009–10, EDD allocated more than $369 million in WIA formula funds and $386 million in Recovery Act funds to 49 LWIAs. EDD also allocated more than $62 million in WIA and Recovery Act funds to 48 non-LWIAs for workforce development activities.

In our prior-year audit, we found that while EDD's Compliance Monitoring Section (CMS) had monitored all LWIAs, it only monitored five of the non-LWIAs. During our follow-up procedures for the fiscal year 2009–10 audit, we found that EDD has not fully corrected this finding. Specifically, although CMS again monitored all LWIAs, it only monitored 13 of the 48 non-LWIAs that received funding in fiscal year 2009–10. According to EDD, monitoring of all non-LWIAs will be completed by early 2011. Until EDD has completed the required monitoring of all non-LWIAs, EDD cannot ensure that non-LWIAs are complying with federal laws, regulations, and provisions of grant agreements.

In its response to our prior-year finding, EDD stated that the inability to complete on-site reviews of all organizations was due to staffing limitations, and that EDD would hire new staff to assist in completing the monitoring reviews. As of June 2010 EDD filled 10 new positions within the CMS using Recovery Act funds. However, according to the CMS chief, EDD has not yet submitted a budget request to convert the positions from limited-term Recovery Act funded positions to permanent ones, and will continue to evaluate the need for extended staffing over the next months and take appropriate action if a need materializes.

Questioned Costs

No specific questioned costs identified.

Recommendation

EDD's CMS should continue to work toward monitoring all WIA recipients to ensure that federal funds are used for authorized purposes.

Department's View and Corrective Action Plan

EDD's CMS continues its efforts to monitor all WIA recipients to ensure that federal funds are used for authorized purposes. The EDD successfully completed 63 non-LWIA monitoring reviews—including non-LWIAs receiving funds for the 2008–09 fiscal year—originally scheduled through December 2010. Three non-LWIA reviews were not completed as originally scheduled. One review had to be rescheduled to January 11, 2011, due to difficulties coordinating the review with the organization which has its headquarters and financial operations located out-of-state. Another review has been delayed because the subgrant has not been signed and funding has not been released. Once funding is released for that subgrant a review of the project will be scheduled. The third review was not completed because the contract, which ended last fiscal year, was not extended and monitoring reviews are only performed during the active period of a contract.

EDD believes it has fully addressed this finding. All non-LWIAs that had signed contracts and received funding were monitored for compliance, except for one non-LWIA whose monitoring review was slightly postponed beyond the original scheduled date.

Reference Number:	2010-14-2
Federal Catalog Number:	17.225
Federal Program Title:	Unemployment Insurance (UI)
Federal Award Numbers and Years:	UI-19571-10-55-A-6; 2009 UI-18009-09-55-A-6; 2008
Category of Finding:	Special Tests and Provisions
State Administering Department:	Employment Development Department (EDD)

Criteria

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

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

Condition

In our fiscal year 2008–09 audit report, we reported that EDD's financial management systems did not allow it to separately identify and report on American Recovery and Reinvestment Act of 2009 (Recovery Act) funds expended for certain benefits paid under the UI program. Specifically, although EDD could identify Recovery Act expenditures for the Federal Additional Compensation (FAC) program because it was entirely funded by the Recovery Act, it could not separately identify Recovery Act expenditures for either the Emergency Unemployment Compensation (EUC) program or the Federal–State Extended Benefits (Fed–Ed) program. EDD stated that it agreed with our finding and intended to update its financial management systems by March 2010.

During our follow-up procedures for fiscal year 2009–10, we found that, as of October 11, 2010, EDD had not yet updated its financial management systems to separately identify and report on Recovery Act funds. OMB's *Circular A-133 Compliance Supplement* dated June 2010 regarding special tests and provisions for awards with Recovery Act funding, indicates that the financial management system must permit the preparation of required reports and the tracing of funds adequate to establish that funds were used for authorized purposes and allowable costs. Additionally, according to a program letter provided by the U.S. Department of Labor (Federal Labor), some unemployment benefit payments should be reported separately as Recovery Act expenditures. However, EDD's financial management systems do not separately identify Recovery Act funds from non-Recovery Act funds.

During fiscal year 2009–10, the UI program expended $24.8 billion, which included both Recovery Act and non-Recovery Act funds. Of the several types of unemployment benefit programs, the EUC, Fed–Ed, and FAC programs expended Recovery Act funds. The FAC program provided an additional $25 a week to claimants, the Fed–Ed program provided up to 20 additional weeks of UI benefits to eligible claimants, and the EUC program provided up to 53 additional weeks of UI benefits to claimants. In fiscal year 2009–10 EDD spent $13.6 billion on these programs. According to an accounting officer

in the General Ledger Unit, EDD is unable to identify what portion of the total expenditures for these three programs were paid for with Recovery Act funds, including FAC because, according to a manager at EDD, FAC is no longer entirely funded by the Recovery Act.

According to an EDD division chief (chief), EDD was unable to begin separately identifying Recovery Act funds when planned due to changes in federal legislation that required high-priority modifications in programming related to benefit extensions and payments. The chief stated that if no new federal legislation passes changing benefit extensions and payments, EDD intends to have the issue fully corrected by early 2012. Specifically, EDD plans to complete work, including testing and validation, by April 2011. Producing revised reports is expected to begin directly after that and should be completed at the end of May 2011. EDD estimates it will take between nine and 12 months to then properly recalculate and reclassify the data. Until EDD has completed the necessary program changes, it cannot maintain records that identify the source and application of Recovery Act funds or separately identify the expenditures of federal awards under the Recovery Act on the Schedule of Expenditures of Federal Awards, as required by federal law.

Questioned Costs

No specific questioned costs identified.

Recommendation

EDD should continue its efforts to update its financial management systems so that it can separately identify Recovery Act funds.

Department's View and Corrective Action Plan

EDD continues working on information system changes to enable separate identification of Recovery Act funds. This work includes making changes that will allow EDD to produce revised monthly Benefit Accounting Group and Overpayment Accounting and Reporting Group reports.

On December 6, 2010, EDD implemented the changes to produce revised monthly Benefit Accounting Group reports. These changes took longer than expected to release due to the complexity of the reports and the associated additional resource needs. Before these reports can be reexecuted, additional steps must be taken to correct data errors that were generated by problems with the payment transfer programs. EDD will be correcting the data in the same sequence as the planned rerun of the reports; i.e., the data affecting the July 2008 reports will be fixed before the data affecting the August 2008 reports.

EDD continues work on the Overpayment Accounting and Reporting Group reports which include daily, weekly, and monthly versions. These reports are expected to be more complex to test and validate than the monthly Benefit Accounting Group reports. EDD currently plans to complete work, including testing and validation, by early April 2011. Rerunning the revised reports is expected to begin directly after that and should be completed at the end of May 2011. EDD estimates it will take between nine and 12 months, using existing trained staff, to then properly recalculate and reclassify the almost three years of financial data.

Actual expenditures were $24.8 billion for all programs during fiscal year 2009–2010 and $13.6 billion for EUC, Fed–Ed, and FAC. These amounts reflect both Recovery Act and non-Recovery Act funds.

U.S. SOCIAL SECURITY ADMINISTRATION

Reference Number:	2010-2-1
Federal Catalog Number:	96.001
Federal Program Title:	Social Security—Disability Insurance (Disability Insurance)
Federal Award Numbers and Years:	04-1004CADI00; 2010 04-0904CADI00; 2009
Category of Finding:	Allowable Costs/Cost Principles
State Administering Department:	Department of Social Services (Social Services)

Criteria

Title 2—GRANTS AND AGREEMENTS, PART 225—COST PRINCIPLES FOR STATE, LOCAL, AND INDIAN TRIBAL GOVERNMENTS (OMB CIRCULAR A-87)

Appendix B to Part 225—Selected Items of Cost

8. Compensation for personal services

h. Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation.

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

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection 8.h.(5) of this appendix unless a statistical sampling system (see subsection 8.h.(6) of this appendix) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

(a) More than one Federal award,

(b) A Federal award and a non-Federal award,

(c) An indirect cost activity and a direct cost activity,

(d) Two or more indirect activities which are allocated using different allocations bases, or

(e) An unallowable activity and a direct or indirect cost activity.

(5) Personnel activity reports or equivalent documentation must meet the following standards:

(a) They must reflect an after-the-fact distribution of the actual activity of each employee,

(b) They must account for the total activity for which each employee is compensated,

(c) They must be prepared at least monthly and must coincide with one or more pay periods, and

(d) They must be signed by the employee.

(e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:

(i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;

(ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and

(iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

Condition

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.

Questioned Costs

No specific questioned costs identified.

Recommendation

Social Services should 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.

Department's View and Corrective Action Plan

Social Services indicated that it concurs with the finding that the payroll expenditures for the four employees selected for review were distributed to the Disability Insurance program using percentages instead of actual time spent on the activities related to this program. The percentages used to distribute the payroll expenditures were based on a time study performed prior to January 2009.

Although Social Services could not substantiate some of the payroll expenditures charged to the Disability Insurance program, Social Services stated that it has analyzed the payroll expenditure data for state fiscal year 2009–10 and determined that the expenditures charged to the Disability Insurance program by the Financial Services Bureau are valid. It indicated that the analysis is based on a statistically valid method of sampling and allocating expenditures to the various programs administered by Social Services during the period questioned; therefore, Social Services should not have any questioned costs.

According to Social Services, as of October 25, 2010, staff in the Financial Services Bureau began completing monthly employee time reports which reflect the actual activities being performed and for which the employees are being compensated.

U.S. DEPARTMENT OF TRANSPORTATION

Reference Number:	2010-3-4
Federal Catalog Number:	20.205
Federal Program Title:	Highway Planning and Construction
Federal Award Numbers and Years:	N4510.720; 2010 N4510.721; 2010 N4520.205; 2010 N4510.705; 2009 N4510.708; 2009
Category of Finding:	Cash Management
State Administering Department:	California Department of Transportation (Caltrans)

Criteria

TITLE 31—MONEY AND FINANCE: TREASURY—REGULATIONS RELATING TO MONEY AND FINANCE, CHAPTER II—FISCAL SERVICE, DEPARTMENT OF THE TREASURY, PART 205—RULES AND PROCEDURES FOR EFFICIENT FEDERAL–STATE FUNDS TRANSFERS, Subpart A—Rules Applicable to Federal Assistance Programs Included in a Treasury-State Agreement?

Section 205.6—What Is a Treasury-State Agreement?

(a) A Treasury-State agreement documents the accepted funding techniques and methods for calculating interest agreed upon by us and a State and identifies the Federal assistance programs governed by this subpart A. If anything in a Treasury-State agreement is inconsistent with this Subpart A, that part of the Treasury-State agreement will not have any effect and this Subpart A will govern.

Section 205.9—What Is Included in a Treasury-State Agreement?

(g) Methods used by the State and Federal agencies to calculate interest liabilities pursuant to this Subpart A. The method must include, but is not limited to, a clear indication of:

(1) The data used;

(2) The sources of the data;

(3) The calculation process; and

(4) Any assumptions, standards, or conventions used in converting the data into the interest liability amounts.

CASH MANAGEMENT IMPROVEMENT ACT AGREEMENT BETWEEN THE STATE OF CALIFORNIA AND THE SECRETARY OF THE TREASURY, UNITED STATES DEPARTMENT OF THE TREASURY

PART 3—DURATION, AMENDING, TERMINATING, AND MISCELLANEOUS PROVISIONS

SECTION 3.2—This Agreement may be amended at any time by written, mutual consent of the State and FMS. This Agreement shall be amended annually to incorporate new programs that qualify as major Federal assistance programs and remove programs that no longer qualify as major Federal assistance programs. A State must notify FMS in writing within 30 days of the time the State becomes aware of a change that involves additions or deletions of programs subject to Subpart A, changes in funding techniques, and/or changes in clearance patterns. This notification must include a proposed amendment for review by FMS.

Condition

Improper Funding Technique

During fiscal year 2009–10, Caltrans lacked adequate internal controls to ensure that it consistently adhered to the funding techniques specified in the Treasury-State Agreement (TSA) for the Highway Planning and Construction program (program). Under the terms of the TSA, the federal government and the State agreed that roughly 90 percent of program funds would be requested by Caltrans under the "pre-issuance" funding technique, where Caltrans would request federal funds such that they are deposited in a state account not more than three business days before making a disbursement. Under the terms of the TSA, this 90 percent component of the program includes payments for construction contracts, right-of-way acquisitions, and consultant contracts and subventions (such as grants to local governments). The TSA defined the remaining 10 percent of federal receipts as reimbursements for payments already made by the State for various miscellaneous costs and specified that an interest liability did not apply to these funds.

Of the $2.6 billion in federal funds Caltrans received during fiscal year 2009–10, Caltrans indicated that $358.3 million (approximately 14 percent of total federal receipts) represented expenditures from prior years for advanced construction payments and other expenses previously paid by the State. However, the TSA requires that construction payments be made under pre-issuance not reimbursement. We noted that some of these payments advanced by the State were processed several years ago. For example, $453,000 of the $358.3 million was for payments processed during 2002 and $9.8 million was from 2003.

Caltrans also did not follow the correct funding technique for $34 million in program expenditures processed during fiscal year 2009–10. During our review of Caltrans' interest liability calculation, we determined that Caltrans had excluded $34 million in expenditures that were subject to the pre-issuance funding technique because Caltrans determined that federal funds were received after the State had made payment. Specifically, Caltrans explained that federal funds were received after the average clearance days (i.e., the average amount of time it takes for checks or warrants to be cashed) had lapsed. As a result, Caltrans considered the $34 million in payments from the federal government to be a reimbursement for costs already paid by the State.

The TSA requires that the State must notify the U.S. Department of the Treasury, Financial Management Service (FMS), within 30 days of the time it becomes aware of changes in funding techniques, and must include a proposed amendment to FMS. However, we noted that the fiscal year 2009–10 TSA was not amended to reflect any changes in the funding techniques or how Caltrans was actually drawing down federal funds for the program.

Although Caltrans appropriately did not calculate and assess the federal government any interest liability on these advanced state funds, the State and the federal government mutually agreed to the terms of the fiscal year 2009–10 TSA and the appropriate funding techniques to be used for the program. When the State does not update the TSA to reflect how federal funds are actually being requested, the State prevents the federal government from having input on how to most effectively and efficiently transfer its own funds to the State. The cause of this finding appears to be Caltrans' decision to modify its funding techniques from fiscal years 2008–09 to 2009–10. Caltrans elected in fiscal year 2009–10 to have most of its funds requested on a pre-issuance basis in order to ensure it could request funds earlier and have money available to quickly pay costs associated with the American Recovery and Reinvestment Act of 2009. However, the pre-issuance funding technique does not accurately reflect how federal funds are drawn for certain program costs.

Determining How Long Federal Funds Are Held by the State When Calculating Interest Liability

We also noted an inconsistency regarding how Caltrans calculates how long it holds onto federal funds when preparing its interest calculation. Section 8.6.5 of the TSA requires the State to separately measure two distinct time periods as part of the interest calculation process. The two time periods are as follows:

- The time between when federal funds are deposited in a state account and when warrants are issued.
- The time between the issuance of warrants to redemption (i.e., when the funds leave the State's account).

Caltrans estimated both of these time periods by sampling expenditures where the checks or warrants were issued in 2007 (with a few warrants issued during January 2008). Caltrans then provided this information to the Department of Finance (Finance). However, such a sampling methodology using 2007 data for determining the time between the receipt and disbursement of federal funds is questionable. Section 8.6.4 of the TSA requires the State to measure the time between the receipt of federal funds and the issuance of warrants from information collected by state departments. Although Section 8.6.4 does not explicitly specify the time period to be used for this calculation, we believe using fiscal year 2009–10 data for this period would have been more appropriate based on the following:

- Finance collects current-year information from other state departments administering federal programs.
- The TSA discusses how the State will calculate the interest liability for fiscal year 2009–10, suggesting that Caltrans should have considered this same time period when determining how long it held federal funds prior to disbursing program funds.

We did not question Caltrans' decision to use 2007 data to measure the time between the issuance of warrants to redemption because the TSA for fiscal year 2009–10 does not require the State to maintain a clearance pattern for this program.

Questioned Costs

No specific questioned costs identified.

Recommendations

Caltrans should coordinate with Finance and the U.S. Department of the Treasury to ensure that the TSA accurately reflects the funding techniques used for the program. Caltrans should also develop policies and procedures to ensure that such funding techniques are followed. Finally, Caltrans should either use current-year information to estimate how long it holds federal funds prior to disbursement or work with Finance to include specific language in the TSA that reflects its current practice.

Department's View and Corrective Action Plan

Caltrans has policies and controls in place to ensure compliance with the current TSA. However, the TSA could be more explicit in terms of methodology. Caltrans will contact Finance by January 31, 2011, to modify the TSA to be more explicit about (1) the funding technique used for federal reimbursement under the Federal Highway Administration's Advance Construction Program, and (2) the calculation of the clearance patterns for Caltrans.

Reference Number:	2010-7-10
Federal Catalog Number:	20.205
Federal Program Title:	Highway Planning and Construction
Federal Award Numbers and Years:	N4520.205; 2010 N4510.721; 2010 N4510.720; 2010 N4510.708; 2009 N4510.705; 2009
Category of Finding:	Matching
State Administering Department:	California Department of Transportation (Caltrans)

Criteria

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

The auditee shall:

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

Condition

Although we found that Caltrans complied with the matching requirement during fiscal year 2009–10, it lacked adequate internal controls to ensure that noncompliance with the matching requirement would be prevented or detected in a timely manner.

Caltrans uses state funds when making payments under the Highway Planning and Construction program, disbursing funds from its Transportation Revolving Account. Caltrans also submits claims to the federal government for its share of the payments. The difference between what the State initially paid and the amount provided by the federal government represents the State's match on a payment.

Caltrans records program expenditures and schedules the issuance of warrants through its Transportation Accounting Management System (TRAMS). Caltrans uses a separate system called the Current Billing and Reporting System (CBARS) to identify expenditures in TRAMS that are eligible for federal reimbursement. The amount that CBARS will claim for particular TRAMS expenditures is dependent on Caltrans' staff manually entering the correct federal reimbursement percentage in the CBARS system for federally funded projects. Caltrans' procedures require its staff to identify the federally approved reimbursement rate for each project based on information contained in the Federal Highway Administration's (FHWA) Fiscal Management Information System (FMIS). FMIS is the official electronic agreement between the federal government and Caltrans regarding the total obligated amount for a project and the federal government's share of the costs.

During fiscal year 2009–10, Caltrans lacked procedures to ensure that its staff entered the correct federal reimbursement rates into CBARS. We had expected to see that Caltrans' management periodically reviewed these entries; however, the branch chief of Caltrans' accounting division (branch chief) explained that reviewing such entries would be an inefficient use of staff resources. According to the branch chief, Caltrans does not have managerial oversight of this data entry because the history of erroneous entries is low, and management does not believe it is cost-efficient to have a second person

checking manual entries for such low-risks tasks. Additionally, the branch chief explained that Caltrans has a final vouchering process where it verifies, at the end of the project, the accuracy of reimbursement rates and makes any necessary adjustments at that time.

However, Caltrans has also indicated that some of its projects can typically last anywhere from several months to several years, and in some cases can last more than a decade. As a result, relying on the final vouchering process would not, in our judgment, allow Caltrans to prevent or detect noncompliance with the matching requirement on a timely basis.

Questioned Costs

No specific questioned costs identified.

Recommendations

Caltrans should develop policies and procedures to provide reasonable assurance that it can detect and prevent inaccurate data entry of federal reimbursement rates in CBARS.

Department's View and Corrective Action Plan

It is important to note that the Bureau of State Audits did not detect instances where the federal reimbursement rate was entered incorrectly in the system by staff. Further, Caltrans (1) considers the data entry of the federal reimbursement rates to be an activity with very low risk, and (2) has policies and procedures in place that result in accurate reporting of data, although those procedures do not require verification by the supervisor. However, Caltrans will consult with the FHWA in consideration of a periodic sampling of data, which will be reviewed by the supervisor, to ensure that the reimbursement rates are entered into the system correctly by January 31, 2011.

Reference Number:	2010-13-6
Federal Catalog Number:	20.205
Federal Program Title:	Highway Planning and Construction
Federal Award Numbers and Years:	N4520.205; 2010 N4510.721; 2010 N4510.720; 2010 N4510.708; 2009 N4510.705; 2009
Category of Finding:	Subrecipient Monitoring
State Administering Department:	California Department of Transportation (Caltrans)

Criteria

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

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

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

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

U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133—*AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS* (OMB CIRCULAR A-133), Subpart B—Audits, Section .225—Sanctions

No audit costs may be charged to Federal awards when audits required by this part have not been made or have been made but not in accordance with this part. In cases of continued inability or unwillingness to have an audit conducted in accordance with this part, Federal agencies and pass-through entities shall take appropriate action using sanctions such as:

(a) Withholding a percentage of Federal awards until the audit is completed satisfactorily;

(b) Withholding or disallowing overhead costs;

(c) Suspending Federal awards until the audit is conducted; or

(d) Terminating the Federal award.

Condition

Subrecipient Audits

During fiscal year 2009–10, Caltrans lacked internal controls to ensure subrecipients who spent more than $500,000 during fiscal year 2008–09 submitted audit reports to the federal government as required under OMB Circular A-133. Based on Caltrans' records of the amounts it disbursed to subrecipients, it could have established reasonable expectations as to which subrecipients would need to submit audit reports. However, we noted instances of noncompliance where subrecipients receiving more than $500,000—and in some cases receiving more than $1 million according to Caltrans' records—did not submit audit reports to the federal government. On October 20, 2010, we identified 24 subrecipients (including various cities, counties, and special districts) that had no record of an audit submission on the federal audit clearinghouse's Web site for fiscal year 2008–09. Subrecipients with a fiscal year ending on June 30, 2009, were required to submit their audit reports to the federal government nine months after the end of the fiscal year, which is March 31, 2010. When subrecipients fail to submit audit reports to the federal government, federal agencies miss an opportunity to identify where federal funds are being misspent. When we asked Caltrans' staff why they did not take steps to ensure subrecipients submitted their audit reports to the federal government, Caltrans' chief of External Audits and Investigations indicated that Caltrans had believed this was the responsibility of the State Controller's Office (SCO). However, after we brought this matter to Caltrans' attention, it drafted new policies and procedures that will require its audit staff to perform a monthly reconciliation between audit submissions on the federal clearinghouse's Web site and its own records of subrecipients that received more than $500,000.

Management Decisions

The lack of audit reports by the subrecipients previously described also limits Caltrans' ability to review and issue management decisions on potential findings and exercise effective oversight of the Highway Planning and Construction program. To facilitate the State's preparation of management decisions on its subrecipients' audit findings, the State has established a process whereby local governments submit copies of their OMB Circular A-133 audit reports to the SCO. According to the *State Administrative Manual*, Section 20070, the SCO distributes a copy of each audit report and corrective action plan to state entities (such as Caltrans) that are affected by the findings, and such state entities follow up on audit findings pertaining to the federal programs they administer. To assist the SCO with its responsibilities, Caltrans provides the SCO with an annual listing of all of its subrecipients and the amounts they received. Caltrans provided the SCO with this information on June 3, 2010. As the SCO

received audit reports from subrecipients, it provided updates on which subrecipients had or had not submitted their audit reports. As of October 15, 2010, the SCO's Web site indicated the following information for some of Caltrans' subrecipients:

- Five subrecipients had either submitted incomplete audit reports, or had not submitted any audit reports, and the SCO was no longer going to follow up with those entities.
- Sixteen subrecipients were classified by the SCO as "exempt" from the audit requirements because they spent less than $500,000.
- Two subrecipients were classified by the SCO as "no review" because SCO concluded after reviewing the audit reports that no funds had passed through state entities (such as Caltrans).

Even though the SCO's data—identifying certain subrecipients as having an "exempt" and "no review" status—was in conflict with Caltrans' own records of how much it had disbursed to these subrecipients, Caltrans did not verify that the information SCO reported was correct, believing it was not its responsibility to validate the SCO's data. Nevertheless, Caltrans has recently developed policies and procedures requiring its audit staff to reconcile its subrecipient data against the SCO's records on a monthly basis.

Imposing Sanctions on Subrecipients

Caltrans lacked internal controls during fiscal year 2009–10 to impose sanctions on subrecipients that failed to meet OMB Circular A-133 audit requirements. According to Caltrans' Chief of External Audits and Investigations, imposing sanctions on subrecipients is the responsibility of the Planning and Modal Programs unit. However, the chief of External Audits and Investigations acknowledged that Caltrans' audit unit lacked policies and procedures to notify Planning and Modal Programs that required audits were delinquent and sanctions should take place. According to Caltrans' chief of Policy Development and Quality, Caltrans has recently developed draft procedures that are under review. In November 2010 Caltrans provided us with copies of sanction letters it sent to subrecipients with delinquent audits, informing them that Caltrans was suspending new federal awards until the SCO is satisfied that the single audit requirements have been met.

Questioned Costs

No specific questioned costs identified.

Recommendations

Caltrans should continue to implement policies and procedures to ensure that subrecipients submit required audit reports, and impose sanctions on those that do not.

Department's View and Corrective Action Plan

Caltrans concurs with the finding and, on November 12, 2010, sent letters contacting the five delinquent subrecipients. These letters notified the subrecipients that Caltrans will be suspending new federal awards to them until the SCO informs Caltrans that the subrecipients have satisfactorily complied with the single audit reporting requirements. Of the five subrecipients, three have provided written evidence of compliance with the single audit reporting requirements from the SCO. For the remaining two delinquent subrecipients, further action will be taken by Caltrans if evidence of compliance is not received within 90 days from the original notification letter.

Additionally, Caltrans has developed written policies and procedures to determine whether subrecipients submit their single audit reports timely and to take appropriate action against those that are delinquent. These procedures include the following:

- Reconciling Caltrans' record of subrecipients with the information posted on the Web sites of the Federal Audit Clearinghouse and the SCO.

- Reviewing SCO's postings for discrepancies and inaccuracies. This includes scanning for subrecipients that are incorrectly listed as "exempt" or "no review" by SCO.

- Contacting delinquent subrecipients and informing them that they are not in compliance with single audit reporting requirements.

- Imposing sanctions against noncompliant subrecipients. Sanctions will include suspension of new federal awards until subrecipients have satisfactorily complied with the single audit reporting requirements. Additional sanctions may be applied if Caltrans does not receive evidence of compliance from SCO within 90 days.

Since Caltrans is not the initial recipient of all the single audit reports, it is not possible for Caltrans to monitor all delinquent submissions independent of the SCO. Caltrans will work with the SCO to ensure the timeliness of report submission and the accuracy of information posted by the SCO.

U.S. DEPARTMENT OF VETERANS AFFAIRS

Reference Number:	2010-1-4
Federal Catalog Number:	64.005
Federal Program Title:	Grants to States for Construction of State Home Facilities
Federal Award Numbers and Years:	06-059; 2008 06-044; 2007
Category of Finding:	Activities Allowed/Allowable Costs, Matching, Suspension and Debarment
State Administering Department:	California Department of Veterans Affairs (Veterans Affairs)

Criteria

TITLE 2—GRANTS AND AGREEMENTS, PART 225—COST PRINCIPLES FOR STATE, LOCAL, AND INDIAN GOVERNMENTS (OMB CIRCULAR A-87), Appendix A to Part 225—General Principles for Determining Allowable Costs

C. Basic Guidelines

1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:

   a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.

   b. Be allocable to Federal awards under the provisions of 2 CFR part 225.

   c. Be authorized or not prohibited under State or local laws or regulations.

   d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.

   e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.

   f. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.

   g. Except as otherwise provided for in 2 CFR part 225, be determined in accordance with generally accepted accounting principles.

   h. Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation.

   i. Be the net of all applicable costs.

   j. Be adequately documented.

TITLE 38—PENSIONS, BONUSES AND VETERANS' RELIEF, PART 43—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS, Section 43.24—Matching or Cost Sharing

(a) Basic rule: Costs and contributions acceptable. A matching or cost sharing requirement may be satisfied by either or both of the following:

(1) Allowable costs incurred by the grantee, subgrantee, or a cost-type contractor under the assistance agreement. This includes allowable costs borne by non-Federal grants or by other cash donations from non-Federal third parties.

(2) The value of third party in-kind contributions applicable to the period to which the cost sharing or matching requirements applies.

MEMORANDUM OF AGREEMENT FOR A PARTIAL GRANT TO ASSIST IN THE CONSTRUCTION OF A STATE VETERANS HOME IN THE STATE OF CALIFORNIA

(5) Veterans Affairs agrees to periodically inspect the project and certify to the Chief Consultant, Office of Geriatrics and Extended Care, for payment of such sums which it deems are payable by the United States Department of Veterans Affairs.

TITLE 2—GRANTS AND AGREEMENTS, PART 180—OMB GUIDELINES TO AGENCIES ON GOVERNMENTWIDE DEBARMENT AND SUSPENSION (NONPROCUREMENT)
Subpart C—Responsibilities of Participants Regarding Transactions Doing Business with Other Persons, Section 180.300

When you enter into a covered transaction with another person at the next lower tier you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

(a) Checking the Excluded Parties List System; or

(b) Collecting a certification from that person; or

(c) Adding a clause or condition to the covered transaction with that person.

Condition

In our prior-year audit report for fiscal year 2008–09, we reported that the Department of General Services (General Services), which acts as a project manager on behalf of Veterans Affairs for the construction and renovation of veterans homes and is responsible for contracting for the construction of the homes, could not always demonstrate that its inspectors reviewed pay requests from construction contractors. Additionally, we reported that for one of six pay requests we reviewed, General Services was unable to provide documentation that detailed the completed tasks for which a contractor was paid. Without this documentation, we were unable to determine whether the payment, which totaled $1.4 million, was for allowable costs. Further, because the State uses its funds to pay a portion of the expenditures, the lack of documentation also prevents the State from demonstrating compliance that its matching funds were used for allowable costs. We also reported that General Services did not initially ensure that one of its construction contractors was not suspended or debarred, though it did obtain the appropriate certification from the contractor during our audit. We reported that Veterans Affairs had not established written policies and procedures to ensure that General Services complies with applicable federal requirements, increasing the risk that federal funds could be spent on unallowable costs or paid to contractors who are ineligible to work on federally funded projects.

During our follow-up procedures for fiscal year 2009–10, we found that Veterans Affairs had partially corrected this finding. Our fiscal year 2008–09 finding regarding the lack of documentation of an inspector's review of pay requests and the lack of documentation that all tasks were completed for one pay request related to a single veterans home project. That project was completed in December 2009, and we formally informed Veterans Affairs of these issues in January 2010. Therefore, we did not review any payments for this project for fiscal year 2009–10. However, to evaluate whether Veterans Affairs took corrective action since we informed them of the deficiencies, we reviewed payments to construction contractors for two new veterans home projects for which Veterans Affairs anticipates federal funding in March 2011 and found that the payments included

adequate supporting documentation and General Services' inspectors had signed the payment requests. Additionally, General Services obtained suspension and debarment certifications from the construction contractors for the two new homes. Veterans Affairs anticipates the certifications from the contract consultants for the projects will be submitted by the time federal funds are received.

We found that Veterans Affairs continued to lack written policies and procedures throughout fiscal year 2009–10. Veterans Affairs completed its policies and procedures in late October 2010. We initially found that the procedures did not include a process for Veterans Affairs to periodically verify General Services' processing of contractor pay requests. After we brought this to Veterans Affairs' attention, it promptly revised its procedures to include such a provision. We reviewed Veterans Affairs' revised policies and procedures and found that, if followed, they were adequate to address our concerns regarding Veterans Affairs' oversight of General Services' review of contractor payment requests and process for ensuring contractors are not suspended or debarred.

Questioned Costs

No specific questioned costs identified.

Recommendations

Veterans Affairs should follow its newly established written policies and procedures regarding General Services' payments to contractors and verification that contractors are not suspended or debarred.

Department's View and Corrective Action Plan

Veterans Affairs intends to follow the newly established policies and procedures to verify that General Services is in compliance with federal requirements regarding payment to contractors and suspension and debarment activities.

Reference Number:	2010-4-1
Federal Catalog Number:	64.005
Federal Program Title:	Grants to States for Construction of State Home Facilities
Federal Award Number and Year:	06-044; 2007
Category of Finding:	Davis-Bacon Act
State Administering Department:	California Department of Veterans Affairs (Veterans Affairs)

Criteria

TITLE 29—LABOR, PART 5—LABOR STANDARDS PROVISIONS APPLICABLE TO CONTRACTS COVERING FEDERALLY FINANCED AND ASSISTED CONSTRUCTION, Subpart A—Davis-Bacon and Related Acts Provisions and Procedures, Section 5.5—Contract Provisions and Related Matters

(a) The Agency head shall cause or require the contracting officer to insert in full in any contract in excess of $2,000 which is entered into for the actual construction, alteration, and/or repair, including painting and decorating, of a public building or public work, or building or work financed in whole or in part from Federal funds or in accordance with guarantees of a Federal agency or financed from funds obtained by pledge of any contract of a Federal agency to make a loan, grant or annual contribution (except where a different meaning is expressly indicated),

and which is subject to the labor standards provisions of any of the acts listed in Section 5.1, the following clauses (or any modifications thereof to meet the particular needs of the agency, Provided, that such modifications are first approved by the Department of Labor):

(3)(ii)(A) The contractor shall submit weekly for each week in which any contract work is performed a copy of all payrolls to the (write in name of appropriate Federal agency) if the agency is a party to the contract, but if the agency is not such a party, the contractor will submit the payrolls to the applicant, sponsor, or owner, as the case may be, for transmission to the (write in name of agency). The payrolls submitted shall set out accurately and completely all of the information required to be maintained under Section 5.5(a)(3)(i) of Regulations, 29 CFR part 5. This information may be submitted in any form desired. The prime contractor is responsible for the submission of copies of payrolls by all subcontractors.

(B) Each payroll submitted shall be accompanied by a "Statement of Compliance," signed by the contractor or subcontractor or his or her agent who pays or supervises the payment of the persons employed under the contract and shall certify the following:

(1) That the payroll for the payroll period contains the information required to be maintained under Section 5.5 (a)(3)(i) of Regulations, 29 CFR part 5 and that such information is correct and complete;

(2) That each laborer or mechanic (including each helper, apprentice, and trainee) employed on the contract during the payroll period has been paid the full weekly wages earned, without rebate, either directly or indirectly, and that no deductions have been made either directly or indirectly from the full wages earned, other than permissible deductions as set forth in Regulations, 29 CFR part 3;

(3) That each laborer or mechanic has been paid not less than the applicable wage rates and fringe benefits or cash equivalents for the classification of work performed, as specified in the applicable wage determination incorporated into the contract.

Condition

The Department of General Services (General Services) acts as a project manager for the construction and renovation of veterans homes on behalf of Veterans Affairs and is also responsible for contracting for construction of the homes. In our prior-year audit report for fiscal year 2008–09, we reported that General Services did not include in its construction project contracts certain clauses required by the Davis-Bacon Act (Davis-Bacon). General Services also did not collect the required weekly payrolls and certifications from the contractors. We reported that Veterans Affairs had not established written policies and procedures to communicate formally all Davis-Bacon requirements so that General Services could comply with federal requirements. Without ensuring that General Services includes all of the required contract language and collects weekly payrolls and certifications as required, Veterans Affairs does not have reasonable assurance that appropriate wages are being paid to construction laborers and, consequently, that it is complying with federal requirements.

During our follow-up procedures for fiscal year 2009–10, we found that the finding was partially corrected. Specifically, we found that General Services amended the construction contract for the federally funded veterans home that remained under construction in response to our finding for fiscal year 2008–09 to incorporate a reference to the Davis-Bacon regulation that contains the required contract language. However, we also found that General Services did not always obtain an appropriate payroll certification, known as a statement of compliance, from all of its contractors. A project director at General Services stated that it began receiving weekly certified payrolls in December 2009. We therefore reviewed three of the 26 weekly payrolls that were submitted from January 2010 through June 2010. For all three weeks, at least one contractor submitted a certification with its payrolls that did not meet the federal requirement. The project director indicated that in the future General Services would require contractors to submit the statement of compliance form published by the U.S. Department of Labor that specifically meets the certification requirement.

Finally, we found that throughout fiscal year 2009–10 Veterans Affairs continued to lack written policies and procedures to communicate formally to General Services all applicable Davis-Bacon requirements. Veterans Affairs completed policies and procedures in late October 2010. We reviewed the policies and procedures and found that, if followed, they were adequate to address our concern regarding Veterans Affairs' oversight of General Services' compliance with Davis-Bacon requirements. Specifically, the procedures include provisions for Veterans Affairs to ensure Davis-Bacon requirements are communicated to General Services and for Veterans Affairs to periodically verify that certified payrolls are submitted for a sample of contractors and work weeks.

Questioned Costs

No specific questioned costs identified.

Recommendations

Veterans Affairs should follow its newly established written policies and procedures to communicate formally to General Services all applicable Davis-Bacon requirements so that General Services can comply with these requirements and to periodically verify certified payrolls were submitted to General Services by contractors.

Department's View and Corrective Action Plan

Veterans Affairs intends to follow the newly established policies and procedures to ensure that General Services is in compliance with all applicable Davis-Bacon requirements as well as verify that certified payrolls are submitted to General Services by its contractors.

Reference Number:	2010-12-3
Federal Catalog Number:	64.005
Federal Program Title:	Grants to States for Construction of State Home Facilities
Federal Award Number and Year:	06-044; 2007
Category of Finding:	Reporting
State Administering Department:	California Department of Veterans Affairs (Veterans Affairs)

Criteria

TITLE 38—PENSIONS, BONUSES, VETERANS' RELIEF, PART 43—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS, Subpart C—Post-Award Requirements

Section 43.20—Standards for financial management systems

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

(1) Permit preparation of reports required by this part and the statutes authorizing the grant, and

(2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibiltions of applicable statutes.

Section 43.41—Financial Reporting

(e) Outlay report and request for reimbursement for construction programs.

(1) Grants that support construction activities paid by reimbursement method.

(i) Requests for reimbursement under construction grants will be submitted on Standard Form 271, Outlay Report and Request for Reimbursement for Construction Programs (request for reimbursement).

Condition

Although Veterans Affairs is responsible for administering this program, the Department of General Services (General Services) acts as a project manager on behalf of Veterans Affairs for veterans homes construction and renovation projects. As part of its project management, General Services pays construction costs and then prepares a request for reimbursement that it submits to Veterans Affairs. Veterans Affairs then authorizes the request for reimbursement and submits it to the federal government.

In our prior audit report for fiscal year 2008–09, we reported that General Services did not have a sufficient process to ensure the costs it reported in the requests for reimbursement were supported by documentation. We reported that for five of the 18 requests for reimbursements we reviewed in fiscal year 2008–09, General Services shifted a portion of the costs from the *construction and project improvement* category to the *land development* and *demolition and removal* categories, indicating that it spent funds in those categories. However, General Services did not have documentation that it had verified these costs were appropriately shifted to those cost categories. Although General Services was subsequently able to gather and provide documentation to us that identified the costs it included in the land development category for fiscal year 2008–09, its process did not include a step to perform this verification routinely before it shifted costs among categories on its requests for reimbursement. Without such verifications, the State could inadvertently request and receive federal funds for a particular cost category that exceeds the amounts actually spent in the category. We also reported that Veterans Affairs was unaware of this situation even though it approves the requests for reimbursement and that there was a need for increased oversight.

We reviewed the requests for reimbursement for the project receiving most of the federal funding in fiscal year 2009–10. Since informing Veterans Affairs of our concern in late January 2010, its requests for reimbursement for the project have been limited to the *equipment* and *construction and project improvement* categories, with equipment accounting for the majority of funds requested. The expenditures in the equipment category are made by Veterans Affairs and follow a different process than the construction-related expenditures. Although we did not find any problems with the reporting of equipment expenditures, our finding for fiscal year 2008–09 was specific to General Services' process for reporting expenditures related to construction-related activities in the *land development* and *demolition and removal* categories. Veterans Affairs exhausted the federal funds available for these categories for its veterans home projects prior to the beginning of fiscal year 2009–10. As a result, we were unable to verify whether General Services corrected its process.

Veterans Affairs continued to lack policies and procedures designed to improve General Services' reporting of expenditures and Veterans Affairs' oversight of the reporting process throughout fiscal year 2009–10. Veterans Affairs completed its policies and procedures in late October 2010. We reviewed the policies and procedures and found that, if followed, they were adequate to address our concerns regarding Veterans Affairs' oversight of General Services' reporting process.

Questioned Costs

No specific questioned costs identified.

Recommendation

Veterans Affairs should follow its newly established procedures to oversee General Services' reporting to ensure that the State is accurately reporting costs by category on the requests for reimbursement.

Department's View and Corrective Action Plan

Veterans Affairs intends to follow the newly established policies and procedures to ensure that General Services is accurately reporting costs by category on the federal request for reimbursement submission.

Reference Number:	2010-12-4
Federal Catalog Number:	64.114
Federal Program Title:	Veterans Housing—Guaranteed and Insured Loans
Federal Award Number and Year:	None; State fiscal year 2009–10
Category of Finding:	Reporting
State Administering Department:	California Department of Veterans Affairs (Veterans Affairs)

Criteria

TITLE 38—PENSIONS, BONUSES, AND VETERANS' RELIEF, PART 36—LOAN GUARANTY, Subpart F—Guaranty or Insurance of Loans to Veterans with Electronic Reporting, Section 36.4817—Servicer Reporting Requirements

(a) Servicers of loans guaranteed by the Secretary shall report the information required by this section to the Secretary electronically. The Secretary shall accept electronic submission from each entity servicing loans guaranteed under 38 U.S.C. Chapter 37 not later than the effective date of this rule.

(c) Servicers shall report to the Secretary the following specific loan events in accordance with the timeframes described for each event. Unless otherwise specified herein, the servicer shall report these events on a monthly basis (i.e., no later than the seventh calendar day of the month following the month in which the event occurred) only for delinquent loans in its portfolio.

(7) Electronic Default Notification (EDN)—when the loan becomes at least 61 days delinquent. The servicer shall report this event no later than the seventh calendar day from when the event occurred. The servicer shall report this event only once per default for delinquent loans in its portfolio.

(11) Bankruptcy filed—when any owner files a petition under the Bankruptcy Code. The servicer shall report this event no later than the seventh calendar day from when the event occurred. The servicer shall report this event only on delinquent loans in its portfolio, if appropriate, or with the EDN when it is reported.

(13) Loss mitigation letter sent—when the servicer sends the loss mitigation letter to the borrower as required by Section 36.4850(g)(1)(iv).

(15) Default cured/loan reinstated—when a previously reported default (i.e., an EDN was filed) has cured/loan reinstated.

(16) Default reported to credit bureau—when the servicer notifies the credit bureaus of a defaulted loan or loan termination. The servicer shall report this event only on delinquent loans in its portfolio, and shall report the first occurrence only.

(17) Repayment plan approved—when the servicer approves a repayment plan.

(21) Compromise sale complete—when a compromise sale closes.

(23) Foreclosure referral—when the loan is referred to legal counsel for foreclosure. The servicers shall report this no later than the 7th calendar day from when the event occurred.

Condition

Veterans Affairs is approved by the U.S. Department of Veterans Affairs (VA) to offer VA-guaranteed home loans to eligible veterans. Since November 2008 the VA requires loan servicers, such as Veterans Affairs, to electronically report to the VA specific events related to loans that have been issued a VA guaranty. Federal regulations require that events be reported to the VA within the first seven calendar days of the following month, or in certain instances, within seven days of the event itself. Late reporting may hinder the VA's ability to take appropriate oversight action on delinquent loans. For selected reporting requirements, we reviewed a sample of 25 loans that were delinquent in fiscal year 2009–10 and found that Veterans Affairs did not always report the required events to the VA within the applicable reporting deadlines. We noted the following instances of late reporting or, in one case, lack of reporting:

- For the one loan in our sample where the borrower filed for bankruptcy, Veterans Affairs reported the event more than eight months late.

- For three of the 22 instances in which a loss mitigation letter was required, Veterans Affairs was seven to 60 days late in reporting that it sent the letters. Loss mitigation letters explain the seriousness of the delinquency and the options available to the borrower. In a fourth instance, Veterans Affairs reported to the VA that it sent a letter when it had not at that time. Veterans Affairs told us that it subsequently sent the letter but could not provide a copy.

- For three of the four loans in which Veterans Affairs made a foreclosure referral, Veterans Affairs reported the referrals from eight to 80 days late.

- For two of three loans that had a compromise sale, Veterans Affairs reported the sale one and 30 days late, respectively. A compromise sale is one in which the borrower's property is purchased by a third party for less than what is owed on the loan.

- For seven of the 25 loans we reviewed, Veterans Affairs reported loan defaults to the VA by submitting EDNs from one to eight days late. EDNs alert the VA that a borrower is at least 61 days delinquent in their payments.

- For the one loan for which Veterans Affairs approved a repayment plan and for which reporting of the approval to the VA was required, Veterans Affairs did not report the approval.

At the time of our review, Veterans Affairs used a manual process to report most of the events for which we noted late reporting. A property agent in its collections unit stated that, to ensure timely reporting, Veterans Affairs was planning to include the reporting of these events in a single file submitted weekly to the VA—known as the bulk upload file. Additionally, although Veterans Affairs already uses the bulk upload process to report loan defaults on a monthly basis, the property agent noted that the file can be delayed by several days for a variety of reasons. The loan servicing operations manager indicated that holidays or mandatory furloughs caused one- or two-day delays in reporting certain loan defaults. Further, the manager explained that Veterans Affairs has experienced unprecedented levels of delinquencies since the electronic reporting requirements came into effect in late 2008. She also stated that Veterans Affairs focused on those events that could jeopardize claims against the VA-guaranty and that none of the concerns we have identified impacted Veterans Affairs' ability to collect on a claim. Further, she noted that the VA has not notified Veterans Affairs of any regulatory infractions, which are

penalties the VA applies when a loan servicer fails to comply with VA regulatory requirements while servicing a loan. Nonetheless, Veterans Affairs' noncompliance with reporting requirements may hamper the VA's ability to conduct oversight on loans it has guaranteed.

Further, Veterans Affairs lacks a process to use the information in its system to determine which borrowers no longer have delinquent payments and therefore have cured their default. The property agent stated Veterans Affairs is working with its Information Services Division to develop a report that would provide such information. The agent stated that currently the event is reported only if a collections agent notices that a borrower has caught up with his or her payments. By not reporting defaulted loans that have been cured, Veterans Affairs limits the effectiveness of its default reporting. The VA requires servicers to report only one default notification when a borrower defaults on loan payments. The default cured event signals to the VA that a prior default is no longer in effect. If a borrower defaults again, Veterans Affairs should report a new default. However, when Veterans Affairs does not report when loan defaults are cured, the VA's reporting system automatically rejects subsequent default notifications submitted by Veterans Affairs that should be reported.

Finally, in our previous audit report for fiscal year 2008–09, we reported that Veterans Affairs was not reporting to the VA as required delinquent payments it reported to credit bureaus. In response, Veterans Affairs established a process and began reporting this information to the VA in March 2010. However, for the first eight months of fiscal year 2009–10, delinquent loans reported to the credit bureau were not reported to the VA. Of the 25 delinquent loans we reviewed, five became delinquent in March 2010 or later and thus were subject to Veterans Affairs' new process. Veterans Affairs reported to the VA its reporting to the credit bureaus by the required date for four of the five loans. Veterans Affairs reported the fifth loan to the VA five days after the deadline.

Questioned Costs

No specific questioned costs identified.

Recommendations

Veterans Affairs should ensure that it establishes processes and procedures to report all required events to the VA within the applicable time frames. Veterans Affairs should also develop a process to identify those borrowers that have cured their defaults and report these events to the VA.

Department's View and Corrective Action Plan

Veterans Affairs agrees that some nonessential but required data was not reported according to the time frames required in the VA servicer manual. As stated in the report, no reporting exceptions were found for any items that would have any potential impact on our ability to collect claimed funds and no violations have been cited by the VA.

Veterans Affairs stated that given the unprecedented levels of housing delinquency, management decided to prioritize staff workload to sell repossessed property and limited staffing resources to collections. If personnel were to have been reassigned to handle manual inputs of all reporting requirements, there would have been a tremendous cost to the department in greater operating losses. In summary, while there is agreement that the errors exist, none have had or will have any negative impact on the department's ability to file claims.

According to Veterans Affairs, the automation of the reporting requirement is a management priority and should resolve all noted issues. It has been working on this automation project and anticipates the system to be in place by March 31, 2011.

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U.S. DEPARTMENT OF AGRICULTURE

Reference Number:	2010-3-2
Federal Catalog Number:	10.557
Federal Program Title:	Special Supplemental Nutrition Program for Women, Infants and Children (WIC)
Federal Award Numbers and Year:	7CA700CA7; 2010 7CA700CA1; 2010
Category of Finding:	Cash Management
State Administering Department:	Department of Public Health (Public Health)

Criteria

TITLE 31—MONEY AND FINANCE: TREASURY, CHAPTER II—FISCAL SERVICE, DEPARTMENT OF THE TREASURY, PART 205—RULES AND PROCEDURES FOR EFFICIENT FEDERAL-STATE FUNDS TRANSFERS, Subpart A—Rules Applicable to Federal Assistance Programs Included in a Treasury-State Agreement, Section 205.11—What Requirements Apply to Funding Techniques?

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

Condition

During our procedures performed over Public Health's payments made to contractors, we noted that Public Health requests cash advances (drawdowns) from the federal government and then requests payments to be made to contractors by the State Controller's Office (SCO). The program falls under the Cash Management Improvement Act (CMIA) with a required funding technique of pre-issuance for payments to contractors. The pre-issuance technique requires the State to disburse payments to contractors not more than three days after the advance is deposited in the state account.

In our sample of 65 drawdowns totaling approximately $155.8 million, we noted two drawdowns for $159,808 and $189 where the payments to the contractors were issued five days and nine days, respectively, from the dates of the drawdown requests, which exceeds the three-day requirement per the CMIA agreement. Public Health indicated that one of the delays was caused by furlough days and short staffing in the payables unit, which resulted in untimely payment of the claim schedule by the SCO, while the other delay was due to untimely payment by the SCO. By not issuing the warrants within three days from the dates of the drawdown requests, Public Health is not in compliance with the cash management requirements of the WIC program.

Questioned Costs

No specific questioned costs identified.

Recommendation

Public Health should ensure policies and procedures are in place to ensure payments to contractors are issued within the three-day timing requirement for the federal draws.

Department's View and Corrective Action Plan

Public Health agrees that policies and procedures need to be in place to ensure payments to contractors are issued within the three-day timing requirement for the federal draws. Public Health has enhanced its current policies and procedures to ensure that contractors are issued payments within the three-day timing requirement for the federal draws.

On September 7, 2010, Public Health's Payables Management team met with the SCO Claims Audit Unit. The SCO agreed to give Public Health a courtesy call or e-mail if it has a problem with claim schedules involving federal funds. Once notified by the SCO concerning what is needed to resolve the discrepancy, Public Health's Payables Unit will immediately get all needed documentation to the SCO. If the discrepancy cannot be resolved the same day, the Payables Unit will notify the Federal Reporting Unit of the expected claim cut from the SCO, and the Federal Reporting Unit will adjust the federal draw as needed.

In addition, on October 18, 2010, the Payables Unit Manager met with the Federal Reporting Unit Manager to verify timing of federal draws with claim schedule payments and agreed upon a method to notify the Federal Reporting Unit when a claim schedule is going to be held for corrections or additional processing before going to the SCO. The Federal Reporting Unit will not draw the federal money until it is notified that the claim schedule has been released to the SCO.

As of October 19, 2010, Public Health has fully implemented the above corrective actions and has updated written procedures to document the enhanced procedures with the SCO and between the Public Health Accounting Units to ensure payments to contractors are issued within the three-day timing requirement for the federal draws.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Reference Number:	2010-1-5
Federal Catalog Number:	93.778
Federal Program Title:	Medicaid Cluster—Medical Assistance Program (Medi-Cal)
Federal Award Numbers and Years:	05-1005CA5028; 2010 1005CAARRA; 2010 05-0905CA5028; 2009 0905CAARRA; 2009
Category of Finding:	Activities Allowed/Allowable Costs
State Administering Department:	Department of Health Care Services (Health Care Services)

Criteria

TITLE 2—GRANTS AND AGREEMENTS, PART 225—COST PRINCIPLES FOR STATE, LOCAL, AND INDIAN TRIBAL GOVERNMENTS (OMB Circular A-87), Attachment A—General Principles for Determining Allowable Costs, Part C—Basic Guidelines

(1) Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria

(a) Be necessary and reasonable for proper and efficient performance and administration of Federal awards.

Condition

During our procedures performed over the Medi-Cal program, we reviewed audit and investigation reports related to the program, including the results of the most recent Medi-Cal Payment Error Study (MPES). The following is a summary of the findings cited in the fourth annual MPES performed during 2007 (the most recent MPES study completed):

> "The sampling universe consists of Medi-Cal fee-for-service (FFS) claims paid through the fiscal intermediary, Electronic Data Systems (EDS), as well as dental claims paid, during the period of April 1, 2007, through June 30, 2007. There are 1,148 claims in the sample. The sample size was extracted from a universe of 20,980,274 Medi-Cal claims. Proportional allocation of the sample size was used to determine the sample size from each stratum ensuring a minimum sample size of 50 claims for each stratum.
>
> (The results of the MPES indicated that) 6.56 percent of the total dollars paid had some indication that they contained a provider payment error. The 6.56 percent equates to $1.05 billion of the total $16 billion in annual payments made for FFS medical and dental services in calendar year 2007, and represents the percentage of payment error attributable to Medi-Cal program dollars "at risk" of being paid inappropriately due to findings related to such factors as a lack of medical necessity, abuse, or fraud. Of the total payments, 2.53 percent, or $405 million, were for claims submitted by providers that disclosed characteristics of potential fraud. Of the payments for claims with errors, 46 percent were for claims with insufficient documentation. This means that the documentation presented by the provider did not support the services claimed.
>
> A total of 40 percent of all payments for claims with errors were for claims in which the provider's documentation did not support medical necessity for the services billed, meaning the services did not need to be provided."

There were no claims processing errors identified.

Based on the error percentage related to Medi-Cal payments, the risk of noncompliance with allowable costs and activities is considered material. Additionally, the American Recovery and Reinvestment Act of 2009 (Recovery Act) granted an additional 11.59 percent as the enhanced Federal Medical Assistance Percentage to the State for medical assistance expenditures. Total Recovery Act expenditures during the fiscal year ended June 30, 2010, amounted to $4.6 billion.

Questioned Costs

No specific questioned costs identified.

Recommendations

Health Care Services should strengthen its internal controls to ensure only medically necessary claims are paid. Health Care Services should also strengthen its internal control process to detect providers in violation of record retention rules.

Department's View and Corrective Action Plan

Health Care Services concurs with the above recommendation and will continue to implement the corrective action steps outlined in the MPES 2007.

Health Care Services made a commitment to routine systematic measurement as part of a comprehensive antifraud strategy through the MPES process. The biannual MPES provides opportunities for identifying new patterns of payment errors and areas of potential fraud, waste, and abuse in the Medi-Cal program. The MPES findings reinforce the need to continuously and systematically identify those areas of the program most vulnerable to fraud and abuse and to use these findings to guide Health Care Services in its allocation of fraud control resources and its development of innovative antifraud strategies and fraud prevention tools.

The MPES 2007 identified newly emerging fraud and abuse patterns. Health Care Services initiated corrective actions for all providers identified in the study against which actions are warranted. In addition, Health Care Services took additional actions to focus antifraud efforts on those areas identified by the study as most vulnerable to fraud and abuse. These additional actions included: additional on site reviews of pharmacies, Adult Day Health Centers (ADHC) and Non-Emergency Medical Transportation; expanded use of new technology to better identify potential fraud schemes; reform of the ADHC program; an increase in the number of investigational and routine field compliance audits; and development of a joint action plan with provider regulatory boards and provider associations to address provider claiming errors identified as potential fraud and abuse.

The MPES 2007 also identified the need for increased outreach and education to improve provider documentation of medical necessity. Health Care Services has subsequently worked with the California Association for Adult Day Services, American Russian Medical Association, California Medical Association, Medical Board of Pharmacy, and Centers for Medicare and Medicaid Services to develop outreach, education, and training for improved compliance with documentation requirements. Health Care Services also developed the Individual Provider Claims Analysis Report as an alternative method to improve accuracy in the claims process.

Health Care Services conducted the Pharmacy Outreach Project (POP) after it was identified in a previous MPES that pharmacies have a consistently higher error rate. As a direct result of the POP, a gradual decline in the error rate was noted in the 2007 MPES. Also, as a direct result of an MPES finding, an independent review of the Local Educational Agencies (LEA) was conducted by the State Controller's Office (SCO). The SCO's independent review was included in the 2007 MPES report and identified areas of concern. Health Care Services has increased the number of LEA reviews and has provided provider preventative training and education to LEA providers.

The MPES is available at: www.dhcs.ca.gov/formsandpubs/publications/pages/auditsinvestigations.aspx.

Reference Number:	2010-1-6
Federal Catalog Number:	93.778
Federal Program Title:	Medicaid Cluster—Medical Assistance Program (Medi-Cal)
Federal Award Numbers and Years:	05-1005CA5028; 2010 1005CAARRA; 2010 05-0905CA5028; 2009 0905CAARRA; 2009
Category of Finding:	Activities Allowed/Allowable Costs
State Administering Department:	Department of Health Care Services (Health Care Services)

Criteria

TITLE 2—GRANTS AND AGREEMENTS, PART 225—COST PRINCIPLES FOR STATE, LOCAL, AND INDIAN TRIBAL GOVERNMENTS (OMB CIRCULAR A-87), Attachment A—General Principles for Determining Allowable Costs, Part C—Basic Guidelines

(1) Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:

(a) Be necessary and reasonable for proper and efficient performance and administration of Federal awards.

CALIFORNIA CODE OF REGULATIONS, TITLE 22, Section 51476

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

DEPARTMENT OF HEALTH SERVICES PROVIDER MANUAL—PROVIDER REGULATIONS

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

Condition

In our procedures performed over expenditures charged to the program, we selected a sample of fee-for-service claims and utilized Health Care Services' Medical Review Branch of trained medical professionals to ascertain that each expenditure was for an allowable service rendered and was supported by medical records or other evidence, indicating that the service was actually provided and consistent with the medical diagnosis. In our sample of 50 fee-for-service claims, 10 did not appear to be for an allowable service. These exceptions are noted as follows:

- Five claims were not deemed medically necessary.

- Five claims did not have sufficient supporting documentation to support whether the required medical procedures were rendered on the beneficiary.

Total exceptions amounted to $529 of the total $46,509 sampled of federal Medicaid expenditures for fee-for-service claims. Total federal Medicaid expenditures for fee-for-service claims amounted to $9.7 billion for the fiscal year ended June 30, 2010.

Due to the enhanced Federal Medical Assistance Percentage to the State of 11.59 percent, an additional $123 of these exceptions was funded by the American Recovery and Reinvestment Act of 2009 (Recovery Act). Total Recovery Act expenditures during the fiscal year ended June 30, 2010, amounted to $4.6 billion.

Questioned Costs

$529 of the $46,509 expenditures sampled and $123 in Recovery Act expenditures.

Recommendations

Health Care Services should strengthen its internal controls to ensure only medically necessary claims and eligible providers are paid. Health Care Services should also strengthen its internal control process to detect providers in violation of record retention rules.

Department's View and Corrective Action Plan

Annually, Health Care Services processes and pays more than 200 million fee-for-service claims. Verification of each of the 200 million fee-for-service claims processed and paid annually for adequate documentation is not financially feasible. However, Health Care Services agrees that a level of surveillance and control is necessary to ensure only medically necessary claims and eligible providers are paid.

In an effort to maximize claims monitoring efficiency, staff, and resources, Health Care Services has developed several pre- and post-payment reviews to identify violations and, if warranted, expands the scope of these reviews. Health Care Services routinely conducts pre- and post-payment reviews throughout the year, including the following review types: Random Claim Reviews, Self-Audits, Desk Audits, Field Audit Reviews, and Audit for Recovery. In addition, Health Care Services frequently conducts special focused reviews on specific provider types that have been identified as having potential problems with high dollar risk to the Medi-Cal program. Also, in an effort to prevent potential problems and issues common among provider types, Health Care Services has also conducted provider education sessions, including a Webinar on documentation standards.

The Medi-Cal Payment Error Study (MPES) has been one of the tools used to identify potential problem trends. Over the last six years, Health Care Services has been able to identify significant documentation and medical necessity issues with pharmacies, Adult Day Health Centers (ADHC), Local Educational Agencies, and Non-Emergency Medical Transportation (NEMT) providers. Since the inception of the MPES in 2004, the measured error rate has steadily declined. MPES 2006 was 13 percent lower than 2005, MPES 2007 reflected a 10 percent decline from MPES 2006. Health Care Services believes that this reducing error rate demonstrates a strengthening of internal controls.

Based on the findings of the MPES 2007, Health Care Services developed projects such as the NEMT Project, which reviewed approximately 200 NEMT providers. Health Care Services has completed several ADHC projects, reviewing over 100 ADHCs within the last fiscal year. In addition, Health Care Services has conducted provider education to ADHCs and developed a self-audit tool for provider use.

Health Care Services has consistently and aggressively addressed the issues of monitoring and controls to ensure that only medically necessary claims and eligible providers are paid and that the providers are observing the record retention rules. In fiscal year 2009–2010 alone, Health Care Services issued close to 1,000 cases.

Of the 50 claims selected and reviewed, exceptions were noted for eight of the claims: five claims were not deemed medically necessary and the services for five claims were determined not properly documented (two of the claims were determined not medically necessary and not properly documented).

Health Care Services notes that the sample of 50 fee-for-service claims is not a statistical representation of the universe of paid fee-for-services claims; therefore, conclusions cannot be projected based on the results of this review. However, Health Care Services will continue to pursue preventive outreach as well as utilization controls where appropriate.

Recoveries for the paid amounts will be requested from the eight providers where exceptions were found. In addition, it will be determined if additional reviews are needed for the providers where exceptions were found.

Reference Number:	2010-2-2
Federal Catalog Number:	93.778
Federal Program Title:	Medicaid Cluster—Medical Assistance Program (Medi-Cal)
Federal Award Numbers and Years:	05-1005CA5028; 2010 1005CAARRA; 2010 05-0905CA5028; 2009 0905CAARRA; 2009
Category of Finding:	Allowable Costs
State Administering Department:	Department of Health Care Services (Health Care Services)

Criteria

TITLE 19, SOCIAL SECURITY ACT—GRANTS TO STATE FOR MEDICAL ASSISTANCE PROGRAMS, Section 1927—Payment for Covered Outpatient Drugs

(b) Terms of Rebate Agreement

(2) State Provision of Information:

(A) State Responsibility. Each State agency under this title shall report to each manufacturer not later than 60 days after the end of each rebate period and in a form consistent with a standard reporting format established by the Secretary, information on the total number of units of each dosage form, strength, and package size of each covered outpatient drug dispensed after December 31, 1990, for which payment was made under the plan during the period, and shall promptly transmit a copy of such report to the Secretary.

Condition

The State Medicaid Agency is required to provide to drug manufacturers/labelers the drug utilization data no later than 60 days after the end of the quarter. We tested 40 rebate invoices related to the third and fourth quarters of 2009, as well as the first and second quarters of 2010 and noted the following:

- Health Care Services provided the third quarter 2009 (July to September 2009) drug utilization data to the labelers on December 11, 2009, which is 12 days late. Drug utilization data had to be mailed to the labelers by the State Medicaid Agency on November 29, 2009.

- Health Care Services provided the fourth quarter 2009 (October to December 2009) drug utilization data to the labelers on March 4, 2010, which is three days late. Drug utilization data had to be mailed to the labelers by the State Medicaid Agency on March 1, 2010.

- Health Care Services provided the first quarter 2010 (January to March 2010) drug utilization data to the labelers on June 9, 2010, which is 10 days late. Drug utilization data had to be mailed to the labelers by the State Medicaid Agency on May 30, 2010.

- Health Care Services provided the second quarter 2010 (April to June 2010) drug utilization data to labelers on September 1, 2010, which is three days late. Drug utilization data had to be mailed to the labelers by the State Medicaid Agency on August 29, 2010.

As a result, the State and federal government may not have obtained the rebates it was due in a timely manner, and potentially missed an opportunity to earn interest on these funds. Total combined federal and state drug rebates for the third and fourth quarters of 2009 amounted to $260,074,116 and $235,757,071, respectively (total of $495.8 million), while the total billed drug rebates for the first and second quarters of 2010 could not be determined for the fiscal year ended June 30, 2010.

For fiscal year 2009–10, approximately 11.59 percent of Medicaid drug expenditures were funded using money from the American Recovery and Reinvestment Act of 2009.

Questioned Costs

No specific questioned costs identified.

Recommendations

Health Care Services should ensure that drug utilization data are provided to drug manufacturers/labelers on a timely basis (i.e., no later than 60 days at the end of quarter) and to proactively monitor the receipt of payment from labelers.

Department's View and Corrective Action Plan

Health Care Services has modified the Rebate Accounting Information System (RAIS) to allow the invoicing process to be more efficient and require less manual review, thus allowing for the timely mailing of invoices. However, recent events have impacted Health Care Services' ability to mail the utilization reports timely. Health Care Services notes the following reasons for the above mentioned findings:

- The third quarter 2009 Centers for Medicare & Medicaid Services (CMS) rebate tape did not arrive until the afternoon of November 23, 2009, eight days later than expected. Because the tape arrived late in the afternoon, data could not be loaded into the system until the following day. In addition, Health Care Services' employees were required to take three furlough days during the month of November 2009, thus delaying the review of invoices for accuracy and completeness. The furloughs also delayed Health Care Services' ability to direct the Fiscal Intermediary Contractor to move forward in the invoicing process, including the packaging and mailing of the utilization reports. These factors resulted in a 12-day delay.

- The fourth quarter 2009 utilization reports were mailed to the drug manufacturers three days late as a result of employee furloughs.

- The first quarter 2010 CMS rebate data was not made available until May 24, 2010, and then only through an Internet download versus the usual quarterly rebate tape. The delay in receiving the data was due to changes being required of CMS as a result of the signing of the Affordable Health Care for America Act. The delay in the receipt of the data, along with the delays resulting from the directed furloughs, resulted in a 10-day delay in the mailing of the drug manufacturers' utilization reports.

- The second quarter 2010 utilization reports were mailed to the drug manufacturers three days late as a result of employee furloughs.

Lastly, Health Care Services proactively monitors and diligently works towards ensuring that the drug utilization reports are mailed to the drug manufacturers within 60 days after the end of each quarter. However, it is important to note that all states, regardless of size, must meet the same 60-day deadline. While smaller states may have a few hundred thousand claims to process for rebates, California providers submit more than 25 million claims per year. RAIS collects the data from the claims processing system and creates more than 1,700 invoices each quarter.

Reference Number:	2010-2-3
Federal Catalog Number:	93.778
Federal Program Title:	Medicaid Cluster—Medical Assistance Program (Medi-Cal)
Federal Award Numbers and Years:	05-1005CA5028; 2010 1005CAARRA; 2010 05-0905CA5028; 2009 0905CAARRA; 2009
Category of Finding:	Allowable Costs
State Administering Department:	Department of Health Care Services (Health Care Services)

Criteria

TITLE 42: PUBLIC HEALTH, PART 455—PROGRAM INTEGRITY MEDICAID, Subpart A—Medicaid Agency Fraud Detection and Investigation Program, Section 455.18—Provider's Statements on Claims Forms

(a) Except as provided in Section 455.19, the agency must provide that all provider claims forms be imprinted in boldface type with the following statements, or with alternate wording that is approved by the Regional CMS Administrator:

  (1) "This is to certify that the foregoing information is true, accurate, and complete."

  (2) "I understand that payment of this claim will be from Federal and State funds, and that any falsification, or concealment of a material fact, may be prosecuted under Federal and State laws."

(b) The statements may be printed above the claimant's signature or, if they are printed on the reverse of the form, a reference to the statements must appear immediately preceding the claimant's signature.

Condition

Health Care Services has contracted with California's Department of Social Services (Social Services) to implement the Personal Care Services Program (PCSP) of the Medicaid grant. The PCSP is part of the In-Home Supportive Services (IHSS) program of Social Services. PCSP services are federally reimbursed in part through Medi-Cal. The Medi-Cal Benefits Branch reviews all invoices submitted by Social Services for reimbursement under the agreement and verifies the allowability of the costs incurred. The recipient and provider complete, sign, and submit semimonthly claim forms (i.e., time sheets) to the county, which list the number of hours worked by the provider for services performed for the care of the recipient.

Of the 25 claim forms selected for review, one provider claim form could not be located. This was for a time sheet that was related to Sacramento County for September 2009.

The missing claim form represents $180 in questioned costs, or 1.7 percent of the $10,315 of expenses in our sample. During fiscal year 2009–10, Medi-Cal payments to Social Services amounted to $3.1 billion. If the error rate of 1.7 percent was applied to all $3.1 billion, it would result in potentially questionable costs of $52.7 million. During fiscal year 2009–10, total Medi-Cal Recovery Act payments for the PCSP were $605 million. If the 1.7 percent was applied to all $605 million, it would result in potentially questionable costs of $10.2 million.

Due to the enhanced Federal Medical Assistance Percentage to the State of 11.59 percent, an additional $42 of these exceptions was funded by the American Recovery and Reinvestment Act of 2009 (Recovery Act). Total Recovery Act expenditures during the fiscal year ended June 30, 2010, amounted to $4.6 billion.

Questioned Costs

$180 of the $10,315 expenditures sampled and $42 in Recovery Act expenditures.

Recommendation

Health Care Services and Social Services should enhance controls related to the PCSP in order to ensure claim forms are properly obtained and stored.

Department's View and Corrective Action Plan

Social Services agrees with the recommendation and has moved forward with a new Case Management Information and Payroll System (CMIPS) to enhance controls related to the PCSP in order to ensure claim forms are properly obtained and stored.

The CMIPS II Project was created to award and administer a contract to design, develop, maintain, and operate a replacement for legacy CMIPS. The CMIPS II solution will be the only state system that processes Medi-Cal claims for IHSS programs and provides paid claims information to Health Care Services for analysis and reporting. CMIPS II will provide enhanced automation and improve the integrity and quality of program support for the all program initiatives.

The CMIPS II Project is now in the third year of Design, Development, and Implementation. It is currently in the User Acceptance Testing phase, which is the last test phase to be completed before pilot activities can begin.

The first pilot counties, Merced and Yolo, are scheduled to "go live" in the winter of 2010–11 and San Diego, as the final pilot county, is scheduled to go live one month later. The implementation of the remaining counties is expected to last an additional 18 months.

Reference Number:	2010-2-4
Federal Catalog Number:	93.778
Federal Program Title:	Medicaid Cluster—Medical Assistance Program (Medi-Cal)
Federal Award Numbers and Years:	05-1005CA5028; 2010 1005CAARRA; 2010 05-0905CA5028; 2009 0905CAARRA; 2009

Category of Finding:	Allowable Costs/Cost Principles (ADP and Risk Analysis)
State Administering Department:	Department of Health Care Services (Health Care Services)

Criteria

TITLE 42—PUBLIC HEALTH, CHAPTER IV—CENTERS FOR MEDICARE AND MEDICAID SERVICES DEPARTMENT OF HEALTH AND HUMAN SERVICES, Part 431—State Organization and General Administration, Subpart A—Single State Agency, Section 431.10—Single State Agency

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

(1) The agency must not delegate, to other than its own officials, authority to:

(i) Exercise administrative discretion in the administration or supervision of the plan, or

(ii) Issue policies, rules, and regulations on program matters.

(2) The authority of the agency must not be impaired if any of its rules, regulations, or decisions are subject to review, clearance, or similar action by other offices or agencies of the State.

(3) If other State or local agencies or offices perform services for the Medicaid agency, they must not have the authority to change or disapprove any administrative decision of that agency, or otherwise substitute their judgment for that of the Medicaid agency with respect to the application of policies, rules, and regulations issued by the Medicaid agency.

Condition

We reviewed the SAS 70 Audit Report for the State's fiscal intermediary, Electronic Data Systems (EDS), as of September 30, 2009. The following is a summary of internal control findings noted:

"EDS manages Medi-Cal network systems in accordance with EDS policies and are protected against unauthorized access, intrusion, and virus attack. However, EDS did not consistently perform monitoring over their network security related to their firewall configuration and their antivirus software updates. This results in the monitoring portion of the following control objective not being achieved—'Controls provide reasonable assurance that Medi-Cal network systems are managed in accordance with EDS policies and are protected against unauthorized access, intrusion, and virus attack'."

Questioned Costs

No specific questioned costs identified.

Recommendations

Health Care Services and EDS should strengthen internal control procedures over the processing of Medi-Cal claims and retain all necessary documentation to demonstrate approvals were obtained for processing changes.

Department's View and Corrective Action Plan

Health Care Services (in conjunction with Hewlett-Packard (HP), formerly EDS) has made the following changes to improve the monitoring of network security related to firewall configuration and antivirus updates:

1. HP updated the Medi-Cal Network Security Standards and Guidelines on July 1, 2009, to include firewall configuration reviews that will be done on a semiannual basis.
2. On February 15, 2010, HP updated the Medi-Cal Network Security Standards and Guidelines manual to state that Security Architects would perform the reviews.

Firewall configuration reviews were performed in March and September 2010. The firewall configuration logs were reviewed by HP and Health Care Services staff. The logs were clean for March 2010. There was a finding that old user identifications were present on the September 2010 logs, but they were still within the allowable time frame.

The antivirus changes were not originally identified for a semiannual review. However, HP will modify the Medi-Cal Network Security Standards and Guidelines manual to include semiannual antivirus update reviews that will be performed every March and September by the Security Architects. The September 2010 review will be performed, this year only, in October 2010. All reviews will be stored in the Security folder in LiveLink.

Reference Number:	2010-3-1
Federal Catalog Number:	93.917
Federal Program Title:	HIV Care Formula Grants
Federal Award Numbers and Years:	X07HA12778-02-00; 2010 X07HA12778-01-00; 2009
Category of Finding:	Cash Management
State Administering Department:	Department of Public Health (Public Health)

Criteria

TITLE 31—MONEY AND FINANCE TREASURY—DEPARTMENT OF THE TREASURY, PART 205—RULES AND PROCEDURES FOR EFFICIENT FEDERAL STATE FUNDS TRANSFERS, Subpart B—Rules Applicable to Federal Assistance Programs Not Included in a Treasury–State Agreement, Section 205.33—How Are Funds Transfers Processed?

(a) A state must minimize the time between the drawdown of federal funds from the federal government and their disbursement for federal program purposes. A Federal Program Agency must limit a funds transfer to a state to the minimum amounts needed by the state and must time the disbursement to be in accord with the actual, immediate cash requirements of the state in carrying out a federal assistance program or project. The timing and amount of funds transfers must be as close as is administratively feasible to a state's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. States should exercise sound cash management in funds transfers to subgrantees in accordance with OMB Circular A-102.

Condition

During our procedures performed over Public Health's payments made to subrecipients, we noted that it requests cash advances (drawdowns) from the federal government and then requests payments to be made to contractors by the State Controller's Office (SCO). The program falls under Subpart B of 31 CFR part 205 (Subpart B). Subpart B requires that the timing and amount of funds transfers be as close as is administratively feasible to a state's actual cash outlay.

In our sample of 65 drawdowns totaling approximately $44 million, we noted four drawdowns for a total of $1,197,202, where the payments to the subrecipients were issued between 16 and 55 days from the dates of the drawdown requests. By not issuing the warrants within a reasonable amount of time from the dates of the drawdown requests, Public Health is not in compliance with the cash management requirements of the HIV program.

Questioned Costs

No specific questioned costs identified.

Recommendation

Public Health should ensure policies and procedures are in place to issue payments to subrecipients as close as is administratively feasible to the drawdowns it requests from the federal government.

Department's View and Corrective Action Plan

Public Health agrees that policies and procedures need to be in place to ensure payments to subrecipients are issued as close as is administratively feasible to the State's actual cash outlay. Public Health has enhanced its current policies and procedures to ensure that subrecipients are issued payments as close as is administratively feasible to the State's actual cash outlay.

On September 7, 2010, Public Health's Accounting Payables Management team met with the SCO Claims Audit Unit. The SCO agreed to give Public Health a courtesy call or e-mail if it has a problem with claim schedules involving federal funds. Once notified by the SCO concerning what is needed to resolve the discrepancy, Public Health's Accounting Payables Unit will immediately get all needed documentation to the SCO. If the discrepancy cannot be resolved the same day, the Accounting Payables Unit will notify the Accounting Federal Reporting Unit of the expected claim cut from the SCO and the Accounting Federal Reporting Unit will adjust the federal draw as needed.

In addition, on October 18, 2010, the Accounting Payables Unit Manager met with the Accounting Federal Reporting Unit Manager to verify timing of federal draws with claim schedule payments and agreed upon a method to notify the Accounting Federal Reporting Unit when a claim schedule is going to be held for corrections or additional processing before going to the SCO. The Accounting Federal Reporting Unit will not draw the federal money until it is notified that the claim schedule has been released to the SCO.

As of October 19, 2010, Public Health has fully implemented the above corrective actions and has updated written procedures to document the enhanced procedures with the SCO and between the Public Health Accounting Units to ensure payments to subrecipients are issued as close as is administratively feasible to the State's actual cash outlay.

Reference Number:	2010-5-3
Federal Catalog Number:	93.917
Federal Program Title:	HIV Care Formula Grants
Federal Award Numbers and Years:	X07HA12778-02-00; 2010 X07HA12778-01-00; 2009
Category of Finding:	Eligibility
State Administering Department:	Department of Public Health (Public Health)

Criteria

TITLE 42—THE PUBLIC HEALTH AND WELFARE, CHAPTER 6A—PUBLIC HEALTH SERVICE, SUBCHAPTER XXIV—HIV HEALTH CARE SERVICES PROGRAM, Part B—Care Grant Program, Subpart I—General Grant Provisions, Section 300ff 26—Provision of Treatments

(b) *Eligible individual*. To be eligible to receive assistance from a State under this section, an individual shall:

1. Have a medical diagnosis of HIV disease; and
2. Be a low income individual, as defined by the State.

Condition

Program coordinators are required to visit AIDS Drug Assistance Program (ADAP) enrollment sites every five years in accordance with requirements established by the agreement between the sites and the State. This quality control process redetermines eligibility for individually sampled cases of beneficiary eligibility made by enrollment workers at the local enrollment sites. Enrollment site visits are performed to ensure individuals receiving services meet eligibility requirements. Site-visit reports are completed by program coordinators and reviewed by the program chief.

We selected five of the 40 site-visit reports prepared by the Office of Aids' program coordinators during the fiscal year ended June 30, 2010, and noted that all reports had detailed several instances of noncompliance with eligibility requirements such as proof of income, proof of HIV status, and up-to-date Cluster of Differentiation Four (CD4)/Viral Load counts. Some examples of errors noted in the reports written by program coordinators are as follows:

- At one site, of the 10 files reviewed, 10 percent did not include a Current CD4 Count/Current Viral Load lab, 10 percent did not include the VA screening documentation, 20 percent were missing or had incomplete income documentation, and 20 percent did not include the required 30-day grace period form for the missing documentation.

- At one site, 35 percent of the files reviewed did not have acceptable income documentation and 5 percent did not have the required residency documentation.

- At one site where 30 files were reviewed, 13 percent of the files did not meet the requirements for California proof of residency or proof of HIV status, and had applications that were not signed and dated by the client. Additionally, 23 percent did not have the required documentation to meet the proof of identity requirement, 27 percent did not meet the CD4 count standard, and 67 percent did not have the required documentation for the client's viral load or include the required grace period form. There were also 37 percent of the files that did not indicate the Medicare plan held by the client or have the required date for proof of income.

- At one site where 20 files were reviewed, 25 percent of those files were missing or had incomplete income documentation and 5 percent were missing valid proof of identification.

- At one site where 23 files were reviewed, 4 percent of the files were missing required proof of identification and 17 percent were missing proof of income documentation.

Based on review of the site-visit reports, it appears there may be material noncompliance regarding documentation to support the eligibility of the participants. The site-visit reports did not quantify specific or potential questioned costs related to the exceptions noted. Total expenditures paid to program participants amounted to approximately $119 million for the fiscal year ended June 30, 2010.

In addition to these site visits, the Audits and Investigations unit for the Department of Health Care Services performed a performance review for the Oakland, California Public Health Service Bureau. The review disclosed that six out of the 350 transactions selected were for clients who were Medi-Cal eligible with a share of cost and the ADAP paid in excess of the share of cost for five of the six clients. Additionally, the review disclosed that 24 clients were Medi-Cal eligible with no share of cost and thus should not have been billed to ADAP, as Medi-Cal is responsible for all payments of their prescriptions. The review identified $289,323 in questioned costs relating to these individuals.

The lack of adequate eligibility documentation could result in ineligible recipients receiving federal assistance.

Questioned Costs

$289,323

Recommendations

Public Health should strengthen its internal controls over the eligibility process to ensure payments are only made to eligible recipients and that all required documentation to verify eligibility is maintained in the recipient's file. Public Health should also implement controls for following up on findings related to the site visits.

Department's View and Corrective Action

Public Health agrees with the findings that it should strengthen its internal controls over the eligibility process to ensure payments are only made to eligible recipients and that all required documentation to verify eligibility is maintained in the recipient's file. Public Health also agrees that it should implement controls for following up on findings related to the site visits.

Effective July 1, 2010, Public Health's ADAP fully implemented corrective action regarding eligibility documentation and site visits. On June 22, 2010, an ADAP Management Memo (Number 2010-02) was sent to all local health jurisdiction's ADAP coordinators and ADAP enrollment sites. The changes identified include an acceleration of the ADAP site visit cycle from every five years to every three years and revision of the ADAP site visit tool. This tool now more fully documents site/client file findings and the follow-up to be conducted. Programmatic procedural changes include tracking client files that have documentation deficiencies, mandatory retraining of all enrollment workers at sites with significant client file deficiencies, and conducting follow-up site visits by ADAP staff to confirm compliance with the site's corrective action plan.

ADAP is also working with the pharmacy benefits management (PBM) service provider to ensure payments are only made to eligible recipients. After initial site visits, the PBM is notified of the specific client files found to have deficiencies and the necessary documentation required to correct the deficiencies. A 60-day grace period is placed on these clients' eligibility, during which time the missing documentation must be provided by the site/enrollment worker/client or the client's ADAP eligibility will be suspended until compliance is achieved. In addition, ADAP is working with Medi-Cal and the PBM to enhance our systems for identifying clients' Medi-Cal eligibility.

Due to the travel restrictions imposed because of the delayed state budget, follow-up visits and new site visits were put on hold effective July 1, 2010. The state budget was signed on October 8, 2010, and sites are scheduled to be visited to ensure implementation of the corrective action plan and full compliance with ADAP eligibility documentation requirements.

Reference Number:	2010-5-4
Federal Catalog Number:	93.917
Federal Program Title:	HIV Care Formula Grants
Federal Award Numbers and Years:	X07HA12778-02-00; 2010 X07HA12778-01-00; 2009
Category of Finding:	Eligibility
State Administering Department:	Department of Public Health (Public Health)

Criteria

TITLE 42—THE PUBLIC HEALTH AND WELFARE, CHAPTER 6A—PUBLIC HEALTH SERVICE, SUBCHAPTER XXIV—HIV HEALTH CARE SERVICES PROGRAM, Part B—Care Grant Program, Subpart i—General Grant Provisions, Section 300ff 26—Provision of Treatments

(b) *Eligible individual*. To be eligible to receive assistance from a State under this section, an individual shall:

1. Have a medical diagnosis of HIV disease; and
2. Be a low-income individual, as defined by the State.

TITLE 31—MONEY AND FINANCE, SUBTITLE V—GENERAL ASSISTANCE ADMINISTRATION, Section 7502—Audit Requirements; Exemptions

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

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

Condition

Public Health utilizes site visits to monitor enrollment sites. These site visits include reviews of eligibility files to ensure appropriate documentation exists to support their eligibility determinations and is generally performed for each site once every three years. These site visits were identified as the key control over eligibility. In the current year, Public Health restructured the HIV Care Program (HCP) to include numerous small programs that previously had been administered separately. Due to the restructuring and limited resources, no site visits were conducted by HCP in the current year. No other processes for monitoring eligibility of HCP recipients were identified. As a result, there does not appear to be an adequate monitoring control over eligibility determinations in the current year.

Questioned Costs

No specific questioned costs identified.

Recommendation

Public Health should strengthen its internal controls over the eligibility process to ensure payments are only made to eligible recipients either by resuming the site-visit rotation process or developing other processes and procedures to ensure enrollment sites are properly making and documenting eligibility determinations.

Department's View and Corrective Action

Public Health partially agrees with the findings and recommendation to strengthen internal controls over the eligibility process to ensure payments are only made to eligible recipients either by resuming the site-visit rotation process or developing other processes and procedures to ensure enrollment sites are properly making and documenting eligibility determinations, as stated in this audit report. Public Health's HCP provides care and supportive services to individuals that are income eligible and have an HIV positive status. HCP agrees that site visits are a component of the monitoring process and uses site visits as one of the many tools to ensure compliance with federal guidelines. In fiscal year 2009–10, site visits were not conducted, and Public Health agrees with that portion of the finding. This was primarily due to the significant restructuring of the HIV Care Branch from nine programs into three programs with only one of those programs using Ryan White Grant funding, the elimination of State General funding to the HIV Care Branch, the significant travel restrictions, and staffing reductions that impeded the ability of staff to conduct site visits. Although they were not conducted in this fiscal year, site visits and other internal monitoring controls such as contract monitoring and fiscal monitoring were used and will continue to be used ensuring compliance with federal guidelines.

Corrective Measures

The Office of Aids and HCP are in the process of updating site visit tools and the administrative manual to reflect the newly formed HCP. We anticipate that the tool and manual will be completed by December 2010. As of December 2010, HCP will institute a new process of requiring all contractors to provide copies of their audit reports allowing HCP to track services to clients and ensuring payments are received by eligible clients. HCP is also looking at other mechanisms available to verify client eligibility, including, but not limited to, thorough use of current databases that are linked to client level data or contractor certifications. HCP is also reestablishing the site-visit scheduling process to ensure that, at a minimum, current site-visit intervals and requirements are maintained. Site visits will begin in January 2011.

Reference Number:	2010-5-5
Federal Catalog Number:	93.778
Federal Program Title:	Medicaid Cluster—Medical Assistance Program (Medi-Cal)
Federal Award Numbers and Years:	05-1005CA5028; 2010 1005CAARRA; 2010 05-0905CA5028; 2009 0905CAARRA; 2009
Category of Finding:	Eligibility
State Administering Department:	Department of Health Care Services (Health Care Services)

Criteria

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

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

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

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

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

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

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

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

Condition

The presumptive eligibility component of this program grants immediate and temporary Medi-Cal coverage for California residents who are pregnant but do not have health insurance or Medi-Cal coverage for prenatal care. Health Care Services grants the right to enroll recipients

under this program to qualified providers. Because the program provides immediate and temporary care prior to the approval of Medi-Cal eligibility, recipients enrolled in presumptive eligibility are not considered Medi-Cal eligible, and therefore, are not entered into Health Care Services' eligibility systems.

Recipients presumed to be eligible are assigned a prenumbered identification card (obtained from Health Care Services by the provider) that begins with a county identification number and presumptive eligibility aid code. The paper documentation, including the application and presumptive eligibility identification card, are retained by the provider.

The provider is required by the State Plan to submit to Health Care Services a weekly enrollment summary of all presumptive eligibility identification numbers issued. Health Care Services is required to retain the documents for a period of three years. Since the supporting documentation for presumptive eligibility is retained by Health Care Services, the State's fiscal intermediary, Hewlett-Packard, does not perform eligibility audit procedures over the claims presented for presumed eligible recipients. The Hewlett-Packard mainframe processing is set to bypass the eligibility check if it recognizes the special sequencing of the presumptive eligibility identification number.

Consistent with the prior year, Health Care Services is unable to reconcile the presumptive eligibility number against the enrollment listings filed by providers with Health Care Services at this time because of staffing limitations. However, Health Care Services is pursuing an automated process to post the presumptive eligibility identification numbers to the Medi-Cal eligibility system so records for these recipients can be accessed to authenticate, reconcile, and prevent duplicate issuances of the presumptive eligibility number during the claims adjudication process. As such, there does not appear to be adequate tracking of presumptive eligibility numbers and there is the risk that duplicate issuances of numbers or unauthorized use may occur as the existence of the recipient is not authenticated.

Additionally, effective October 1, 2008, the American Recovery and Reinvestment Act of 2009 (Recovery Act) granted an additional 11.59 percent as the enhanced Federal Medical Assistance Percentage to the State for medical assistance expenditures. Total Recovery Act expenditures during the fiscal year ended June 30, 2010, amounted to $4.6 billion. The lack of reconciliation of presumptive eligibility numbers to the enrollment listing may result in Recovery Act funding being expended on individuals who do not meet Medicaid eligibility requirements.

Questioned Costs

No specific questioned costs identified.

Recommendations

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

Department's View and Corrective Action Plan

Health Care Services lacks the necessary resources needed to develop and implement automated systems to address this finding. However, we believe that the Patient Protection and Affordable Care Act (PPACA) of 2010 provides an ideal opportunity to implement a solution to this problem as we implement the requirements of federal health care reform. As required by the PPACA and with the passage of Senate Bill 900 (Chapter 659, Statutes of 2010) and Assembly Bill 1602 (Chapter 655, Statutes of 2010), California will establish the California Health Benefits Exchange. A component of the Health Benefits Exchange is the ability to screen for and enroll eligible individuals into the Medi-Cal program, utilizing a Web-based enrollment portal and streamlined eligibility processes. Under the PPACA, for purposes of Medi-Cal eligibility, Health Care Services is required to develop and implement streamlined eligibility determinations and enrollment processes for individuals seeking Medi-Cal covered services.

The Health Benefits Exchange provides an opportunity to allow Presumptive Eligibility (PE) Qualified Providers to complete the PE enrollment for eligible pregnant women using an Internet-based application that will provide real-time validation with the Statewide Medi-Cal Eligibility Data System (MEDS).

Currently, when a provider sends in a reimbursement request (a manual process) for claims payment, the temporary PE identification card issued to the woman is converted in the claims system to a "pseudo" ID for purposes of tracking claims. As envisioned under the Health Benefits Exchange, if an applicant is able to apply for PE via the Web-based portal at the provider's office, their information will be submitted electronically and will be captured in MEDS. This will result in the assignment of a client index number for tracking and billing purposes; thereby eliminating the possibility of duplicate issuances of identification numbers and will provide a means of authentication of enrolled individuals.

In the meantime, Health Care Services is analyzing the Medicaid provisions of PPACA and is awaiting guidance from the federal Centers for Medicare and Medicaid Services and implications for modernizing current PE processes for pregnant women.

Reference Number:	2010-5-6
Federal Catalog Number:	93.778
Federal Program Title:	Medicaid Cluster—Medical Assistance Program (Medi-Cal)
Federal Award Numbers and Years:	05-1005CA5028; 2010 1005CAARRA; 2010 05-0905CA5028; 2009 0905CAARRA; 2009
Category of Finding:	Eligibility
State Administering Department:	Department of Health Care Services (Health Care Services)

Criteria

TITLE 42—PUBLIC HEALTH, CHAPTER IV—CENTERS FOR MEDICARE AND MEDICAID SERVICES DEPARTMENT OF HEALTH AND HUMAN SERVICES, Part 431—State Organization and General Administration, Subpart A—Single State Agency, Section 431.10—Single State Agency

(c) Determination of eligibility

(1) The plan must specify whether the agency that determines eligibility for families and for individuals under 21 is:

(i) The Medicaid Agency; or

(ii) The single State agency for the financial assistance program under Title IV-A (in the 50 States or the District of Columbia), or under Title I or XVI (AABD) in Guam, Puerto Rico, or the Virgin Islands.

(2) The plan must specify whether the agency that determines eligibility for aged, blind, or disabled is:

(i) The Medicaid Agency;

(ii) The single State agency for the financial assistance program under Title IV-A (in the 50 states or the District of Columbia), or under Title I or XVI (AABD) in Guam, Puerto Rico, or the Virgin Islands; or

(iii) The federal agency administering the supplemental security income program under Title XVI (SSI). In this case, the plan must also specify whether the Medicaid agency or the Title IV-A agency determines eligibility for any groups whose eligibility is not determined by the federal agency.

TITLE 42—PUBLIC HEALTH—CHAPTER IV—CENTERS FOR MEDICARE AND MEDICAID SERVICES, DEPARTMENT OF HEALTH AND HUMAN SERVICES, Part 435—Eligibility in the States, District of Columbia, the Northern Mariana, Subpart J—Eligibility in the States and the District of Columbia, Section 435.916, Periodic Redeterminations of Medicaid Eligibility

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

TITLE 42—PUBLIC HEALTH, CHAPTER IV—CENTERS FOR MEDICARE AND MEDICAID SERVICES DEPARTMENT OF HEALTH AND HUMAN SERVICES, Part 435—Eligibility in the States, District of Columbia, The Northern Mariana, Subpart E—General Eligibility Requirements, Section 435.406—Citizenship and Alienage

(a) The agency must provide Medicaid to otherwise eligible residents of the United States who are:

(1) Citizens:

(i) Under a declaration required by Section 1137(d) of the Act that the individual is a citizen or national of the United States.

(ii) The individual has provided satisfactory documentary evidence of citizenship or national status, as described in Section 435.407.

(iii) An individual for purposes of the declaration and citizenship documentation requirements discussed in paragraphs (a)(1)(i) and (a)(1)(ii) of this section includes both applicants and recipients under a section 1115 demonstration (including a family planning demonstration project) for which a State receives Federal financial participation in their expenditures, as though the expenditures were for medical assistance.

(iv) Individuals must declare their citizenship and the State must document the individual's citizenship in the individual's eligibility file on initial applications and initial redeterminations effective July 1, 2006.

Condition

States are required to operate a Medicaid Eligibility Quality Control (MEQC) system in accordance with requirements established by the Centers for Medicare and Medicaid Services. The MEQC system redetermines eligibility for individual sampled cases of eligible beneficiaries determined by state Medicaid agencies or their designees. The State had been granted a waiver from the traditional MEQC program described in regulation. This program waiver differs from the traditional MEQC program by allowing for the performance of special studies, targeted reviews, or other activities that are designed to ensure program integrity or improve program administration. Health Care Services' MEQC process reviewed 3,061 cases from July 2009 to June 2010. Of the 3,061 cases sampled, Health Care Services determined that 173 cases were ineligible for Medi-Cal or eligible for Medi-Cal, but with a difference in their Share of Cost of greater than $400, resulting in a 5.65 percent error rate. Share of Cost represents the amount a beneficiary must provide for health care services received prior to receiving benefits funded by Medi-Cal, and is similar to a monthly deductible.

We evaluated the accuracy of the MEQC system by obtaining a listing of all eligibility case reviews performed during the fiscal year and selected 65 cases in 10 different counties to reperform the MEQC review. Our sample of 65 Medicaid recipients included 59 without eligibility errors and six with eligibility errors identified by the MEQC review process. The results of our review of the MEQC review are as follows:

Our reexamination noted that one of the 59 Medicaid recipients deemed eligible by the MEQC process was actually ineligible for Medi-Cal benefits. We noted a family failed to submit its annual redetermination of eligibility, which was due in May 2009. We note there was no evidence in the family's case file to substantiate that a redetermination was performed, and as such, the beneficiaries were ineligible from May 31, 2009, through June 30, 2010.

Additionally, we selected 65 case files from the general population of the State's Medicaid beneficiaries in 10 different counties to reperform the counties' eligibility determination. We noted three of the 65 cases tested were ineligible for Medi-Cal benefits or eligible for only restricted scope Medi-Cal benefits. The nature of the exceptions are as follows:

- One of the 65 beneficiaries failed to provide a signed annual redetermination form since 2007, resulting in the beneficiary being ineligible to receive Medicaid benefits since 2007. The lack of yearly redeterminations may result in funding of individuals who do not meet Medicaid eligibility requirements.

- Two of the 65 beneficiaries failed to provide a copy of adequate citizenship documentation, resulting in the beneficiary being ineligible to receive full-scope Medi-Cal benefits, but may have been eligible for limited scope services. Furthermore, per inspection of California Welfare Information Network (CalWin), the county's consortium system, and Medical Eligibility Data System, the beneficiaries remained active as Medi-Cal beneficiaries, receiving full-scope benefits during the fiscal year ended June 30, 2010. There was no evidence in the family's case file to substantiate that citizenship requirements were met, and as such, the beneficiaries were ineligible to receive full scope Medicaid benefits. The lack of proper citizenship documentation may result in funding of full-scope services for individuals who are only entitled to limited scope services.

The total direct federal Medicaid expenditures that the State made for provider payments amounted to $20 billion in fiscal year 2009–10.

The American Recovery and Reinvestment Act of 2009 (Recovery Act) granted an additional 11.59 percent as the enhanced Federal Medical Assistance Percentage to the State for medical assistance expenditures. Total Recovery Act expenditures during fiscal year 2009–10 amounted to $4.6 billion. The error percentage noted in the MEQC reviews may affect Recovery Act expenditures because it indicates that there is a material risk of noncompliance related to eligibility.

Questioned Costs

No specific questioned costs identified.

Recommendation

Health Care Services should strengthen controls over its redetermination and citizenship receipt of documentation to comply with the requirements for Medi-Cal beneficiaries to ensure that benefits are discontinued when redeterminations are not received within 12 months of the most recent redetermination date and benefits are discontinued when proper citizenship is not obtained.

Department's View and Corrective Action Plan

Health Care Services staff will discuss each of the audit findings with affected counties. These discussions will include a review of the specific findings with each affected county, indicated remedial actions, possible best practices referrals, and if warranted, appropriate focused reviews to address specific eligibility performance issues.

Specifically:

1. Redeterminations: Pursuant to state statute and federal requirements counties must complete redeterminations within specified timeframes and the department reinforces this policy by providing written guidance to counties in the form of All County Welfare Directors Letters.

Additionally the department conducts semiannual MEQC reviews and operates a County Performance Standards (CPS) program. The MEQC program is a federally mandated program that measures the accuracy of state eligibility determinations, in compliance with state and federal laws, regulations, and policies. Under the CPS program, counties self certify performance standards relative to the timeliness of county processing of applications and redeterminations. Counties that do not demonstrate adequate performance through either self-certifications or independent state reviews are required to document written Corrective Action Plans to demonstrate remedial efforts with required quarterly reports to demonstrate progress on remedial actions. Health Care Services will continue in its efforts to reinforce the expectations that counties complete redeterminations on a timely basis and assure that documentation is available for review in county case files consistent with state policies. This reinforcement will be in the form of both verbal and written communication to the counties when findings present that are not consistent with state policy. It should be noted that one of the issues related to a redetermination was that it was completed but the documentation was not available in the county case file. In this instance, the required documentation was in the possession of the imaging contractor but not readily available in the county case files. As the county progresses through its imaging process, this issue should be obviated.

2. Citizenship Documentation: Effective July 1, 2006, state Medicaid programs have been required to have citizenship and identity documentation on individuals seeking program services. Since January 2010, Health Care Services had relied on an automated system match of Social Security Numbers (SSNs) with the federal Social Security Administration as its primary means to verify citizenship and identity. This verification matching process has significantly increased accuracy and improved the documentation of citizenship and identity for individuals seeking or enrolled in Medi-Cal. To date, California has experienced an approximate success rate of 94 percent of SSNs being validated by this means. To the extent the electronic SSN match process does not yield a successful result and the beneficiary or the county is unable to correct issues relative to achieving a successful SSN match, the State requires counties to rely on existing procedures whereby appropriate paper documents such as passports, drivers licenses, and birth records can be used to validate citizenship and identity status. The department has reinforced this requirement through the release of All County Welfare Director's Letters and evaluates such documentation when conducting MEQC reviews. As deficiencies are noted with citizenship documentation, this information is communicated both verbally and in writing to the counties. The department will continue to reinforce to the counties the requirements to have citizenship documentation in case records.

Reference Number:	2010-7-5
Federal Catalog Number:	93.917
Federal Program Title:	HIV Care Formula Grants
Federal Award Numbers and Years:	X07HA12778-02-00; 2010 X07HA12778-01-00; 2009
Category of Finding:	Earmarking
State Administering Department:	Department of Public Health (Public Health)

Criteria

TITLE 42—THE PUBLIC HEALTH AND WELFARE, CHAPTER 6A—PUBLIC HEALTH SERVICE, SUBCHAPTER XXIV—HIV HEALTH CARE SERVICES PROGRAM, Part B—Care Grant Program, Subpart I—General Grant Provisions, Section 300ff-22

(b) Required funding for core medical services—

(1) In general—With respect to a grant under section 300ff–21 of this title for a State for a grant year, the State shall, of the portion of the grant remaining after reserving amounts for purposes of subparagraphs (A) and (E)(ii)(I) of section 300ff–28(b)(3) of this title, use not less than 75 percent to provide core medical services that are needed in the State for individuals with HIV/AIDS who are identified and eligible under this subchapter (including services regarding the co-occurring conditions of the individuals).

(e) Priority for women, infants, children, and youth—

(1) In general—For the purpose of providing health and support services to infants, children, youth, and women with HIV/AIDS, including treatment measures to prevent the prenatal transmission of HIV, a State shall for each of such populations in the eligible area use, from the grants made for the area under section 300ff–11(a) of this title for a fiscal year, not less than the percentage constituted by the ratio of the population involved (infants, children, youth, or women in such area) with HIV/AIDS to the general population in such area of individuals with HIV/AIDS.

TITLE 42—THE PUBLIC HEALTH AND WELFARE, CHAPTER 6A—PUBLIC HEALTH SERVICE, SUBCHAPTER XXIV—HIV HEALTH CARE SERVICES PROGRAM, Part B—Care Grant Program, Subpart I—General Grant Provisions, Section 300ff-28

Distribution of funds—

(3) Administration

(A) In general—Subject to paragraph (4), and except as provided in paragraph (5), a State may not use more than 10 percent of amounts received under a grant awarded under section 300ff–21 of this title for administration.

(B) Allocations—In the case of entities and subcontractors to which a State allocates amounts received by the State under a grant under section 300ff–21 of this title, the State shall ensure that, of the aggregate amount so allocated, the total of the expenditures by such entities for administrative expenses does not exceed 10 percent (without regard to whether particular entities expend more than 10 percent for such expenses).

(C) Administrative activities—For the purposes of subparagraph (A), amounts may be used for administrative activities that include routine grant administration and monitoring activities, including a clinical quality management program under subparagraph (E).

(4) Limitation on use of funds

Except as provided in paragraph (5), a State may not use more than a total of 15 percent of amounts received under a grant awarded under section 300ff–21 of this title for the purposes described in paragraphs (2) and (3). (a) Amount of grant to State—(1) Minimum allotment—Subject to the extent of amounts made available under section 300ff–31b of this title, the amount of a grant to be made under section 300ff–21 of this title for—(A) each of the 50 States, the District of Columbia, Guam, and the Virgin Islands (referred to in this paragraph as a "covered State") for a fiscal year shall be the greater of—(i)(I) with respect to a covered State that has less than 90 living cases of AIDS, as determined under paragraph (2)(D), $200,000; or (II) with respect to a covered State that has 90 or more living cases of AIDS, as determined under paragraph (2)(D), $500,000; and (ii) an amount determined under paragraph (2) and then, as applicable, increased under paragraph (2)(H); and (B) each territory other than Guam and the Virgin Islands shall be the greater of $50,000 or an amount determined under paragraph (2).

Condition

During our procedures performed over Public Health's earmarking requirements, we were unable to obtain the Final Progress Report, which details the calculations performed to ensure that the program is in compliance with the maximum of 10 percent each, and 15 percent cumulative for expenditures relating to planning and evaluation activities and administration. As such, we were unable to obtain adequate audit evidence to determine if earmarking requirements have been met.

In addition, we were unable to obtain the Women, Infants, Children and Youth Expenditure Report for the current year, which details the required minimum percentages provided by the Health Resources and Services Administration, which must be spent on each demographic. As such, we were unable to obtain adequate audit evidence to determine if the minimum required percentages were met.

In addition, we requested the detail for the total core medical services expenditures from the fiscal year 2008 Part B and the Minority Aids Initiative Final Expenditures Report; however, we were unable to obtain the support for the balance of home- and community-based health services of $5,422,400, and the state-direct services amount of $4,962,759. As such, we were unable to verify that the amount spent on core medical services was greater than 75 percent of the total funds.

Questioned Costs

No specific questioned costs identified.

Recommendation

Public Health should strengthen its record-keeping process and ensure policies and procedures are in place in order to determine that the use of the grant funds properly reflects earmarking requirements.

Department's View and Corrective Action

Public Health agrees with this finding. Due to staffing changes, the Office of Aids was not able to locate the supporting documentation for one amount reported on the 2008 Final Expenditures Report.

Corrective Action

As of September 2010 the Office of Aids has implemented procedures to more thoroughly document and support any information that is reported for this grant and all other grants. Information will be saved electronically, in a central network file that is accessible by program staff, administrative staff, and the Office of Aids' Division Office. In addition to supporting materials, the documentation process will include a summary narrative of steps taken to prepare and submit grant reports. Staff and management from the Office of Aids' HIV Care Branch, the Administration Section, and the Division Office are now included in the process of preparing and submitting reports to fulfill mandatory grant reporting requirements.

Reference Number:	2010-12-5
Federal Catalog Number:	93.917
Federal Program Title:	HIV Care Formula Grants
Federal Award Numbers and Years:	X07HA12778-02-00; 2010 X07HA12778-01-00; 2009
Category of Finding:	Reporting
State Administering Department:	Department of Public Health (Public Health)

Criteria

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

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

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

Condition

We noted that Public Health did not correctly complete its submitted annual financial status report for 2010. Per the financial status report, $273,098 was reported as the federal share of indirect expense. Upon our request to ascertain the accuracy of the information reported, Public Health provided supporting documentation of $285,888, which is $12,790 more than the amount reported.

Policies do not appear to be implemented that require Public Health to properly complete and review required reporting, which resulted in incorrect information being reported on the financial status report.

Questioned Costs

No specific questioned costs identified.

Recommendation

Public Health should enhance current policies and procedures to ensure that it retains supporting documents and calculations so that it complies with specified reporting and document retention requirements.

Department's View and Corrective Action Plan

Public Health agrees that it needs to enhance current policies and procedures to ensure that supporting documents and calculations are retained to ensure compliance with specified reporting and document retention requirements. Written desk procedures will be enhanced by December 31, 2010, to include procedures on how to calculate indirect costs when the grant budget period crosses state fiscal years and the approved Indirect Cost Rate Proposal (ICRP) is different for the two fiscal years. The procedures will also be enhanced by December 31, 2010, to require supporting CALSTARS reports and indirect cost calculations be retained to support the Federal Financial Report (FFR). Staff training will be held by March 31, 2011, on these enhancements to both procedures.

The federal government was notified on October 29, 2010, that Public Health would be sending an amended FFR with the correct indirect costs by November 2, 2010.

Reference Number:	2010-12-6
Federal Catalog Number:	93.268
Federal Program Title:	Immunization Grants
Federal Award Numbers and Years:	5H23IP922507-08; 2010 5H23IP922507-07; 2009

Category of Finding:	Reporting
State Administering Department:	Department of Public Health (Public Health)

Criteria

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

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

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

Condition

We noted that during the year ended June 30, 2010, Public Health was required to begin submitting quarterly the Federal Financial Report SF 425 (A) (SF 425 (A)). The SF 425 (A) requires the program to report cumulative expenditures, which were not previously required under other forms of reporting. Public Health did not maintain supporting documentation for the cumulative expenditures reported in its submitted SF 425 (A), for June 2010. Upon our request to ascertain the accuracy of the information reported, Public Health was unable to provide supporting documentation for the sampled line item on the SF 425 (A). The unsupported line item was for $167,854,080 reported as cumulative Non-ARRA expenditures for the Immunization grant. Public Health tracks the cumulative expenditures totals using an Excel spreadsheet. Total expenditures per this tracking spreadsheet were $167,846,886, which is $7,194 less than the amount of expenditures reported. Policies do not appear to be implemented that require Public Health to maintain documentation for required reporting, which resulted in unsupported information reported on the SF 425 (A) Federal Financial Report.

Questioned Costs

$7,194

Recommendation

Public Health should enhance current policies and procedures to ensure that it retains supporting documents and calculations so that it complies with specified reporting and document retention requirements.

Department's View and Corrective Action Plan

Public Health agrees with the recommendation to enhance current policies and procedures to ensure that supporting documents and calculations are retained to ensure compliance with specified reporting and document retention requirements.

- The Accounting Unit will work with the Immunization Branch to write a Memorandum of Understanding (MOU) by December 1 to ensure that expenditures are tracked appropriately. Accounting and Immunization will meet twice before December 1 to agree to the terms of the MOU.

- Public Health's Accounting Unit will review supporting documents and collaboratively work together with its Immunization Branch by the last day of each month to ensure that any necessary corrections required as the result of monthly reconciliations are successfully completed. This will include comparing source documents held within the Immunization Branch against CALSTARS expenditure reports created and updated by the Accounting Unit.

Reference Number:	2010-13-9
Federal Catalog Number:	93.069
Federal Program Title:	Public Health Emergency Preparedness
Federal Award Numbers and Years:	3U90TP917016-10WI; 2010 5U90TP917016-10; 2010 5U90TP917016-09; 2009 IH75TP000332-01; 2010 3H75TP000332-01W1; 2010
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Public Health (Public Health)

Criteria

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

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

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

Condition

During our procedures performed over award identification, we were unable to identify controls to ensure that award information was properly communicated to the local health departments (LHDs). We noted the program uses the Annual Funding Agreement (AFA) as its means to communicate award identification to its LHDs. These AFAs do not contain the identifying Catalog of Federal Domestic Assistance (CFDA) number of the federal program that Public Health passed through to the subrecipient.

As a result, the Emergency Preparedness Office disbursed more than $93 million to subrecipients without communicating complete award information for the fiscal year ended June 30, 2010, which increased the risk that subrecipients may not follow federal requirements for the program, including having an audit performed under OMB Circular A-133.

Questioned Costs

No specific questioned costs identified.

Recommendation

Public Health should implement policies and procedures to ensure that the identifying number of the federal program is included in each of its subgrant agreements.

Department's View and Corrective Action Plan

Public Health agrees; it will include the CFDA number with the title of the federal program announcement in Exhibit C of the local agreements in all future agreements.

Reference Number:	2010-13-10
Federal Catalog Number:	93.778
Federal Program Title:	Medicaid Cluster—Medical Assistance Program (Medi-Cal)
Federal Award Numbers and Years:	05-1005CA5028; 2010 05-0905CA5028; 2009
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Health Care Services (Health Care Services)

Criteria

TITLE 31-MONEY AND FINANCE, SUBTITLE V—GENERAL ASSISTANCE ADMINISTRATION, Section 7502—Audit Requirements; Exemptions

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

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

Condition

Health Care Services' county-based Medi-Cal Administrative Activities (CMAA) Unit is required to actively monitor the award process of local government agencies (LGAs) that receive Medicaid funding for the reimbursement of expenditures of Medi-Cal services and administration costs. This monitoring process is conducted through county site visits. The CMAA Unit has an internal policy for actively monitoring the award process that is guided by an agreement between the federal branch of Medicaid, the Centers for Medicare and Medicaid Services, and the CMAA Unit. This policy requires that there must be a site visit conducted for each LGA once every four years from the date of their last site visit.

In July 2009 Health Care Services imposed a travel restriction on its employees. As such, only one LGA site visit was conducted during the current fiscal year (Alameda County). However, 22 LGA site visits should have been performed as the previous visits were more than four years ago.

Total federal expenditures made to the LGAs are $266,190,776.

Questioned Costs

No specific questioned costs identified.

Recommendation

Health Care Services should ensure that site visits of LGAs receiving Medicaid funding are conducted once every four years from the date of the LGA's last site visit to actively monitor the award process.

Department's View and Corrective Action Plan

Health Care Services agrees with the recommendation.

In fiscal year 2009–10, only one site visit was conducted due to travel restrictions. In fiscal year 2010–11 travel restrictions were lifted; however, site visits could not be conducted until the state budget was signed. Beginning in November 2010, CMAA staff will resume conducting site visits to LGAs. To

ensure site visits of LGAs receiving Medicaid funding are conducted at least once every four years as required, CMAA staff will conduct 16 LGA site visits during fiscal year 2010–11 and 16 LGA site visits during fiscal year 2011–12. The CMAA Unit will be in compliance with its internal policy for monitoring LGAs by June 30, 2012.

Reference Number:	2010-14-3
Federal Catalog Number:	93.778
Federal Program Title:	Medicaid Cluster—Medical Assistance Program (Medi-Cal)
Federal Award Numbers and Years:	05-1005CA5028; 2010 05-0905CA5028; 2009
Category of Finding:	Special Tests & Provisions—Managed Care
State Administering Department:	Department of Health Care Services (Health Care Services)

Criteria

TITLE 42—PUBLIC HEALTH, PART 438—MANAGED CARE, Section 438.408—Resolution and Notification—Grievances and Appeals

(a) The Managed Care Office (MCO) or the Pre-Paid Inpatient Health Plan (PIHP) must dispose of each grievance and resolve each appeal, and provide notice, as expeditiously as the enrollee's health condition requires, within state-established time frames that may not exceed the time frames specified in this section.

(b) Specific time frames—

(1) Standard disposition of grievances. For standard disposition of a grievance and notice to the affected parties, the time frame is established by the state but may not exceed 90 days from the day the MCO or PIHP receives the grievance.

(c) Extension of time frames—

(1) The MCO or PIHP may extend the time frames from paragraph (b) of this section by up to 14 calendar days if

(i) The enrollee requests the extension, and

(ii) The MCO or PIHP shows (to the satisfaction of the state agency, upon its request) that there is need for additional information and how the delay is in the enrollee's interest.

Condition

The MCO of the Office of the Ombudsman, Health Care Services, is required to establish an internal grievance system in which enrollees in the State's health care programs may report a grievance. The MCO is also required to resolve the grievances, which primarily come in the form of requests for state hearings, within 90 days of the reported grievance/request for a hearing date. The MCO may extend the 90-day time frame by 14 calendar days if the enrollee requests an extension, or if the MCO can show that there is a need for additional information. The MCO must also demonstrate how the delay is in the enrollee's interest. In our sample of 25 state hearing cases, five did not appear to be scheduled or resolved within 90 days of the initial enrollee request date. These exceptions are noted as follows:

- Case# 092160222: requested a hearing on July 28, 2009, and was scheduled to be heard on December 7, 2009, 42 days after the 90-day time frame.

- Case# 092100403: requested a hearing on July 21, 2009, and was scheduled to be heard on October 29, 2009, 10 days after the 90-day time frame.

- Case# 092250362: requested a hearing on August 8, 2009, and was scheduled to be heard on December 7, 2009, 30 days after the 90-day time frame.

- Case# 092650393: requested a hearing on September 15, 2009, and was scheduled to be heard on December 28, 2009, 14 days after the 90-day time frame.

- Case# 093020470: requested a hearing on October 17, 2010, and was scheduled to be heard on January 21, 2010, six days after the 90-day time frame.

Upon review of each of the above case files, we did not note any requests for a 14-day extension by the enrollee, nor did we note any evidence that the MCO requested an extension showing that there was a need for additional information.

The total federal expenditures related to Managed Care were $3,640,645,788, while the total American Recovery and Reinvestment Act of 2009 expenditures made to managed care plans were $834,714,836.

Questioned Costs

No specific questioned costs identified.

Recommendation

Health Care Services should ensure that hearings are scheduled on a timely basis (i.e., no later than 90 days from the date of request by the enrollee for a state hearing).

Department's View and Corrective Action Plan

Health Care Services agrees with the recommendation to ensure that hearings are scheduled on a timely basis.

Through a Delegation Order, Health Care Services has delegated the scheduling of the state hearings to the Department of Social Services (Social Services). Health Care Services' Managed Care Ombudsman coordinates state hearings between Social Services and the Medi-Cal MCO, ensuring timely communication of new state hearings, postponements, or other status updates.

Effective November 1, 2010, Health Care Services will begin monitoring the unscheduled state hearings. Social Services will submit a weekly report to the Managed Care Ombudsman reflecting the hearing requests received and the scheduling status of each. Social Services will provide an explanation for any hearing request approaching the 60-day mark, including the status of any extension requests or postponements.

Reference Number:	2010-14-4
Federal Catalog Number:	93.778
Federal Program Title:	Medicaid Cluster—Medical Assistance Program (Medi-Cal)
Federal Award Numbers and Years:	05-1005CA5028; 2010 1005CAARRA; 2010 05-0905CA5028; 2009 0905CAARRA; 2009
Category of Finding:	Special Tests and Provisions—Provider Eligibility
State Administering Department:	Department of Health Care Services (Health Care Services)

Criteria

TITLE 42—PUBLIC HEALTH, PART 431—STATE ORGANIZATION AND ADMINISTRATION, Subpart C—Administrative Requirements—Provider Relations, Section 431.107—Required Provider Agreement

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

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

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

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

(4) Comply with the advance directives requirements for hospitals, nursing facilities, providers of home health care and personal care services, hospices, and the HMOs specified in Part 489.

Condition

The determination of the eligibility for Medi-Cal providers in the State is split between Health Care Services' Provider Enrollment Division (PED) and the Department of Public Health's (Public Health) Licensing and Certification (L&C) program. The PED enrolls nonfacility providers, including doctors, pharmacies, medical groups, as well as out-of-state facility providers and the L&C is responsible for determining the eligibility of facility providers (i.e., hospitals, long-term care facilities, etc.) within California.

We selected a sample of both facility and nonfacility providers and requested copies of the provider agreements and required disclosure statements from the PED and L&C. We noted that four of the 50 providers sampled did not have federally required provider agreements. The breakdown of the providers is as follows:

- One of the providers sampled did not have documentation of an active license, application, provider agreement, and disclosure statement.

- Three facility providers sampled did not have a provider agreement.

Total exceptions amounted to $6,797 of the total of $46,509 sampled or 14.6 percent of federal Medicaid expenditures for fee-for-service claims. Total federal Medicaid expenditures for fee-for-service claims amounted to $9.7 billion for the fiscal year ended June 30, 2010. Therefore, if this rate was applied to the $9.7 billion, it would result in a potential total of $1.4 billion in payments that, in theory, would have gone to providers lacking required documentation.

Due to the enhanced federal medical assistance percentages of 11.59 percent, an additional $1,576 was funded by the American Recovery and Reinvestment Act of 2009 (Recovery Act). Total Recovery Act expenditures for fee-for-service claims amounted to $2 billion for the fiscal year ended June 30, 2010. Therefore, if the 14.6 percent error rate was applied to the $2 billion, it would result in a potential total of $292 million in Recovery Act payments that, in theory, could have gone to providers lacking required documentation.

Questioned Costs

$6,797 of the $46,509 federal expenditures sampled and $1,576 in Recovery Act expenditures.

Recommendation

Health Care Services and Public Health should strengthen their controls to retain all provider agreements and necessary documentation to continue efforts to ensure that they obtain the appropriate certifications and agreements.

Department's View and Corrective Action Plan

Health Care Services agrees with the recommendation to strengthen its controls to retain all provider agreements and necessary documentation to continue efforts to ensure that appropriate certifications and agreements are obtained.

Bullet one notes that one provider did not have documentation of an active license, application, provider agreement, and disclosure statement. The provider in question has been enrolled in the Medi-Cal program since 1978. Most likely, the documents were inadvertently missed when the PED implemented its document tracking database in 1999.

In addition, prior to November 1999, PED did not require its Medicaid providers to submit a provider agreement with the application package. PED has since updated its provider enrollment process to require provider agreements and it continues its plan to reenroll all Medi-Cal providers as a continuous process as resources are available. In addition, PED continues to work in conjunction with Health Care Services' Audits and Investigations Division to reenroll providers identified as high risk, including the reenrollment of identified pre-1999 providers. Reenrolled providers are required to submit a reenrollment application package updated to current federal standards to retain Medi-Cal eligibility. PED has also updated its requirements so that all providers must submit a new application package to report a new, additional, or change of service location. In addition, state law requires that a new application be submitted when there is a change in business entity. Health Care Services continually verifies provider information to ensure compliance with state and federal requirements in its ongoing reenrollment efforts.

Bullet two notes that three facility providers did not have a provider agreement on file. As noted by the auditors, Public Health's Licensing and Certification Division is responsible for determining the eligibility of facility providers within California. Per Interagency Agreement #07-65492 executed in fiscal year 2007–2008, Public Health collects, maintains, and stores enrolled facility provider records, including provider agreements. In 2008, a new provider agreement was jointly developed for facility providers by Health Care Services and Public Health. Public Health is currently in the process of collecting new provider agreements from facility providers. Since June 2010, provider agreements have been obtained from the three facility providers noted in bullet two.

Reference Number:	2010-14-5
Federal Catalog Number:	93.069
Federal Program Title:	Public Health Emergency Preparedness
Federal Award Numbers and Years:	3U90TP917016-10WI; 2010 5U90TP917016-10; 2010 5U90TP917016-09; 2009 IH75TP000332-01; 2010 3H75TP000332-01W1; 2010
Category of Finding:	Special Tests and Provisions—Control, Accountabililty, and Safeguarding of Vaccine
State Administering Department:	Department of Public Health (Public Health)

Federal Catalog Numbers:	93.268 93.712
Federal Program Title:	Immunization Grants ARRA—Immunization
Federal Award Numbers and Years:	5H23IP922507-08; 2010 5H23IP922507-07; 2009 3H23IP922507-07S3; 2010
Category of Finding:	Special Tests and Provisions—Control, Accountability, and Safeguarding of Vaccine
State Administering Department:	Department of Public Health (Public Health)

Criteria

U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133, *AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS* (OMB Circular A-133)

The Compliance Supplement indicates that grantees must provide oversight of vaccinating providers to ensure that proper control and accountability is maintained for vaccine, vaccine is properly safeguarded, and eligibility screening is conducted.

Condition

During our procedures performed over special tests and provisions—control, accountability, and safeguarding of vaccine—we selected a sample of Quality Assurance Reviews (QAR) to determine whether Public Health provides oversight of vaccinating providers. Based on a review of the QAR samples, we noted that while Public Health had procedures for assessing provider vaccine storage procedures and reviewing provider medical records for documentation of eligibility screening, Public Health's QAR procedures did not include a review of inventory records.

As a result, inventory storage and handling procedures at vaccinating providers may not be adequate to ensure vaccines are properly accounted for. Additionally, if inventory records are not adequately monitored by the providers, vaccine levels may not be maintained at levels adequate to meet the needed demands.

Questioned Costs

No specific questioned costs identified.

Recommendation

Public Health should enhance its current policies and procedures to include inventory record review and risk of loss from theft during QARs.

Department's View and Corrective Action Plan

Public Health agrees with the recommendation to enhance current policies and procedures to include inventory record review during routine QARs.

Public Health currently assesses inventory on every vaccine order that is submitted. Customer service representatives review our Vaccine Management system to verify that the number of doses that a provider is reporting in inventory matches what we have sent and that the doses administered are correct. If there are discrepancies, the customer service representative contacts the provider office to resolve the issue. In addition, during QARs, our field representatives routinely check the refrigerators to assess that vaccine is being stored properly and that there is an adequate mixture of private and Vaccines for Children (VFC) stock based on the provider's profile and the chart review. If there are discrepancies, then further investigation occurs.

The Centers for Disease Control and Prevention (CDC) does not require physical inventory record reviews. Such reviews can take a significant amount of additional time for the QAR and could be disruptive to normal business in provider offices. CDC currently requires that states visit 50 percent of providers yearly and the uniform addition of physical inventory reviews would make it very difficult to meet that grant requirement with staffing provided under the grant. However, there are circumstances where additional review of inventory records (paper records and physical inventory) is necessary and appropriate.

Public Health will enhance its current policies and procedures to make sure that this is clear to all reviewers and providers. Public Health will continue to include the following language in its provider agreement:

- "I will comply with the State's requirements for ordering vaccine as outlined on VFC order forms, etc. (e.g., reporting via the order forms my previous VFC vaccine usage and my current inventory of VFC vaccine, ordering vaccine according to the order frequency category identified for my practice, etc.)."

- "I will be financially responsible for the replacement cost of any VFC-provided vaccines that I receive for which I cannot account or that spoil or expire because of negligence."

In addition, by December 1, 2010, Public Health will submit a written request to CDC to amend the existing requirement in its Provider Agreement as indicated below as underlined. Any changes to the Provider Agreement require the formal approval of CDC. CDC has already acknowledged that our existing Agreement and procedures meet federal requirements when it comes to inventory control; however, they do consider enhancements depending on jurisdictional needs.

Public Health will modify this provision (in red) in our provider agreement:

- "I will permit visits to my facility by authorized representatives of the State or the Department of Health and Human Services to review my compliance with VFC Program requirements, including vaccine storage, vaccine inventory, and record-keeping."

This change will ensure that our staff will have access to the records they need to assess vaccine inventory in provider offices when there are issues identified that make it necessary.

By December 1, 2010, we will incorporate additional language in our internal QAR visit policy document to add that reviewers ask for inventory records or do a physical inventory if there are abnormalities in provider ordering or in the amount of vaccine that is present in the refrigerator. The additions are underlined below:

A. Check Vaccine Management

- Read temperature of refrigerator and freezer. Note on QAR.
- Ask the medical assistant or whoever documents the temperature to read the thermometer.
- Find privately purchased vaccines and VFC vaccines. Should be separated and identifiable. Are they able to distinguish between the two? Is there appropriate amount of each as compared to their provider profile estimates?
- If the reviewer feels there are discrepancies in ordering patterns or in the overall amount of private and VFC vaccine in the refrigerator, then ask the office for inventory records and conduct a physical inventory if necessary.
- Check expiration dates of vaccines and note if short dated vaccines are in front. Are any vaccines within three to four months of expiring? If yes, they should identify other provider to whom they can transfer vaccines.
- Check if light sensitive vaccines are stored in boxes.
- Check location of vaccines. The top shelf should be avoided for vaccine storage. Vaccines should only be stacked up to the edge of the shelf. Should not be touching the back of unit, on the door, nor in vegetable bins.
- Note if there are two temperature dials or one.
- If only one dial, turning down temperature for freezer may make refrigerator too cold.
- Review temperature log, Aim for 40 degrees in refrigerator and aim for 0 degrees in freezer. Use color copies of log to help spot temperatures that are out of range.

Plan of Action

1. Public Health will draft new language for the Provider Agreement and submit to CDC by December 1, 2010.
2. Public Health will modify language for our internal VFC QAR document by December 1, 2010, and distribute to staff at our All-Staff Meeting on December 13, 2010.

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U.S. DEPARTMENT OF AGRICULTURE

Reference Number:	2010-13-11
Federal Catalog Numbers:	10.553 and 10.555
Federal Program Titles:	Child Nutrition Cluster: School Breakfast Program and National School Lunch Program
Federal Award Number and Year:	58-3198-7430; 1998
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Education (Education)

Criteria

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

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

Condition

During our testing of subrecipient monitoring, we noted that nine of 12 subrecipient contracts with food service management companies reviewed lacked documentation within Education's Child Nutrition Information and Payment System (CNIPS) that such contracts had been approved. Education is required to annually review each contract between any school food authority and food service management company (contract) to ensure compliance with all the provisions and standards set forth in Section 210.19 of Title 7 of the Code of Federal Regulations. Education did not implement appropriate internal controls to ensure the approval of a contract is documented within CNIPS. Furthermore, adequate monitoring procedures were not performed to ensure the documentation existed prior to reimbursements to subrecipients. Education risks that improper reimbursements are being made to subrecipients for expenditures on unapproved contracts with food service management companies. Per our review of the 12 contracts, we did not note any noncompliance with requirements for contracting with a food service management company.

Questioned Costs

No specific questioned costs identified.

Recommendation

Education should strengthen the design of the application controls within CNIPS to require that food service management company contracts are properly approved prior to the approval of the annual renewal application and subsequent reimbursement of federal funds to subrecipients.

Department's View and Corrective Action Plan

To strengthen the design of application controls within CNIPS over food service management company agreements and annual renewals, Education instituted procedural changes to ensure new and renewing agreements have final approval prior to approval of an agency's renewal application in CNIPS. For example, documentation regarding review and approval of the agreements and annual renewals will be required in the "notes" section of CNIPS. In addition, Education is revamping its process to include a statewide registry of all approved and eligible agreements. Accordingly, Education's CNIPS manuals will be updated to reflect the new procedural changes.

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U.S. DEPARTMENT OF EDUCATION

Reference Number:	2010-2-5
Federal Catalog Number:	84.365
Federal Program Title:	English Language Acquisition Grants
Federal Award Numbers and Years:	T365A090005; 2009 T365A080005A; 2008 T365A070005A; 2007
Category of Finding:	Allowable Costs/Cost Principles
State Administering Department:	Department of Education (Education)

Criteria

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

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

Condition

During our testing of state administrative expenditures, we examined Education's process and internal controls for recording payroll expenditures charged to the program. Employees complete a monthly personnel activity report (time sheet) that must account for their total activities. Each time sheet must be signed by the employee and supervisor. The time sheets are processed and entered into the time accounting system by the Fiscal and Accounting Services Division (FASD). The program's fiscal analyst is responsible for reviewing the payroll charges for accuracy and completeness and notifying FASD of any corrections. However, there is no evidence that the fiscal analyst is performing this review. Education has not implemented internal controls to ensure that the fiscal analyst's review and approval of payroll charges is documented. The lack of documentation prevents management from demonstrating that the internal control is operating as designed to ensure only allowable payroll costs are charged to the program. We noted no discrepancies between time charged on the time sheets and time recorded in the time-accounting system.

Questioned Costs

No specific questioned costs identified.

Recommendation

Education management should design an internal control to ensure that evidence exists of the fiscal analyst's monthly review of payroll expenditures charged to the program.

Department's View and Corrective Action Plan

Education strengthened existing internal controls by requiring staff to reconcile time sheets to the official time accounting system records. This reconciliation will be documented in a monthly report, and a secondary review and approval will be conducted by a manager.

Reference Number:	2010-3-3
Category of Finding:	Cash Management
State Administering Department:	Department of Education (Education)

Federal Catalog Number:	84.010
Federal Program Title:	Title I, Part A Cluster: Title I Grants to Local Educational Agencies
Federal Award Numbers and Years:	S010A090005; 2009 S010A080005A; 2008 S010A070005A; 2007

Federal Catalog Number:	84.365
Federal Program Title:	English Language Acquisition Grants
Federal Award Numbers and Years:	T365A090005; 2009 T365A080005A; 2008 T365A070005A; 2007

Criteria

TITLE 34—EDUCATION, PART 80—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS, Subpart C—Post Award Requirements, Section 80.20—Standards for Financial Management Systems

(b) The financial management system of other grantees and subgrantees must meet the following standards:

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

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

Condition

This finding repeats an audit finding that was reported for fiscal year 2008–09. During our review of Education's payments made to the local educational agencies (LEAs), we noted that Education does not have an adequate process in place for assessing the cash needs of its subrecipients.

Education requests advance funds from the federal government and makes three predetermined payment advances to LEAs during the fiscal year. Education receives some expenditure information from its subrecipients reported on its annual two-part consolidated application (CONAPP); however, the expenditure information provided is not timely or frequent enough to provide adequate information

for Education to effectively assess the cash needs of its LEAs. Part I of the CONAPP is due on the last day of each fiscal year and provides estimates of total program expenditures for that fiscal year. Part II of the CONAPP contains the actual year-end expenditures, but is not due to Education until seven months after the end of the fiscal year. The timing of the advance payments made to LEAs does not adequately take their cash needs into consideration because minimal expenditure data or other pertinent information was obtained from the subrecipients during the award year.

Questioned Costs

No specific questioned costs identified.

Recommendation

Education should revise its current policies and procedures for the issuance of cash advances to LEAs to include a more effective monitoring of their cash needs, with the timing of advance payments that will minimize the time elapsing between advances of federal funds and expenditures by LEAs.

Department's View and Corrective Action Plan

To effectively improve cash management over federal programs, Education implemented a pilot project involving LEAs submitting federal cash balances on a quarterly basis using a Web-based reporting system. Education's cash management pilot project commenced with the Title II-Improving Teacher Quality federal program for the quarter period ending October 31, 2009. Subsequently, Education incorporated the reporting of American Recovery and Reinvestment Act of 2009 State Fiscal Stabilization Funds via the Web-based reporting system. In addition, Education has dedicated staff and implemented new cash management fiscal monitoring procedures to verify, on a sample basis, LEAs' reported cash balances and to ensure compliance with federal interest requirements.

In October 2010, Education deemed the pilot project working as intended, and expanded the cash management project to include the Elementary and Secondary Education Act of 1965 (ESEA), Title I, Part A and Part D, Subpart 2. In January 2011, Education will continue to expand the cash management project to the federal ESEA Title II, Part A, program.

To effectively improve cash management over the English Language Acquisition Grants, the Elementary and Secondary Education Act, Title III, Part A LEP; and Title III Immigrant programs have now been aligned with Title I, Part A; Title I, Part D, Subpart 2; Title II, Part A programs as part of Education's Federal Cash Management Data Collection (CMDC) system. The CMDC was established by Education to comply with the federal requirement to implement cash management practices that minimize the time elapsing between the receipt and disbursement of funds by recipients of federal grants awarded by Education. The CMDC reporting requirements can be found on the Education's Federal Cash Management Web page at http://www.cde.ca.gov/fg/aa/cm/.

Reference Number:	2010-5-7
Federal Catalog Number:	84.048
Federal Program Title:	Career and Technical Education—Basic Grants to States
Federal Award Number and Year:	V048A090005; 2009
Category of Finding:	Eligibility
State Administering Department:	Department of Education (Education)

Criteria

TITLE 34—EDUCATION, PART 80—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS, Section 80.20—Standards for Financial Management Systems

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

TITLE 20—EDUCATION, CHAPTER 44—CAREER AND TECHNICAL EDUCATION, SUBCHAPTER I—CAREER AND TECHNICAL EDUCATION ASSISTANCE TO THE STATES, Part C—Local Provisions, Section 2351—Distribution of Funds to Secondary Education Programs

(a) *Distribution rules.*

Except as provided in Section 2353 of this title and as otherwise provided in this section, each eligible agency shall distribute the portion of funds made available under Section 2322(a)(1) of this title to carry out this section to local educational agencies within the State as follows:

(2) *Seventy percent.*

Seventy percent shall be allocated to such local educational agencies in proportion to the number of individuals aged 5 through 17, inclusive, who reside in the school district served by such local educational agency and are from families below the poverty level for the preceding fiscal year, as determined on the basis of the most recent satisfactory data used under Section 1124(c)(1)(A) of the Elementary and Secondary Education Act of 1965 [20 U.S.C. 6333(c)(1)(A)], compared to the total number of such individuals who reside in the school districts served by all the local educational agencies in the State for such preceding fiscal year.

(3) *Adjustments.*

Each eligible agency, in making the allocations under paragraphs (1) and (2), shall adjust the data used to make the allocations to—

(A) reflect any change in school district boundaries that may have occurred since the data were collected.

Condition

This audit finding repeats a finding reported for fiscal year 2008–09. During our testing of the calculation to determine subgrants awarded to each local educational agency (LEA), one of the LEAs changed its school district boundaries; thus, the data used in the allocation was adjusted. However, we noted an error in the poverty count totaling 2,000 that resulted in Education allocating $57,145 less to the LEA than it was entitled. All of the other LEAs received a total of $57,145 in excess of what they were entitled. Policies and procedures for the award calculation will provide the detailed reviewer with the resources necessary to perform a proper review. Without these resources, Education increases the risk that awards are improperly allocated.

Questioned Costs

No specific questioned costs identified.

Recommendations

Education should develop a memo for each calculation that narrates the procedures performed and the source of data used to complete the calculation of grant awards. This memo should be approved by the reviewing manager to support that the calculation was performed accurately and that a proper review was performed over the calculation.

Department's View and Corrective Action Plan

As recommended, Education will strengthen existing policies and procedures for calculating the amount of subgrants awarded to each LEA by developing a memo confirming the procedures performed and the source of data used to complete the calculation of grant awards. The memo will also include the appropriate reviewing manager's approval.

Reference Number:	2010-7-6
Category of Finding:	Level of Effort—Maintenance of Effort
State Administering Department:	Department of Education (Education)

Federal Catalog Number:	84.010
Federal Program Title:	Title I, Part A Cluster: Title I Grants to Local Educational Agencies
Federal Award Numbers and Years:	S010A090005; 2009 S010A080005A; 2008 S010A070005A; 2007

Federal Catalog Number:	84.287
Federal Program Title:	Twenty-First Century Community Learning Centers
Federal Award Numbers and Years:	S287C090005; 2009 S287C080005A; 2008 S287C070005; 2007

Federal Catalog Number:	84.365
Federal Program Title:	English Language Acquisition Grants
Federal Award Numbers and Years:	T365A090005; 2009 T365A080005A; 2008 T365A070005A; 2007

Federal Catalog Number:	84.367
Federal Program Title:	Improving Teacher Quality State Grants
Federal Award Numbers and Years:	S367A090005A; 2009 S367A080005A; 2008 S367A070005A; 2007

Criteria

TITLE 34—EDUCATION, PART 299—GENERAL PROVISIONS, Subpart D—Fiscal Requirements, Section 299.5—What Maintenance of Effort Requirements Apply to ESEA Programs?

(a) General. An LEA receiving funds under an applicable program listed in paragraph (b) of this section may receive its full allocation of funds only if the State Educational Agency (SEA) finds that either the combined fiscal effort per student or the aggregate expenditures of state and local funds with respect to the provision of free public Education in the LEA for the preceding fiscal year was not less than 90 percent of the combined fiscal effort per student or the aggregate expenditures for the second preceding fiscal year.

(d) Expenditures

(1) In determining an LEA's compliance with paragraph (a) of this section, the SEA shall consider only the LEA's expenditures from state and local funds for free public education. These include expenditures for administration, instruction, attendance and health services, pupil transportation services, operation and maintenance of plant, fixed charges, and net expenditures to cover deficits for food services and student body activities.

(2) The SEA may not consider the following expenditures in determining an LEA's compliance with the requirements in paragraph (a) of this section:

(i) Any expenditures for community services, capital outlay, debt service, or supplemental expenses made as a result of a Presidentially declared disaster.

(ii) Any expenditures made from funds provided by the federal government.

U.S. OFFICE OF MANAGEMENT AND BUDGET (OMB) *CIRCULAR A-133 COMPLIANCE SUPPLEMENT* (A-133 COMPLIANCE SUPPLEMENT), PART 3–COMPLIANCE REQUIREMENTS, G. MATCHING, LEVEL OF EFFORT, EARMARKING, Suggested Audit Procedures–Compliance

Level of Effort—Maintenance of Effort

2.1(c) Perform procedures to verify that the amounts used in the computation were derived from the books and records from which the audited financial statements were prepared.

Condition

Similar to an issue we reported for fiscal year 2008–09, Education was using unaudited local educational agency (LEA) expenditure figures to calculate compliance with the maintenance-of-effort (MOE) requirements instead of using the final audited expenditures. Upon further inquiry, we noted that LEAs are required to submit their unaudited financial trial balances electronically in the state-required format, Standard Account Code Structure (SACS), to Education by October 15th of each year. These SACS trial balances are then used for all LEA financial measurement calculations (such as level of effort) performed by Education. The final audited financial statements are submitted in hard copy or electronically to Education through the State Controller's Office by December 15; however, there is not a required follow-up submission of the final SACS trial balance to Education. The financial statements submitted are not at the level of detail that would allow Education to prepare these fiscal effort calculations. There is no policy or procedure in place to review and reconcile the unaudited SACS trial balance to the final audited financial statement or to review the subsequent year's SACS trial balance submission in the following October for any material adjustments to the fund balance for prior-year audit adjustments.

For fiscal year 2009–10, the MOE is based on LEA expenditures for July 1, 2007, through June 30, 2008, which have since been audited and for which the audit reports have been completed and available since December 2008. Education's position is that it will not require LEAs to submit audited data during the 24 months between the audit date and the MOE date of December 2010. Education states that it cannot require LEAs to make an additional submission of the final audited expenditure data used to make these fiscal-effort calculations due to state law. However, by using the unaudited figures, there is a risk that material adjustments or omissions may not be adequately reflected and computed in the MOE calculation.

Questioned Costs

No specific questioned costs identified.

Recommendation

Education should enhance its current MOE policies and procedures to ensure that they comply with required federal guidelines.

Department's View and Corrective Action Plan

To ensure MOE calculations reflect material adjustments or omissions, Education sends final MOE calculations back to LEAs if final calculations differ from the preliminary calculations.

Auditor's Comment on the Department's View

Education's view does not ensure that MOE calculations reflect material adjustments or omissions as it only performs a final calculation for those LEAs that fail the preliminary calculation. If the preliminary calculation passes, no further analysis is performed. The possibility exists that an LEA could have an audit adjustment that creates an MOE calculation failure that goes undetected because that LEA passed the preliminary calculation. In addition, the final calculations do not incorporate final audited figures.

If Education believes that its current approach for calculating MOE complies with federal requirements, it should obtain approval from the U.S. Department of Education. Otherwise, Education should take steps to ensure that the amounts it uses in its MOE calculation were derived from the books and records from which the audited financial statements were prepared.

Reference Number:	2010-7-7
Federal Catalog Number:	84.048
Federal Program Title:	Career and Technical Education—Basic Grants to States
Federal Award Number and Year:	V048A070005; 2007
Category of Finding:	Level of Effort—Maintenance of Effort
State Administering Department:	Department of Education (Education)

Criteria

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

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

Condition

This audit finding repeats a finding reported for fiscal year 2008–09. During our review of Education's fiscal year 2009–10 maintenance-of-effort (MOE) requirement for the Career and Technical Education program, we noted that there was no review and approval of the MOE calculation, even

though we determined that the MOE requirement was met. Without the proper review and approval, Education increases its risk of noncompliance. Noncompliance with this MOE requirement can result in penalties and a reduction in future year's grant awards.

Questioned Costs

No specific questioned costs identified.

Recommendation

Education should strengthen its internal control over the review and approval process of its MOE calculation to ensure the accuracy and completeness of the calculation in conformance with the federal regulations.

Department's View and Corrective Action Plan

Education has developed a procedure manual that describes the process to be followed for calculating MOE. In addition, Education currently requires a secondary review be conducted by a manager. However, because the MOE calculations worksheets cannot be completed until close to the end of the calendar year, they were not completed or reviewed by a manager at the time of the audit.

Auditor's Comment on the Department's View

Education's Corrective Action Plan was implemented for its fiscal year 2010–11 MOE requirement, which will be reviewed during its next audit.

Reference Number:	2010-7-8
Federal Catalog Number:	84.048
Federal Program Title:	Career and Technical Education— Basic Grants to States
Federal Award Numbers and Years:	V048A090005; 2009 V048A080005; 2008 V048A070005; 2007
Category of Finding:	Level of Effort—Supplement not Supplant
State Administering Department:	Department of Education (Education)

Criteria

TITLE 34—EDUCATION, Part 75—Direct Grant Programs, Subpart F—What Are the Administrative Responsibilities of a Grantee? Section 75.702—Fiscal Control and Fund Accounting Procedures

A grantee shall use fiscal control and fund accounting procedures that insure proper disbursement of and accounting for federal funds.

Condition

This audit finding repeats a finding reported for fiscal year 2008–09. Education has policies and procedures for monitoring its compliance with the requirement to use program funds to supplement rather than supplant existing funds for its state activities and operations expenditures. However, there is no documentation that such policies and procedures have been performed, even though we

determined that program funds were used to supplement rather than supplant existing funds. Without documentation that the policies and procedures have been performed, Education cannot substantiate that they were performed. If they were not performed, Education increases its risk of noncompliance.

Questioned Costs

No specific questioned costs identified.

Recommendation

Education's policies and procedures should be enhanced to include internal controls that require the documentation of the performance of such procedures to ensure that Education is in compliance with this requirement.

Department's View and Corrective Action Plan

Education does not concur with this finding. Education's budgetary processes include built-in controls to ensure that federal funds are not being used to supplant any reduction or elimination of nonfederal appropriated activities. Education's budgetary processes and controls are effective in preventing supplanting as documented and evidenced in Education's accounting and budgetary records.

Auditor's Comments on Department's View

Our observation is not challenging the existence or design of the related internal controls. Rather, our recommendation relates to the documentation of certain procedures being performed by Education as part of the budgetary process. This documentation will demonstrate that the internal controls are operating as designed.

Reference Number:	2010-7-9
Federal Catalog Number:	84.048
Federal Program Title:	Career and Technical Education—Basic Grants to States
Federal Award Number and Year:	V048A070005; 2007
Category of Finding:	Matching
State Administering Department:	Department of Education (Education)

Criteria

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

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

Condition

During our testing of the match requirement calculation, we noted that the amount of the match approved for reporting was not supported by the calculation worksheets. Upon further inquiry, Education could not provide documentation to support the reported match amount. However, it should be noted that the match requirement was met. With inadequate internal control policies and procedures, Education increases its risk of noncompliance.

Questioned Costs

No specific questioned costs identified.

Recommendation

Education should enhance its internal control policies and procedures to ensure that match amounts reported are fully supported by accounting records.

Department's View and Corrective Action Plan

Education will strengthen existing policies and procedures to ensure that the reported match amounts are adequately documented.

Reference Number:	2010-12-7
Federal Catalog Numbers:	84.391, 84.392
Federal Program Titles:	Special Education Cluster: Special Education—Grants to States, Recovery Act, and Special Education—Preschool Grants, Recovery Act
Federal Award Numbers and Year:	H391A090116A; 2009 H392A090120A; 2009
Category of Finding:	Reporting
State Administering Department:	Department of Education (Education)

Criteria

Per OMB memorandum M-09-21, *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009* (Recovery Act) dated June 22, 2009, Section 4.2, prime recipients, as owners of the data submitted, have the principal responsibility for the quality of the information submitted. Prime recipient:

- Owns recipient data and sub-recipient data
- Initiates appropriate data collection and reporting procedures to ensure that Section 1512 reporting requirements are met in a timely and effective manner
- Implements internal control measures as appropriate to ensure accurate and complete information
- Performs data quality reviews for material omissions and/or significant reporting errors, making appropriate and timely corrections to prime recipient data and working with the designated sub-recipient to address any data quality issues

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

- Establishing control totals (e.g., total number of projects subject to reporting, total dollars allocated to projects) and verify that reported information matches the established control totals;
- Creating an estimated distribution of expected data along a "normal" distribution curve and identifying outliers;

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

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

Per Section 4.4, recipients and sub-recipients reporting Section 1512 data into the www.FederalReporting.gov solution must initiate a review of the data both prior to, and following, the formal submission of data. The post-submission review period runs from the 11th day of the reporting month to the 21st day of the reporting month for prime recipients. During this post-submission review period, significant reporting errors or material omissions that are discovered can be corrected using the www.FederalReporting.gov solution. Specific instructions for submitting new or corrected data will be provided on the www.FederalReporting.gov website. The prime recipients are responsible for reviewing data submitted by sub-recipients. Where a recipient identifies a data quality issue with respect to information submitted by the sub-recipient, the recipient is required to alert the relevant sub-recipient of the nature of the problem identified by the recipient. All corrections by recipients and sub-recipients during this phase of the review must be transmitted by the 21st day of the reporting month.

Condition

Education requires subrecipients of Recovery Act funding to submit Section 1512 report data using the Education developed Web-based ARRA Reporting and Data Collection System and to maintain the records supporting the submitted data. During our testing of subrecipient monitoring, we noted that Education did not monitor subrecipients for accuracy in Section 1512 reporting.

Education's fourth quarter Section 1512 reporting reflected expenditures totaling $615,909,413 being passed through to subrecipients, which represents 100 percent of the total Recovery Act expenditures incurred from inception to June 30, 2010. By not properly monitoring the accuracy of Section 1512 reporting, Education cannot ensure the quality and completeness of data submissions.

In addition, federal agencies will work to identify and remediate instances in which recipients that demonstrate systemic or chronic deficiencies in meeting its responsibilities to review and identify data quality problems of subrecipients consistent with the requirements of this guidance. On a case-by-case basis, such findings of a federal agency can result in termination of federal funding and/or initiation of suspension and debarment procedings of either the recipient or subrecipient or both. Furthermore, in some cases, intentional reporting of false information can result in civil and/or criminal penalties.

Questioned Costs

No specific questioned costs identified.

Recommendations

Education should revise its current practices to conform with the requirements set-forth in OMB memorandum M-09-21. Management should design internal controls to ensure that such controls are operating effectively to ensure ongoing compliance with the aforementioned compliance requirements.

Department's View and Corrective Action Plan

To ensure the accuracy of subrecipients' Section 1512 reporting, Education's Special Education Self-Review fiscal monitoring procedures have been enhanced to specifically include the review of Recovery Act Section 1512 reporting information. In addition, a supplemental desk audit form will also be utilized to help ensure the accuracy of subrecipients' Section 1512 reporting.

Reference Number:	2010-12-12
Federal Catalog Number:	84.048
Federal Program Title:	Career and Technical Education— Basic Grants to States
Federal Award Numbers and Years:	V048A080005; 2008 V048A070005; 2007 V048A060005; 2006
Category of Finding:	Reporting
State Administering Department:	Department of Education (Education)

Criteria

TITLE 20—EDUCATION, CHAPTER 44—CAREER AND TECHNICAL EDUCATION, SUBCHAPTER I—CAREER AND TECHNICAL EDUCATION ASSISTANCE TO THE STATES, Part A—Allotment and Allocation, Section 2323—Accountability

(c) Report

(1) In general

Each eligible agency that receives an allotment under section 2321 of this title shall annually prepare and submit to the Secretary [of Education] a report regarding—(A) the progress of the state in achieving the state-adjusted levels of performance on the core indicators of performance; and (B) information on the levels of performance achieved by the state with respect to the additional indicators of performance, including the levels of performance for special populations.

(2) Data

Except as provided in paragraphs (3) and (4), each eligible agency that receives an allotment under section 2321 or 2371 of this title shall—(A) disaggregate data for each of the indicators of performance under subsection (b)(2) for the categories of students described in section 6311(h)(1)(C)(i) of this title and section 2302(29) of this title that are served under this chapter; and (B) identify and quantify any disparities or gaps in performance between any such category of students and the performance of all students served by the eligible agency under this chapter, which shall include a quantifiable description of the progress each such category of students served by the eligible agency under this chapter has made in meeting the state-adjusted levels of performance.

(3) Nonduplication

The secretary shall ensure that each eligible agency does not report duplicative information under this section.

(4) Rules for reporting of data

The disaggregation of data under paragraph (2) shall not be required when the number of students in a category is insufficient to yield statistically reliable information or when the results would reveal personally identifiable information about an individual student.

Condition

This repeats an audit finding that we reported in fiscal year 2008–09. During the review of the processes and controls over the Consolidated Annual Performance, Accountability, and Financial Status Report (CAR), it was noted that the Perkins data collection system is used to prepare the CAR; however, Education lacked internal controls over this system that ensure data reported by

local eduational agencies (LEAs) included in the CAR submitted in December 2009 were complete, accurate, and reliable. It should be noted that as of May 2010, Education designed and implemented internal controls as part of its revised policies and procedures to validate the accuracy and completeness of the data provided by the LEAs. We reviewed the design of the internal controls; however, we could not determine if such controls are operating as designed since a CAR has not been issued subsequent to May 2010.

Questioned Costs

No specific questioned costs identified.

Recommendation

Education should verify that the newly designed internal controls are operating as designed in conjunction with the preparation of its future CARs.

Department's View and Corrective Action Plan

The controls Education has implemented to improve the quality of data submitted for the annual CAR are complete and operating as designed. This includes the availability of an electronic upload for data submitted by the LEAs. After the submission period ends, the data is reviewed and verified for correctness and completeness. When discrepancies are found, the LEA is contacted and required to make the necessary corrections prior to the approval of the current application. LEAs failing to submit data from the prior year and no longer participating in the grant were contacted to either submit the required data or remit the granted funds.

In addition, the Perkins Program Monitoring system has been implemented. LEAs failing to meet required performance targets are required to complete a self-review, including the review of data submitted for E–1 and E–2 reporting. Education is currently conducting site-monitoring visits based on suspected inaccuracies in data reporting and providing technical assistance to make the necessary corrections.

Reference Number:	2010-13-12
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Education (Education)

Federal Catalog Number:	84.010
Federal Program Title:	Title I, Part A Cluster: Title I Grants to Local Educational Agencies
Federal Award Numbers and Years:	S010A070005A; 2007 S010A060005A; 2006 S010A050005; 2005

Federal Catalog Number:	84.011
Federal Program Title:	Migrant Education—State Grant Program
Federal Award Numbers and Years:	S011A070005C; 2007 S011A060005A; 2006 S011A050005; 2005

Federal Catalog Number:	84.048
Federal Program Title:	Career and Technical Education—Basic Grants to States
Federal Award Numbers and Years:	V048A070005; 2007 V048A060005; 2006 V048A050005; 2005

Federal Catalog Number:	84.287
Federal Program Title:	Twenty-First Century Community Learning Centers
Federal Award Numbers and Years:	S287C070005; 2007 S287C060005; 2006 S287C050005; 2005

Federal Catalog Number:	84.365
Federal Program Title:	English Language Acquisition Grants
Federal Award Numbers and Years:	T365A070005A; 2007 T365A060005; 2006 T365A050005; 2005

Federal Catalog Number:	84.367
Federal Program Title:	Improving Teacher Quality State Grants
Federal Award Numbers and Years:	S367A070005A; 2007 S367A060005A; 2006 S367A050005; 2005

Criteria

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

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

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

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

TITLE 34—EDUCATION, PART 80—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS, Subpart C—Post-Award Requirements—Financial Administration, Section 80.40—Monitoring and Reporting Program Performance

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

Condition

As in the case of an issue we reported for fiscal year 2008–09, we reviewed the support for the follow-up by the Categorical Program Monitoring Unit (Categorical Monitoring) to ensure corrective action on deficiencies noted during Categorical Monitoring's site visits of local educational agencies (LEAs). We tested 41 of the 185 Categorical Monitoring site visits completed during the year and noted the number of days between the exit date and the receipt of the corrective actions that resulted in Education's resolving all deficiencies. Education requires LEAs to resolve all deficiencies within 225 days of the exit date. Of the 41 site visits tested, 28 had exit dates more than 225 days prior to the audit testing date. For 16 of those 28 site visits tested in which it had been more than 225 days since the exit date, the LEAs had not yet submitted their corrective actions for all deficiencies noted during the visit. It was also noted that eight of those 16 LEAs had submitted corrective actions for some of the deficiencies noted during the site visits, but Education was not prompt in resolving many of those submitted corrective actions.

The delayed resolution of outstanding Categorical Monitoring deficiencies appear to be due to a combination of delayed follow-up and ineffective sanctions imposed by Education on its LEAs for belated implementation of corrective action plans. Without effective consequences for the delays, LEAs do not have an incentive to implement corrective actions in a timely manner.

Questioned Costs

No specific questioned costs identified.

Recommendations

Education should enhance its current monitoring policies and procedures to ensure that LEAs implement promptly the proposed corrective actions on deficiencies noted during monitoring visits and that consequences for delayed resolutions are effective for deterring such noncompliance. In addition, once it receives proposed resolution forms from LEAs, Education should be more prompt in resolving corrective actions.

Department's View and Corrective Action Plan

To enhance monitoring policies and procedures, Education is implementing the following actions:

(1) The Categorical Program Monitoring (CPM) Protocols are being refined to ensure prompt follow-up and resolution of outstanding CPM findings. The CPM Protocols provide monitoring staff specific information about developing, reporting, and resolving conditions noted in the Notification of Findings report. The revised CPM Protocols will require findings to include the following components: (1) a statement of the legal requirements; (2) a description of the evidence reviewed; (3) a statement that explains how the evidence supports the conclusion reached by a program monitor regarding a specific finding; and (4) a clear statement that describes what the LEA must do to resolve the finding and meet legal requirements.

(2) The CPM Office continues to conduct internal reviews of the Notification of Findings for each monitoring visit to ensure that all required components are documented following an on-site visit.

(3) Education in coordination with WestEd, has enhanced the on-line system known as the California Accountability and Improvement System (CAIS). CAIS has the capacity to store, retrieve, and track large volumes of compliance evidence and other information. CAIS improves communication and coordination between Education and LEAs, and creates greater efficiency and transparency to compliance monitoring. An expanded use of CAIS was implemented during the Cycle C and Cycle D on-site reviews that commenced in January 2010 and concluded in June 2010. Further expansion of the use of CAIS will occur during fiscal year 2010–11, and will include a collaborative partnership with county offices of education.

In addition, Education is developing new CAIS functionalities that will replace paper-based processes with electronic processes to assist in monitoring resolution of findings of non-compliance documents and compliance agreements. In this regard, Education is striving for real-time compliance resolution tracking functions within CAIS that will allow monitoring staff to immediately access key LEA data that specifies who, what, and how long it will take (or has taken) to resolve CPM findings, as well as provide access to various standard reporting functions. Education is also working with WestEd to implement time-based electronic notifications to monitoring staff and LEAs of upcoming deadlines related to the resolution of CPM findings.

Reference Number:	2010-13-14
Federal Catalog Number:	84.048
Federal Program Title:	Career and Technical Education—Basic Grants to States
Federal Award Numbers and Years:	V048A090005; 2009 V048A080005; 2008
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Education (Education)

Criteria

U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133, *AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS* (OMB CIRCULAR A-133), Subpart B—Audits, Section ___.210 Subrecipient and Vendor Determinations

(b) Federal award. Characteristics indicative of a Federal award received by a subrecipient are when the organization:

(1) Determines who is eligible to receive what federal financial assistance;

(2) Has its performance measured against whether the objectives of the federal program are met;

(3) Has responsibility for programmatic decision making;

(4) Has responsibility for adherence to applicable federal program compliance requirements; and

(5) Uses the federal funds to carry out a program of the organization as compared to providing goods or services for a program of the pass-through entity.

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

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

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

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

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

(D) require each of its subrecipients of Federal awards to permit, as a condition of receiving Federal awards, the independent auditor of the pass-through entity to have such access to the subrecipient's records and financial statements as may be necessary for the pass-through entity to comply with this chapter.

Condition

Education considers its relationship with the Board of Governors of the California Community Colleges (CCC) to be that of a vendor, and therefore, does not monitor its use of pass-through federal awards. However, during our review of allowable costs and activities, it was noted that the interagency agreement with CCC defines a subrecipient relationship.

During the fiscal year ended June 30, 2010, Education disbursed $59,572,473 to CCC, which represents 46 percent of the total award funds disbursed for the fiscal year ended June 30, 2010. Education is not in compliance with the subrecipient monitoring requirements of OMB Circular A-133 as it relates to CCC.

Questioned Costs

No specific questioned costs identified.

Recommendation

Education should enhance its policies and procedures to ensure that subrecipient and vendor relationships are properly identified to ensure that all subrecipients are properly included in Education's subaward monitoring activities.

Department's View and Corrective Action Plan

Education will enhance subrecipient monitoring policies and procedures to ensure that all subrecipients, including CCC, are considered in subaward monitoring activites.

Reference Number:	2010-13-15
Federal Catalog Number:	84.394
Federal Program Title:	State Fiscal Stabilization Fund (SFSF)—Education State Grants, Recovery Act
Federal Award Number and Year:	S394A090005A; 2009
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Education (Education)

Criteria

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

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

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

TITLE 34—EDUCATION, PART 80—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS, Subpart C—Post-Award Requirements—Financial Administration, Section 80.40—Monitoring and Reporting Program Performance

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

OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133, SUBPART D—FEDERAL AGENCIES AND PASS-THROUGH ENTITIES, Section .400(d)—

A Pass-Through Entity Shall Perform the Following for the Federal Awards It Makes:

(3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts and grant agreements and that performance goals are achieved.

Condition

As the recipient of American Recovery and Reinvestment Act of 2009 (Recovery Act) funds, Education is responsible for ensuring that funds passed through to its subrecipients are used prudently and in accordance with federal program regulations. Education also has the responsibility that through its monitoring activities, reasonable assurance is provided that the subrecipients are administering the federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. Education's monitoring activities occur routinely throughout the year and consist of having regular contact with the subrecipients, providing training, guidance and technical assistance; performing on-site field reviews and desk reviews; and reviewing financial information submitted by the subrecipients related to Section 1512 reporting requirements.

As part of its monitoring plan, Education conducts fiscal monitoring via on-site field reviews and desk reviews. Desk reviews are to be conducted on a continuous basis, depending upon the availability of staffing resources. On-site field reviews are conducted in conjunction with Education's categorical program monitoring schedule and process. Since inception of the program, Education has passed through a total of $2.6 billion in SFSF program funds to over 1,500 local educational agencies (LEAs). According to the expenditures reported in Education's fourth quarter information submission for Section 1512 reporting purposes, LEAs have expended a total of nearly $2.1 billion. Education has performed on-site field reviews for 18 LEAs that have collectively received and expended $111.6 million and $68.1 million, respectively. Education has performed desk reviews for 69 LEAs that have collectively received and expended $84.9 million and $69.1 million, respectively. Combined, the 87 LEAs monitored represent $196.5 million, or 8 percent, of the total $2.6 billion of SFSF program funds passed through by Education. Similarly, the LEAs monitored account for $137.2 million, or 7 percent, of the total $2.1 billion expended by the LEAs through June 30, 2010.

As significant amounts of SFSF program funds have been disbursed to LEAs, Education needs to enhance the timeliness and scope of its subrecipient monitoring activities, as the risk for LEA noncompliance and possible misuse of funds, might not otherwise be detected on a timely basis due to the insufficient level of monitoring.

Questioned Costs

No specific questioned costs identified.

Recommendations

Generally, the larger the percentage of program awards that are passed through, the greater the need for subrecipient monitoring. Consequently, Education should expand upon the scope of its on-site field reviews and desk reviews, and evaluate whether the current categorical program monitoring process sufficiently addresses the subrecipient monitoring needs of the SFSF program in order to provide reasonable assurance that subrecipients are administering federal awards in compliance with applicable federal compliance requirements.

Department's View and Corrective Action Plan

For fiscal year 2010–11, Education is expanding the number of on-site SFSF monitoring reviews to ensure subrecipient compliance with federal requirements. To maximize SFSF fiscal monitoring coverage with limited resources, Education utilized a risk-based methodology in consideration of LEAs' prior year Single Audit findings and to capture the largest federal funding allocations, including SFSF, Recovery Act, Education Jobs, and categorical funding.

Reference Number:	2010-13-16
Federal Catalog Number:	84.357
Federal Program Title:	Reading First State Grants
Federal Award Numbers and Years:	S357A080005; 2008 S357A070005; 2007 S357A070005A; 2007
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Education (Education)

Criteria

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

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

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

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

TITLE 34—EDUCATION, PART 80—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS, Subpart C—Post-Award Requirements—Financial Administration, Section 80.40—Monitoring and Reporting Program Performance

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

Condition

This repeats a finding as reported in the prior year. During procedures performed over subrecipient monitoring, we noted Education outsources its monitoring to California Technical Assistance Centers (C-TAC). C-TAC performs program monitoring site reviews of the local educational agencies (LEAs). Per its contract with Education, C-TAC is required to perform three site visits per school district a year. We noted the following compliance issues with Education's monitoring process:

1. We obtained a copy of Education's contract with C-TAC and noted the responsibilities listed in the contract refer to program implementation and not program or fiscal subrecipient monitoring. C-TAC uses a standardized monitoring instrument similar to a checklist that details the areas required to be reviewed during a visit. We noted this monitoring instrument is focused on assisting with program implementation, but it does not contain procedures to ensure that the LEAs comply with laws, regulations, and the provisions of contracts or grant agreements; achieve performance goals; or comply with fiscal requirements.
2. C-TAC does not have any type of summary reports of findings to provide the LEAs or Education to document any issues noted or to convey deadlines to resolve any issues. C-TAC follows up on any implementation issues noted at its site review during its next scheduled site visit. Education is provided with a new monitoring instrument completed during the next visit.
3. Education requires that LEAs submit summarized final expenditure reports and program reports. Education reviews the summarized narratives in these reports as its evidence that LEAs are expending funds in accordance with federal guidelines. It has no processes in place to review any detail of reported expenditures on a sample basis to ensure that federal funds were expended in accordance with U.S. Office of Management and Budget, *Cost Principles for State, Local, and Indian Tribal Governments* (OMB Circular A-87).

Questioned Costs

No specific questioned costs identified.

Recommendations

Education should enhance its current policies and procedures over subrecipient monitoring, specifically during-the-award monitoring (for example, monitoring visits), to ensure that all material program elements are covered, including fiscal, and a formalized process is set up to follow up on and resolve issues promptly. Education should also enhance its procedures to include a review of the expenditure reports to ensure program funds are used in accordance with authorized purposes.

Department's View and Corrective Action Plan

Education received an extension of the unused portion of the 2008–09 federal funds through September 2011. As such, Education will continue to work effectively with C-TAC and with Reading First Regional Technical Assistance Centers to oversee and improve the monitoring of LEAs involved in the Reading First program and to follow up promptly on known outstanding issues.

Reference Number:	2010-14-6
Federal Catalog Numbers:	84.391, 84.392
Federal Program Titles:	Special Education Cluster: Special Education—Grants to States, Recovery Act, and Special Education—Preschool Grants, Recovery Act
Federal Award Numbers and Year:	H391A090116A; 2009 H392A090120A; 2009
Category of Finding:	Special Tests and Provisions
State Administering Department:	Department of Education (Education)

Criteria

TITLE 2—GRANTS AND AGREEMENTS, CHAPTER I-OFFICE OF MANAGEMENT AND BUDGET GOVERNMENTWIDE GUIDANCE FOR GRANTS AND AGREEMENTS, PART 176—AWARD TERMS FOR ASSISTANCE AGREEMENTS THAT INCLUDE FUNDS UNDER THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009 (Recovery Act), Subpart D—Single Audit Information for Recipients of Recovery Act Funds

Section 176.210 Award Term—Recovery Act transactions listed in Schedule of Expenditures of Federal Awards and Recipient Responsibilities for Informing Subrecipients.

(c) Recipients agree to separately identify to each subrecipient, and document at the time of subaward and at the time of disbursement of funds, the Federal award number, Catalog of Federal Domestic Assistance (CFDA) number, and amount of Recovery Act funds. When a recipient awards Recovery Act funds for an existing program, the information furnished to subrecipients shall distinguish the subawards of incremental Recovery Act funds from regular subawards under the existing program.

Condition

During our testing of the Special Tests and Provisions compliance requirement, including discussions with program management, we noted that Education is not identifying to each of its subrecipients, and documenting at the time of subaward the federal award number. Also, at the time of disbursement of Recovery Act funds, Education is not informing each subrecipient of the federal award number, CFDA number, and the amount of Recovery Act funds.

Education's fourth quarter Section 1512 reporting reflected expenditures totaling $615,909,413 being passed through to subrecipients, which represents 100 percent of the total Recovery Act expenditures incurred from inception to June 30, 2010.

By not properly informing its subrecipients of the federal award number, CFDA number, and the amount of Recovery Act funds, there is a risk that subrecipients may not be identifying and properly accounting and reporting Recovery Act funds. This may result in reducing Education's ability to properly monitor the subrecipients expenditure of Recovery Act funds, as well as assisting in any oversight by the federal awarding agency, Office of Inspector General, and the Government Accountability Office.

Questioned Costs

No specific questioned costs identified.

Recommendations

Education should expand upon its current practices to conform with the requirements set forth in Section 176.210 of Title 2 of the Code of Federal Regulations. Management should design internal controls that ensure ongoing compliance with the aforementioned compliance requirements.

Department's View and Corrective Action Plan

The IDEA Recovery Act grant awards included the CFDA number and provided the actual name of the IDEA Recovery Act grant award. In addition, each IDEA Recovery Act grant award includes the name of the grant award and a unique Standardized Account Code Structure (SACS) resource codes. The Special Education Local Plan Areas and districts report IDEA Recovery Act expenditures and report Recovery Act 1512 data using these SACS resource codes.

Auditor's Comments on Department's View

We do not disagree with Education's view. However, the response does not address the fact that Education is not separately identifying to each subrecipient, and documenting at the time of subaward, the federal award number. In addition, Education's response does not address the fact that at the time of disbursement of Recovery Act funds, it is not informing each subrecipient of the federal award number, CFDA number, and the amount of Recovery Act funds as required. Education's response also does not provide a corrective action plan to address this condition.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Reference Number:	2010-3-5
Federal Catalog Numbers:	93.575, 93.596
Federal Program Titles:	CCDF Cluster: Child Care and Development Block Grant and Child Care Mandatory and Matching Funds of the Child Care and Development Fund
Federal Award Numbers and Years:	G0901CACCDF; 2009 G0801CACCDF; 2008
Category of Finding:	Cash Management
State Administering Department:	Department of Education (Education)

Criteria

TITLE 31—MONEY AND FINANCE: TREASURY CHAPTER II—FISCAL SERVICE, DEPARTMENT OF THE TREASURY PART 205—RULES AND PROCEDURES FOR EFFICIENT FEDERAL-STATE FUNDS TRANSFERS, Subpart A—Rules Applicable to Federal Assistance Programs Included in a Treasury-State Agreement Section 205.12—What Funding Techniques May Be Used?

(a) We and a State may negotiate the use of mutually agreed upon funding techniques. We may deny interest liability if a State does not use a mutually agreed upon funding technique. Funding techniques should be efficient and minimize the exchange of interest between States and Federal agencies.

CASH MANAGEMENT IMPROVEMENT ACT (CMIA) Agreement between the State of California and the Secretary of the Treasury, United States Department of the Treasury, Section 6.0 Funding Techniques

6.2.4 The following are terms under which State unique funding techniques shall be implemented for all transfers of funds to which the funding technique is applied in section 6.3 of this Agreement.

Monthly Estimate/Monthly Draw—The State departments will estimate the monthly expenditures during the first week of each month. This amount will be requested within the first ten working days of each month. The request shall be made in accordance with the appropriate Federal agency cut-off time specified in Exhibit I. The State will reconcile the actual expenditures to the estimate for each month and adjust the subsequent request for funds. This funding technique is interest neutral.

6.3.1 The State shall apply the following funding techniques when requesting Federal funds for the component cash flows of the programs listed in sections 4.2 and 4.3 of this Agreement.

6.3.2 Programs—Below are programs listed in Section 4.2 and Section 4.3:

93.575 Child Care and Development Block Grant

Recipient:	Department of Education
Component:	Payments to child care providers
Technique:	Monthly Estimate/Monthly Draw

93.596 Child Care Mandatory and Matching Funds of the Child Care and Development Fund

Recipient:	Department of Education
Component:	Payments to child care providers
Technique:	Monthly Estimate/Monthly Draw

Condition

During our testing of compliance with the Cash Management requirements, we noted that Education is not using the funding technique set forth in the CMIA Agreement as it relates to payments made to child care providers. Currently, Education is using a reimbursement technique for requesting federal funds associated with the aforementioned payments to child care providers. During the fiscal year ended June 30, 2010, Education incurred program expenditures totaling $476,133,689 related to payments to child care providers.

Pursuant to Title 31, Subpart A, Section 205.29 of the U.S. Code, if a State repeatedly or deliberately fails to request funds in accordance with the procedures established for its funding techniques, as set forth in the Treasury-State agreement, the State can be denied payment or credit for the resulting federal interest liability. In addition, notification of Education's noncompliance could be sent to the affected federal program agency for appropriate action, including, where appropriate, a determination regarding the impact of noncompliance on program funding.

Questioned Costs

No specific questioned costs identified.

Recommendation

Education should annually review the State's CMIA Agreement to ensure that the funding technique utilized by Education for the drawdown of program funds is in compliance with the CMIA Agreement. Additionally, Education should make the appropriate changes to the existing internal control structure so that such controls are designed and operating effectively to ensure ongoing compliance with the CMIA Agreement.

Department's View and Corrective Action Plan

To ensure that child care funding processes are consistent with the State CMIA agreement, Education will review the agreement and revise as necessary.

Approximately 13 years ago, the Department of Finance approved the establishment of a clearing account for which payments from various child care funding sources could be combined and paid as one warrant per vendor as opposed to creating numerous claim schedules and warrants each month. Education's clearing account payment process involves a "Monthly Estimate/Monthly Draw" concept. In this regard, state funding is initially utilized to make child care payments based on estimated or known monthly expenditures posted to the clearing account. If payments are based on estimates, funds drawn are reconciled to actual expenditures. However, actual monthly child care expenditures, not estimates, typically are posted and timely paid through the clearing account with state funds. Consequently, plans of financial adjustments in the following months are, in essence, reimbursements to Education, not child care vendor payments. Due to critical state budget conditions, payment from state funds and reimbursement from federal funds have recently been simultaneous.

Reference Number:	2010-13-13
Federal Catalog Numbers:	93.575, 93.596
Federal Program Titles:	CCDF Cluster: Child Care and Development Block Grant and Child Care Mandatory and Matching Funds of the Child Care and Development Fund

Federal Award Numbers and Years:	G0801CACCDF; 2008 G0701CACCDF; 2007 G0601CACCDF; 2006 G0501CACCDF; 2005
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Education (Education)

Criteria

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

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

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

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

TITLE 34—EDUCATION, PART 80—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS, Subpart C—Post-Award Requirements—Financial Administration, Section 80.40—Monitoring and Reporting Program Performance

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

Condition

As in the case of an issue we reported for fiscal year 2008–09, we reviewed the support for the follow-up by the Categorical Program Monitoring Unit (Categorical Monitoring) to ensure corrective action on deficiencies noted during Categorical Monitoring's site visits of local educational agencies (LEAs). We tested 41 of the 185 Categorical Monitoring site visits completed during the year and noted the number of days between the exit date and the receipt of the corrective actions that resulted in Education's resolving all deficiencies. Education requires LEAs to resolve all deficiencies within 225 days of the exit date. Of the 41 site visits tested, 28 had exit dates more than 225 days prior to the audit testing date. For 16 of those 28 site visits tested in which it had been more than 225 days since the exit date, the LEAs had not yet submitted their corrective actions for all deficiencies noted during the visit. It was also noted that eight of those 16 LEAs had submitted corrective actions for some of the deficiencies noted during the site visits, but Education was not prompt in resolving many of those submitted corrective actions.

The delayed resolution of outstanding Categorical Monitoring deficiencies appear to be due to a combination of delayed follow-up and ineffective sanctions imposed by Education on its LEAs for belated implementation of corrective action plans. Without effective consequences for the delays, LEAs do not have an incentive to implement corrective actions in a timely manner.

Questioned Costs

No specific questioned costs identified.

Recommendations

Education should enhance its current monitoring policies and procedures to ensure that LEAs implement promptly the proposed corrective actions on deficiencies noted during monitoring visits and that consequences for delayed resolutions are effective for deterring such noncompliance. In addition, once it receives proposed resolution forms from LEAs, Education should be more prompt in resolving corrective actions.

Department's View and Corrective Action Plan

To enhance monitoring policies and procedures, Education is implementing the following actions:

(1) The Categorical Program Monitoring (CPM) Protocols are being refined to ensure prompt follow-up and resolution of outstanding CPM findings. The CPM Protocols provide monitoring staff specific information about developing, reporting, and resolving conditions noted in the Notification of Findings report. The revised CPM Protocols will require findings to include the following components: (1) a statement of the legal requirements; (2) a description of the evidence reviewed; (3) a statement that explains how the evidence supports the conclusion reached by a program monitor regarding a specific finding; and (4) a clear statement that describes what the LEA must do to resolve the finding and meet legal requirements.

(2) The CPM Office continues to conduct internal reviews of the Notification of Findings for each monitoring visit to ensure that all required components are documented following an on-site visit.

(3) Education in coordination with WestEd, has enhanced the on-line system known as the California Accountability and Improvement System (CAIS). CAIS has the capacity to store, retrieve, and track large volumes of compliance evidence and other information. CAIS improves communication and coordination between Education and LEAs, and creates greater efficiency and transparency to compliance monitoring. An expanded use of CAIS was implemented during the Cycle C and Cycle D on-site reviews that commenced in January 2010 and concluded in June 2010. Further expansion of the use of CAIS will occur during fiscal year 2010–11, and will include a collaborative partnership with county offices of education.

In addition, Education is developing new CAIS functionalities that will replace paper-based processes with electronic processes to assist in monitoring resolution of findings of non-compliance documents and compliance agreements. In this regard, Education is striving for real-time compliance resolution tracking functions within CAIS that will allow monitoring staff to immediately access key LEA data that specifies who, what, and how long it will take (or has taken) to resolve CPM findings, as well as provide access to various standard reporting functions. Education is also working with WestEd to implement time-based electronic notifications to monitoring staff and LEAs of upcoming deadlines related to the resolution of CPM findings.

Reference Number:	2010-14-7
Federal Catalog Number:	93.713
Federal Program Title:	CCDF Cluster: ARRA—Child Care and Development Block Grant
Federal Award Number and Year:	G0901CACCD7; 2009
Category of Finding:	Special Tests and Provisions
State Administering Department:	Department of Education (Education)

Criteria

TITLE 2—GRANTS AND AGREEMENTS, CHAPTER I—OFFICE OF MANAGEMENT AND BUDGET GOVERNMENTWIDE GUIDANCE FOR GRANTS AND AGREEMENTS, PART 176—AWARD TERMS FOR ASSISTANCE AGREEMENTS THAT INCLUDE FUNDS UNDER THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009 (Recovery Act), Subpart D—Single Audit Information for Recipients of Recovery Act Funds

Section 176.210 Award term—Recovery Act transactions listed in Schedule of Expenditures of Federal Awards and Recipient Responsibilities for Informing Subrecipients.

(c) Recipients agree to separately identify to each subrecipient, and document at the time of subaward and at the time of disbursement of funds, the Federal award number, Catalog of Federal Domestic Assistance (CFDA) number, and amount of Recovery Act funds. When a recipient awards Recovery Act funds for an existing program, the information furnished to subrecipients shall distinguish the subawards of incremental Recovery Act funds from regular subawards under the existing program.

Condition

During our testing of the Special Tests and Provisions compliance requirement, including discussions with program management, we noted that Education is not identifying to each of its subrecipients, and documenting at the time of subaward the federal award number. Also, at the time of disbursement of Recovery Act funds, Education is not informing each subrecipient of the federal award number, CFDA number, and amount of Recovery Act funds.

Education's fourth quarter Section 1512 reporting reflected expenditures totaling $87,304,323 being passed through to subrecipients, which represents 74 percent of the total expenditures incurred for the year ended June 30, 2010.

By not properly informing its subrecipients of the federal award number, CFDA number, and the amount of Recovery Act funds, there is a risk that subrecipients may not be identifying and properly accounting and reporting Recovery Act funds in accordance with Section 176.210 of Title 2 of the Code of Federal Regulations (2 CFR, Section 176.210) requirements. This may result in reducing Education's ability to properly monitor the subrecipients expenditure of Recovery Act funds, as well as, assisting in any oversight by the federal awarding agency, Office of Inspector General, and the Government Accountability Office.

Questioned Costs

No specific questioned costs identified.

Recommendations

Education should expand upon its current practices to conform with the requirements set forth in 2 CFR, Section 176.210. Management should design internal controls that ensure ongoing compliance with the aforementioned compliance requirements.

Department's View and Corrective Action Plan

The CFDA number for child care is included in the contract funding terms and conditions. In addition, per requirements under 2 CFR, Section 176.210, Education will be posting to the Recovery Act Web page a table containing the following information: Recovery Act federal grants, federal grant award numbers, CFDA numbers, and amount of Recovery Act funds; Education will provide a link to the table in the Section 1512 quarterly communications to the LEAs.

To track the Recovery Act expenditures separately, the Recovery Act child care grants were given unique Standardized Account Code Structure (SACS) resource codes; subrecipients report Recovery Act expenditures and Section 1512 data using these SACS resource codes. The SACS resource codes are noted in the contract document, as part of the funding information (encumbrance funding face sheet); encumbrances are separated by program cost accounts via the SACS resource codes. The following child care Recovery Act grant awards and resource codes are unique to Recovery Act child care activities:

Child Development: ARRA Quality Improvement Activities—Resource 5037

Child Development: ARRA Federal Child Care, Center-based—Resource 5028

Child Development: ARRA Federal Alternative Payment (Contract Prefix CAPP)—Resource 5051

Child Development: ARRA Federal Alternative Payment, Stage 2 (Contract Prefix C2AP)—Resource 5063

Child Development: ARRA Federal Alternative Payment, Stage 3 (C3AP)—Resource 5064

Auditor's Comments on Department's View

We do not disagree with Education's view. However, the response does not address the fact that Education is not separately identifying to each subrecipient, and documenting at the time of subaward, the federal award number. In addition, Education's response does not address the fact that at the time of disbursement of Recovery Act funds, it is not informing each subrecipient of the federal award number, CFDA number, and the amount of Recovery Act funds as required. Education's response also does not provide a corrective action plan to address this condition.

AUDITEE'S SECTION

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Schedule of Federal Assistance

Prepared by Department of Finance

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STATE OF CALIFORNIA
SCHEDULE OF FEDERAL ASSISTANCE
FISCAL YEAR ENDED JUNE 30, 2010

Federal Agency/Program Title	Federal Catalog Number	Non-ARRA Amount Received		ARRA Amount Received	
Department of Agriculture					
Plant and Animal Disease, Pest Control, and Animal Care	10.025	$ 50,848			
Wildlife Services	10.028	89,263			
ARRA-Aquaculture Grants Program (AGP), Recovery Act Funded	10.086			1,052,508	
Market Protection and Promotion	10.163	480,559			
Farm Labor Housing Loans and Grants	10.405	6,351,111			
Food Safety Cooperative Agreements	10.479	98,547			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	1,087,486,507			
Child and Adult Care Food Program	10.558	265,861,502			
State Administrative Expenses for Child Nutrition	10.560	21,369,822			
Commodity Supplemental Food Program	10.565	16,583,117	*		
WIC Farmers' Market Nutrition Program (FMNP)	10.572	2,254,052			
Team Nutrition Grants	10.574	296,043			
Senior Farmers Market Nutrition Program	10.576	708,382			
Child Nutrition Discretionary Grants Limited Availability	10.579	1,907,417			
ARRA-Child Nutrition Discretionary Grants Limited Availability, Recovery Act Funded	10.579			12,083,769	
Fresh Fruit and Vegetable Program	10.582	4,096,420			
Cooperative Forestry Assistance	10.664	3,843,287			
National Forest-Dependent Rural Communities	10.670	99,527			
Urban and Community Forestry Program	10.675	369,401			
Forest Legacy Program	10.676	611,918			
Forest Stewardship Program	10.678	1,824,314			
Forest Health Protection	10.680	238,934			
Long Term Standing Agreements for Storage, Transportation And Lease	10.999	51,329,858			
Total Excluding Clusters		1,465,950,829		13,136,277	
SNAP Cluster					
Supplemental Nutrition Assistance Program	10.551	5,463,266,985	*,See Note 4		
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	584,548,013			
ARRA-State Administrative Matching Grants for the Supplemental Nutrition Assistance Program, Recovery Act Funded	10.561			10,946,735	
Total SNAP Cluster		6,047,814,998		10,946,735	
Child Nutrition Cluster					
School Breakfast Program	10.553	343,605,392			
National School Lunch Program	10.555	1,396,785,152	*		
Special Milk Program for Children	10.556	427,640			
Summer Food Service Program for Children	10.559	16,158,133	*		
Total Child Nutrition Cluster		1,756,976,317			
Emergency Food Assistance Cluster					
Emergency Food Assistance Program (Administrative Costs)	10.568	10,207,271			
ARRA-Emergency Food Assistance Program (Administrative Costs), Recovery Act Funded	10.568			3,110,058	
Emergency Food Assistance Program (Food Commodities)	10.569	70,625,994	*		
ARRA-Emergency Food Assistance Program (Food Commodities), Recovery Act Funded	10.569			6,777,857	*
Total Emergency Food Assistance Cluster		80,833,265		9,887,915	
Schools and Roads Cluster					

Schools and Roads - Grants to States	10.665	52,803,553		
Research & Development Cluster				
Long Term Standing Agreements for Storage, Transportation And Lease	10.999	21,150		
Total Department of Agriculture		9,404,400,112		33,970,927
Department of Commerce				
Market Development Cooperator Program	11.112	74,854		
Interjurisdictional Fisheries Act of 1986	11.407	113,140		
Coastal Zone Management Administration Awards	11.419	8,008,000		
Coastal Zone Management Estuarine Research Reserves	11.420	636,276		
Pacific Coast Salmon Recovery-Pacific Salmon Treaty Program	11.438	7,424,872		
Unallied Management Projects	11.454	850,000		
Habitat Conservation	11.463	5,868		
Public Safety Interoperable Communications Grant Program	11.555	21,234,506		
ARRA-State Broadband Data and Development Grant Program, Recovery Act Funded	11.558			429,015
Other - U.S. Department of Commerce	11.999	146,693		
Regional Fisheries Management Councils	11.441	130,211	See Note 5a	
Unallied Management Projects	11.454	334,024	See Note 5a	
Total Excluding Cluster		38,958,444		429,015
Public Works and Economic Development Cluster				
Economic Adjustment Assistance	11.307	522,976	**	
Research & Development Cluster				
Anadromous Fish Conservation Act Program	11.405	21,523		
Coastal Zone Management Estuarine Research Reserves	11.420	426,070		
Habitat Conservation	11.463	113,377		
ARRA-Habitat Conservation, Recovery Act Funded	11.463			1,289,725
Total Research & Development Cluster		560,970		1,289,725
Total Department of Commerce		40,042,390		1,718,740
Department of Defense				
Planning Assistance to States	12.110	983,802		
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113	12,347,907		
National Guard Military Operations and Maintenance (O&M) Projects	12.401	56,848,460		
National Guard Civilian Youth Opportunities	12.404	4,435,476		
Air Force Defense Research Sciences Program	12.800	5,335		
Other - U.S. Department of Defense	12.999	1,874,685		
Total Excluding Cluster		76,495,665		
Research & Development Cluster				
Planning Assistance to States	12.110	2,243,058		
Total Department of Defense		78,738,723		
Department of Housing and Urban Development				
Manufactured Home Construction and Safety Standards	14.171	197,313		
Emergency Shelter Grants Program	14.231	5,982,977		
Supportive Housing Program	14.235	1,680,707	**	
Home Investment Partnerships Program	14.239	139,869,848	**	
Housing Opportunities for Persons with AIDS	14.241	3,805,757		

ARRA-Homelessness Prevention and Rapid Re-Housing Program, Recovery Act Funded	14.257		10,306,969
ARRA-Tax Credit Assistance Program, Recovery Act Funded	14.258		37,380,795
Equal Opportunity in Housing	14.400	2,353,789	
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	678,779	
Total Excluding Cluster		154,569,170	47,687,764
CDBG - State-Administered Small Cities Program Cluster			
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	60,224,736	
ARRA-Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii, Recovery Act Funded	14.255		562,928
Total CDBG - State-Administered Small Cities Program Cluster		60,224,736	562,928
Housing Voucher Cluster			
Section 8 Housing Choice Vouchers	14.871	4,206,325	
Lead Hazard Control Cluster			
ARRA-Lead-Based Paint Hazard Control in Privately-Owned Housing, Recovery Act Funded	14.907		291,365
Total Department of Housing and Urban Development		219,000,231	48,542,057
Department of Interior			
Distribution of Receipts to State and Local Governments	15.227	61,876,073	
National Fire Plan - Wildland Urban Interface Community Fire Assistance	15.228	285,642	
Environmental Quality and Protection Resource Management	15.236	50,759	
Abandoned Mine Land Reclamation (AMLR) Program	15.252	35,032	
ARRA-Water 2025, Recovery Act Funded	15.507		82,445
Fish and Wildlife Coordination Act	15.517	97,132	
California Water Security and Environmental Enhancement	15.533	984,917	
Fish and Wildlife Management Assistance	15.608	19,623	
Coastal Wetlands Planning, Protection and Restoration Act	15.614	750,000	
Cooperative Endangered Species Conservation Fund	15.615	15,399,253	
Clean Vessel Act	15.616	882,895	
Sportfishing and Boating Safety Act	15.622	411,017	
North American Wetlands Conservation Fund	15.623	425,981	
Wildlife Conservation and Restoration	15.625	33,207	
Landowner Incentive Program	15.633	91,588	
Migratory Bird Conservation	15.647	206,687	
Central Valley Project Improvement (CVPI) Anadromous Fish Restoration Program (AFRP)	15.648	116,328	
Research Grants (Generic)	15.650	48,268	
Earthquake Hazards Reduction Program	15.807	72,256	
U.S. Geological Survey-Research and Data Acquisition	15.808	108,113	
National Cooperative Geologic Mapping Program	15.810	176,739	
National Geological and Geophysical Data Preservation Program	15.814	6,351	
ARRA-Volcano Hazards Program Research and Monitoring, Recovery Act Funded	15.818		29,095
Historic Preservation Fund Grants-In-Aid	15.904	900,186	
Outdoor Recreation-Acquisition, Development and Planning	15.916	2,482,377	
Other - U.S. Department of the Interior	15.999	12,416,171	
Total Excluding Clusters		97,876,595	111,540
Fish and Wildlife Cluster			
Sport Fish Restoration Program	15.605	1,079,798	
Research & Development Cluster			
Sport Fish Restoration Program	15.605	10,417,610	
Wildlife Restoration	15.611	9,183,732	
Coastal Wetlands Planning, Protection and Restoration Act	15.614	32,580	

Cooperative Endangered Species Conservation Fund	15.615	2,504,786			
State Wildlife Grants	15.634	2,619,750			
U.S. Geological Survey-Research and Data Acquisition	15.808	25,000			
Total Research & Development Cluster		24,783,458			
Total Department of Interior		123,739,851		111,540	
Department of Justice					
Law Enforcement Assistance-Narcotics and Dangerous Drugs-Laboratory Analysis	16.001	35,000			
Sexual Assault Services Formula Program	16.017	376,276			
Prisoner Reentry Initiative Demonstration (Offender Reentry)	16.202	901,509			
Juvenile Accountability Block Grants	16.523	4,637,300			
Juvenile Justice and Delinquency Prevention-Allocation to States	16.540	9,891,021			
Title V - Deliquency Prevention Program	16.548	12,382			
National Criminal History Improvement Program (NCHIP)	16.554	289,499			
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	288,327			
Crime Victim Assistance	16.575	36,299,277			
Crime Victim Compensation	16.576	20,641,007			
Edward Byrne Memorial Formula Grant Program	16.579	289,644			
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	1,712,587			
Violence Against Women Formula Grants	16.588	10,094,211			
ARRA-Violence Against Women Formula Grants, Recovery Act Funded	16.588			6,026,197	
Residential Substance Abuse Treatment for State Prisoners	16.593	1,173,983			
State Criminal Alien Assistance Program	16.606	112,501,838			
Bulletproof Vest Partnership Program	16.607	25,126			
Community Prosecution and Project Safe Neighborhoods	16.609	1,672,256			
Regional Information Sharing Systems	16.610	6,323,651			
Public Safety Partnership and Community Policing Grants	16.710	963,244			
Enforcing Underage Drinking Laws Program	16.727	727,851			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	33,813,812			
Forensic DNA Backlog Reduction Program	16.741	2,397,577			
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	1,226,386			
Anti-Gang Initiative	16.744	1,028,715			
Convicted Offender and/or Arrestee DNA Backlog Reduction Program	16.748	394,717			
Congressionally Recommended Awards	16.753	140,488			
ARRA-State Victim Assistance Formula Grant Program, Recovery Act Funded	16.801			1,910,816	
ARRA-State Victim Compensation Formula Grant Program, Recovery Act Funded	16.802			8,110,055	
ARRA-Eward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories, Recovery Act Funded	16.803			135,641,945	
ARRA-Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program, Recovery Act Funded	16.810			251,686	
Total Department of Justice		247,857,684		151,940,699	
Department of Labor					
Labor Force Statistics	17.002	8,092,294			
Compensation and Working Conditions	17.005	636,633			
Unemployment Insurance	17.225	11,373,335,651	**		See Note 3
ARRA-Unemployment Insurance, Recovery Act Funded	17.225			13,303,169,874	See Note 3
Senior Community Service Employment Program	17.235	7,925,790			
ARRA-Senior Community Service Employment Program, Recovery Act Funded	17.235			1,431,707	
Trade Adjustment Assistance	17.245	15,145,347			
Work Incentives Grant	17.266	1,719,548			

H-1B Job Training Grants	17.268	4,031,545	
Community Based Job Training Grants	17.269	549,022	
Reintegration of Ex-Offenders	17.270	99,255	
Work Opportunity Tax Credit Program (WOTC)	17.271	633,336	
Temporary Labor Certification for Foreign Workers	17.273	1,036,816	
ARRA-Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors, Recovery Act Funded	17.275		98,260
Occupational Safety and Health-State Program	17.503	22,729,664	
ARRA-Occupational Safety and Health-State Program, Recovery Act Funded	17.503		3,858
Consultation Agreements	17.504	5,440,544	
Mine Health and Safety Grants	17.600	561,739	
Total Excluding Clusters		11,441,937,184	13,304,703,699
Employment Service Cluster			
Employment Service/Wagner-Peyser Funded Activities	17.207	77,281,616	
ARRA-Employment Service/Wagner-Peyser Funded Activities, Recovery Act Funded	17.207		36,129,573
Disabled Veterans' Outreach Program (DVOP)	17.801	10,747,648	
Local Veterans' Employment Representative Program (LVER)	17.804	6,046,252	
Total Employment Service Cluster		94,075,516	36,129,573
WIA Cluster			
WIA Adult Program	17.258	122,573,600	
ARRA-WIA Adult Program, Recovery Act Funded	17.258		45,403,858
WIA Youth Activities	17.259	121,951,530	
ARRA-WIA Youth Activities, Recovery Act Funded	17.259		122,815,772
WIA Dislocated Workers	17.260	176,294,573	
ARRA-WIA Dislocated Workers, Recovery Act Funded	17.260		82,781,572
Total WIA Cluster		420,819,703	251,001,202
Total Department of Labor		11,956,832,403	13,591,834,474
Department of Transportation			
Airport Improvement Program	20.106	532,936	
National Motor Carrier Safety	20.218	14,585,459	
Performance and Registration Information Systems Management	20.231	295,000	
Commercial Driver's License Program Improvement Grant	20.232	397,427	
Border Enforcement Grants	20.233	8,101	
Fuel Tax Evasion-Intergovernmental Enforcement Effort	20.240	137,478	
Federal Transit - Metropolitan Planning Grants	20.505	443,473	
Formula Grants for Other Than Urbanized Areas	20.509	23,907,786	
ARRA-Formula Grants for Other Than Urbanized Areas, Recovery Act Funded	20.509		2,490,124
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	95,481,281	
Pipeline Safety Program Base Grants	20.700	2,668,101	
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	1,627,667	
Other - Department of Transportation	20.999	1,908,793	
Total Excluding Clusters		141,993,502	2,490,124
Highway Planning and Construction Cluster			
Highway Planning and Construction	20.205	2,034,585,112	
ARRA-Highway Planning and Construction, Recovery Act Funded	20.205		589,467,080
Total Highway Planning and Construction Cluster		2,034,585,112	589,467,080
Federal Transit Cluster			
Federal Transit - Capital Investment Grants	20.500	10,362,819	
Highway Safety Cluster			
State and Community Highway Safety	20.600	19,485,603	

Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	14,111,869		
Occupant Protection Incentive Grants	20.602	4,322,367		
Safety Belt Performance Grants	20.609	1,178,866		
State Traffic Safety Information System Improvement Grants	20.610	1,523,953		
Incentive Grant Program to Increase Motorcyclist Safety	20.612	1,284,228		
Total Highway Safety Cluster		41,906,886		
Research & Development Cluster				
Highway Planning and Construction	20.205	13,928,000		
Formula Grants for Other Than Urbanized Areas	20.509	1,202,000		
Total Research & Development Cluster		15,130,000		
Total Department of Transportation		2,243,978,319		591,957,204
Equal Employment Opportunity Commission				
Employment Discrimination-State and Local Fair Employment Practices Agency Contracts	30.002	2,083,630		
Donation of Federal Surplus Personal Property	39.003	23,174,086	*	
Total Equal Employment Opportunity Commission		25,257,716		
National Endowment for the Arts				
Promotion of the Arts-Partnership Agreements	45.025	1,194,800		
ARRA-Promotion of the Arts-Partnership Agreements, Recovery Act Funded	45.025			502,400
Total National Endowment for the Arts		1,194,800		502,400
Institute of Museum and Library Services				
Grants to States	45.310	13,995,328		
Small Business Administration				
Small Manufacturers Training Program	59.000	235,000		
Department of Veterans Affairs				
Grants to States for Construction of State Home Facilities	64.005	26,648,270		
Burial Expenses Allowance for Veterans	64.101	42,300		
Veterans Housing-Guaranteed and Insured Loans	64.114	112,492,703	***	
All-Volunteer Force Educational Assistance	64.124	879,920		
Other - U.S. Department of Veterans Affairs	64.999	916,215		
Total Department of Veterans Affairs		140,979,408		
Environmental Protection Agency				
Air Pollution Control Program Support	66.001	5,979,280		
State Indoor Radon Grants	66.032	228,608		
State Environmental Justice Cooperative Agreement Program	66.312	1,340		
Water Pollution Control State, Interstate, and Tribal Program Support	66.419	6,029,647		
State Public Water System Supervision	66.432	4,975,694		
State Underground Water Source Protection	66.433	653,023		
Targeted Watersheds Grants	66.439	157,031		
Water Quality Management Planning	66.454	366,146		
ARRA-Water Quality Management Planning, Recovery Act Funded	66.454			73,168
Capitalization Grants for Clean Water State Revolving Funds	66.458	57,025,657		

ARRA-Capitalization Grants for Clean Water State Revolving Funds, Recovery Act Funded	66.458		82,109,526
Nonpoint Source Implementation Grants	66.460	9,916,752	
Regional Wetland Program Development Grants	66.461	79,013	
Water Quality Cooperative Agreements	66.463	40,289	
Capitalization Grants for Drinking Water State Revolving Fund	66.468	25,396,972	
ARRA-Capitalization Grants for Drinking Water State Revolving Fund, Recovery Act Funded	66.468		20,012,122
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	66.471	1,279,602	
Beach Monitoring and Notification Program Implementation Grants	66.472	601,259	
Water Protection Grants to the States	66.474	155,534	
Environmental Information Exchange Network Grant Program and Related Assistance	66.608	280,758	
Consolidated Pesticide Enforcement Cooperative Agreements	66.700	1,763,152	
Toxic Substances Compliance Monitoring Cooperative Agreements	66.701	67,430	
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707	516,965	
Hazardous Waste Management State Program Support	66.801	6,383,118	
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.802	1,143,201	
Underground Storage Tank Prevention, Detection and Compliance Program	66.804	449,159	
Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805	2,547,255	
ARRA-Leaking Underground Storage Tank Trust Fund Corrective Action Program, Recovery Act Funded	66.805		4,562,010
Brownfields Training, Research, and Technical Assistance Grants and Cooperative Agreements	66.814	36,433	
State and Tribal Response Program Grants	66.817	1,828,298	
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	408,746	
ARRA-Brownfields Assessment and Cleanup Cooperative Agreements, Recovery Act Funded	66.818		1,684,534
Environmental Education Grants	66.951	29,176	
Total Excluding Cluster		128,339,538	108,441,360
Research & Development Cluster			
Regional Wetland Program Development Grants	66.461	32,674	
Pollution Prevention Grants Program	66.708	15,860	
Research, Development, Monitoring, Public Education, Training, Demonstrations, and Studies	66.716	52,926	
Total Research & Development Cluster		101,460	
Total Environmental Protection Agency		128,440,998	108,441,360

Department of Energy

State Energy Program	81.041	3,569,480	
ARRA-State Energy Program, Recovery Act Funded	81.041		27,700,016
Weatherization Assistance for Low-Income Persons	81.042	919,971	
ARRA-Weatherization Assistance for Low-Income Persons, Recovery Act Funded	81.042		23,488,196
Office of Science Financial Assistance Program	81.049	108,609	
Renewable Energy Research and Development	81.087	29,200	
Office of Environmental Waste Processing	81.104	117,326	
ARRA-Electricity Delivery and Energy Reliability, Research, Development and Analysis, Recovery Act Funded	81.122		2,428
ARRA-Energy Efficient Appliance Rebate Program (EEARP), Recovery Act Funded	81.127		2,341,900
ARRA-Energy Efficiency and Conservation Block Grant Program (EECBG), Recovery Act Funded	81.128		404,099
Long Term Surveillance and Maintenance	81.136	44,486	
Other - U.S. Department of Energy	81.999	2,273,902	
Total Excluding Cluster		7,062,974	53,936,639

Research & Development Cluster				
Other - U.S. Department of Energy	81.999	2,356,286		
Total Department of Energy		9,419,260		53,936,639
Department of Education				
Adult Education - Basic Grants to State	84.002	70,316,612		
Migrant Education-State Grant Program	84.011	131,380,083		
Title I Program for Neglected and Delinquent Children	84.013	3,726,920		
International Research and Studies	84.017	172,000		
Federal Family Education Loans	84.032	33,783,812,506	**	
Career and Technical Education--Basic Grants to States	84.048	130,226,728		
Leveraging Educational Assistance Partnership	84.069	10,979,991		
Fund for the Improvement of Postsecondary Education	84.116	65,915		
Migrant Education-Coordination Program	84.144	4,823		
Rehabilitation Services-Client Assistance Program	84.161	1,065,855		
Byrd Honors Scholarships	84.185	4,951,053		
Safe and Drug-Free Schools and Communities-State Grants	84.186	43,806,585		
Supported Employment Services for Individuals with Significant Disabilities	84.187	2,676,260		
Even Start-State Educational Agencies	84.213	7,192,016		
Assistive Technology	84.224	690,271		
Rehabilitation Services Demonstration and Training Programs	84.235	284,732		
Tech-Prep Education	84.243	13,218,173		
Rehabilitation Training-State Vocational Rehabilitation Unit In-Service Training	84.265	150,365		
Charter Schools	84.282	56,513,368		
Twenty-First Century Community Learning Centers	84.287	118,218,204		
Special Education-State Personnel Development	84.323	1,197,651		
Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	84.330	4,540,325		
Grants to States for Workplace and Community Transition Training for Incarcerated Individuals	84.331	2,564,055		
Reading First State Grants	84.357	81,095,146		
Rural Education	84.358	917,699		
English Language Acquisition Grants	84.365	86,009,132		
Mathematics and Science Partnerships	84.366	21,342,293		
Improving Teacher Quality State Grants	84.367	375,753,876		
Grants for State Assessments and Related Activities	84.369	33,355,236		
College Access Challenge Grant Program	84.378	6,915,421		
Total Excluding Cluster		34,993,143,294		
Title I, Part A Cluster				
Title I Grants to Local Educational Agencies	84.010	2,587,741,221		
ARRA-Title I Grants to Local Educational Agencies, Recovery Act Funded	84.389			130,301,343
Total Title I, Part A Cluster		2,587,741,221		130,301,343
Special Education Cluster (IDEA)				
Special Education--Grants to States	84.027	1,197,246,709		
Special Education--Preschool Grants	84.173	36,606,229		
ARRA-Special Education Grants to States, Recovery Act Funded	84.391			338,285,812
ARRA-Special Education-Preschool Grants, Recovery Act Funded	84.392			7,021,174
Total Special Education Cluster (IDEA)		1,233,852,938		345,306,986
Vocational Rehabilitation Cluster				
Rehabilitation Services-Vocational Rehabilitation Grants to States	84.126	234,111,479		
ARRA-Rehabilitation Services- Vocational Rehabilitation Grants to States, Recovery Act Funded	84.390			18,058,857
Total Vocational Rehabilitation Cluster		234,111,479		18,058,857
Early Intervention Services (IDEA) Cluster				
Special Education-Grants for Infants and Families	84.181	23,955,621		

ARRA-Special Education- Grants for Infants and Families, Recovery Act Funded	84.393		59,510,737
Total Early Intervention Services (IDEA) Cluster		23,955,621	59,510,737
Educational Technology State Grants Cluster			
Education Technology State Grants	84.318	20,798,122	
State Fiscal Stabilization Fund Cluster			
ARRA-State Fiscal Stabilization Fund (SFSF)-Education State Grants, Recovery Act Funded	84.394		1,932,512,340
ARRA-State Fiscal Stabilization Fund (SFSF)-Government Services, Recovery Act Funded	84.397		357,973,673
Total State Fiscal Stabilization Fund Cluster			2,290,486,013
Independent Living State Grants Cluster			
Independent Living-State Grants	84.169	487,940	
ARRA-Independent Living State Grants, Recovery Act Funded	84.398		263,093
Total Independent Living State Grants Cluster		487,940	263,093
Independent Living Services for Older Individuals Who Are Blind Cluster			
Rehabilitation Services-Independent Living Services for Older Individuals Who are Blind	84.177	3,126,027	
ARRA-Independent Living Services for Older Individuals Who are Blind, Recovery Act Funded	84.399		368,895
Total Independent Living Services for Older Individuals Who Are Blind Cluster		3,126,027	368,895
Education of Homeless Children and Youth Cluster			
Education for Homeless Children and Youth	84.196	10,195,805	
ARRA-Education for Homeless Children and Youth, Recovery Act Funded	84.387		4,431,142
Total Education of Homeless Children and Youth Cluster		10,195,805	4,431,142
Statewide Data Systems Cluster			
Statewide Data Systems	84.372	87,820	
School Improvement Grants Cluster			
School Improvement Grants	84.377	500,336	
Total Department of Education		39,108,000,603	2,848,727,066

Department of Health and Human Services

State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	93.006	294,135	
Strengthening Public Health Services at the Outreach Offices of the U.S.- Mexico Border Health Commission	93.018	215,034	
Special Programs for the Aging - Title VII, Chapter 3, Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041	458,481	
Special Programs for the Aging - Title VII, Chapter 2-Long Term Care Ombudsman Services for Older Individuals	93.042	1,636,637	
Special Programs for the Aging - Title III, Part D-Disease Prevention and Health Promotion Services	93.043	1,980,411	
Special Programs for the Aging - Title IV-and Title II-Discretionary Projects	93.048	613,844	
National Family Caregiver Support, Title III, Part E	93.052	15,603,506	
Public Health Emergency Preparedness	93.069	282,153,859	*
Medicare Enrollment Assistance Program	93.071	54,774	
Food and Drug Administration-Research	93.103	977,121	
Maternal and Child Health Federal Consolidated Programs	93.110	124,928	
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	9,380,769	
Emergency Medical Services for Children	93.127	72,087	

Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	93.130	196,984		
Centers for Research and Demonstration for Health Promotion and Disease Prevention	93.135	2,746		
Injury Prevention and Control Research and State and Community Based Programs	93.136	4,869,775		
Projects for Assistance in Transition from Homelessness (PATH)	93.150	6,635,406		
Health Program for Toxic Substances and Disease Registry	93.161	526,204		
Grants to States for Loan Repayment Program	93.165	987,187		
Disabilities Prevention	93.184	238,629		
Consolidated Knowledge Development and Application (KD&A) Program	93.230	5,714,743		
Traumatic Brain Injury State Demonstration Grant Program	93.234	83,308		
State Rural Hospital Flexibility Program	93.241	10,640		
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	27,836		
Universal Newborn Hearing Screening	93.251	213,279		
Substance Abuse and Mental Health Services - Access to Recovery	93.275	4,179,059		
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	10,351,217		
ARRA-State Primary Care Offices, Recovery Act Funded	93.414			29,372
Food Safety and Security Monitoring Project	93.448	568,223	*	
Promoting Safe and Stable Families	93.556	35,872,379		
Child Support Enforcement	93.563	374,770,929		
ARRA-Child Support Enforcement, Recovery Act Funded	93.563			113,112,958
Child Support Enforcement Research	93.564	5,752		
Refugee and Entrant Assistance - State Administered Programs	93.566	38,359,240		
Low-Income Home Energy Assistance	93.568	175,665,244		
Refugee and Entrant Assistance - Discretionary Grants	93.576	2,886,547		
U.S Repatriation Program	93.579	89,043		
Refugee and Entrant Assistance - Targeted Assistance Grants	93.584	2,906,414		
State Court Improvement Program	93.586	2,514,709		
Community-Based Child Abuse Prevention Grants	93.590	5,869,350		
Grants to States for Access and Visitation Programs	93.597	1,048,721		
Chafee Education and Training Vouchers Program (ETV)	93.599	7,410,144		
Voting Access for Individuals with Disabilities - Grants to States	93.617	935,763		
Developmental Disabilities Basic Support and Advocacy Grants	93.630	6,600,000		
Children's Justice Grants to States	93.643	1,755,333		
Child Welfare Services-State Grants	93.645	33,494,227		
Foster Care - Title IV-E	93.658	1,164,295,622		
ARRA-Foster Care - Title IV-E, Recovery Act Funded	93.658			59,827,225
Adoption Assistance	93.659	400,122,856		
ARRA-Adoption Assistance, Recovery Act Funded	93.659			57,245,117
Social Services Block Grant	93.667	557,712,123		
Child Abuse and Neglect State Grants	93.669	4,428,453		
Family Violence Prevention and Services/Grants for Battered Women's Shelters - Grants to States and Indian Tribes	93.671	6,768,360		
Chafee Foster Care Independence Program	93.674	18,915,972		
ARRA-Strengthening Communities Fund, Recovery Act Funded	93.711			12,617
ARRA-Survey and Certification Ambulatory Surgical Center Healthcare- Associated Infection (ASC-HAI) Prevention Initiative, Recovery Act Funded	93.720			570,352
ARRA-Prevention and Wellness-State, Territories and Pacific Islands, Recovery Act Funded	93.723			47,066
ARRA-Communities Putting Prevention to Work: Chronic Disease Self-Management Program, Recovery Act Funded	93.725			1,156
Children's Health Insurance Program	93.767	1,160,359,721		
ARRA-Children's Health Insurance Program, Recovery Act Funded	93.767			7,426,187
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	5,615,430		
Money Follows the Person Rebalancing Demonstration	93.791	1,409,576		
National Bioterrorism Hospital Preparedness Program	93.889	47,038,991		
Grants to States for Operation of Offices of Rural Health	93.913	25,215		
HIV Care Formula Grants	93.917	128,402,834		

Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	818,096		
HIV Prevention Activities - Health Department Based	93.940	14,467,028		
HIV Demonstration, Research, Public and Professional Education Projects	93.941	366,627		
Human Immunodeficiency Virus (HIV) / Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944	2,865,236		
Tuberculosis Demonstration, Research, Public and Professional Education	93.947	3,645		
Block Grants for Community Mental Health Services	93.958	40,770,482		
Block Grants for Prevention and Treatment of Substance Abuse	93.959	248,590,511		
National All Schedules Prescription Electronic Reporting Grant	93.975	103,971		
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977	7,450,275		
Preventive Health Services - Sexually Transmitted Diseases Research, Demonstrations and Public Education Grants	93.978	1,341,708		
Preventive Health and Health Services Block Grant	93.991	6,388,502		
Maternal and Child Health Services Block Grant to the States	93.994	48,397,773		
Other-Department of Health and Human Services	93.999	16,921,940		
ARRA-Other-Department of Health and Human Services, Recovery Act Funded	93.999			48,250
Total Excluding Clusters		4,921,935,564		238,320,300
Aging Cluster				
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	36,120,239		
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045	56,355,977		
Nutrition Services Incentive Program	93.053	13,411,748		
ARRA-Aging Home-Delivered Nutrition Services for States, Recovery Act Funded	93.705			2,600,357
ARRA-Aging Congregate Nutrition Services for States, Recovery Act Funded	93.707			4,962,552
Total Aging Cluster		105,887,964		7,562,909
Immunization Cluster				
Immunization Grants	93.268	342,847,014	*	
ARRA-Immunization, Recovery Act Funded	93.712			8,305,281 *
Total Immunization Cluster		342,847,014		8,305,281
TANF Cluster				
Temporary Assistance for Needy Families	93.558	3,331,280,212		
ARRA-Emergency Contigency Fund for Temporary Assistance for Needy Families (TANF) State Programs, Recovery Act Funded	93.714			551,742,151
Total TANF Cluster		3,331,280,212		551,742,151
CSBG Cluster				
Community Services Block Grant	93.569	67,354,690		
ARRA-Community Services Block Grant, Recovery Act Funded	93.710			34,035,342
Total CSBG Cluster		67,354,690		34,035,342
CCDF Cluster				
Child Care and Development Block Grant	93.575	253,397,934		
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	283,000,228		
ARRA-Child Care and Development Block Grant, Recovery Act Funded	93.713			104,974,068
Total CCDF Cluster		536,398,162		104,974,068
Head Start Cluster				
Head Start	93.600	166,325		
Medicaid Cluster				
State Medicaid Fraud Control Units	93.775	21,281,431		

State Survey and Certification of Health Care Providers and Suppliers	93.777	34,834,615		
Medical Assistance Program	93.778	23,786,301,197		
ARRA-Medical Assistance Program, Recovery Act Funded	93.778			4,613,350,987
Total Medicaid Cluster		23,842,417,243		4,613,350,987
Research & Development Cluster				
Food and Drug Administration-Research	93.103	499,908		
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	334,213		
Total Research & Development Cluster		834,121		
Total Department of Health and Human Services		33,149,121,295		5,558,291,038
Corporation for National and Community Service				
State Commissions	94.003	1,710,822		
Learn and Serve America - School and Community Based Programs	94.004	2,172,325		
AmeriCorps	94.006	22,716,929		
ARRA-AmeriCorps, Recovery Act Funded	94.006			6,678,653
Volunteers in Service to America	94.013	345,273	*	
ARRA-Volunteers in Service to America, Recovery Act Funded	94.013			12,666
Total Excluding Clusters		26,945,349		6,691,319
Foster Grandparent/Senior Companion Cluster				
Foster Grandparent Program	94.011	1,446,441		
Total Corporation for National and Community Service		28,391,790		6,691,319
Social Security Administration				
Social Security - Work Incentives Planning and Assistance Program	96.008	51,485		
Disability Insurance/SSI Cluster				
Social Security - Disability Insurance	96.001	205,395,519		
Total Social Security Administration		205,447,004		
Department of Homeland Security				
Urban Areas Security Initiative	97.008	2,832,515		
Boating Safety Financial Assistance	97.012	21,979,767		
Pre-Disaster Mitigation (PDM) Competitive Grants	97.017	4,015,908		
Community Assistance Program-State Support Services Element (CAP-SSSE)	97.023	236,314		
Flood Mitigation Assistance	97.029	293,396		
Disaster Unemployment Assistance	97.034	222		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	96,079,014		
Hazard Mitigation Grant	97.039	31,170,675		
National Dam Safety Program	97.041	66,517		
Emergency Management Performance Grants	97.042	28,939,078		
Cooperating Technical Partners	97.045	352,138		
Fire Management Assistance Grant	97.046	66,537,953		
Pre-Disaster Mitigation	97.047	6,644,495		
Emergency Operations Centers	97.052	323,943		
Interoperable Emergency Communications	97.055	3,223,492		
Map Modernization Management Support	97.070	71,709		
Rail and Transit Security Grant Program	97.075	10,573,284		
Buffer Zone Protection Program (BZPP)	97.078	11,291,795		

Earthquake Consortium	97.082	88,710	
Severe Loss Repetitive Program	97.110	22,603	
Regional Catastrophic Preparedness Grant Program (RCPGP)	97.111	4,722,467	
Total Excluding Cluster		289,465,995	
Homeland Security Cluster			
Homeland Security Grant Program	97.067	190,435,784	
Total Department of Homeland Security		479,901,779	
Miscellaneous Grants and Contracts			
Shared Revenue-Flood Control Lands	99.002	97,074	
Shared Revenue-Grazing Land	99.004	119,979	
U.S. Department of the Interior-Fire Prevention/Suppression Agreement	99.014	134,000	
U.S. Department of Agriculture and Various Other U.S. Department-Fire Prevention/Suppression	99.016	59,839,715	
Miscellaneous Federal Receipts	99.099	221,599	
Miscellaneous Federal Receipts	99.999	5,010,863	
Association of State and Territorial Health Officials (ASTHO)	See Note 5b	90,000	
National Association of Chronic Disease Directors (NACDD)	See Note 5b	197,247	
High Intensity Drug Trafficking Area	See Note 5c	4,440,170	
Superior Courts of California	See Note 5d	1,495,743	2,664,385
Total Miscellaneous Grants and Contracts		71,646,390	2,664,385
Total Federal Awards Received		**97,676,621,084**	**22,999,329,848**

* Amount includes value of non-cash federal awards, which may include a variety of items, such as commodities, food stamps, vaccines, or federal excess property.

** Amount includes loans and/or loan guarantees outstanding as of June 30, 2010.

*** Amount includes insurance in force as of June 30, 2010.

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NOTES TO THE SCHEDULE OF FEDERAL ASSISTANCE

FISCAL YEAR ENDED JUNE 30, 2010

1. GENERAL

The accompanying State of California Schedule of Federal Assistance presents the total amount of federal financial assistance received by the State of California for the fiscal year ended June 30, 2010. This schedule does not include federal awards received by the University of California, the California State University system, and the California Housing Finance Agency, a component unit of the State. These entities engaged other auditors to perform an audit in accordance with the U.S. Office of Management and Budget, Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133).

The $120,675,950,932 in total federal awards consists of the following:

Cash assistance received	$ 80,509,416,978
Non-cash federal awards	6,174,489,428
Loans and/or loan guarantees outstanding	33,879,551,823
Insurance in force	112,492,703
Total	$120,675,950,932

2. BASIS OF ACCOUNTING

OMB Circular A-133 requires the auditee to prepare a schedule of expenditures of federal awards for the period covered by the auditee's financial statements. Further, the schedule shall provide total federal awards expended for each individual federal program and Catalog of Federal Domestic Assistance (CFDA) number or other identifying number when the CFDA information is not available.

However, although the state accounting system separately identifies revenues for each federal award, it does not separately identify expenditures. As a result, the State prepares its Schedule of Federal Assistance on a cash receipts basis. The schedule shows the amount of cash and non-cash federal assistance received, loans and loan guarantees outstanding, and insurance in force for the year ended June 30, 2010.

3. UNEMPLOYMENT INSURANCE

The Employment Development Department (EDD) administers the Unemployment Insurance program (federal catalog number 17.225). EDD was not able to differentiate all federal funds received under the American Recovery and Reinvestment Act of 2009 (Recovery Act) for this program. Thus, the Recovery Act amount of $13,303,169,874 shown on the Schedule of Federal Assistance is an estimate of what EDD believes it received from the Recovery Act for Emergency Unemployment Compensation, Federal Additional Compensation, and Federal-State Extended Benefits.

Additionally, of the $11,373,335,651 reported as non-Recovery Act funds, $5,259,225,894 is a loan from the federal Unemployment Trust Fund. The State owed the federal Unemployment Trust Fund a total of $7,203,295,712 as of June 30, 2010, which includes a $1,944,069,818 loan received in fiscal year 2008-09.

State Unemployment Insurance funds drawn down from the federal Unemployment Trust Fund totals $5,536,906,679, which accounts for most of the remaining non-Recovery Act funds. Because EDD could not differentiate all Recovery Act funds from non-Recovery Act funds, this amount is also an estimate.

4. RECOVERY ACT FUNDING OF SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM BENEFITS

The reported receipts for benefits under the Supplemental Nutrition Assistance Program (SNAP) (CFDA No. 10.551) are supported by both regularly appropriated funds and incremental funding made available under section 101 of the Recovery Act. The portion of total receipts for SNAP benefits that is supported by Recovery Act funds varies according to fluctuations in the cost of the Thrifty Food Plan, and to changes in participating households' income, deductions, and assets. This condition prevents the United States Department of Agriculture (USDA) from obtaining the regular and Recovery Act components of SNAP benefits receipts through normal program reporting processes. As an alternative, USDA has computed a weighted average percentage to be applied to the national aggregate SNAP benefits provided to households in order to allocate an appropriate portion thereof to Recovery Act funds. This methodology generates valid results at the national aggregate level but not at the individual State level. Therefore, we cannot validly disaggregate the regular and Recovery Act components of our reported receipts for SNAP benefits. At the national aggregate level, however, Recovery Act funds account for approximately 15 percent of USDA's total receipts for SNAP benefits in the Federal fiscal year ended September 30, 2009.

5. OTHER

The federal awards received during fiscal year 2009-10 were recorded in the State's Federal Trust Fund, which was the source used to compile the Schedule of Federal Assistance. The State received additional federal awards outside of the Federal Trust Fund from various pass-through entities. Those amounts are listed below and were added to the Schedule of Federal Assistance.

a. The California Department of Fish and Game (DFG) received federal awards from the Pacific States Marine Fisheries Commission and Pacific Fisheries Management Council. During the period July 1, 2009 through June 30, 2010, the DFG received the following awards:

Federal Agency/Program	Pass-Through Entity	CFDA Number	Amount
Unallied Management Projects	Pacific State Marine Fisheries Commission	11.454	$334,024
Regional Fishery Management Councils	Pacific Fisheries Management Council	11.441	$130,211
		Total	$464,235

b. The California Department of Public Health (Public Health) received federal awards from the Association of State and Territorial Health Officials and the National Association of Chronic Disease Directors. During the period July 1, 2009 through June 30, 2010, the Public Health received the following federal awards:

Entity/Program	Grant Number	Amount
Association of State and Territorial Health Officials (ASTHO)	5U38HM000454-02	$90,000
National Association of Chronic Disease Directors (NACDD)	1045000368110	197,247
	Total	$287,247

c The California Department of Justice (Justice) receives cash reimbursements from local law enforcement agencies under the Office of National Drug Control Policy's High Intensity Drug Trafficking Area program. During the period July 1, 2009 through June 30, 2010, the Justice received the following cash reimbursements:

Entity/Program	Grant Number	Amount
LA Clear/LA Police Chief's Association/City of Monrovia	G09LA0006A	$1,077,270
LA Clear/LA Police Chief's Association/City of Monrovia	G10LA0006A	377,959
Institute for Intergovernmental Research (IIR)	2007-DD-BX-K152	73,079
NC HIDTA/LA Police Chief's Association	I8PSFP501Z	12,639
NC HIDTA/LA Police Chief's Association	G09SF0001A	444,412
NC HIDTA/LA Police Chief's Association	G10SF0001A	86,901
CV HIDTA/LA Police Chief's Association/Sacramento County	17PCVP501Z	388,119
CV HIDTA/LA Police Chief's Association/Sacramento County	I8PCVP502Z	179,738
CV HIDTA/LA Police Chief's Association/Sacramento County	G09CV0002A	35,115
INCH/LA Police Chief's Association/Riverside County	18PLAP540Z	64,736
INCH/LA Police Chief's Association/Riverside County	G09LA0007A	12,936
NV HIDTA/LA Police Chief's Association/Las Vegas Metro PD	I8PNVP501Z	63,086
NV HIDTA/LA Police Chief's Association/Las Vegas Metro PD	G09NV0001A	65,439
CA Border Alliance Group/City of San Diego/San Diego Police Dept (BNE)	18PSCP501-503Z	23,191
CA Border Alliance Group/City of San Diego/San Diego Police Dept (BNE)	G09SC0001A	99,065
CA Border Alliance Group/City of San Diego/San Diego Police Dept (BNE)	G09SC0003A	28,986
CA Border Alliance Group/City of San Diego/San Diego Police Dept (SDNIN)	16PSCP503Z	74
CA Border Alliance Group/City of San Diego/San Diego Police Dept (SDNIN)	G09SC0001A	1,390,662
Clallum Co Sheriff's Office	F09-34721-005	6,336
Clallum Co Sheriff's Office	M09-3402-005	2,047
Clallum Co Sheriff's Office	WSM1091	8,380
	Total	$4,440,170

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d The Superior Courts of California (Courts) received federal awards from various entities. During the period July 1, 2009 through June 30, 2010, the Courts received the following federal awards:

Superior Court	Entity/Program	CFDA/Grant Number	Amount
Contra Costa	Grants to Encourage Arrest	49002-02	$114,082
Fresno	US Department of Justice Scope Program PCDC	16.585	91,202
Nevada	US Department of Justice Drug Court	16.804	18,148
Orange	Bureau of Justice Assistance	2009-DC-BX-0096	12,161
Orange	National Center fo State Courts	2008-DD-BX-0693	50,000
Orange	DUI Court Expansion	20.600	356,964
Riverside	Substance Abuse and Mental Health Services Administration	93.243	123,816
San Francisco	Department of Public Health	DPHM1000029301	113,215
San Francisco	Human Services Agency SF City and County	93.714	2,007,582
San Francisco	Dept.of Children, Youth and Families SF City and County	16.804	123,602
San Francisco	San Francisco Superior Court Direct Grant	2009-DC-BX-0114	55,929
San Francisco	San Francisco Superior Court Direct Grant	2008-DC-BX-0012	71,231
San Francisco	San Francisco Superior Court Direct Grant	2009-DC-BX-0102	38,505
San Francisco	US Department of Justice	16.804	58
San Francisco	US Department of Justice	16.804	165,666
Santa Clara	County of Santa Clara (County Executive Office)	16.804	247,560
Santa Clara	County of Santa Clara (Social Services Agency)	93.087	12,428
Santa Clara	County of Santa Clara (Social Services Agency)	93.087	7,913
Santa Clara	BJA Drug Court Discretionary Grant	2009-DC-BX-0024	57,690
Santa Clara	SAMHSA HERA Grant	5H79TI017476-03	180,600
Santa Clara	SAMHSA Veterans Drug Court Grant	1H79TI021522-01	12,921
Santa Clara	US Department of Justice	16.804	101,769
Sonoma	DUI Court Expansion	2009-DC-BX-0085	20,259
Ventura	Juvenile Accountability Block Grants	93.243	8,959
Ventura	Office of Juvenile Justice Delinquency Prevention Reclaiming	93.243	93,837
Ventura	Substance Abuse and Mental Health Services Administration	93.243	74,031
		Total	$4,160,128

Summary Schedule of Prior Audit Findings

Prepared by Department of Finance

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Reference Number:	**2009-12-9**
Federal Program:	All programs
State Administering Department:	Department of Finance (Finance)
Fiscal Year Initially Reported:	1995-96
Audit Finding:	Reporting. Because of limitations in its automated accounting systems, the State has not complied with the provisions of the U.S. Office and Management Budget (OMB) Circular A-133 requiring auditees to prepare a Schedule of Expenditures of Federal Awards that includes the total federal awards expended for each individual federal program.
Status of Corrective Action:	Partially corrected. As addressed in Finance's previous responses to this finding, the State of California (State) is embarking on a long-term plan to be fully compliant with the reporting requirement as part of a major overhaul of the State's entire fiscal systems. The State takes the finding very seriously and has endeavored to find an interim solution until Finance's fiscal systems overhaul is fully implemented. While this interim solution has been challenging to design and will create additional workload for State accounting staff, Finance believes it is necessary to provide the required reporting information. The State does track federal expenditures; however, there is no statewide process to track federal expenditures by the Catalog of Federal Domestic Assistance (CFDA) number. Finance has been working collectively with other State agencies and has developed an interim solution that will provide the required information. Accordingly, Finance will issue guidance to State departments with specific instructions to prepare and begin the collection of federal expenditure data by CFDA number for all federal awards for State fiscal year 2010-11. State departments will be required to collect and compile federal expenditures by CFDA number and provide this data to Finance. Finance will be responsible for compiling the federal expenditure data by CFDA number for all State departments and making the data available to the State Auditor for its use in performing the 2010-11 Single Audit. This interim solution will require new workload due to the lack of a comprehensive statewide system. However, it will be used until the long

term plan is fully operational.

For the long term plan, Finance received approval for a new integrated statewide financial management system, the Financial Information System for California (FI$Cal). It is anticipated the new system will have the capability to provide total expenditures for each federal program as required by OMB Circular A-133. Specifically, the new system will have the capability to track and record transactions for individual grants at all levels of the account classification structure by time period and CFDA number. The FI$Cal project is a comprehensive statewide initiative costing over $1 billion and is anticipated to be completed by 2017. Finance is aware of the importance of the reporting requirement and anticipates the new system will enable Finance to efficiently comply with OMB Circular A-133 in the long run.[1]

Reference Number:	**2009-13-13**
Federal Program:	All programs subject to OMB Circular A-133
State Administering Department:	State Controller's Office (SCO)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Subrecipient Monitoring. Some State departments are not issuing management decisions on audit findings within six months after the State receives the local governments' audit reports. The SCO's practice of certifying audit reports before sending them to the appropriate state agency minimized the amount of time the State had to meet the six-month requirement.
Status of Corrective Action:	Fully corrected. For the 2008-09 fiscal year reviews (completed in fiscal year 2009-10), when the SCO received audit reports with findings, the SCO sent the report to the State agencies along with a cover letter (management decision letter) notifying them of the six month period due date. We also adapted our automated Audits Management System (AMS) database to accommodate this change in processing. Regarding the timeliness of the above action— Remains uncorrected/disagree with finding. The SCO's policy stated that the SCO would immediately send the reports with the management decision letter to the State agencies.

	The SCO included the word "immediately" in its new procedures to stress the urgency (to staff) to give State agencies as much time as possible to issue their management decisions. Internally, the SCO staff understand that "immediately" means before reviewing and certifying reports during our peak certification time; however, the Bureau of State Audits is interpreting the word "immediately" in its literal sense. The SCO considers two-to-eight weeks to be a reasonable amount of time to forward either certified or not-yet-certified audits to State agencies and has revised its policy to include this two-to-eight week time period.[2]

Reference Number:	**2009-14-6**
Federal Program:	All Programs
State Administering Department:	Department of Finance (Finance)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Special Tests and Provisions. Finance lacks adequate internal controls to ensure it can accurately identify all American Recovery and Reinvestment Act of 2009 (Recovery Act) receipts. Also, Finance lacks adequate internal controls to ensure the receipt of accurate Recovery Act information from State Departments to use when it prepares its Schedule of Federal Assistance, which it currently does on a receipts basis.
Status of Corrective Action:	Fully corrected. Finance developed a process for State departments to report the receipt of accurate Recovery Act information. Specifically, Finance has taken steps to ensure that all State departments follow the California Recovery Task Force's August 2009 directive to establish separate Recovery Act accounts.

Reference Number:	**2009-2-3**
Federal Program:	10.561
State Administering Department:	Department of Social Services (Social Services)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Allowable Costs/Cost Principles. Social Services does not require staff to submit personnel activity reports or equivalent documentation to support the actual amount of time they spend working on federal and State programs.

Status of Corrective Action:	Fully Corrected. In January 2010, the Food Stamp Policy Bureau began using an individual timesheet for each staff person, which indicates time spent on the program in lieu of the e-mail account that was previously in use. The timesheet is filled out and signed by the employee and the manager, and maintained as documentation and substantiation for the appropriate period of time.

Reference Number:	**2009-7-5**
Federal Program:	94.006
State Administering Department:	CaliforniaVolunteers
Fiscal Year Initially Reported:	2003-04
Audit Finding:	Matching. CaliforniaVolunteers' processes did not adequately ensure only allowable sources are used by its subgrantees to meet matching requirements. CaliforniaVolunteers implemented policies and procedures to correct the processes. The new policies and procedures, however, are currently not being followed due to a backlog of desk reviews.
Status of Corrective Action:	Partially corrected. CaliforniaVolunteers continues to work towards eliminating the backlog of desk reviews. However, they do not expect to have this completed by June 30, 2010 as initially indicated in the Corrective Action Plan. To address this backlog, CaliforniaVolunteers is in the process of entering into an agreement with the Department of Finance, Office of State Audits and Evaluations to assist with eliminating the backlog of desk reviews.[3]

Reference Number:	**2009-13-9**
Federal Program:	94.006
State Administering Department:	CaliforniaVolunteers
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Subrecipient Monitoring. CaliforniaVolunteers did not implement its updated site-visit policy and procedures (stated in the 2007-08 Corrective Action Plan). Specifically, California Volunteers is still in the process of reviewing and evaluating its interim policy and procedures related to the review and documentation of fiscal

	information on site visits.
Status of Corrective Action:	Remains uncorrected. CaliforniaVolunteers expects to implement a revised site visit policy during the 2010-11 fiscal year. CaliforniaVolunteers is in the process of entering into an agreement with the Department of Finance, Office of State Audits and Evaluations to assist with fiscal site visits.[4]

Reference Number:	**2009-1-6**
Federal Program:	12.401
State Administering Department:	Military Department (Military)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Activities Allowed/Allowable Costs. Military lacks internal controls that would allow it to prevent and/or detect instances when personnel costs are being inappropriately charged to this federal program.
Status of Corrective Action:	Remains uncorrected. Per the California Military Department (CMD) Comptroller's Office, the CMD will comply with Appendix B to part 225 of the Office of Management and Budget Circular A-87, by completing a semi-annual certification of those personnel reimbursed under the Operations and Maintenance (O&M) Agreements that are employed at the various supported federal/State facilities. The CMD will begin this process with the August 2010 payroll, and will continue the process in the future by completing it on a semi-annual basis (January and June of each year). This certification will be performed by supervisory personnel that oversee these programs. The majority of staff reimbursed under the O&M program are janitorial and maintenance staff working at various Army and Air National Guard facilities. The job duties of the maintenance workers paid through the federal program do not vary based on State and federal funding. For example, a janitor may clean a bathroom, but the duties cannot be differentiated between State and federal bathrooms. In addition to those staff working at the facilities, some administrative staff who work in the CMD's Comptroller's Office charge their activities to multiple cost objectives including some not related to O&M.[5]

Reference Number:	**2009-1-1**

Federal Program:	84.181
State Administering Department:	Department of Developmental Services (Developmental Services)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Activities Allowed/Allowable Costs. Developmental Services does not have an adequate internal control process in place to assure that the expenses incurred by regional centers are only for allowable activities and costs.
Status of Corrective Action:	Fully corrected. Developmental Services has implemented a claims review process that ensures payments are made only for allowable costs. This process has been approved by the federal funding agency, the Office of Special Education Programs.

Reference Number:	**2009-1-2**
Federal Program:	84.126
State Administering Department:	Department of Rehabilitation (Rehabilitation)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Activities Allowed/Allowable Costs. Rehabilitation lacks sufficient policies regarding staff time distribution. Rehabilitation uses monthly timesheets to substantiate time distribution rather than requiring employees to sign periodic certifications. Our review could not locate one out of six signed timesheets. Rehabilitation has not updated the sections of its policy manual that relate to personnel issues and timekeeping since 1985.
Status of Corrective Action:	Partially corrected. Rehabilitation communicated to all employees their roles and responsibilities regarding the signatory and filing requirements for Individual Attendance Summaries (timesheets). Rehabilitation provided training to attendance coordinators throughout the department. Rehabilitation will update the relevant policy in the Rehabilitation Administration Manual (RAM). Rehabilitation received a final program determination letter from the U.S. Department of Education dated June 17, 2010 stating "the Rehabilitation Services Administration considers this finding closed for this audit."[6]

Reference Number:	**2009-1-3**

Federal Program:	84.126
State Administering Department:	Department of Rehabilitation (Rehabilitation)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Activities Allowed/Allowable Costs. Rehabilitation did not always ensure that expenditures were for allowable activities and costs. For two out of 46 transactions, Rehabilitation paid for unallowable activities and costs totaling $5,983 or 9.6 percent of the sample tested. Expanded audit work identified an additional $13,319 in questioned costs.
Status of Corrective Action:	Partially corrected. Rehabilitation conducted training on Vocational Rehabilitation (VR) Program Performance Accountability, which included the findings identified by the Bureau of State Audits. Rehabilitation will develop an itemized VR efficiencies report to monitor the scope and duration of post-employment services. Rehabilitation expects opportunities within the new Electronic Record System to improve functionality related to prior approval and the provision of post-employment services that will serve to mitigate this finding and potential future issues. Rehabilitation received a final program determination letter from the U.S. Department of Education dated June 17, 2010 stating "the Rehabilitation Services Administration considers this finding closed on the questioned costs."[7]

Reference Number:	**2009-1-12**
Federal Program:	84.186
State Administering Department:	Department of Alcohol and Drug Programs (ADP)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Activities Allowed/Allowable Costs; Subrecipient Monitoring. ADP does not ensure the Safe and Drug-Free Schools and Communities expenditures are made only for allowable costs. Our review of 10 claims and invoices from subgrantees found $216 that was charged to the incorrect grant. Also, $6,155 was charged for five student employees when only four student employee positions were authorized.
Status of Corrective Action:	Remains uncorrected/disagree with finding. This is a finding similar to findings from 2006/07 and 2007/08. A

	September 29, 2009, determination letter from the U.S. Department of Education upheld ADP's processes and procedures with regard to Activities Allowed/Allowable Costs and Subrecipient Monitoring. ADP will resolve any additional questions with the U.S. Department of Education.[8]

Reference Number:	**2009-5-2**
Federal Program:	84.126
State Administering Department:	Department of Rehabilitation (Rehabilitation)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Eligibility. Rehabilitation did not always determine applicant eligibility under the vocational rehabilitation grant within the required period or properly document extensions to eligibility periods. For eight of the 46 applications reviewed, Rehabilitation was late in determining eligibility or did not document extensions in accordance with policies. Rehabilitation has processes in place to monitor the timeliness of its eligibility decisions; however, these processes were not effective in identifying and correcting these eight exceptions.
Status of Corrective Action:	Partially corrected. Rehabilitation conducted training on Vocational Rehabilitation Program Performance Accountability, which includes the importance of tracking eligibility timelines and extensions to meet the eligibility determination requirement. The curriculum also provides available monitoring tools. Rehabilitation has committed considerable resources to replace the Field Computer System with a new Electronic Records System (ERS). Eligibility extensions will be more effectively tracked and monitored in the new ERS. Additionally, the ERS system contains ad hoc reporting features that allow easily attainable reports produced by each user, facilitating increased monitoring at the local level. Rehabilitation received a final program determination letter from the U.S. Department of Education dated June 17, 2010 stating "the Rehabilitation Services Administration considers this finding closed for this audit."[9]

Reference Number:	**2009-7-1**
Federal Program:	84.181
State Administering Department:	Department of Developmental Services (Developmental

	Services)
Fiscal Year Initially Reported:	2005-06
Audit Finding:	Level of Effort – Maintenance of Effort. Developmental Services lacks a sufficient process to demonstrate its compliance with the Early Start Program's maintenance of effort requirement (MOE) because it cannot provide documentation supporting MOE calculations. Additionally, Developmental Services could not provide evidence that it had implemented the revised procedures that it demonstrated for the U.S. Department of Education.
Status of Corrective Action:	Fully corrected. Developmental Services extracts Early Start program claim information from the Uniform Fiscal System and compares each invoice submitted against the total claim for purchase of service before approving the invoice for payment. This same fiscal data and documentation has been provided to the Bureau of State Audits, along with official correspondence from the Office of Education Programs verifying that Developmental Services meets the MOE requirement and has processes in place to sufficiently provide the necessary documentation.

Reference Number:	**2009-7-2**
Federal Program:	84.126
State Administering Department:	Department of Rehabilitation (Rehabilitation)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Matching, Reporting. Rehabilitation lacks adequate internal controls to ensure compliance with the matching requirement. A supervisor does not review documents prepared by staff for expenditure information submitted by vendors. Without adequate review, the risk of misreporting or miscalculating the department's matching share increases. Our audit noted six instances with errors on summary spreadsheets, over reporting the amount of match by $18,517.
Status of Corrective Action:	Fully corrected. Rehabilitation has implemented a review process for its certified expenditure summary sheet. This process includes additional review by the Assistant Chief, Fund Accounting, and periodic comparison with program records to ensure accuracy of the documented information. Rehabilitation received a final program determination letter from the U.S. Department of

	Education dated June 17, 2010 stating "the Rehabilitation Services Administration considers this finding closed for this audit."[10]

Reference Number:	**2009-12-1**
Federal Program:	84.126
State Administering Department:	Department of Rehabilitation (Rehabilitation)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Reporting. Rehabilitation submitted inaccurate program/cost and financial status reports to the federal government for its vocational rehabilitation grant. Rehabilitation's underlying documentation for the reports contained five errors, totaling about $1.5 million. Rehabilitation lacks internal controls to prevent these errors, and does not have formal, written policies and procedures in place to ensure consistent calculation of the underlying documentation used to prepare these reports.
Status of Corrective Action:	Partially corrected. Rehabilitation has revised a reconciliation worksheet that will identify any underlying formula issues. Additionally, a more thorough review of the federal reports and underlying documentation is being performed. In order to further address this finding Rehabilitation, in collaboration with the Federal Rehabilitation Services Agency, will develop a training plan to ensure establishment of written procedures and cross training of current and future staff on the mandated reports. Rehabilitation received a final program determination letter from the U.S. Department of Education dated June 17, 2010 stating "the Rehabilitation Services Administration considers this finding closed for this audit."[11]

Reference Number:	**2009-13-1**
Federal Program:	84.181 84.393
State Administering Department:	Department of Developmental Services (Developmental Services)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Subrecipient Monitoring. Developmental Services did not require its subrecipients to register with the Central

	Contractor Registration or to obtain Data Universal Numbering System (DUNS) numbers before providing them American Recovery and Reinvestment Act (ARRA) funds. The federal government intends to use this information to help meet ARRA reporting requirements and to provide transparency in how ARRA funds are spent.
Status of Corrective Action:	Fully corrected. Developmental Services has ensured subrecipients registered with the Central Contractor Registration and have obtained DUNS numbers.

Reference Number:	**2009-13-2**
Federal Program:	84.181
State Administering Department:	Department of Developmental Services (Developmental Services)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Subrecipient Monitoring. Developmental Services incorrectly stated the threshold for audits of family resource centers in accordance with the U.S. Office of Management and Budget (OMB) Circular A-133 as $300,000 instead of $500,000.
Status of Corrective Action:	Fully corrected. Developmental Services has revised its contracts to reflect the $500,000 threshold for an audit in accordance with OMB Circular A-133.

Reference Number:	**2009-13-15**
Federal Program:	84.186
State Administering Department:	Department of Alcohol and Drug Programs (ADP)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Subrecipient Monitoring. ADP used an incorrect Catalog of Federal Domestic Assistance title for six subgrantees and one contractor. Further, ADP did not initiate in a timely manner written and verbal contact with those counties that had delinquent U.S. Office of Management and Budget (OMB) Circular A-133 audits.
Status of Corrective Action:	Fully corrected. The Notice of Grant Award (NOGA) template was updated December 15, 2008 to include the words "State Grants" to the grant title. NOGAs that

required a new page one after December 15, 2008, used the revised NOGA template.

ADP does follow-up with the delinquent counties once the State Controller's Office notifies the State agencies and has been consistent in its application of the follow-up process. ADP will modify their procedures to include specific timeframes.

After discussions with upper management, ADP has agreed that if reports are not completed and submitted according to OMB Circular A-133, sanctions 'such as' those noted in §.225 can be imposed.

Reference Number:	**2009-14-1**
Federal Program:	84.181
State Administering Department:	Department of Developmental Services (Developmental Services)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Special Tests and Provisions. Developmental Services lacks an internal control process to ensure the documents describing this program include information on the percentage of the total cost of the project that will be financed with federal funds and the percentage and dollar amount of the total cost of the project that will be financed by non-governmental sources. The department corrected the finding for contracts commencing July 1, 2009.
Status of Corrective Action:	Fully corrected. The Developmental Services Customer Support Section has added new language to the Family Resource Center contracts that states the funding source is 100 percent Federal Funds. This can be seen in the fiscal year 2009-12 contracts.

Reference Number:	**2009-14-8**
Federal Program:	84.032
State Administering Department:	California Student Aid Commission (Student Aid)
Fiscal Year Initially Reported:	2001-02
Audit Finding:	Special Tests and Provisions. EdFund, Student Aid's auxiliary organization, has not developed adequate internal controls over its information systems to provide

reasonable assurance that it keeps current, complete, and accurate records of each loan. Specifically, EdFund has not yet resolved all findings from a 2009 security risk assessment, and it did not contain a complete history or audit trail of changes made to its data.

Status of Corrective Action: Partially corrected. EdFund management informed Student Aid staff that EdFund will address all of the high-risk findings from the 2009 security risk assessment by June 30, 2011. EdFund management has also indicated that it has addressed the stated observation regarding EdFund's electronic detective controls over data maintenance through changes to the Financial Aid Processing System. The same systematic audit trail for the remaining files in which such transactions are conducted for data maintenance was completed in May 2009.

The Operating Agreement between Student Aid and EdFund includes provisions to appropriately require EdFund to maintain strong control over its information systems including an audit of the information technology controls. Operating Agreement, Article VIII, 8.2.B requires that "an independent certified public accountant shall provide Student Aid and the EdFund Board an annual audit of key system and non-system internal controls affecting the initiation, authorization, recording, processing and/or reporting of transactions…". However, the Annual Audit of Internal Controls shall be performed only if the expenses associated therewith are approved by the California Department of Finance." The Department of Finance has not approved funding for this audit.[12]

Reference Number: **2009-14-9**

Federal Program: 84.032

State Administering Department: California Student Aid Commission (Student Aid)

Fiscal Year Initially Reported: 2008-09

Audit Finding: Activities Allowed or Unallowed; Special Tests and Provisions # 9 – Federal Fund and Agency Operating Fund. Student Aid's reimbursement process can be strengthened to ensure that Operating Fund expenditures incurred by its auxiliary organization EdFund are only for allowable purposes.

Status of Corrective Action: Partially corrected. Student Aid continues its efforts to fully correct this finding. However, as was noted in

Student Aid's original response, the statutory framework created by Chapter 182, Statutes of 2007, (SB 89) limits Student Aid's authority over its auxiliary, EdFund, and instead grants the full authority and responsibility for the Federal Family Education Loan Program to the Director of Finance. As a result, the ability to fully correct this finding may be outside of Student Aid's authority and control.

Student Aid staff continues its efforts to review EdFund expenditures to ensure that EdFund is not reimbursed for spending that constitutes gifts of public funds that violate State and federal law and violates Student Aid policies. In addition, those EdFund policies identified within the report have been amended in order to strengthen the reimbursement process and ensure that future Operating Fund expenditures are for only allowable activities and costs.

In addition, at its May 19, 2010 meeting, Student Aid adopted amendments to the Operating Agreement between Student Aid and EdFund to address this finding. In particular, Student Aid adopted an amendment to provision 9.13 of the Operating Agreement ("Confidentiality") to include language that explicitly provides that EdFund shall not deem any information as confidential and subject to withholding from Student Aid, and includes a five (5) business day time frame for EdFund to produce the requested documents unless both parties agree to an extension of the deadline. Student Aid also adopted an amendment to provision 4.5 "EdFund Policies" to indicate that all proposed EdFund policies relating to those areas where issues were identified, such as travel, training, business expense reimbursement, procurements, and so forth, be submitted to Student Aid for review and approval prior to implementation.

Although this finding did not specifically include a recommendation related to provision 9.15, the "Dispute Resolution" clause, it did include a discussion that related to the utilization of the dispute resolution process between the parties. Recognizing that any dispute resolution process that involves an expenditure of funds is a use of State funds for both parties, Student Aid adopted amendments to this provision to limit the use of State funds for dispute resolution purposes. Moreover, since SB 89 gives final authority on issues to the Director of Finance, the dispute resolution clause now recognizes the Director of Finance's role in the process.

The proposed amendments to the Operating Agreement that were adopted by Student Aid in May 2010 have been

forwarded to the Department of Finance as required by law. The Director of Finance has not yet responded as to whether the changes made by Student Aid will be accepted. As a result, some of the actions taken by Student Aid to correct this finding may yet be nullified. Student Aid will continue with its efforts to fully correct this finding.[13]

Reference Number:	**2009-1-7**
Federal Program:	93.958
State Administering Department:	Department of Mental Health (Mental Health)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Activities Allowed/Allowable Costs. Mental Health does not ensure subgrantees' expenditures are only for allowable activities and costs. Previous audits reported that counties provided a general outline of program activities and did not explain each budget item. Mental Health did not require the counties to submit invoices, receipts, or payroll information to verify amounts they reported as expenditures. Mental Health did not perform regular site visits to the counties to verify the allowability of their programs' costs and activities. The 2008-09 review found that Mental Health did not fully implement a process to address these conditions. Mental Health did not distribute an updated application package until November 2009 and continues not to require counties to submit invoices, receipts, or payroll information, which would allow it to verify amounts counties report as expenditures.
Status of Corrective Action:	Partially corrected. In November 2009, Mental Health added clarifying language to the State fiscal year 2009-10 Planning Estimate and Renewal Application Instructions requiring that all line item expenditures, including services provided by a subcontractor, be described in the narrative. Mental Health contacted Community Mental Health Services (CMHS) in December 2009 to determine if the U.S. Office of Management and Budget (OMB) Circular A-133 audits submitted by the counties would meet the federal requirement. CMHS confirmed that Mental Health's practice of relying on the OMB Circular A-133 audits, instead of conducting its own independent audit, is consistent with the requirements (Code of Federal Regulations, Title 45, Section 96.31). However, CMHS also stated that if the fiscal reviews or audits are required

	by department or State policies and procedures, then such requirements should be followed. In March 2010, Mental Health established a workgroup to address this finding. The workgroup will determine the feasibility of having its Program Compliance Division conduct the audits in accordance with Mental Health's risk analysis procedures and federal requirements.[14]

Reference Number:	**2009-1-10**
Federal Program:	93.959
State Administering Department:	Department of Alcohol and Drug Programs (ADP)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Activities Allowed/Allowable Costs; Subrecipient Monitoring. ADP does not ensure that subgrantees expend Block Grants for Prevention and Treatment of Substance Abuse (SAPT) funds only for allowable activities. ADP's staff do not review the subgrantees' financial records during its on-site audits and desk audits to determine whether they spent SAPT funds on only allowable activities and costs.
Status of Corrective Action:	Remain uncorrected/disagree with finding. ADP stated this is a repeat finding from fiscal year 2007-08. ADP believes it meets the requirements established in Title 45 CFR Part 96, §96.31(b)(2).[15]

Reference Number:	**2009-1-11**
Federal Program:	93.959
State Administering Department:	Department of Alcohol and Drug Programs (ADP)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Activities Allowed/ Allowable Costs. Our review of 46 employee timesheets found six instances in which ADP's accounting records did not agree with the hours reported by the employee. The differences generally arose because accounting staff did not key in the hours reported on the timesheet, and the labor distribution system defaulted to base program cost accounts on the employee's profile. Also, ADP transferred payroll costs totaling $375,000 to the Block Grants for Prevention and Treatment of Substance Abuse (SAPT) federal fiscal year

	2007 grant, and the department was unable to provide supporting documentation for these costs, potentially resulting in questioned costs.
Status of Corrective Action:	Fully corrected. To improve quality control for payroll charges, ADP began using electronic timesheets as of the August 2009 pay period. Remains uncorrected/disagree with finding. In regards to the $375,000 payroll costs, these charges were for activities authorized under the SAPT Block Grant. ADP will resolve this issue with its federal cognizant agency.[16]

Reference Number:	**2009-2-4**
Federal Program:	93.563
State Administering Department:	Department of Child Support Services (Child Support Services)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Allowable Costs/Cost Principles. Child Support Services lacks adequate written policies and procedures to ensure that its expenditures meet the requirements of the U.S. Office of Management and Budget (OMB) Circular A-87, and the federal requirements for the Child Support Enforcement program.
Status of Corrective Action:	Fully corrected. Child Support Services provided copies of OMB Circular A-87 and will continue to provide training and documentation to all incoming staff.

Reference Number:	**2009-3-1**
Federal Program:	93.958
State Administering Department:	Department of Mental Health (Mental Health)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Cash Management. Mental Health's procedures for monitoring the Substance Abuse and Mental Health Services Administration's Block Grants for Community Mental Health Services (CMHS) do not adequately ensure that the advances made to counties are appropriate.
Status of Corrective Action:	Fully corrected. Mental Health established procedures to accurately monitor county CMHS cash balances in

June 2009, and implemented the procedures in September 2009. Mental Health's practice of providing advances to counties has been discontinued.

In September 2009, Mental Health revised its procedures to include supervisory review of payment authorizations prior to submitting the authorizations to the accounting unit and will also document any exceptions.

Reference Number:	**2009-3-2**
Federal Program:	93.563
State Administering Department:	Department of Child Support Services (Child Support Services)
Fiscal Year Initially Reported:	2005-06
Audit Finding:	Cash Management. Child Support Services lacks adequate policies and procedures to provide reasonable assurance that cash management requirements are met for drawing federal funds for program administrative costs. Child Support Services also experienced difficulty conducting aspects of this process in a timely manner. Child Support Services used the pre-issuance funding technique for certain operating and equipment expenditures, contrary to instructions set forth in the Treasury-State Agreement (TSA). Child Support Services also experienced certain difficulties when it attempted to use Recovery Act funds to reimburse payments that it previously made from the General Fund.
Status of Corrective Action:	Partially corrected. Child Support Services is revising the monthly plan of financial adjustments procedures to utilize historical data as the basis to ensure the transfers are processed in a timely manner. In addition, processes and written procedures are in place to ensure proper reconciliation of accounts and reimbursement of the general fund in a timely manner. Child Support Services, Office of Audits and Compliance, will be performing an internal audit in this area.[17]

Reference Number:	**2009-5-1**
Federal Program:	93.659
State Administering Department:	Department of Social Services (Social Services)
Fiscal Year Initially Reported:	2007-08

Audit Finding:	Eligibility. Social Services needs to improve its controls over eligibility determinations. Specifically, Social Services does not always ensure that adoption case files contain the appropriate supervisory approvals and documentation required by federal regulations.
Status of Corrective Action:	Partially corrected. Social Services establishes Adoption Assistance Program (AAP) requirements under statute, regulations, and all county letters to counties and adoption district offices. Counties are audited under the single audit standards that include review of the AAP Claims for AAP administrative and assistance costs are "desk audited" by Social Services and certified correct and accurate by county welfare directors. The State has a Federally-approved AAP Program Improvement Plan (PIP) which guides Federal compliance. Pending completion of the PIP, an all county letter (ACL) was released September 29, 2009, that provided interim direction in the following areas: AAP Eligibility; AAP Agreements and Payment Amounts; AAP Reassessments and Nonrecurring Adoption Expenses. All proposed statute language was achieved via Assembly Bill (AB) X44 effective July 28, 2009, and Senate Bill (SB) 597 signed October 11, 2009, effective January 1, 2010. The outstanding items to be completed per the PIP are revisions of the regulations and the forms specific to AAP. In addition, Social Services submitted a Budget Change Proposal requesting two fulltime Social Service Consultant III to provide more comprehensive oversight and monitoring of the counties and adoption district offices policies and procedures. Training was provided at the January and March 2010 District Office Managers meetings. A peer review between the seven District Offices will be conducted at the next District Office Managers meeting scheduled for September 2010. The monitoring reviews will include an analysis of all supporting AAP documentation to ensure district office eligibility determinations and related payments are correct and in compliance with federal laws and regulations. The seven district offices are responsible for the administration of AAP for twenty-eight counties.[18]

Reference Number:	**2009-5-3**
Federal Program:	93.044 93.045 93.705 93.707

State Administering Department:	Department of Aging (Aging)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Eligibility. Aging did not always maintain supporting documentation for certain amounts used in its calculation of awards to its subgrantees.
Status of Corrective Action:	Fully corrected. Aging has completed and approved policies and procedures that define and support amounts used in calculating awards to subgrantees.

Reference Number:	**2009-5-8**
Federal Program:	93.568
State Administering Department:	Department of Community Services and Development (Community Services)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Eligibility. Local agencies did not always maintain sufficient documentation, such as applicants' monthly income or citizenship status, to substantiate their assistance eligibility determinations. Also, Community Services allows flexibility when calculating monthly income amounts which could lead to local agencies inappropriately approving applicants whose monthly income would otherwise make them ineligible for assistance.
Status of Corrective Action:	Fully corrected. Community Services (1) developed tools to assist intake workers with acceptable documentation, (2) conducted a Webinar to provide additional training on eligibility guidelines, completion of intake forms, and review of supporting documentation, (3) offered training to public agencies on eligibility guidelines for verifying citizenship, (4) enhanced the monitoring of field protocols and techniques to ensure reviews of income and citizenship verification, and (5) strengthened income eligibility, standardized validation of income for clients self-declared income.

Reference Number:	**2009-7-3**
Federal Program:	93.958
State Administering Department:	Department of Mental Health (Mental Health)

Fiscal Year Initially Reported:	2006-07
Audit Finding:	Earmarking. Mental Health does not have an official written policy or procedures in place to ensure administrative costs are charged appropriately to the Substance Abuse and Mental Health Services Administration's Block Grants for Community Mental Health Services (SAMHSA CMHS).
Status of Corrective Action:	Remains uncorrected. In February 2010, Mental Health established a workgroup to address this finding. The workgroup will establish a written policy, as well as processes and procedures, to ensure that only allowable costs are used to meet the earmarking requirement.[19]

Reference Number:	**2009-7-4**
Federal Program:	93.958
State Administering Department:	Department of Mental Health (Mental Health)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Level of Effort – Maintenance of Effort. Mental Health has yet to determine how the percentages it applied against the total managed care and realignment dollars used for the calculation of Maintenance of Effort (MOE) were derived. Also, Mental Health continues to be unable to provide documentation to show the components and expenditures it used to calculate the fiscal year 1994-95 threshold of $160 million. For the MOE requirement related to the State's expenditures for community mental health services, Mental Health did not report all State expenditures for adults with serious mental illness and children with serious emotional disturbance.
Status of Corrective Action:	Remains uncorrected. In February 2010, Mental Health established a workgroup to address this finding. The workgroup will research the percentages used to support the managed care and realignment dollars used in its calculation and retain the supporting documentation. In addition, Mental Health made inquiries to locate the financial statements for fiscal year 1994-95 without success.[20]

Reference Number:	**2009-7-6**
Federal Program:	93.044

	93.045
State Administering Department:	Department of Aging (Aging)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Matching, Level of Effort, Earmarking. Aging lacks adequate official written policies and procedures to provide reasonable assurance that matching, level of effort, and earmarking requirements are met for the programs it administers using only allowable funds or costs that are properly calculated and valued. Aging also lacks adequate policies and procedures to ensure that it reviews its subgrantees' financial closeout reports promptly. Further, because of the way Aging calculates what it spent for administration and services, we were unable to conclude on whether Aging met its level of effort—maintenance of effort requirement.
Status of Corrective Action:	Fully corrected. Aging has completed and approved policies and procedures for maintenance of effort that includes matching, level of effort, and earmarking. In conjunction with the program fiscal review tool, the department has completed and approved policies and procedures for reviewing and approving financial closeout reports. On June 16, 2010, the federal Department of Health and Human Services' Administration on Aging approved the Aging methodology used to calculate maintenance of effort.

Reference Number:	**2009-7-13**
Federal Program:	93.568
State Administering Department:	Department of Community Services and Development (Community Services)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Earmarking. Community Services lacks sufficient internal controls to ensure it meets earmarking requirements. Community Services does not have a mechanism in place to track final expenditures related to earmarking requirements.
Status of Corrective Action:	Partially corrected. Community Services will phase-in an enhancement to an application system (i.e., Expenditure Activity Reporting System) that will automatically monitor, track, and report on the level of earmarking usage per program, contract, and program year.[21]

Reference Number:	**2009-8-3**
Federal Program:	93.958
State Administering Department:	Department of Mental Health (Mental Health)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Period of Availability. Mental Health did not have adequate accounting procedures in place throughout the fiscal year to instruct staff on how to charge expenditures to each Community Mental Health Services (CMHS) grant so it could ensure the two-year period of availability requirement is met.
Status of Corrective Action:	Fully corrected. Mental Health implemented its recently revised accounting procedures to ensure the Block Grant for CMHS funds are used within the two-year period of availability.

Reference Number:	**2009-8-4**
Federal Program:	93.044 93.045 93.053 93.705 93.707
State Administering Department:	Department of Aging (Aging)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Period of Availability. Aging does not consistently follow its procedures for review and authorization of its subgrantees' requests for funds. One of 42 requests reviewed was not appropriately approved.
Status of Corrective Action:	Fully corrected. Aging has completed and approved policies and procedures for processing requests for funds that define the accounting processes for reviewing and approving subgrantee requests for funds from the program.

Reference Number:	**2009-8-5**
Federal Program:	93.959

State Administering Department:	Department of Alcohol and Drug Programs (ADP)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Period of Availability. ADP charged expenditures totaling $4.6 million to the federal fiscal year 2007 grant after the period of availability. ADP stated that it received guidance from the U.S. Department of Health and Human Services' Substance Abuse and Mental Health Services Administration regarding the timing for the expenditure of grant funds. However, ADP could not provide documentation to support this assertion.
Status of Corrective Action:	Remains uncorrected. ADP's procedures for obligating and expending funds are consistent with federal requirements. ADP will resolve this issue with its federal cognizant agency.[22]

Reference Number:	**2009-9-1**
Federal Program:	93.556 93.558 93.566 93.645 93.658 93.659 93.667
State Administering Department:	Department of Social Services (Social Services)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Procurement, Suspension, and Debarment. Social Services did not comply with the suspension and debarment requirements included in the Administration for Children and Families (ACF) grants' terms and conditions. Social Services did not adequately notify the counties of the suspension and debarment terms articulated in the terms and conditions. Social Services did not consult the federal Excluded Parties List System (EPLS) prior to disbursing funds to the counties.
Status of Corrective Action:	Fully corrected. Social Services issued County Fiscal Letter 09/10-60, which informed County Welfare Departments (CWDs) of federal regulations they are to follow, which require CWDs to be in good standing with the federal government to receive federal funds. To ensure CWDs are not debarred or suspended from federal financial assistance programs by any federal department or agency, Social Services must verify the

CWD is not listed on the federal EPLS prior to issuance of any federal funds. To ensure accuracy of the verification, Social Services requires the CWDs' exact legal name and Employer Identification Number (EIN) or Tax Identification Number (TIN) as submitted to the Internal Revenue Service. The Financial Analysis Bureau has completed a search on the EPLS website this year for all counties and will conduct a new search of all CWDs annually prior to releasing county allocations and payments.

Reference Number:	**2009-9-2**
Federal Program:	93.556 93.566
State Administering Department:	Department of Social Services (Social Services)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Procurement, Suspension, and Debarment. Social Services did not comply with either of the suspension and debarment requirements included in the Administration for Children and Families (ACF) grants' terms and conditions when entering into contracts with non-county subrecipients. The standard contract Social Services uses to award federal funds from an ACF grant to non-county subrecipients did not include the correct suspension and debarment terms and/or conditions. Social Services staff did not consult the federal Excluded Parties List System (EPLS) website prior to issuing subawards or contracts to non-county subrecipients as required by the ACF terms and conditions.
Status of Corrective Action:	Fully corrected. Social Services has continued to use the revised suspension and debarment language in all contracts submitted for renewal or amendment, and conducts the EPLS search prior to entering into contracts. Results from the EPLS website are printed and included in the contract file as part of the documentation.

Reference Number:	**2009-9-3**
Federal Program:	93.667
State Administering Department:	Department of Developmental Services (Developmental Services)
Fiscal Year Initially Reported:	2008-09

Audit Finding:	Procurement and Suspension and Debarment; Subrecipient Monitoring. Developmental Services did not comply with one of the suspension and debarment requirements included in the Administration for Children and Families grants' terms and conditions. Developmental Services did not consult the federal Excluded Parties List System (EPLS) before issuing contracts to its regional center subrecipients. Developmental Services did not inform its regional centers of federal award information, such as the Catalog of Federal Domestic Assistance program title and number and relevant federal laws and regulations.
Status of Corrective Action:	Fully corrected. Developmental Services revised the regional center contracts to include the federal award identification information. In addition, Developmental Services implemented procedures to ensure it consults with the EPLS before issuing contracts to its regional center subrecipients.

Reference Number:	**2009-9-5**
Federal Program:	93.958
State Administering Department:	Department of Mental Health (Mental Health)
Fiscal Year Initially Reported:	2005-06
Audit Finding:	Procurement and Suspension and Debarment. Mental Health did not require counties, as part of their suspension and debarment certifications to the State, to ensure that lower-tier entities with which they entered into covered transactions were not suspended or debarred. Mental Health also did not require counties to pass the requirements down to each person with whom they entered into a covered transaction. Mental Health implemented corrective action in May 2009 that corrected the finding.
Status of Corrective Action:	Fully corrected. Mental Health has included the federal requirements in the fiscal year 2009-10 Planning Estimate and Renewal Application Instructions.

Reference Number:	**2009-9-7**
Federal Program:	93.568
State Administering Department:	Department of Community Services and Development (Community Services)

Fiscal Year Initially Reported:	2008-09
Audit Finding:	Procurement and Suspension and Debarment. Community Services did not comply with the suspension and debarment requirements in the Administration for Children and Families grants' terms and conditions. Community Services did not consult the federal Excluded Parties List System (EPLS) to ensure the subrecipients were eligible for funding before it disbursed funds to them.
Status of Corrective Action:	Fully corrected. Community Services issued a directive that contract analysts will annually, or at the start of a new contractor's term with Community Services, verify the firm and any principals and board members are not included on the EPLS.[23]

Reference Number:	**2009-12-5**
Federal Program:	93.958
State Administering Department:	Department of Mental Health (Mental Health)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Reporting. Mental Health's accounting procedures do not specifically identify the segregation of duties related to the preparation and approval of the Standard Form (SF-269A) report (i.e., ensuring that the person who approves the report is not the same person who prepared it).
Status of Corrective Action:	Fully corrected. Mental Health implemented procedures to ensure segregation of duties for approval and preparation of the SF-269A.

Reference Number:	**2009-12-7**
Federal Program:	93.044 93.045 93.053
State Administering Department:	Department of Aging (Aging)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Reporting. Aging lacks adequate policies and procedures to provide reasonable assurance that the Financial Status Report and Administration on Aging Supplemental Form

	(SF-269) it submits to the federal government includes all activities, are supported by accounting records, and are fairly presented. The two SF-269s reviewed were submitted late by Aging.
Status of Corrective Action:	Fully corrected. Aging has completed and approved policies and procedures for preparation and completion of Financial Status Reports.[24]

Reference Number:	**2009-12-10**
Federal Program:	93.959
State Administering Department:	Department of Alcohol and Drug Programs (ADP)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Reporting. ADP lacks written procedures instructing staff on how to prepare the U.S. Office of Management and Budget's Form 269, Financial Status Report (Form 269). ADP did not comply with the reporting requirements for the federal fiscal year 2007 Form 269 and was over a month late in submitting its federal fiscal year 2008 Form 269.
Status of Corrective Action:	Fully corrected. ADP has procedures in place.

Reference Number:	**2009-12-19**
Federal Program:	93.568
State Administering Department:	Department of Community Services and Development (Community Services)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Reporting. Community Services lacks adequate internal controls to ensure proper federal reporting requirements are met. Community Services' written procedures do not include steps to reconcile the federal share of program outlays from spreadsheets to official accounting records.
Status of Corrective Action:	Partially corrected. Community Services contracted with Cooperative Personnel Services (CPS) to develop policies and procedures for the department. In addition, CPS will train Community Services staff to maintain and update policies and procedures.[25]

Reference Number:	**2009-13-4**
Federal Program:	93.659
State Administering Department:	Department of Social Services (Social Services)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Subrecipient Monitoring. Social Services lacks formal processes to ensure it fulfills its pass-through responsibility to monitor the counties during the award period.
Status of Corrective Action:	Fully corrected. Social Services establishes Adoption Assistance Program (AAP) requirements under statute, regulations, and all county letters to counties and adoption district offices. Counties are audited via "desk audits" under the Single Audit standards that include review of the AAP Claims for AAP administrative and assistance costs by Social Services and certified correct and accurate by county welfare directors. The State has a Federally-approved AAP Program Improvement Plan (PIP) which guides Federal compliance. Pending completion of the PIP, an all county letter (ACL) was released September 29, 2009, that provided interim direction in the following areas: AAP Eligibility; AAP Agreements and Payment Amounts; AAP Reassessments and Nonrecurring Adoption Expenses. All proposed statute language was achieved via Assembly Bill (AB) X44 effective July 28, 2009, and Senate Bill (SB) 597 signed October 11, 2009, effective January 1, 2010. The outstanding items to be completed per the PIP are revisions of the regulations and the forms specific to AAP. In addition, Social Services submitted a Budget Change Proposal requesting two full-time Social Service Consultant IIIs to provide more comprehensive oversight and monitoring of the counties and adoption district offices policies and procedures. Trainings were provided at the January and June 2010 District Office Managers meetings. A peer review between the seven District Offices will be conducted at the next District Office Managers meeting scheduled for September 2010. The monitoring reviews will include an analysis of all supporting AAP documentation to ensure district office eligibility determinations and related payments are correct and in compliance with federal laws and regulations. The seven district offices are responsible for the administration of AAP for twenty-eight counties.[26]

Reference Number:	**2009-13-6**

Federal Program:	93.556
State Administering Department:	Department of Social Services (Social Services)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Subrecipient Monitoring. In the two prior year audits, Social Services did not have processes and procedures to ensure its non-county subrecipients met the U.S. Office of Management and Budget (OMB) Circular A-133 audit requirements. Specifically, Social Services did not have a process in place to collect and review the OMB Circular A-133 audits, nor to ensure that it issues management decisions within six months after receiving the audit. During March 2009, Social Services implemented new procedures addressing this finding. However, because Social Services did not plan to collect any of the OMB Circular A-133 audit reports from its non-county subrecipients until fiscal year 2009-10, we were unable to test the new procedures.
Status of Corrective Action:	Fully corrected. The processes and procedures for requesting and reviewing the OMB A-133 audits for all contractors and grantees were fully implemented by the Social Services' Office of Child Abuse Prevention (OCAP). Social Services is requesting and reviewing the financial audit reports and issuing management decision letters within six months of receiving the audit reports. In addition, the OCAP issued letters to all contractors/grantees in September 2009 relaying this new requirement to them and identifying their specific funding sources. This helped contractors/grantees understand their obligations. A similar letter will be sent to all contractors/grantees in September 2010.

Reference Number:	**2009-13-8**
Federal Program:	93.958
State Administering Department:	Department of Mental Health (Mental Health)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Subrecipient Monitoring. Mental Health used the incorrect Catalog of Federal Domestic Assistance (CFDA) title in its correspondence to the counties. Additionally, until March 2009 Mental Health did not have procedures in place to follow up when counties had not submitted their annual U.S. Office of Management and Budget (OMB) Circular

A-133 audits to the State. Further, Mental Health did not always follow the new procedure.

Status of Corrective Action: Partially corrected. Mental Health revised the title in the State fiscal year 2009-10 Planning Estimate and Renewal Application Instructions to reference the Federal CFDA title Block Grants for Community Mental Health Services.

Mental Health developed procedures to follow-up with counties that have not submitted their OMB Circular A-133 audits, and will take appropriate actions. Implementation of procedures is dependent upon notification from the State Controller's Office about delinquent OMB Circular A-133 audits from counties.[27]

Reference Number: **2009-13-10**

Federal Program: 93.563

State Administering Department: Department of Child Support Services (Child Support Services)

Fiscal Year Initially Reported: 2006-07

Audit Finding: Subrecipient Monitoring. Child Support Services did not require each local child support agency (LCSAs) to specifically identify American Recovery and Reinvestment Act (ARRA) funding on their Schedule of Expenditures of Federal Awards (SEFA) nor did it provide required information concerning the award and disbursement of ARRA funds. Child Support Services did not effectively monitor the LCSAs' use of federal funds. Child Support Services issued a management decision for a subrecipient audit requiring follow-up 11 days late (out of the eight audits requiring follow-up).

Status of Corrective Action: Partially corrected. Child Support Services was to send revised fiscal year 2008-09 and 2009-10 allocation letters to the LCSAs that include the federal award number and the amount of ARRA funds. Child Support Services was to add a statement that specifies the ARRA funds are included in the above allocations as well as the fiscal year 2010-11 allocation when issued. Each revised letter will include language requiring the LCSAs to report ARRA funding on the SEFA. Child Support Services was to include all federal award information in its agreements with LCSAs but it was inadvertently left out of the agreement in 2007-08. This situation was scheduled to be remedied in 2008-09, but the new agreement was then postponed another year. Child Support Services then

sent a notice to the LCSAs for fiscal year 2008-09 which left off the award number information to the counties. Child Support Services subsequently corrected the omission through a notice in fiscal year 2009-10 with this information included. Child Support Services will be sending subsequent Federal Award information to all LCSAs as soon as the award information is available, which will include award number, Catalog of Federal Domestic Assistance title and number, and awarding agency.

Child Support Services is conducting the CS356 reviews with desk and field audit reviews of the LCSAs. The new audit program and reduced scope of these audits will allow the State to be able to conduct more audits than in prior years. The audits will examine the controls in place to prepare the claim, validation of the expenditures on the claim, interpretation of the A-87 rules by the counties and the cash walk-in payment internal control process. Child Support Services has two audits that need resolution subject to finalization of the interpretation of the regulations and a final settlement letter to be issued May 2010. Child Support Services will be taking over the audit process, including settlement letters and the final report.

Child Support Services improved its timeliness in issuing management decisions. Child Support Services is dependent upon the State Controller's Office (SCO) and their process in issuing the OMB A-133 audit reports to Child Support Services. Child Support Services began the follow-up process more quickly after receiving the audits since the time period for follow-up begins when SCO receives the reports and not when Child Support Services receives them from SCO. Child Support Services logs and tracks all reports received from the SCO and contacts the LCSAs with findings to ensure that appropriate corrective action is performed. The management decision form is completed and approved which summarizes the determinations of the appropriateness and adequacy of the county's corrective action. Child Support Services will continue to track all reports received and follow-up within the required time frame. In addition, Child Support Services will make necessary adjustments for follow-up as the SCO updates its issuing process to the State agencies.[28]

Reference Number: **2009-13-11**

Federal Program: 93.044

	93.045 93.053 93.705 93.707
State Administering Department:	Department of Aging (Aging)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Subrecipient Monitoring. Aging lacks internal controls to ensure it identifies required federal award information at the time it awards funds to subgrantees, including American Recovery and Reinvestment Act (ARRA) awards. Aging did not check the Central Contractor Registration database to determine whether subgrantees were registered prior to the award of ARRA funds. Aging lacks adequate procedures that require staff to retain supporting documents for its fiscal monitoring process. One of Aging's monitoring tools does not ensure that its subgrantees are complying with all relevant federal requirements. Aging has not met its goal of its audit staff conducting on-site audit compliance reviews of its 33 subgrantees at least once every three years. Aging did not issue its final report, corrective action plan, or obtain the subgrantee's response within the specified timelines for one of Aging's on-site comprehensive assessments of a subgrantee. Aging's process does not ensure timely receipt of the subgrantees' Single Audit reports.
Status of Corrective Action:	Fully corrected. Aging issued Administrative Memo 10-01 that states departmental policy for including federal grant award information in subgrantee contracts. The program monitoring tool includes sections for reviewing debarment and suspension and central contract registration when subgrantees award contracts for federal funds. Aging has completed policies and procedures for monitoring subgrantees that includes retention of supporting documentation and timelines for department and subgrantee corrective action reports and responses. The department continues its efforts to meet the goal of 33 audit reviews once every three years. Aging's process for receipt of subgrantee's single audit reports includes follow-up letters to the subgrantees when reports are late.[29]

Reference Number:	**2009-13-14**
Federal Program:	93.959
State Administering Department:	Department of Alcohol and Drug Programs (ADP)

Fiscal Year Initially Reported:	2007-08
Audit Finding:	Subrecipient Monitoring. ADP management decisions issued for five counties' U.S. Office of Management and Budget (OMB) Circular A-133 audit findings did not contain all required elements, and ADP did not ensure that counties took appropriate and timely corrective action to resolve audit findings. Further, ADP did not initiate written and verbal contact in a timely manner with those counties that had delinquent OMB Circular A-133 audits.
Status of Corrective Action:	Fully corrected. ADP will revise its management decision letters to comply with OMB Circular A-133 §405 to ensure that the counties act quickly to resolve the audit findings contained in the management decisions. Remains uncorrected/disagree with finding. ADP does follow-up with the delinquent counties once the State Controller's Office notifies the State agencies and has been consistent in its application of the follow-up process. ADP will modify its procedures to include specific timeframes. After discussions with upper management, ADP has agreed that if reports are not completed and submitted according to OMB Circular A-133, sanctions 'such as' those noted in §225 can be imposed.[30]

Reference Number:	**2009-13-28**
Federal Program:	93.568
State Administering Department:	Department of Community Services and Development (Community Services)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Subrecipient Monitoring. Community Services' Audit Services Unit did not always ensure it issued management decisions on audit findings within six months of receipt of subrecipients' U.S. Office of Management and Budget Circular A-133 reports.
Status of Corrective Action:	Partially corrected. In May 2010, Community Services entered into a contract with the Department of Finance to assist in meeting its obligation to review single audits within the required six months.[31]

Reference Number:	**2009-14-3**

Federal Program:	93.958
State Administering Department:	Department of Mental Health (Mental Health)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Special Tests and Provisions. Mental Health does not facilitate peer reviews.
Status of Corrective Action:	Fully corrected. The California Mental Health Planning Council (Council) finalized the process for conducting the independent peer reviews, and executed a Memorandum of Understanding between the Council and Mental Health. In March 2010, the Council conducted its first peer review of San Bernardino County. For fiscal year 2010-2011, the Council plans to conduct three peer reviews.[32]

Reference Number:	**2009-14-4**
Federal Program:	93.563
State Administering Department:	Department of Child Support Services (Child Support Services)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Special Tests and Provisions. Child Support Services did not adequately fulfill its responsibility to respond to interstate case requests and status review requests within the time required. Also, instances were noted in which incomplete status request documentation made it difficult to determine compliance with federal response requirements. Child Support Services did not sufficiently ensure that counties fulfilled their responsibilities to process case requests in one instance.
Status of Corrective Action:	Fully corrected. Child Support Services, Office of Audits and Compliance, performed a follow-up review of the California Central Registry Unit's (CCR Unit) processes to determine whether the 5-days correspondences and 10-days case requests between jurisdictions met the turnaround timeframes. The CCR Unit has begun to meet all time frames and will continue to be monitored.

Reference Number:	**2009-14-5**
Federal Program:	93.053

State Administering Department:	Department of Aging (Aging)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Special Tests and Provisions. Aging lacks adequate procedures to provide reasonable assurance that cash received in lieu of commodities is distributed equitably; specifically, although its policy states that the Nutrition Services Incentive Program (NSIP) funding to subrecipients is based on the number of meals they served in the prior year in proportion to the number of meals served statewide, Aging lacked procedures to ensure staff follow the policy. Aging did not distribute the NSIP allocations promptly according to its procedures.
Status of Corrective Action:	Fully corrected. Aging issued a program memo to subgrantees and to the Area Agencies on Aging directors clarifying the department's methodology for distributing NSIP funds. Aging's approved policies and procedures for processing requests for funds include the time frames for processing requests for funds.

Reference Number:	**2009-1-4**
Federal Program:	10.561 93.558 93.658 93.659 93.667
State Administering Department:	Department of Social Services (Social Services)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Activities Allowed/Allowable Costs. Social Services' processes for reviewing and authorizing the counties' expense and assistance claims do not provide reasonable assurance that federal funds were expended only for allowable activities.
Status of Corrective Action:	Partially corrected. Social Services continues to believe it is in substantial compliance with federal requirements using existing controls and processes, but worked with the Administration for Children and Families (ACF) to resolve this finding. Based on ACF's determination, Social Services proposed a corrective action to comply with ACF's resolution.[33]

Reference Number:	**2009-2-2**
Federal Program:	10.561 93.658 93.659
State Administering Department:	Department of Social Services (Social Services)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Allowable Cost/Cost Principles. Social Services does not have adequate internal controls in place to ensure county welfare departments are claiming costs according to the cost allocation plan for local agencies.
Status of Corrective Action:	Partially corrected. Social Services continues to believe it is in substantial compliance with federal requirements using existing controls and processes, but worked with the Administration for Children and Families (ACF) to resolve this finding. Based on ACF's determination, Social Services proposed a corrective action to comply with ACF's resolution.[34]

Reference Number:	**2009-8-1**
Federal Program:	10.561 93.658 93.659 93.667
State Administering Department:	Department of Social Services (Social Services)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Period of Availability. Social Services' processes for reviewing and authorizing the counties' administrative and assistance claims do not provide reasonable assurance that adjustments included on the claims are for expenditures made within two years after the calendar quarter in which the expenditures were initially paid or incurred or within two years after the program funds were awarded.
Status of Corrective Action:	Partially corrected. Social Services continues to believe it is in substantial compliance with federal requirements using existing controls and processes, but worked with the Administration for Children and Families (ACF) to resolve this finding. Based on ACF's determination, Social Services proposed a corrective action to comply with

ACF's resolution.[35]

Reference Number:	**2009-13-3**
Federal Program:	10.561 93.556 93.558 93.566 93.645 93.658 93.659 93.667
State Administering Department:	Department of Social Services (Social Services)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Subrecipient Monitoring. Social Services did not always identify federal award information, such as Catalog of Federal Domestic Assistance (CFDA) title and number, when issuing subawards to the counties for the programs reviewed, excluding the Refugee Program. Social Services has periodic, ongoing correspondence with counties through fiscal letters it uses to notify them of various issues, including those related to administrative costs; however, these letters do not consistently include the CFDA title and number. Further, these letters did not include any of the federal laws, regulations, or grant provisions that govern the programs. Finally, for two programs Social Services did not provide all of the required federal award information in its contracts with its non-county subrecipients.
Status of Corrective Action:	Fully corrected. Social Services' Contracts Bureau will update the contract award cover letter to non-county subrecipients by August 2010. The contract award cover letter will include the CFDA number and directions to access the website for federal laws and regulations. The website will be updated with any new federal grant terms and conditions on a monthly basis to ensure subrecipients will have current information to remain in compliance with federal guidelines.

Reference Number:	**2009-13-5**
Federal Program:	10.561 93.558 93.658 93.659

	93.667 93.778
State Administering Department:	Department of Social Services (Social Services)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Subrecipient Monitoring. Social Services lacks adequate policies and procedures to ensure it issues management decisions on audit findings within six months after the State receives the counties' U.S. Office of Management and Budget (OMB) Circular A-133 audit reports. Although Social Services revised its policies and procedures in November 2008, the revised policies and procedures are still not sufficient to ensure Social Services issues management decisions within the required six months.
Status of Corrective Action:	Fully corrected. Social Services implemented the BSA recommendations in order to comply with the OMB Circular A-133 requirements. Procedures are in place to ensure Social Services issues management decisions within the required six months.

Reference Number:	**2009-2-1**
Federal Program:	93.658 96.001
State Administering Department:	Department of Social Services (Social Services)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Allowable Costs/Cost Principles. Social Services does not always ensure that staff, whose payroll costs are charged to the Disability Insurance and Foster Care programs, follow federal regulations. Specifically, the distribution of certain payroll costs was not supported by personnel activity reports, as required. Further, although one of its units charged 100 percent of its staff time during a certain period to one program activity code, staff reported time spent on other program activity codes.
Status of Corrective Action:	Fully corrected. The Disability Determination Services Division (DDSD) implemented the guidance of Social Services fiscal staff to fully remedy the finding to comply with Circular A-87. Effective April 2010, DDSD corrected the finding by instructing the appropriate staff to identify and prepare personnel activity documentation to identify reported activity codes listed on quarterly time studies. This now ensures program activities identified will be

charged to the correct DDSD program codes.

Reference Number:	**2009-1-13**
Federal Program:	14.228
State Administering Department:	Department of Housing and Community Development (Housing)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Activities Allowed/Allowable Costs; Subrecipient Monitoring. Housing's process for reviewing subrecipients' payment requests does not provide reasonable assurance that expenditures of Community Development Block Grants (CDBG) funds were only for allowable activities and allowable costs. Specifically, until January 2009 Housing did not have procedures that required subrecipients to submit supporting documentation for the costs they claimed. Additionally, Housing did not develop a site visit monitoring schedule for the fiscal year and acknowledged that the site visits it performed only pertained to one component of the program.
Status of Corrective Action:	Fully corrected. Housing believes, based on extensive communication with the U.S. Department of Housing and Urban Development (HUD), that an active risk based, field monitoring effort meets all federal requirements. However, Housing will continue to follow its new procedures that require subrecipients to submit documentation to support their requests for CDBG funds until the following action plan is fully implemented. On February 19, 2010, CDBG completed its risk assessment of both General and Economic Development (ED) awards for State recipients. This will be done on an annual basis prior to the beginning of each calendar year. CDBG staff members have been trained to use the risk assessment tool with the actual assessments being completed at this time. In February 2010, CDBG started site visits, as indicated by the results of the risk assessment, of the highest-risk State recipients in General and ED awards. Housing will not monitor all CDBG recipients, although the risk assessment analysis will take into consideration the extent to which State recipients have never or rarely been monitored. CDBG will prepare a specific monitoring schedule for annual site visits. The next schedule has been prepared and CDBG is on track to complete the indicated number of monitoring site visits. CDBG will conduct 16 ED monitoring site visits, and 24 General site

visits, for a total of 40 visits in 2010.[36]

Reference Number:	**2009-2-5**
Federal Program:	14.239
State Administering Department:	Department of Housing and Community Development (Housing)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Allowable Costs; Subrecipient Monitoring. Housing cannot demonstrate that the Home Investment Partnerships Program (HOME) funds it disburses to State recipients are necessary and reasonable in accordance with the Office of Management and Budget Circular A-87. Housing does not require State recipients to submit supporting documentation for the costs they claim. In addition, Housing does not consistently perform its close-out monitoring reviews in accordance with its policies and procedures and Housing does not always issue finding letters to State recipients in a timely manner following review.
Status of Corrective Action:	Partially corrected. Housing agrees that more thorough monitoring could be beneficial. *Risk Assessments*: Continue risk assessments of both program and project awards for State recipients. Risk assessments for all State Recipient projects were completed on May 31, 2010. State Recipient program risk assessment will be completed by June 30, 2010. *Desk Reviews or Site Visits*: Conduct either desk reviews or site visits, as indicated by the results of the risk assessment, of the highest-risk State recipients with either program or project awards. Housing will not monitor all State recipients, although the risk assessment analysis will take into consideration which State recipients have never or rarely been monitored. Housing has begun monitoring visits in May 2010, and is on track to complete 40 monitoring visits in 2010. *Monitoring Schedule*: Prepare an annual monitoring schedule for both desk reviews and site visits. A partial year monitoring schedule has been prepared, and the full year schedule will be prepared by August 31, 2010. Housing will conduct the monitoring specified in the monitoring schedule. Monitoring has begun, using the risk assessments already done.

	Letters: Housing plans to send all finding letters to State recipients within 30 days of the monitoring review, establishing a response deadline, and follow up to ensure responses are submitted in a reasonable time frame.[37]

Reference Number:	**2009-7-8**
Federal Program:	14.239
State Administering Department:	Department of Housing and Community Development (Housing)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Matching; Reporting. The amount Housing reported as its match contribution was not supported by its records. Further, Housing overstated its match contribution and did not accurately categorize the various sources of match. Additionally, the excess match amounts that Housing carries over from prior years when reporting its annual match contribution is also likely overstated.
Status of Corrective Action:	Partially corrected. Housing has not been able to hire a monitoring/reporting specialist. This will be done by August 31, 2010, and the plan will be prepared by October 31, 2010. In the meantime, for this year's match report, the Home Investment Partnerships Program (HOME) has developed improved procedures to ensure reporting accuracy, including a verification report, and has trained an additional staff person to verify the information.[38]

Reference Number:	**2009-12-11**
Federal Program:	14.239
State Administering Department:	Department of Housing and Community Development (Housing)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Reporting. Housing reported to the Department of Finance that it had more than $82 million in outstanding loans under the Home Investment Partnerships Program (HOME). However, Housing had not yet completed its reconciliation at the time it reported this information. As a result, the amount included on the Schedule of Federal Assistance has been potentially understated.

Status of Corrective Action:	Partially corrected. Housing expected this process to be completed by June 30, 2010. Because the process continues to be very staff-intensive, requiring documentation of every payment for every loan, Housing expects the process to be completed by November 30, 2010.[39]

Reference Number:	**2009-12-12**
Federal Program:	14.239
State Administering Department:	Department of Housing and Community Development (Housing)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Reporting. Housing lacks adequate internal controls to ensure that all subrecipients who were required to report Section 3 Summary Report information actually do so. Additionally, Housing overstated certain information when it provided its Section 3 Summary Report to the U.S. Department of Housing and Urban Development.
Status of Corrective Action:	Remains uncorrected/agree with finding. Beginning in fiscal year 2010-2011, Housing will sample on an annual basis approximately 10 percent of those subrecipients that have determined they are not required to submit Section 3 information. Any subrecipients incorrectly applying for non-reporting criteria will be notified. These reports were due July 29, 2010 and the sampling will be done by September 30, 2010.[40]

Reference Number:	**2009-12-13**
Federal Program:	14.228
State Administering Department:	Department of Housing and Community Development (Housing)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Reporting. Housing lacks adequate internal controls to ensure the completeness of the Section 3 report that it submits to the U.S. Department of Housing and Urban Development. Housing relied on its subrecipients to determine whether they met the expenditure threshold to submit the report.

Status of Corrective Action:	Remains uncorrected/agree with finding. Beginning in fiscal year 2010-11, Housing will sample approximately 10 percent of those subrecipients that have determined they are not required to submit Section 3 information, to validate that they meet the non-reporting criteria. Any subrecipients incorrectly applying the non-reporting criteria will be notified. These reports are due July 29, 2010 and the sampling will be done by September 30, 2010.[41]

Reference Number:	**2009-13-16**
Federal Program:	14.239
State Administering Department:	Department of Housing and Community Development (Housing)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Subrecipient Monitoring. Housing did not issue management decisions related to subrecipients' U.S. Office of Management and Budget (OMB) Circular A-133 audit findings within the required six-month time frame. Additionally, Housing lacks adequate internal controls to ensure that it issues timely management decisions.
Status of Corrective Action:	Fully corrected. The OMB Circular A-133 audit reports are received from the State Controller's Office (SCO), via the Audit Division, which distributes the audit finding information to program staff for action. The Audit Division has a Single Audit Information System database and a findings tracking Excel spreadsheet that has been used for the last 16 years. The Audit Division has a process to track the date the A-133 audits are sent to program staff, the date that findings are sent to recipients, and the date findings are resolved. Program staff issue management decisions for those findings that have been resolved. The six-month time frame for issuing management decisions starts after the SCO receives the A-133 report. The SCO has started including the date of receipt with A-133 reports distributed to Housing. As a result, the Audit Division has the information it needs to accurately calculate the date each management decision is due. As of February 26, 2010, the Audit Division has started calculating the six-month time frame based on the date SCO first received the A-133 report instead of the date Housing received the report. The Audit Division provides this due date along with the findings to program staff so they are aware of the deadline for issuing management

decisions.[42]

Reference Number:	**2009-13-17**
Federal Program:	14.228
State Administering Department:	Department of Housing and Community Development (Housing)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Subrecipient Monitoring. Housing did not issue management decisions on all audit findings within six months after the State's receipt of a local agency's audit report. Housing lacks adequate internal controls to ensure that it issues timely management decisions.
Status of Corrective Action:	Fully corrected. The U.S. Office of Management and Budget (OMB) Circular A-133 audit reports are received from the State Controller's Office (SCO), via the Audit Division, which distributes the audit finding information to program staff for action. The Audit Division has a Single Audit Information System database and a findings tracking Excel spreadsheet that has been used for the la 16 years. The Audit Division has a process to track the date the A-133 audits are sent to program staff, the date that findings are sent to recipients, and the date findings are resolved. Program staff issue management decision for those findings that have been resolved. The six-month time frame for issuing management decisions starts after the SCO receives the A-133 report. The SCO has started including the date of receipt with A-133 reports distributed to Housing. As a result, the Audit Division has the information it needs to accurately calculate the date each management decision is due. As of February 26, 2010, the Audit Division has started calculating the six-month time frame based on the date SCO first received the A-133 report instead of the date Housing received the report. The Audit Division provides this due date along with the findings to program staff so they are aware of the deadline for issuing management decisions.[43]

Reference Number:	**2009-14-7**
Federal Program:	14.239
State Administering Department:	Department of Housing and Community Development

	(Housing)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Special Tests and Provisions. Housing did not perform inspections for 29 Community Housing Development Organizations' rental projects representing approximately 41 percent of its inspection workload for the fiscal year.
Status of Corrective Action:	Partially corrected. Housing continues to actively implement its plan and is on schedule to do all required inspections by December 31, 2010. Housing has already inspected 62 of 82 projects. Ten more will be inspected by June 30, 2010. Of the remaining 10 projects, 7 were inspected in calendar year 2009 and re-inspected again in 2010. The three other projects are not required to be inspected (2 are direct awards to State Recipient projects not requiring State inspection, and 1 has reached the end of its federal affordability period and is not required to be inspected).[44]

Reference Number:	**2009-1-19**
Federal Program:	16.606
State Administering Department:	Department of Corrections and Rehabilitation (Corrections)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Activities Allowed/Allowable Costs. Corrections submitted ineligible inmate data in its fiscal year 2008 State Criminal Alien Assistance Program (SCAAP) application. Corrections' application included nearly 2,000 duplicate records. Further, the process that Corrections uses to compile the inmate data file may inappropriately include ineligible inmates.
Status of Corrective Action:	Partially corrected. Corrections has no way of verifying place of birth or date of birth as this information is self-reported by the inmates and Corrections does not have access to inmates' birth certificates. Many times, the inmate files contain contradicting and/or multiple places and dates of birth. It is our understanding that records submitted in the SCAAP application, because they have an alien number(s) will be vetted/matched in the vetting process the U.S. Immigration and Customs Enforcement (ICE), Department of Homeland Security, conducts. From information the Corrections has received from the Bureau of Justice Assistance (BJA) in regards to the "vetting

process," the ICE checks three databases in its attempt to ascertain the immigration status of an inmate submitted by a SCAAP application. In each system, the ICE first attempts to make a match based on an alien number if one is supplied by the applicant. If no alien number was supplied, the match process attempts a match based on an FBI number if one was supplied. If neither alien number nor FBI number is available, all systems attempt a match based on name and exact date of birth. The ICE uses a set of routines to try variations on names in this attempt to make a match. The outcome is to put these records into three categories: "legal," "illegal," or "unknown."[45]

Reference Number:	**2009-1-5**
Federal Program:	17.245
State Administering Department:	Employment Development Department (EDD)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Activities Allowed/Allowable Costs; Eligibility. EDD lacks adequate controls to ensure its field offices made appropriate eligibility determinations for the Trade Adjustment Assistance (TAA) program. Although EDD made certain policy and procedure changes, it did not implement new monitoring guidelines until July 2009, after the audited fiscal year.
Status of Corrective Action:	Fully corrected. EDD revised its TAA Training Plan in September 2008. The TAA Training Plan serves as a control document and is published on EDD's Intranet, which allows specialist day-to-day access to current program policies and procedures. In addition, the EDD developed new TAA monitoring guidelines in July 2009.[46]

Reference Number:	**2009-8-2**
Federal Program:	17.503
State Administering Department:	Department of Industrial Relations (Industrial Relations)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Period of Availability. Industrial Relations lacks adequate controls to ensure that it only charges to the award costs resulting from valid obligations of the funding period and that it liquidates these obligations no later than 90 days

	after the end of the funding period. Two charges to the 2008 award totaling $37 resulted from obligations made after the end of the funding period. Further, Industrial Relations did not develop procedures to ensure that it complies with federal regulations regarding the period of availability until November 2009, after the audited fiscal year.
Status of Corrective Action:	Fully corrected. The $37 disallowed cost which was recorded after federal fiscal year 2007-08 was adjusted and paid by State funds per agreement with the U.S. Department of Labor Grant Officer. To prevent this issue from reoccurring, the departmental Accounting Procedure Manual was updated and training was provided to staff during June 2010.

Reference Number:	**2009-9-4**
Federal Program:	17.207 17.801 17.804
State Administering Department:	Employment Development Department (EDD)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Procurement, Suspension and Debarment. EDD did not have adequate policies or procedures in place to comply with federal suspension and debarment requirements, to obtain such certification for the purchase of goods over $25,000, and to check the Excluded Parties List System (EPLS) to verify that entities it purchases goods from are not suspended or debarred.
Status of Corrective Action:	Fully corrected. EDD revised its Guidelines for Delegated Purchase Program, from the Desk Procedures Handbook, in April 2009, which identifies a procedure in place for suspension and debarment certifications. EDD consults the EPLS prior to issuing contracts for goods purchases over $25,000.[47]

Reference Number:	**2009-12-2**
Federal Program:	17.503
State Administering Department:	Department of Industrial Relations (Industrial Relations)
Fiscal Year Initially Reported:	2006-07

Audit Finding:	Reporting. Industrial Relations could not provide accounting records to support that the full amount reported as unliquidated obligations were paid with State funds.
Status of Corrective Action:	Fully corrected. The Closeout Financial Status Report (SF-269) has been revised and the CALSTARS D16 report will be used to support the amounts reported. The CALSTARS report previously used was F01 which also included Industrial Relations' overhead cost allocation. The CALSTARS F01 will not be used for the Closeout Financial Status report until we can provide reports which would allow the Bureau of State Audits' auditors to test it.

Reference Number:	**2009-12-3**
Federal Program:	17.245
State Administering Department:	Employment Development Department (EDD)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Reporting. EDD lacks controls to ensure the accuracy of the data in the Employment Training Administration 563 report (ETA-563) it submits to the U.S. Department of Labor (Federal Labor).
Status of Corrective Action:	Fully corrected. In the October/December 2009 quarter, EDD used data only from the Job Training Automation System (JTA) to prepare the ETA-563. EDD indicated that the consolidation of the ETA-563 report into its JTA ensures adequate control of data and report accuracy. The first consolidated JTA/ETA-563 report will be submitted to the Federal Labor in February 2010 for the October-December 2009 quarter.

Reference Number:	**2009-12-4**
Federal Program:	17.245
State Administering Department:	Employment Development Department (EDD)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Reporting. EDD has not established adequate controls to ensure it uses the appropriate data to prepare the Trade Act Participant Report (TAPR).
Status of Corrective Action:	Fully corrected. EDD consolidated all Trade Adjustment

	Assistance (TAA) performance data into its Job Training Automation system as of July 1, 2008 and submitted its first report to the U.S. Department of Labor using the consolidated data for the October/December 2008 quarter.

Reference Number:	**2009-13-7**
Federal Program:	17.258 17.259 17.260
State Administering Department:	Employment Development Department (EDD)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Subrecipient Monitoring. EDD does not monitor all of its non-Local Workforce Investment Areas (LWIA) to ensure that non-LWIAs are complying with federal laws, regulations, and provisions of grant agreements.
Status of Corrective Action:	Fully corrected. EDD has hired additional staff to conduct monitoring of the non-LWIAs and expect to complete monitoring of all non-LWIAs by the end of 2010.[48]

Reference Number:	**2009-14-2**
Federal Program:	17.225
State Administering Department:	Employment Development Department (EDD)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Special Tests and Provisions. EDD's financial management systems do not allow EDD to separately identify and report on Recovery Act funds expended for certain benefits paid under the Unemployment Insurance program.
Status of Corrective Action:	Remains uncorrected. EDD originally responded to the Bureau of State Audits' finding that the programming changes necessary to separately identify Recovery Act funds would be completed by March 2010. Because of higher priorities given for implementing federal and State legislation, EDD will not be able to resolve this finding until October 2010 at the earliest. To satisfy the Recovery Act financial reporting requirements, programming changes are required for 59 different financial reports that record various benefit transactions such as daily check issued

report, monetary accounting adjustments to the weekly benefit amounts, and benefit overpayments and refunds, etc. These financial reports all fulfill a financial reporting need and require programming in order to meet specific Recovery Act provisions.[49]

Reference Number:	**2009-1-9**
Federal Program:	20.205
State Administering Department:	Department of Transportation (Caltrans)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Activities Allowed/Allowable Costs; Subrecipient Monitoring. Caltrans lacks adequate internal controls to ensure that its progress payments, payments made while a project is ongoing, to local agencies were reasonable per the federal guidance described in the U.S. Office of Management and Budget Circular A-87. Specifically, Caltrans' procedures for approving progress payments did not consider or evaluate whether the costs that local agencies claimed were necessary or reasonable in relation to the work performed.
Status of Corrective Action:	Fully corrected. Caltrans Division of Local Assistance (DLA) issued an office bulletin, DLA-OB 09-05, effective September 1, 2009 that required all progress invoices (for preliminary engineering, right of way and construction) and support documentation be sent directly to the DLA engineers for their review and approval prior to payment. No additional corrective action is necessary, as DLA now has controls in place to ensure payments are in compliance with federal guidance.

Reference Number:	**2009-13-12**
Federal Program:	20.205
State Administering Department:	Department of Transportation (Caltrans)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Subrecipient Monitoring. Caltrans did not complete any of the local agency process reviews listed on its monitoring plan. Additionally, Caltrans did not issue management decisions on audit findings within six months after the State's receipt of a local agency's audit report.

Status of Corrective Action:	Fully corrected. Seven process reviews were on Caltrans Division of Local Assistance's (DLA) Process Review Work Plan, dated February 25, 2009. Two of the reviews have been completed, with one having been approved on July 13, 2010, and the other awaiting approval by the Federal Highway Administration (FHWA). Three of the reviews were canceled, as staff was redirected to higher priority assignments, such as the Disadvantaged Business Enterprise (DBE) program, American Recovery and Reinvestment Act (ARRA) of 2009, and FHWA/Caltrans Oversight Action Plan, that if neglected would cause local agencies and the local assistance program to lose federal-aid funding. The remaining two reviews, on award packages and DBE commitments, were canceled as DLA now reviews award packages and DBE commitments for all contracts, not a select few as called for in the original review. To address the finding, DLA has revised their Process Review Work Plan for 2010 by prioritizing reviews based on areas of greatest risk to the program. DLA plans to complete two process reviews for the fiscal year 2010-11. In addition, DLA has supplemented process reviews within the department to monitor compliance in material testing, construction oversight of ARRA projects, award packages, progress and final invoices and public interest findings. Caltrans has established written procedures to ensure Caltrans is in compliance with the six-month requirement; dedicated a staff person to clear the backlog of outstanding management decisions and ensure that subsequent years' Single Audits are processed within the required six months; and issued management decisions on 23 of the 27 findings identified. Caltrans expects to issue management decisions on the remaining four by July 31, 2010.

Reference Number:	**2009-1-8**
Federal Program:	64.005
State Administering Department:	California Department of Veterans Affairs (Veterans Affairs)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Activities Allowed/Allowable Costs, Matching. The Department of General Services (DGS), under the supervision of Veterans Affairs, could not always demonstrate that its inspectors reviewed pay requests from construction contractors. Additionally, DGS was

	unable to provide documentation that detailed the completed tasks for which a contractor was paid. Veterans Affairs has not developed written policies and procedures for this program, including procedures for its oversight and monitoring of DGS to ensure compliance with applicable federal requirements related to the program.
Status of Corrective Action:	Partially corrected. The oversight process to ensure that the Inspector of Record has reviewed all construction activities prior to payment have been put in place. Current review of FAI #6-052 and FAI #6-053 indicates no construction activity has been billed at this time.[50]

Reference Number:	**2009-4-1**
Federal Program:	64.005
State Administering Department:	California Department of Veterans Affairs (Veterans Affairs)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Davis-Bacon Act. The Department of General Services, under the supervision of Veterans Affairs, did not include the required clauses in the construction contracts related to the requirements of the David-Bacon Act, nor did it collect the weekly payrolls and certifications from the contractors, as required.
Status of Corrective Action:	Partially corrected. The contract language for Davis-Bacon Reporting Requirements was amended for West Los Angeles (WLA) contract FAI 06-044 on March 23, 2010. Contracts have been amended to include Davis-Bacon reporting language for projects FAI 06-052 Redding and FAI 06-053 Fresno Veterans Homes.[51]

Reference Number:	**2009-9-6**
Federal Program:	64.005
State Administering Department:	California Department of Veterans Affairs (Veterans Affairs)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Suspension and Debarment. The Department of General Services (DGS), under the supervision of Veterans Affairs, did not obtain a suspension and debarment

	certification as required before it entered into one of four contracts tested.
Status of Corrective Action:	Partially corrected. Federal program requirements have been provided to DGS for the Redding and Fresno Veterans Homes projects. Certifications for all current contracts are in place.[52]

Reference Number:	**2009-12-6**
Federal Program:	64.005
State Administering Department:	California Department of Veterans Affairs (Veterans Affairs)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Reporting. The Department of General Services (DGS), under the supervision of Veterans Affairs, does not have a sufficient process for reporting the amounts spent by category on the request for reimbursement.
Status of Corrective Action:	Partially corrected. The process for the development of the Federal 424c from the official estimate is in place. Procedures to use the contractors' schedule of values for reimbursement activities are in place at DGS. There is no Federal reimbursement activity for Fresno and Redding projects at this time, as the grant has not been awarded.[53]

Reference Number:	**2009-12-8**
Federal Program:	64.114
State Administering Department:	California Department of Veterans Affairs (Veterans Affairs)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Reporting. Veterans Affairs did not report to the U.S. Department of Veterans Affairs (USDVA) that it had notified the credit bureau of loan defaults, as required for all five delinquent files reviewed.
Status of Corrective Action:	Fully corrected. Veterans Affairs added data concerning delinquent account information reporting to credit bureau to existing monthly Veterans Affairs' Loan Electronic Reporting Interface updates. This information is now being reported to the USDVA.[54]

Reference Number:	**2009-3-3**
Federal Program:	10.557
State Administering Department:	Department of Public Health (Public Health)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Cash Management. Public Health did not comply with the three-day requirement in the Cash Management Improvement Act. Payments for two drawdowns were issued 5 and 29 days after the drawdown request.
Status of Corrective Action:	Fully corrected. Public Health reminded staff of the three-day rule and provided written procedures to assist staff with the three-day rule.[55]

Reference Number:	**2009-13-18**
Federal Program:	10.557
State Administering Department:	Department of Public Health (Public Health)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Subrecipient Monitoring. Public Health does not have properly designed processes and controls in place to notify, obtain, and review the required U.S. Office of Management and Budget Circular A-133 audits and Corrective Action Plans (CAPS) from subrecipients.
Status of Corrective Action:	Partially corrected. Effective July 1, 2010, the State Controller's Office (SCO) contract with Public Health Women, Infants, and Children (WIC) is amended to include the changes to the Scope of Work to ensure timely notices and to improve WIC's monitoring and follow-up. Under the amended contract, the SCO will track, evaluate, approve and monitor all audit report findings and follow-up requirements related to A-133 audits. The SCO will notify local agencies of audit findings and submit monthly reports to WIC, resulting in sufficient time to ensure that timely audit notification letters are mailed to local agencies and local agencies in return mail timely CAPs to the SCO. The WIC Division will implement revised procedures on July 1, 2010, for transmitting the financial review reports conducted by the SCO to local agencies, requiring that local agencies provide a corrective action plan for any

	findings within 60 days, and following up corrective action plans submitted by local agencies. The WIC Division has scheduled the biennially required WIC program evaluation for the 8 WIC local agencies identified in the audit finding for August/September 2010.[56]

Reference Number:	**2009-1-14**
Federal Program:	93.778
State Administering Department:	Department of Health Care Services (Health Care Services)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Activities Allowed. Health Care Services lacks sufficient internal controls to ensure only medically necessary claims are paid, and to detect providers in violation of record retention rules. Of the 50 expenditure claims reviewed, five did not appear to be for allowable services.
Status of Corrective Action:	Partially corrected. Health Care Services developed pre- and post-payment reviews (Random Claims Review, Self-audits, Desk Audits, Field Audit Reviews, and Audits for Recovery) to ensure only medically necessary claims and eligible providers are paid and providers adhere to record retention rules. Health Care Services also conducts an annual Medi-Cal Payment Error Rate Study (MPES) to identify any potential problem trends. Through MPES, Health Care Services identified documentation issues with pharmacies, adult day health centers (ADHC), local educational agencies (LEA) and non-emergency medical transportation (NEMT) providers. As a result, Health Care Services developed projects such as the Pharmacy Outreach Project, which reviewed over 2,000 pharmacies, and the NEMT Project which reviewed approximately 200 NEMT providers. Health Care Services completed several ADHC projects, reviewing over 100 ADHCs. Also, as a result of the MPES, an independent extended review of LEAs was conducted by the State Controller Office and was part of the MPES 2007 report. In addition, Health Care Services conducted provider education to ADHCs and LEAs.[57]

Reference Number:	**2009-1-15**

Federal Program:	93.778
State Administering Department:	Department of Health Care Services (Health Care Services)
Fiscal Year Initially Reported:	2005-06
Audit Finding:	Activities Allowed/Allowable Costs. Findings cited in the annual Medi-Cal Payment Error Study revealed that 6.56 percent of the total dollars paid for claims had some indication that they contained a provider payment error, 2.53 percent of paid claims were submitted by providers that disclose characteristics of potential fraud, and 46 percent of the payments for claims with errors did not have sufficient documentation to support the services claimed.
Status of Corrective Action:	Partially corrected. Health Care Services initiated corrective actions for all providers identified in the 2007 Medi-Cal Payment Error Study (MPES) against which actions were warranted. In addition, Health Care Services took additional actions to focus anti-fraud efforts on those areas identified by the study as most vulnerable to fraud and abuse. These additional actions included: additional on site reviews of pharmacies, Adult Day Health Centers (ADHC) and Non-Emergency Medical Transportation (NEMT); expanded use of new technology to better identify potential fraud schemes; reform of the ADHC program; an increase in the number of investigational and routine field compliance audits; and development of a joint action plan with provider regulatory boards and provider associations to address provider claiming errors identified as potential fraud and abuse. Health Care Services continues to draw on information identified in the 2007 MPES and is currently preparing for the next MPES.[58]

Reference Number:	**2009-2-6**
Federal Program:	93.778
State Administering Department:	Department of Health Care Services (Health Care Services)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Allowable Costs. Health Care Services does not ensure that drug utilization data are provided to drug manufacturers/labelers on a timely basis.

Status of Corrective Action:	Fully corrected. Health Care Services implemented changes on April 1, 2009, that substantially reduced the amount of manual review time needed for all claims, including the blood factor claims, which previously required significant manual review. Successful determination of these system changes were recognized with the second quarter 2009 invoices being produced and mailed with a postmark date of September 1, 2009. Health Care Services continues to monitor the invoicing process to ensure timely delivery of the utilization reports to labelers. The third quarter invoices were delayed due to a late delivery of the Centers for Medicare and Medicaid Services (CMS) Rebate Tape.[59]

Reference Number:	**2009-2-7**
Federal Program:	93.778
State Administering Department:	Department of Health Care Services (Health Care Services)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Allowable Costs. Health Care Services lacks sufficient internal controls to ensure provider claims forms are properly signed by providers. One out of 25 claims forms reviewed did not have the provider's signature.
Status of Corrective Action:	Fully corrected. Health Care Services has worked with Social Services to remind the counties that proper provider signatures must appear on all timesheets. There is regular dialogue with the counties on quality assurance activities including required elements on timecards.[60]

Reference Number:	**2009-3-4**
Federal Program:	93.917
State Administering Department:	Department of Public Health (Public Health)
Fiscal Year Initially Reported:	2004-05
Audit Finding:	Cash Management. Public Health lacks adequate policies and procedures to minimize the time between the receipt of undisputed payment requests and the disbursement of funds, as well as, policies and procedures to minimize the time between drawdown of federal funds and the funds' subsequent disbursement in order to comply with federal

and State requirements.

Status of Corrective Action: Fully corrected. Public Health updated internal policies and procedures to include appropriate timelines and follow-up steps to ensure invoices are processed timely. Public Health administrative and program staff continue to be trained on these procedures.

Also, Public Health completed written procedures on the drawdown process to assure time is minimized between drawdown and disbursement of federal funds. In addition, Public Health has adequate policies and procedures in place to pay vendors within 45 days of receipt of a valid invoice. The Public Health Accounting section implemented an Invoice Tracking System that tracks invoices from receipt to disbursement. A weekly report is generated from this system, which identifies invoices approaching 45 days of receipt.

Reference Number: **2009-5-4**

Federal Program: 93.917

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

Fiscal Year Initially Reported: 2006-07

Audit Finding: Eligibility. Public Health lacks sufficient internal controls over the eligibility process to ensure payments are only made to eligible recipients and all required documentation to verify eligibility is maintained in the recipient's file. Public Health lacks controls for following up on findings related to site visits.

Status of Corrective Action: Fully corrected. Public Health is developing a thorough plan to help ensure staff at the enrollment sites consistently apply eligibility requirements to all clients who apply for the program so that only AIDS Drug Assistance Program (ADAP) eligible clients are served by the program. Public Health's plan includes revision of the ADAP site visit tool used by staff to more fully document site/client file findings, formalized requirements for correction of the problem client files, mandated re-training of all enrollment workers at sites with significant client file deficiencies, and follow-up site visits by ADAP staff to confirm correction of the client files identified. Additionally, the ADAP pharmacy benefits management service provider will be notified of the specific client files found to have deficiencies and the necessary documentation required to correct the deficiencies.

	A 60-day grace period will be placed on these clients' eligibility, during which the missing documentation must be provided by the site/enrollment worker or the clients' ADAP eligibility will be suspended until compliance is achieved.[61]

Reference Number:	**2009-5-5**
Federal Program:	93.778
State Administering Department:	Department of Health Care Services (Health Care Services)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Eligibility. Health Care Services lacks adequate internal controls over its redetermination requirements for Medi-Cal beneficiaries to ensure benefits are discontinued when redeterminations are not received within 12 months of the most recent redetermination date.
Status of Corrective Action:	Fully corrected. Health Care Services regularly screens its Medicaid Eligibility Quality Control (MEQC) database for issues associated with redeterminations. Counties that have demonstrable patterns of redetermination issues are contacted, consulted with, and are subject to focused reviews, as needed. Health Care Services' Program Review Section regularly conducts county Medi-Cal redetermination eligibility focused reviews to ensure compliance with Medicaid requirements. Counties not in compliance with Medicaid requirements are subject to a follow-up focused review within 9-12 months and are required to submit corrective action plans, when necessary. Redeterminations are also a component of the County Performance Standards process, which requires counties to self-certify performance. These self certifications are subject to independent State verification. Fiscal sanctions are available to ensure compliance; however, current State law prohibits such sanctions to the extent counties are not fully funded for the cost of doing business.[62]

Reference Number:	**2009-5-6**
Federal Program:	93.778
State Administering Department:	Department of Health Care Services (Health Care Services)

Fiscal Year Initially Reported:	2005-06
Audit Finding:	Eligibility. Health Care Services lacks sufficient internal controls to obtain and track the enrollment presumptive eligibility identification numbers issued to prevent unauthorized use of identification numbers. Health Care Services does not perform procedures to authenticate the existence of the recipient, prevent duplicate issuances, and reconcile the presumptive eligibility numbers with the recipient enrollment listing filed during the claims adjudication process.
Status of Corrective Action:	Remains uncorrected/disagree with finding. Under the federal health care reform legislation signed into law in early 2010, Medicaid programs are required to simplify eligibility enrollment processes and to implement the use of a single application form. The federal government is required to develop the new enrollment standards which will be used to enroll individuals into Medicaid, the Children's Health Insurance Program and premium subsidies under the Exchange. These simplified processes are required to be operational on January 1, 2014. At the State level, similar efforts are envisioned under legislation signed by the Governor (ABx4 7) for statewide centralized eligibility and enrollment processing. Health Care Services is assessing how, if at all, the presumptive eligibility processes for pregnant women can be addressed under either of these two efforts.[63]

Reference Number:	**2009-8-6**
Federal Program:	93.917
State Administering Department:	Department of Public Health (Public Health)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Period of Availability. Public Health lacks adequate policies and procedures to ensure expenditures charged to the grant award were incurred within the appropriate period of availability. For 4 out of 60 items sampled, Public Health was unable to provide supporting documentation to show that expenditures were obligated within the period of availability.
Status of Corrective Action:	Fully corrected. Public Health updated internal policies and procedures to ensure funds are obligated in a timely manner. Public Health Administrative staff continues to

	be trained on these procedures.

Reference Number:	**2009-12-14**
Federal Program:	93.917
State Administering Department:	Department of Public Health (Public Health)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Reporting. Public Health did not maintain supporting documentation for the annual Final Progress Report it submitted in 2008. Specifically, Public Health was unable to provide supporting documentation for one of the three sampled line items.
Status of Corrective Action:	Fully corrected. Public Health updated internal policies and procedures and tracking systems to ensure appropriate documentation and calculations are maintained. The tracking system also ensures all administrative costs associated with the program contractors are easily distinguishable from service costs. Public Health Administrative and Program staff continues to be trained on these procedures. Also, Public Health staff are reminded to secure documents in the grant folder and have completed written procedures for grant folders.[64]

Reference Number:	**2009-12-15**
Federal Program:	93.767
State Administering Department:	Department of Health Care Services (Health Care Services)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Reporting. Health Care Services does not ensure amounts reported on its quarterly Children's Health Insurance Program Statement of Expenditures for Title XXI (CMS-21) report were classified correctly.
Status of Corrective Action:	Fully corrected. The System Development Notice (SDN) 08041 Add Federal Financial Participation To The Claim Activity Record was implemented on June 22, 2009. This SDN modified the California Medicaid Management Information System, Monitoring and Reporting Subsystem, to capture the Federal Financial Percentage (FFP) funding source for the Medi-Cal and Healthy Families programs. This SDN ensures that all Centers for

	Medicare and Medicaid Services (CMS) summary reports produced by Health Care Services' Accounting Office are traceable to original claims.

Reference Number:	**2009-12-16**
Federal Program:	93.778
State Administering Department:	Department of Health Care Services (Health Care Services)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Reporting. Health Care Services did not ensure that the amounts listed on reports for its Quarterly Statement of Expenditures for the Medical Assistance Program (CMS-64) were classified correctly.
Status of Corrective Action:	Fully corrected. The System Development Notice (SDN) 08041 Add Federal Financial Participation To The Claim Activity Record was implemented on June 22, 2009. This SDN modified the California Medicaid Management Information System, Monitoring and Reporting Subsystem, to capture the Federal Financial Percentage (FFP) funding source for the Medi-Cal and Healthy Families programs. This SDN ensures that all Centers for Medicare and Medicaid Services (CMS) summary reports produced by Health Care Services' Accounting Office are traceable to original claims.

Reference Number:	**2009-13-19**
Federal Program:	93.778
State Administering Department:	Department of Health Care Services (Health Care Services)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Subrecipient Monitoring. Health Care Services does not ensure the Catalog of Federal Domestic Assistance (CFDA) number is included in each of its subgrantee agreements. For 21 out of 40 agreements sampled, the CFDA was not identified.
Status of Corrective Action:	Partially corrected. Contract documents were revised in 2008 to include the CFDA number. Contracts typically span three years. Health Care Services has incorporated the new language into contracts as they come up for

renewal. By December 31, 2010, all contracts will contain the CFDA number.[65]

Reference Number:	**2009-14-10**
Federal Program:	93.778
State Administering Department:	Department of Health Care Services (Health Care Services)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Special Tests and Provisions – Provider Eligibility. Health Care Services and Public Health did not retain the federally required provider agreements for 14 of the 50 providers sampled.
Status of Corrective Action:	Partially corrected. The non-facility provider that did not have a provider agreement on file at Health Care Services is a drugstore chain, enrolled prior to November 1999, which had not made any changes requiring a new application since its effective enrollment date. Prior to November 1999, Health Care Services' Provider Enrollment Division (PED) did not require its Medicaid providers to submit a provider agreement with the application package. PED has since updated its provider enrollment process to require provider agreements and continues its plan to re-enroll all Medi-Cal providers as a continuous process as resources are available. Re-enrolled providers are required to submit an application package updated with current federal standards to retain eligibility for Medi-Cal. PED has also updated its requirements and providers must submit a new application package to report a new, additional, or change of service location. In addition, State law requires a new application be submitted when there is a change in business entity. In regards to the facility providers that did not have a provider agreement on file, the California Department of Public Health (Public Health) has collected 12 of the 13 provider agreements identified as missing, with the 13th pending new modifications to the provider agreement, anticipated to be completed and implemented in July 2010. Per Interagency Agreement #07-65492 executed in fiscal year 2007-2008, Public Health collects, maintains, and stores enrolled facility provider records, including provider

agreements. In 2008, a new provider agreement was jointly developed for facility providers by Health Care Services and Public Health. Public Health has initiated a concerted effort to collect new provider agreements from all licensed facility providers.[66]

Reference Number:	**2009-13-25**
Federal Program:	10.553 10.555 10.556 10.559
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Subrecipient Monitoring. In its communications regarding donated commodities, Education does not include award identification information to inform its local educational agencies (LEAs) that these are additional program awards of the National School Lunch Program (NSLP), Catalog of Federal Domestic Assistance (CFDA) Number 10.555, which are required to be included in the LEAs' total federal award expenditures that are subject to annual audit.
Status of Corrective Action:	Fully corrected. Education has informed LEAs of the designated NSLP and CFDA numbers. In addition, these numbers are also contained on the following nutrition program documents: (1) "Agreement for Distribution of Donated Food—School Nutrition Program:" (2) "Agreement for Distribution of Donated Food—Summer Food Service Program;" and the (3) "United States Department of Agriculture Commodity Agency Information Update/Annual Inventory Certification."

Reference Number:	**2009-13-26**
Federal Program:	10.553 10.555 10.556 10.559
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Subrecipient Monitoring. Of 60 on-site review files tested,

	two instances for the Summer Food Service Program for Children lacked the proper management review and approval on the Review Process Transmittal Form (transmittal form).
Status of Corrective Action:	Fully corrected. Education has strengthened procedures to ensure that transmittal forms indicate management's review and approval of the Summer Food Program awards and that an effective custodial trail of the forms is maintained.

Reference Number:	**2009-14-14**
Federal Program:	10.553 10.555 10.556 10.559
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Special Tests and Provisions – Accountability for Commodities. Education does not ensure it reconciles the receiving and shipping activity to the perpetual inventory systems based on the last inventory count. For 19 out of 20 commodities reviewed, the activity did not reconcile to the June 30 inventory count. This problem is due to the old inventory system not capturing various manual adjustments made to inventory balances and to the fact that the new Warehouse Management System (WMS) bar-coding program is still in the process of being implemented.
Status of Corrective Action:	Partially corrected. In July 2010, Education's InveTrak bar-coding system and its Web-based Child Nutrition Information and Payment System (CNIPS) will be integrated to improve inventory accountability. Once this integration is deemed operating as intended, Education will assess the process and implement any necessary changes.[67]

Reference Number:	**2009-1-16**
Federal Program:	84.010
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2008-09

Audit Finding:	Activities Allowed; Cash Management. Education could not locate a Summary Cover Memo for the Approved Schedule of Apportionment for testing of disbursements related to eight apportionment schedules for federal fiscal year 2006. Education was unable to support the approval of the apportionment calculation and the amount to be paid.
Status of Corrective Action:	Fully corrected. Education retains all Summary Cover Memos as evidence of approved apportionment calculations; the exception noted by the auditors appears to have been an isolated incident.

Reference Number:	**2009-2-8**
Federal Program:	84.048
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Allowable Costs. There is no evidence that payroll charges to the program are reviewed for accuracy and completeness.
Status of Corrective Action:	Fully Corrected. To maintain evidence that monthly payroll charges were reviewed, Education instituted the "SCALD Monthly Monitor Report for Labor Distribution" form in February 2010. This form describes identified payroll discrepancies, the actions taken to resolve the discrepancies, and documents the unit analyst and administrator's review and approval. The forms are completed each month and are maintained in the Program and Administrative Support Office.

Reference Number:	**2009-3-5**
Federal Program:	84.027
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Cash Management. Of the 60 disbursements sampled, 41 had a three-day allowance for pre-issuance according to the Cash Management Improvement Act (CMIA). Of those 41 disbursements, four were paid between four and nine days after the cash advance was received.

Status of Corrective Action:	Remains uncorrected/disagree with finding. Education issues cash advances to LEAs in compliance with the CMIA policies and procedures established by the Department of Finance (DOF) and in agreement with the SCO. The DOF does not require explanation unless payment delays exceed ten days; as noted by the auditors, the four exceptions were only 4 to 9 days delayed. However, Education will consult with the DOF in consideration of the CMIA agreement between the State and the U.S. Department of Treasury.[68]

Reference Number:	**2009-3-7**
Federal Program:	84.010 84.389 84.365 84.367
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2001-02
Audit Finding:	Cash Management. Education does not have an adequate process in place for assessing the cash needs of its subrecipients.
Status of Corrective Action:	Partially corrected. For the quarter period ending October 31, 2009, Education piloted a new Web-based local educational agencies (LEA) quarterly cash balance reporting system with the Title II - Improving Teacher Quality federal program. The cash balance information obtained through the Web-based reporting system allows Education to consider LEAs' cash needs for disbursing federal program funds. With the success of the pilot cash balance reporting system, Education plans to expand the new cash management processes to other federal programs in October 2010. In regard to American Recovery and Reinvestment Act (ARRA) Title I, Part A of the Elementary and Secondary Education Act of 1965 apportionments, Education's cash management considers LEAs' cash needs by utilizing quarterly ARRA "Section 1512" reported expenditure information in determining allocations for subsequently scheduled apportionments.[69]

Reference Number:	**2009-3-8**
Federal Program:	84.010 84.389

	84.011 84.027 84.173 84.391 84.392 84.287 84.357 84.365 84.367 84.394
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2005-06
Audit Finding:	Cash Management. Education lacks consistent and formally established policies and procedures for monitoring and tracking the local educational agencies' required submission of interest earnings in excess of $100 from program advances.
Status of Corrective Action:	Partially corrected. In May and June 2010, new cash management fiscal monitoring procedures were piloted as part of Education's re-designed categorical program monitoring process. The new cash management monitoring procedures include assessing local educational agencies' (LEAs) federal cash balances and compliance with federal interest requirements; expansion of these procedures is contingent upon identification of sufficient resources. In July 2010, Education plans to send LEAs a reminder on complying with federal interest requirements. In addition, Education will continue to work collegially with the U.S. Department of Education's Risk Management Services and Office of Inspector General to ensure that LEAs comply with federal interest requirements. For example, Education continues to work with these federal offices in assisting LEAs on developing and implementing federal interest calculation methodologies within the constraints of the LEAs' existing fiscal systems.[70]

Reference Number:	**2009-5-7**
Federal Program:	84.048
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Eligibility. Education does not have policies and

	procedures in place that narrate the procedures performed and the source of data used to complete the calculation of grant awards. Education calculated the Section 112 grant awards for the 2007 grant year incorrectly resulting in a $11,976 error.
Status of Corrective Action:	Partially corrected. Education's new written procedures for calculating local educational agencies Section 112 allocations have been developed and are being finalized pending management review and approval. In addition, the $11,976 error noted by the auditors was corrected in April 2010.[71]

Reference Number:	**2009-7-9**
Federal Program:	84.048
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Level of Effort – Maintenance of Effort. Education did not review or approve the maintenance of effort (MOE) calculation. Additionally, Education was unable to provide documentation to support whether certain expenditures were properly excluded from the calculation.
Status of Corrective Action:	Partially corrected. Education's new written procedures for calculating and documenting MOE have been developed and are being finalized pending management review and approval.[72]

Reference Number:	**2009-7-10**
Federal Program:	84.027 84.173
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Level of Effort – Maintenance of Effort. Education's review process did not discover an error in the calculation of maintenance of effort (MOE). While this error did not affect MOE compliance, Education's current MOE policies and procedures need to be enhanced to ensure the preparation and review of MOE is being accurately prepared.

Status of Corrective Action:	Fully corrected. The auditors reported that Education has a control in place to ensure compliance with the MOE requirements; the immaterial error that the auditors note did not affect MOE compliance. However, to strengthen existing controls, Education has reminded appropriate staff (the preparer and approver) to carefully review all the MOE calculations.

Reference Number:	**2009-7-11**
Federal Program:	84.048
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Level of Effort – Supplement not Supplant. Although Education has policies in place for monitoring its compliance with the requirement to use program funds to supplement rather than supplant existing funds for its State activities and operations expenditures, there is no documentation that the procedures have been performed.
Status of Corrective Action:	Remains uncorrected/disagree with finding. Education's budgetary processes include built-in controls to ensure that federal funds are not being used to supplant any reduction or elimination of nonfederal appropriated activities. For example, based on Education's documentation (accounting and budgetary records), the auditors were effectively able to verify that program funds were used to supplement not supplant.[73]

Reference Number:	**2009-7-12**
Federal Program:	84.010 84.389 84.287 84.365 84.367
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2005-06
Audit Finding:	Level of Effort – Maintenance of Effort. Education's current maintenance of effort (MOE) policies and procedures are insufficient to ensure that they are compliant with required federal guidelines.

Status of Corrective Action:	Remains uncorrected/disagree with finding. Education sends final MOE calculations back to local educational agencies (LEAs) if final calculations differ from the preliminary calculations. LEAs are well aware of preliminary calculations because: (1) Form NCMOE, the No Child Left Behind MOE calculation, is a required part of the LEA's submission (LEAs must open and save this form before they can officially export their data); (2) LEAs must certify certain key values within their submission, including values from Form NCMOE; and (3) the calculation of MOE is well documented in the software user guide.[74]

Reference Number:	**2009-8-7**
Federal Program:	84.010
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Period of Availability. Education must approve waivers of Title I funds excess carryover. Evidence of waiver approval could not be located for nine of the 32 waivers granted to local educational agencies (LEAs) for fiscal year 2007-08.
Status of Corrective Action:	Fully corrected. Education retains the approval waiver letters to document the review and approval of waiver applications.

Reference Number:	**2009-12-17**
Federal Program:	84.011
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2005-06
Audit Finding:	Reporting. Education relies upon the work performed by the outside subcontractor and does not perform any monitoring to ensure the subcontractor's controls in place to gather and compile the information are effective to help ensure the accuracy and completeness of the data supplied to Education. Education does not maintain supporting documentation for its submitted reports. There does not appear to be an effective review process in place to ensure the data reported is accurately compiled from the source documentation.

Status of Corrective Action:	Fully corrected. Education's program offices submit copies of their supporting documentation to the Consolidated State Performance Report (CSPR) coordinator within 10 days of completing the CSPR; upon reviewing the supporting documentation, the CSPR coordinator initials and retains the documentation as evidence of review.

Reference Number:	**2009-12-18**
Federal Program:	84.048
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Reporting. Education lacks internal controls over the Perkins data collection system used to prepare the Consolidated Annual Performance, Accountability, and Financial Status Report (CAR) submitted by local educational agencies (LEAs). Data reported by LEAs may not be complete, accurate, and reliable.
Status of Corrective Action:	Fully corrected. Education has developed policies and procedures to validate LEAs' performance data for accuracy and completeness. For example, Education has: (1) two web-based materials designed to inform and assist LEAs with Perkins accountability reporting, and (2) an online State-level data collection system that ensures reporting data consistency and accuracy, identifies LEAS that failed to file required reports, aggregates performance data, and facilitates the preparation of individual LEA performance-level reports for monitoring performance. To further ensure the completeness and accuracy of reported data, Education requires LEAs to conduct self-reviews; and during selected site monitoring visits, Education ascertains the accuracy and completeness of LEAs' reported performance data.[75]

Reference Number:	**2009-13-20**
Federal Program:	84.027 84.173 84.391 84.392
State Administering Department:	Department of Education (Education)

Fiscal Year Initially Reported:	2005-06
Audit Finding:	Subrecipient Monitoring. Education lacks sufficient policies and procedures over subrecipient monitoring, specifically during-the-award monitoring (for example, monitoring visits), to ensure that all material program elements are covered, including fiscal matters, and that resolution of corrective actions on deficiencies noted during the award monitoring is performed promptly.
Status of Corrective Action:	Fully Corrected. Education's FMTA has developed the following: (1) protocols for monitoring fiscal components; (2) procedures to follow up promptly on outstanding instances of noncompliance; and (3) written assurances to gain assurance on compliance with program fiscal requirements. These enhanced monitoring processes and procedures were implemented for the 2009–10 school year and are included as part of the Special Education self review process.

Reference Number:	**2009-13-21**
Federal Program:	84.357
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Subrecipient Monitoring. Education outsources its subrecipient monitoring to a contractor, California Technical Assistance Centers (C-TAC); however, the contractor's monitoring procedures focus on assisting local educational agencies (LEAs) with program implementation, as opposed to assessing their compliance with federal requirements. Education has no formal process in place to follow up and resolve issues promptly and to review expenditures reports to ensure program funds are used in accordance with authorized purposes.
Status of Corrective Action:	Fully Corrected. The Reading First program ends in fiscal year 2009-10. However, Education will continue to work effectively with the C-TAC and with Reading First Regional Technical Assistance Centers to oversee and improve the monitoring of LEAs involved in the Reading First program and to follow up promptly on known outstanding issues.[76]

Reference Number:	**2009-13-22**
Federal Program:	84.010 84.389 84.011 84.048 84.287 84.365 84.367
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2005-06
Audit Finding:	Subrecipient Monitoring. Education requires local educational agencies (LEAs) to resolve all deficiencies noted during Categorical Program Monitoring site visits within 225 days. For 3 of 11 site visits tested, the LEAs were significantly late with their resolutions. In addition, Education was not prompt for an additional 3 of 11 site visits tested in resolving the corrective actions once it received the resolutions.
Status of Corrective Action:	Fully Corrected. To strengthen existing controls, Education conducted the following actions: (1) Revised Categorical Program Monitoring (Categorical Monitoring) protocols to ensure prompt follow-up on the resolution of outstanding findings by requiring all findings to include the following components: (a) a statement of the legal requirements; (b) evidence supporting the findings; and (c) a detailed statement that describes what the LEAs must do to meet legal requirements. These components are intended to assist LEAs in resolving identified deficiencies and to assist Categorical Monitoring staff in following up on LEAs' corrective actions. (2) Enhanced and expanded Education's online Categorical Monitoring system known as the California Accountability and Improvement System (CAIS). The CAIS has the capacity to store and track large volumes of compliance evidence and other information, improve communication and coordination between Education and LEAs, and provide greater efficiency to Categorical Monitoring. Additional information on Education's Categorical Monitoring and CAIS is available online at: http://www.cde.ca.gov/ta/cr/cc/.[77]

Reference Number:	**2009-13-24**
Federal Program:	84.048

State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Subrecipient Monitoring. Education's monitoring system fails to address or analyze local performance data and the degree to which eligible recipients address performance shortfalls of special population categories, as required by federal regulations.
Status of Corrective Action:	Fully Corrected. Education's Perkins Program Monitoring (PPM) system helps ensure that required reporting data, including special populations' performance data and achievement levels, is complete, accurate, and reliable. In addition, known or suspected data reporting discrepancies will be further reviewed during selected site monitoring visits to ascertain the accuracy and reliability of data submitted to Education.

Reference Number:	**2009-14-11**
Federal Program:	84.011
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Special Tests and Provisions – Child Counts. The monitoring instrument used by Education entitled “No Child Left Behind (NCLB), Title I, Part C: Education of Migrant Children and California Migrant Education Instrument for Categorical Program Monitoring: An Ongoing Monitoring Process (revision 9/19/07)” does not contain any planned procedures regarding sampling or review of participant Certificates of Eligibility, as was indicated in the quality control process description in the Consolidated State Performance Report.
Status of Corrective Action:	Fully Corrected. Education conducts prospective re-interviews using independent re-interviewers on a random sample of migrant children every three years. Education completed the initial statewide re-interviews in September 2009; a report on the re-interview results was published in December 2009. In addition, effective May 2009, Education developed a Regional Prospective Re-interview Plan requiring regions to conduct annual prospective re-interviews. Furthermore, to enhance quality control for eligibility determinations, Education revised the 2009-10 regional application and district service agreement to

	require regional offices and local educational agencies to describe the planned implementation activities and procedures at the local level.

Reference Number:	**2009-14-12**
Federal Program:	84.011
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2005-06
Audit Finding:	Special Tests and Provisions – Subgrant Process. Education does not have a policy in place to monitor the outside subcontractor or to test the information it provided during the fiscal year under audit.
Status of Corrective Action:	Fully Corrected. To strengthen quality control processes, Education continues to conduct the following actions: (1) maintain electronic and hard copies of the Consolidated State Performance Reports and supporting documents to validate child counts; (2) review subcontractors' preliminary child count reports for accuracy by comparing reports with data from other regional report submissions, (3) review a sample of data submissions by region to check for accuracy and completeness, and (4) retain all documents pertaining to the monitoring of subcontractors.

Reference Number:	**2009-14-13**
Federal Program:	84.010 84.389 84.011
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Special Tests and Provisions – Comparability. Education lacks an internal control system that sufficiently documents the proper review of comparability reports for accuracy, completeness, and compliance.
Status of Corrective Action:	Fully corrected. Education has implemented a comparability checklist to document: (1) the procedures performed to review the comparability reports; (2) the actions taken for local educational agencies' (LEAs) noncompliance; and (3) the appropriate review and

approval signatures.

Reference Number:	**2009-1-18**
Federal Program:	93.575 93.596
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Activities Allowed. Education could not locate signed Application for Continued Funding (CFA) for three of 62 CFAs reviewed in order to ascertain and to demonstrate that contractors are not paid before approval of CFA.
Status of Corrective Action:	Fully corrected. The auditor reported that misfiled CFAs increase the risk that contractors could be paid before CFA approval; however, Education contends its review and approval processes, not the CFAs, mitigate the risk that contractors can be inappropriately paid. The contractors referred to by the auditors were appropriately reviewed and approved; the CFA cover sheets were inadvertently not returned to the master file after the approval process. To prevent future misfiling, Education strengthened procedures for processing CFAs by ensuring all original documents are retained by appropriate staff. In addition, Education maintains a custodial trail of original documents removed from the master files.

Reference Number:	**2009-3-6**
Federal Program:	93.575 93.596
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Cash Management. Education did not comply with the Cash Management Improvement Act (CMIA) agreement's. unique funding techniques, which require federal funds to be requested after program payments have been made. Education requested 10 drawdowns from the federal government of the 62 sampled before making payments to local educational agencies.

Status of Corrective Action:	Fully corrected. In accordance with CMIA requirements, Education will request federal funds after payments are made to LEAs for program reimbursement purposes.[78]

Reference Number:	**2009-8-8**
Federal Program:	93.575 93.596
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2005-06
Audit Finding:	Period of Availability. Education does not ensure appropriate segregation of duties are maintained and adjusting first-in-first-out (FIFO) entries are reviewed and approved prior to posting to the accounting system.
Status of Corrective Action:	Fully corrected. Education's management review and approval processes have been expanded to include all FIFO entries.

Reference Number:	**2009-13-23**
Federal Program:	93.575 93.596
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Subrecipient Monitoring. Education requires local educational agencies (LEAs) to resolve all deficiencies noted during the Categorical Program Monitoring site visits within 225 days. For 3 of the 11 site visits tested, Education received the proposed resolutions after 225 days. In addition, Education was not prompt in an additional 3 of 11 site visits tested in resolving the corrective actions once it received proposed resolutions from LEAs.
Status of Corrective Action:	Fully corrected. To strengthen existing controls, Education conducted the following actions: (1) Revised Categorical Program Monitoring (Categorical Monitoring) protocols to ensure prompt follow-up on the resolution of outstanding findings by requiring all findings to include the following components: (a) a statement of the legal requirements; (b) evidence supporting the findings; and (c) a detailed statement that describes what the LEAs

	must do to meet legal requirements. These components are intended to assist LEAs in resolving identified deficiencies and to assist Categorical Monitoring staff in following up on LEAs' corrective actions; (2) Enhanced and expanded Education's online Categorical Monitoring system known as the California Accountability and Improvement System (CAIS). The CAIS has the capacity to store and track large volumes of compliance evidence and other information, improve communication and coordination between Education and LEAs, and provide greater efficiency to Categorical Monitoring. Additional information on Education's Categorical Monitoring and CAIS is available online at: http://www.cde.ca.gov/ta/cr/cc/.[79]
Reference Number:	**2009-13-27**
Federal Program:	97.036
State Administering Department:	California Emergency Management Agency (CalEMA)
Fiscal Year Initially Reported:	2008-09
Audit Finding:	Subrecipient Monitoring. CalEMA lacks timely follow-up procedures when conducting during-the-award monitoring of its subrecipients to ensure subrecipients are administering federal awards in compliance with laws, regulations, and the provisions of the contracts and grant agreements.
Status of Corrective Action:	Fully corrected. Follow-up response templates have been developed to ensure timely resolution of any compliance deficiencies discovered through the limited-scope desk review process. A standardized monitoring process and monitoring tools, and a database to track the status of resolution of compliance deficiencies have been developed to ensure this finding is not repeated in the future.

Endnotes – Auditor's Comments

1. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-12-8.
2. This finding is fully corrected. Our audit this year did not identify a similar finding.
3. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-7-11.
4. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-13-8.
5. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-1-2.
6. This finding is fully corrected. Our audit this year did not identify a similar finding.
7. This finding is fully corrected. Although Rehabilitation plans to take additional actions to strengthen its processes, the actions it has taken sufficiently addressed our prior-year finding.
8. Based on the federal cognizant agency management decision dated September 30, 2010, we no longer consider this a reportable item.
9. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-5-2.
10. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-7-1.
11. This finding is fully corrected. Rehabilitation revised its procedures, and our audit did not identify any findings related to the reporting requirement.
12. EdFund has made significant progress in addressing information security control weaknesses. We had previously reported that EdFund did not maintain a complete history or audit trail of the changes made to its data. EdFund has fully remediated this weakness. In addition, EdFund has addressed 55 of 57 high-risk findings identified in the January 2009 security risk assessment. However, this control deficiency consisting of the two remaining high-risk findings was essentially eliminated by a federal action to remove the California Student Aid Commission (Student Aid) as the guarantee agency and EdFund as a state auxiliary servicing the student loans. The U.S. Department of Education transferred control over Student Aid's former loan portfolio to a non-California entity on November 1, 2010.
13. Although Student Aid indicated that EdFund revised certain policies identified in our finding and that Student Aid continued to attempt to ensure that EdFund's spending was appropriate, the overall reimbursement process did not change and still provided little recourse should EdFund spend state funds incorrectly. However, this control deficiency was essentially eliminated by a federal action to remove Student Aid as the guarantee agency and EdFund as a state auxiliary servicing the student loans. The U.S. Department of Education transferred control over Student Aid's former loan portfolio to a non-California entity on November 1, 2010.
14. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-1-3.
15. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-13-20.
16. We verified that the department implemented new procedures requiring electronic time sheets. The department is working with the federal government to resolve the issue related to the transfer of payroll costs.
17. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-3-6.

18. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-5-1.
19. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-7-2.
20. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-7-3.
21. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-7-4.
22. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-8-1.
23. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-9-1.
24. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-12-1.
25. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-12-2.
26. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-13-2.
27. This finding is fully corrected. Our testing found that the department's actions sufficiently addressed our prior-year finding.
28. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-13-5.
29. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-13-3.
30. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-13-20.
31. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-13-4.
32. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-14-1.
33. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-13-1.
34. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-13-1.
35. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-13-1.
36. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-13-18.
37. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-2-6.
38. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-7-12.
39. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-12-10.
40. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-12-11.
41. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-12-9.

42. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-13-19.
43. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-13-17.
44. This finding is fully corrected. Our testing found that the department materially complied with the monitoring requirement.
45. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-1-7.
46. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-1-1.
47. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-9-2.
48. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-13-7.
49. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-14-2.
50. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-1-4.
51. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-4-1.
52. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-1-4.
53. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-12-3.
54. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-12-4.
55. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-3-2.
56. This finding is fully corrected. This year's subrecipient monitoring review found that the department took sufficient corrective action to resolve each of the concerns reported in the prior year.
57. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-1-6.
58. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-1-5.
59. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-2-2.
60. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-2-3.
61. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-5-3.
62. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-5-6.
63. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-5-5.
64. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-12-5.
65. This finding is fully corrected. All agreements reviewed in the performance of the audit properly indicated the Catalog of Federal Domestic Assistance number for the program.

66. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-14-4.
67. This finding is fully corrected. Our testing found that Education properly reconciled its records to its year-end inventory counts.
68. This finding is fully corrected. During our testing, we noted that all disbursements to local educational agencies were within three days of receipt of federal funds.
69. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-3-3.
70. This finding is fully corrected. This year's review confirmed that Education has implemented procedures for monitoring and tracking the required submission of interest earnings.
71. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-5-7.
72. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-7-7.
73. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-7-8.
74. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-7-6.
75. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-12-12.
76. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-13-16.
77. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-13-12.
78. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-3-5.
79. We reported a similar finding in our audit of fiscal year 2009–10. Please refer to reference number 2010-13-13.

We conducted this audit to comply with Section 8543 et seq. of the California Government Code. The Independent Auditor's Reports provide the opinions we expressed on the State of California's internal control and on compliance and other matters.

Respectfully submitted,

ELAINE M. HOWLE, CPA
State Auditor

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(*Agency response provided as text only.*)

Department of Finance
State Capitol
Room 1145
Sacramento, CA 95814-4998

March 8, 2011

Ms. Elaine M. Howle, State Auditor
Bureau of State Audits
555 Capitol Mall, Suite 300
Sacramento, CA 95814

Dear Ms. Howle:

Thank you for the opportunity to respond to the internal control and state and federal compliance audit report for the fiscal year ended June 30, 2010. This report was the result of your examination of the state's general purpose financial statements and administration of federal programs for the fiscal year ended June 30, 2010, and will be part of the Single Audit Report covering this period. We accept the reported findings and recommendations and recognize that the compliance findings resulted in 22 unqualified and 10 qualified opinions for the 32 major programs audited. We are pleased to see a decrease in the number of compliance findings this year, but we also recognize that there are areas where internal controls and administration of federal awards needs to be improved.

California provides its citizens with numerous state and federal programs and activities and is much more complex and vast than most economic entities in the world. Moreover, such operations must exist within a system of internal and administrative control that safeguards assets and resources, and produces reliable financial information. Attaining these objectives and overseeing the financial and business practices of the state continues to be an important part of the Department of Finance's (Finance) leadership.

In meeting our responsibility for financial leadership and oversight, Finance provides internal audit related education and training to departments as well as oversight of departmental internal audit units by issuing audit guidelines and conducting quality assurance reviews. Further, we have an ongoing process of issuing audit memos to departments that establish statewide policy and provide technical advice on various audit related issues. An audit memo concerning the results of the fiscal year 2009–10 Single Audit will be issued to remind all departments of their responsibility for implementing corrective action plans for their single audit findings.

The head of each state department is responsible for establishing and maintaining a system of internal accounting and administrative control within their department. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified for changing conditions.

Moreover, all levels of state management must be involved in assessing and strengthening their systems of internal accounting and administrative controls to minimize fraud, errors, abuse, and waste of government funds. The Financial Integrity and State Manager's Accountability Act (FISMA) requires each agency to conduct

Ms. Elaine M. Howle
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an internal review of its controls and report on their results. Finance will continue to provide education and guidance to assist agencies in meeting the FISMA requirements. The state is committed to sound and effective fiscal oversight.

Individual departments have separately responded to the report's findings and recommendations. Accordingly, their viewpoints and corrective action plans are included in the report. We will monitor the findings and reported corrective actions to identify potential changes in statewide fiscal procedures.

Finance is committed to ensuring the proper financial operations and business practices of the state, as well as ensuring that internal controls exist for the safeguarding and effective use of assets and resources. We will take the single audit findings into consideration during the performance of audit work in those departments that received a qualified opinion on a major program.

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

Sincerely,

(Signed by: Fred Klass for)

ANA J. MATOSANTOS
Director

cc: Members of the Legislature
Office of the Lieutenant Governor
Milton Marks Commission on California State Government Organization and Economy
Department of Finance
Attorney General
State Controller
State Treasurer
Legislative Analyst
Senate Office of Research
California Research Bureau
Capitol Press