



State of California

Federal Compliance Audit Report for the Fiscal Year
Ended June 30, 2013

Report 2013-002



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Elaine M. Howle State Auditor
Doug Cordiner Chief Deputy

May 27, 2014

2013-002

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 California State Auditor (state auditor) presents this audit report concerning the review of the State of California's internal controls and compliance with federal laws and regulations for the year ended June 30, 2013. The state auditor contracted with KPMG LLP (KPMG) to perform this review for fiscal year 2012–13.

This report concludes that the State did not materially comply with certain requirements for 10 of the 30 federal programs or clusters of programs (federal programs) KPMG audited. Additionally, although KPMG concluded that the State materially complied with requirements for the remaining federal programs it audited, KPMG 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. Deficiencies in the State's internal control system could adversely affect its ability to administer federal programs in compliance with applicable requirements.

Respectfully submitted,

ELAINE M. HOWLE, CPA
State Auditor

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Contents

| | |
|---|-----|
| AUDITORS' SECTION | 1 |
| Independent Auditors' Report on the Schedule of Expenditures of Federal Awards as Required by OMB Circular A-133, <i>Audits of States, Local Governments, and Non-Profit Organizations</i> | 3 |
| Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Schedule of Expenditures of Federal Awards Performed in Accordance With <i>Government Auditing Standards</i> | 5 |
| Independent Auditors' Report on Compliance for Each Major Program and Report on Internal Control Over Compliance | 7 |
| Schedule of Findings and Questioned Costs | 13 |
| Schedule of Expenditures of Federal Awards Findings and Questioned Costs | 19 |
| Schedule of Federal Award Findings and Questioned Costs | 25 |
| U.S. Department of Agriculture | 27 |
| U.S. Department of Housing and Urban Development | 49 |
| U.S. Department of Justice | 52 |
| U.S. Department of Labor | 55 |
| U.S. Department of Transportation | 62 |
| U.S. Department of Education | 76 |
| U.S. Department of Health And Human Services | 95 |
| AUDITEE'S SECTION | 117 |
| Schedule Of Expenditures of Federal Awards | 119 |
| Notes to the Schedule of Expenditures of Federal Awards | 141 |
| Summary Schedule of Prior Audit Findings | 145 |
| Response to the Audit - Department of Finance | 177 |

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AUDITOR'S SECTION

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Independent Auditors' Report on the Schedule of Expenditures of Federal Awards as Required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*

The Governor and the Legislature of the State of California:

Report on the Schedule of Expenditures of Federal Awards

We have audited the accompanying Schedule of Expenditures of Federal Awards (the Schedule) of the State of California for the year ended June 30, 2013.

Management's Responsibility for the Schedule of Expenditures of Federal Awards

Management is responsible for the preparation and fair presentation of the Schedule in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Schedule that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the Schedule based on our audit. 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedule. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the Schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Schedule.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion

Opinion

In our opinion, the Schedule referred to above presents fairly, in all material respects, the expenditures of federal awards of the State of California, as of and for the year ended June 30, 2013, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As described in Note 1 to the Schedule, the State of California's financial statements include the operations of the University of California system, a component unit of the State of California, the California State University system, the California State Water Resources Control Board Water Pollution Control Revolving Fund, the California Department of Public Health Safe Drinking Water State Revolving Fund, and the California Housing Finance Authority, a component unit of the State of California, which received \$4.1 billion, \$2.5 billion, \$181.4 million, \$116.4 million, and \$64.1 million respectively, in federal awards which are not included in the Schedule for the year ended June 30, 2013. Our audit, described above, did not include the operations of the University of California system, the California State University system, the California State Water Resources Control Board Water Pollution Control Revolving Fund, the California Department of Public Health Safe Drinking Water State Revolving Fund, and the California Housing Finance Agency because they have their own independent audits in compliance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 16, 2014 on our consideration of the State of California's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance of the Schedule, and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance of the Schedule. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of California's internal control over financial reporting and compliance of the Schedule.

KPMG LLP

Sacramento, California
April 16, 2014



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**Independent Auditors' Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of the Schedule of Expenditures of Federal
Awards Performed in Accordance With *Government Auditing Standards***

The Governor and the Legislature of the State of California:

We have audited, in accordance with the 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, the Schedule of Expenditures of Federal Awards (the Schedule) of the State of California as of and for the year ended June 30, 2013, and have issued our report thereon dated April 16, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the Schedule, we considered the State of California's internal control over financial reporting of the Schedule (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Schedule, but not for the purpose of expressing an opinion on the effectiveness of the State of California's internal control. Accordingly, we do not express an opinion on the effectiveness of the State of California's internal control over financial reporting of the Schedule.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control over financial reporting of the Schedule that we consider to be a material weakness.

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 Schedule will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as 2013-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Schedule is free from 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 Schedule 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 Finding

The State of California's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The State of California's response was not subjected to the auditing procedures applied in the audit of the Schedule and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State of California's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and in considering the State of California's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Sacramento, California
April 16, 2014



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Independent Auditors' Report on Compliance for Each Major Program and Report on Internal Control Over Compliance

The Governor and the Legislature of the State of California:

Report on Compliance for Each Major Federal Program

We have audited the State of California's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the State of California's major federal programs for the year ended June 30, 2013. The State of California's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

As described in Note 1 to the Schedule, the State of California's financial statements include the operations of the University of California system, a component unit of the State of California, the California State University system, the California State Water Resources Control Board Water Pollution Control Revolving Fund, the California Department of Public Health Safe Drinking Water State Revolving Fund, and the California Housing Finance Agency, a component unit of the State of California, which received \$4.1 billion, \$2.5 billion, \$181.4 million, \$116.4 million, and \$64.1 million, respectively, in federal awards which are not included in the schedule of expenditures of federal awards for the year ended June 30, 2013. Our audit, described below, did not include the operations of the University of California system, the California State University system, the California State Water Resources Control Board Water Pollution Control Revolving Fund, the California Department of Public Health Safe Drinking Water State Revolving Fund, and the California Housing Finance Agency because they have their own independent audits in compliance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the State of California's major federal programs based on our audit of the types of compliance requirements referred to above. 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, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State of California's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the State of California's compliance.

Basis for Qualified Opinion on Major Federal Programs

As described in the Table below and in the accompanying schedule of findings and questioned costs, the State of California did not comply with requirements regarding the following:

| COMPLIANCE REQUIREMENT(S) | FINDING NUMBER | STATE ADMINISTERING DEPARTMENT(S) | FEDERAL PROGRAM OR CLUSTER |
|--|-----------------------|---|---|
| Davis-Bacon Act | | | |
| | 2013-022 | California Department of Transportation | High-Speed Rail Corridors and Intercity Passenger Rail Services - Capital Assistance Grants (20.319) (ARRA) |
| Eligibility | | | |
| | 2013-033 | Department of Rehabilitation | Rehabilitation Services - Vocational Rehabilitation Grants to States (84.126) |
| Reporting | | | |
| | 2013-024, 2013-025 | California Department of Transportation | High-Speed Rail Corridors and Intercity Passenger Rail Services - Capital Assistance Grants (20.319) (ARRA) |
| Subrecipient Monitoring, Special Tests and Provisions | | | |
| | 2013-002 | Department of Social Services | SNAP Cluster |
| | 2013-048 | Department of Health Care Services | Block Grants for Community Mental Health (93.958) |
| Subrecipient Monitoring | | | |
| | 2013-007 | Department of Public Health | Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) (10.557) |
| | 2013-015 | Board of State and Community Corrections | JAG Program Cluster |
| | 2013-026 | California Department of Transportation | Formula Grants for Other than Urbanized Areas (Nonurbanized Area Formula Program) (20.509) |
| | 2013-031 | California Community Colleges Chancellor's Office | Career Technical Education - Basic Grants to States (Perkins IV) (84.048) |
| | 2013-041 | Department of Health Care Services | Medicaid Cluster |
| Special Tests and Provisions | | | |
| | 2013-009 | Department of Public Health | Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) (10.557) |
| | 2013-020 | California Department of Transportation | Highway Planning and Construction Cluster (ARRA) |

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

Qualified Opinion on Major Federal Programs

In our opinion, except for the noncompliance described in the first Basis for Qualified Opinion paragraph, the State of California complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal programs listed in the Basis for Qualified Opinion paragraphs for the year ended June 30, 2013.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the State of California complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the Table below and in the accompanying schedule of findings and questioned costs. Our opinion on each major federal program is not modified with respect to these matters.

| COMPLIANCE REQUIREMENT(S) | FINDING NUMBER | STATE ADMINISTERING DEPARTMENT(S) | FEDERAL PROGRAM OR CLUSTER |
|--|----------------|---|--|
| Activities Allowed/Allowable Costs | | | |
| | 2013-049 | Department of Health Care Services | Block Grants for Prevention and Treatment of Substance Abuse (93.959) |
| Cash Management | | | |
| | 2013-046 | Department of Public Health | HIV Care Formula Grants (Ryan White HIV/AIDS Program Part B) (93.917) |
| | 2013-050 | Department of Health Care Services | Block Grants for Prevention and Treatment of Substance Abuse (93.959) |
| Eligibility | | | |
| | 2013-005 | Department of Public Health | Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) (10.557) |
| Eligibility, Subrecipient Monitoring | | | |
| | 2013-044 | Department of Health Care Services | Medicaid Cluster |
| Matching, Level of Effort, Earmarking | | | |
| | 2013-032 | California Department of Education | Special Education Cluster (IDEA) |
| | 2013-036 | Department of Rehabilitation | Rehabilitation Services - Vocational Rehabilitation Grants to States (84.126) |
| Period of Availability | | | |
| | 2013-037 | California Department of Education | Charter Schools (84.282) |
| Procurement | | | |
| | 2013-034 | Department of Rehabilitation | Rehabilitation Services - Vocational Rehabilitation Grants to States (84.126) |
| Procurement, Subrecipient Monitoring | | | |
| | 2013-003 | California Department of Education | Child Nutrition Cluster |
| Suspension and Debarment, Special Tests and Provisions | | | |
| | 2013-023 | California Department of Transportation | High-Speed Rail Corridors and Intercity Passenger Rail Services - Capital Assistance Grants (20.319) (ARRA) |
| Reporting | | | |
| | 2013-011 | California Department of Education | Food Distribution Cluster |
| | 2013-013 | Department of Housing and Community Development | HOME Program (14.239) |
| | 2013-018 | Employment Development Department | WIA Cluster |
| | 2013-027 | California Department of Transportation | Formula Grants for Other than Urbanized Areas (Nonurbanized Area Formula Program) (20.509) |
| | 2013-029 | California Department of Education | Title 1, Part A Cluster Food Distribution Cluster Migrant Education - State Grant Program (84.011) Special Education Cluster (IDEA) (ARRA) Charter Schools (84.282) School Improvement Grant Cluster Education Jobs (84.410) Child Nutrition Cluster Child Care and Development Fund Cluster |
| | 2013-039 | California Department of Education | School Improvement Grant Cluster (ARRA) Education Jobs Fund (84.410) |
| | 2013-040 | Department of Social Services | Foster Care Title IV-E (93.658) Adoption Assistance - Title IV-E (93.659) TANF Cluster" |

| COMPLIANCE REQUIREMENT(S) | FINDING NUMBER | STATE ADMINISTERING DEPARTMENT(S) | FEDERAL PROGRAM OR CLUSTER |
|---|--|--|--|
| Reporting, Special Tests and Provisions | | | |
| | 2013-030 | California Department of Education | Migrant Education - State Grant Program (84.011) |
| Subrecipient Monitoring | | | |
| 2013-008 | Department of Public Health | Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) (10.557) | |
| 2013-010 | Department of Social Services, Department of Education | Food Distribution Cluster | |
| 2013-012 | Department of Housing and Community Development | HOME Investment Partnerships Program (14.239) | |
| 2013-014 | California Governor's Office of Emergency Services | JAG Program Cluster (ARRA) | |
| 2013-016, 2013-017 | Employment Development Department | WIA Cluster | |
| 2013-045 | Department of Health Care Services | Medicaid Cluster | |
| 2013-047 | Department of Public Health | HIV Care Formula Grants (Ryan White HIV/AIDS Program Part B) (93.917) | |

The State of California's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The State of California's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of the State of California is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the State of California's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and 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 2013-002, 2013-015, 2013-020, 2013-022, 2013-026, 2013-031, 2013-033, 2013-041, and 2013-048 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a 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 2013-003, 2013-004, 2013-005, 2013-006, 2013-007, 2013-008, 2013-009, 2013-010, 2013-011, 2013-012, 2013-013, 2013-014, 2013-016, 2013-017, 2013-018, 2013-019, 2013-021, 2013-023, 2013-024, 2013-025, 2013-027, 2013-028, 2013-029, 2013-030, 2013-035, 2013-038, 2013-039, 2013-040, 2013-042, 2013-043, 2013-044, 2013-045, 2013-046, 2013-047, 2013-049, and 2013-050 to be significant deficiencies.

The State of California's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The State of California's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

KPMG LLP

Sacramento, California
April 16, 2014

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Schedule of Findings and Questioned Costs

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**STATE OF CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Section I – Summary of Auditors’ Results

Financial Statements

Issued under a separate cover. See California State Auditor's 2013-001.1 report entitled *State of California: Internal Control and State Compliance Audit Report for the Fiscal Year Ended June 30, 2013*.

Schedule of Expenditures of Federal Awards (Schedule)

| | |
|---|------------|
| Type of auditor's report issued | Unmodified |
| Internal control over financial reporting: | |
| Material weakness (es) identified? | Yes |
| Significant deficiency (ies) identified that are not considered to be material weaknesses? | No |
| Noncompliance material to the Schedule 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 auditors' reports issued on compliance for major programs: | See below |

Qualification

| CFDA Number | Federal Program or Cluster |
|--------------------|---|
| Various | SNAP Cluster |
| Various | JAG Program Cluster |
| Various | Highway Planning and Construction Cluster |
| Various | Medicaid Cluster |
| 10.557 | Special Supplemental Nutrition Program for Women, Infants and Children (WIC) |
| 20.319 | High-Speed Rail Corridors and Intercity Passenger Rail Services – Capital Assistance Grants |
| 20.509 | Formula Grants for Other than Urbanized Areas (Nonurbanized Area Formula Program) |
| 84.048 | Career and Technical Education – Basic Grants to States (Perkins IV) |
| 84.126 | Rehabilitation Services - Vocational Rehabilitation Grants to States |
| 93.958 | Block Grants for Community Mental Health |

Unmodified

| CFDA Number | Federal Program or Cluster |
|--------------------|--|
| Various | Food Distribution Cluster |
| Various | Child Nutrition Cluster |
| Various | WIA Cluster |
| Various | Title I, Part A Cluster |
| Various | Special Education Cluster (IDEA) (ARRA) |
| Various | School Improvement Grants Cluster |
| Various | CCDF Cluster |
| Various | TANF Cluster |
| 14.239 | Home Investment Partnerships Program |
| 17.225 | Unemployment Insurance |
| 84.011 | Migrant Education – State Grant Program |
| 84.282 | Charter Schools |
| 84.410 | Education Jobs Fund |
| 93.268 | Immunization Cooperative Agreements |
| 93.658 | Foster Care – Title IV-E |
| 93.659 | Adoption Assistance – Title IV-E |
| 93.667 | Social Services Block Grant |
| 93.767 | Children's Health Insurance Program (CHIP) |
| 93.917 | HIV Care Formula Grants (Ryan White HIV/AIDS Program Part B) |
| 93.959 | Block Grants for Prevention and Treatment of Substance Abuse |

| | |
|---|---------------|
| 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 | \$114,253,853 |
| Auditee qualified as low-risk auditee? | No |

Identification of Major Programs

| CFDA Number | Federal Program or Cluster |
|-------------|---|
| Various | SNAP Cluster |
| Various | Child Nutrition Cluster |
| Various | Food Distribution Cluster |
| Various | JAG Program Cluster (ARRA) |
| Various | WIA Cluster |
| Various | Highway Planning and Construction Cluster (ARRA) |
| Various | Title I, Part A Cluster |
| Various | Special Education Cluster (IDEA) |
| Various | School Improvement Grants Cluster (ARRA) |
| Various | TANF Cluster |
| Various | Child Care Development Fund (CCDF) Cluster |
| Various | Medicaid Cluster |
| 10.557 | Special Supplemental Nutrition Program for Women, Infants, and Children |
| 14.239 | Home Investment Partnership Program |
| 17.225 | Unemployment Insurance |
| 20.319 | High-Speed Rail Corridors and Intercity Passenger Rail Services – Capital Assistance Grants |
| 20.509 | Formula Grants for Other than Urbanized Areas |
| 84.011 | Migrant Education – State Grant Program |
| 84.048 | Career and Technical Education – Basic Grants to States (Perkins IV) |
| 84.126 | Rehabilitation Services - Vocational Rehabilitation Grants to States |
| 84.282 | Charter Schools |
| 84.410 | Education Jobs Fund |
| 93.268 | Immunization Cooperative Agreements |
| 93.658 | Foster Care – Title IV-E |
| 93.659 | Adoption Assistance – Title IV-E |
| 93.667 | Social Services Block Grant |
| 93.767 | Children's Health Insurance Program |
| 93.917 | HIV Care Formula Grants (Ryan White HIV/AIDS Program Part B) |
| 93.958 | Block Grants for Community Mental Health |
| 93.959 | Block Grants for Prevention and Treatment of Substance Abuse |

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Schedule of Expenditures of Federal Awards Findings and Questioned Costs

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DEPARTMENT OF FINANCE AND OTHER DEPARTMENTS

Reference Number: 2013-001

Criteria

State Administrative Manual (SAM) Section 7974 – *Year-End Report No. 13, Report of Expenditures of Federal Awards*, states that at year-end, departments will prepare a Report of Expenditures of Federal Awards, Report No. 13 (Report 13), for all federal funds. SAM Section 7974 instructs departments to segregate American Recovery and Reinvestment Act (ARRA) expenditures from non-ARRA expenditures in instances where the same CFDA number is used.

Condition

The Department of Finance (Finance) and certain departments, as listed below, lack adequate controls to ensure the Schedule of Expenditures of Federal Awards (Schedule) and Report 13s are accurate. Finance did not have adequate review procedures over the Schedule, including an analytical review, that could have identified errors we found. The departments mentioned below did not have adequate review processes to ensure the accuracy of information submitted to Finance. Failure to implement effective review controls over the Schedule and the Report 13s increases the risk that amounts reported as federal awards will be misstated. We identified the following errors in the Schedule, which were corrected by Finance:

- Finance misclassified \$67.2 million of expenditures as Research and Development for the Plant and Animal Disease, Pest Control, and Animal Care program.
- Finance did not cluster all Catalog of Federal Domestic Assistance (CFDA) numbers for the Food Distribution Cluster.
- Finance reported expenditures for the Section 8 Project-Based Cluster, the Capitalization Grants for Clean Water State Revolving Funds, and the Capitalization Grants for Drinking Water State Revolving Funds programs on the Schedule. However, these programs have separate OMB Circular A-133 audits and should not have been reported on the Schedule. Expenditures for these three programs were \$291.5 million.
- Finance did not include the State Criminal Alien Assistance program, totaling \$51.2 million on the Schedule.
- The California Department of Transportation (Caltrans) improperly identified \$20.3 million of American Recovery and Reinvestment Act (ARRA) expenditures as non-ARRA on the Report 13 for the High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants.
- The California Department of Education (Education) improperly reported commodity noncash of \$143.2 million under CFDA number 10.579 instead of 10.555.
- The Employment Development Department (EDD) improperly reported \$8.6 billion of loans from the federal government on the Schedule that did not have continuing compliance requirements.

Department of Finance Recommendations

Finance should improve its review of the Schedule to identify and evaluate changes from the prior year. Specifically, Finance should perform analytical procedures to identify programs that may be misclassified, missing, improperly included, or require additional analysis.

California Department of Transportation Recommendations

Caltrans should ensure it properly segregates ARRA expenditures on the Report 13.

California Department of Education Recommendations

Education should ensure it properly reports CFDA numbers for noncash expenditures.

Employment Development Department Recommendations

The EDD should review loan activity and report only those loans with continuing compliance requirements.

Department of Finance's View and Corrective Action Plan

We agree with this finding. Finance is aware of the importance of the reporting requirement. Finance is continuing to work on both a long-term and short-term solution to correct this finding.

In the short-term, Finance will inform state agencies/departments of the reporting and accounting errors made and stress the importance of submitting correct information. Finance will continue to work cooperatively with all state agencies/departments and provide additional guidance to obtain accurate Schedule information. Finance will compile federal expenditures for the State of California using year-end financial reports and data collection forms certified by the management of individual state agencies/departments. In addition, Finance will perform additional analytical procedures of the data presented in the Schedule. Finance is developing an interim solution to automate the data collection process to reduce errors and improve data integrity.

In the long-term, the state 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 anticipated to be completed by 2017. Upon completion of the FI\$Cal Project, Finance will explore its capabilities to automate the Schedule compilation, thereby minimizing errors and inaccuracies.

Contact

Richard Sierra, Chief, Office of State Audits and Evaluations

Implementation Date

May 2014

California Department of Transportation's View and Corrective Action Plan

Caltrans agrees that the expenditures should have been reported as ARRA on the Report 13. Caltrans will review each project with the relevant Federal Catalog Number to ensure that ARRA projects are coded correctly to reflect ARRA expenditures. This review will be completed by March 15, 2014. Additionally, Caltrans will review procedures with staff in the impacted programs to ensure that federal project coding accurately reflects the federal program including ARRA funding.

Contact

Grace Kong, Chief, Office of Project Accounting

Implementation Date

March 15, 2014

California Department of Education's View and Corrective Action Plan

Education accepts the recommendation. Education received updated fiscal information late in the year which needed to be communicated to the Department of Finance for input to the Schedule of Expenditures of Federal Awards (SEFA). However, the updated information was inadvertently reported under the incorrect CFDA. To ensure reporting accuracy in the future, all revisions to the SEFA will be verified to the original accounting records and other supporting documentation.

Contact

Roxanne Eres, Director, Fiscal and Administrative Services Division

Mark Baude, Accounting Administrator III, Fiscal and Administrative Services Division

Implementation Date

March 2014

Employment Development Department's View and Corrective Action Plan

EDD concurs with the recommendation. The EDD will no longer provide information to the Department of Finance regarding EDD's federal loan for inclusion in the Single Audit's Schedule of Expenditures of Federal Awards (SEFA). The EDD has been notified that the type of federal loan reported on the SFY 2012-13 SEFA worksheet is not required in the said section. Therefore, beginning SFY 2013-14, the SEFA worksheet will only include the required information, per SAM, Section 7974.

Contact

Lydia Yowell, Accounting Administrator II – Financial Reporting and General Ledgers Group, Accounting Section, Administration Branch

Implementation Date

July 1, 2014

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Schedule of Federal Award Findings and Questioned Costs

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U.S. DEPARTMENT OF AGRICULTURE

| | |
|---------------------------------|--|
| Reference Number: | 2013-002 |
| Federal Catalog Number: | 10.551 |
| Federal Program Title: | Supplemental Nutrition Assistance Program (SNAP) |
| Federal Award Number and Year: | 7CA400CA4; 2013 7CA420CAX; 2013 7CA4004CA; 2013 7CA4004CA; 2012 7CA430CA; 2012 |
| Category of Finding: | Subrecipient Monitoring; Special Tests and Provisions |
| Type of Finding: | Material Weakness and Material Instance of Noncompliance |
| State Administering Department: | Department of Social Services (Social Services) |

Criteria

Section 63.104.2, *Manual of Policies and Procedures, Food Stamps*: County welfare departments administrative responsibilities include, but are not limited to, certifying applicant households and ensuring that recertifications are completed and recorded at the required time for all cases.

TITLE 7 – AGRICULTURE, PART 272.10, ADP/CIS MODEL PLAN, AND PART 277.18, *Establishment of an Automated Data Processing (ADP) and Information Retrieval System*: State agencies automate their SNAP operations and computerize their systems for obtaining, maintaining, utilizing, and transmitting information concerning SNAP. This includes (1) processing and storing all case file information necessary for eligibility determination and benefit calculation, identifying specific elements that affect eligibility, and notifying the certification unit of cases requiring notices of case disposition, adverse action and mass change, and expiration; (2) providing an automatic cutoff of participation for households which have not been recertified at the end of their certification period by reapplying and being determined eligible for a new period and (3) generating data necessary to meet federal issuance and reconciliation reporting requirements.

TITLE 7 – AGRICULTURE, PART 274, Maintain adequate security over, and documentation/records for, Electronic Benefit Transfers (EBT) cards (7 CFR section 274.12(h)(3)), to prevent their theft, embezzlement, loss, damage, destruction, unauthorized transfer, negotiation, or use (7 CFR sections 274.7(b) and 274.11(c)).

Condition

State automated welfare systems (SAWS) were implemented to manage various health and human services processes, including SNAP, Medicaid, and Temporary Assistance for Needy Families (TANF). All 58 counties aligned themselves into one of three consortia. Each county consortium is responsible for the application software development, implementation, and maintenance and operations activities

of its SAWS. The State Office of System Integration provides oversight. As a result of setting up these consortia, counties are thereby responsible for eligibility, reporting SNAP benefits issued, and distributing, securing, and accounting for certain EBT cards.

During our audit for fiscal year 2011-12, we identified that Social Services did not evaluate that the use of county-owned systems rather than a state-owned system created the need for additional communication to county welfare departments in terms of how certain federal compliance requirements related to the SAWS and EBT cards were to be addressed in the county OMB Circular A-133 audits. Social Services issued an All County Welfare Directors Letter in June 2013 notifying county welfare departments of their responsibilities for complying with federal regulations related to monitoring the SAWS and for ensuring EBT card security; however, this letter did not communicate that these requirements should be covered in a county OMB Circular A-133 audit.

As result of SEFA reporting, review of prior year county OMB Circular A-133 audits, and discussions with Social Services, we concluded the special tests related to the SAWS, reporting, and special tests related to EBT cards may not be subject to audit. These requirements are not subject to audit at the state level since the SAWS are county-owned systems. During our audit, we noted that Social Services has implemented various quality control processes and procedures to ensure compliance with federal requirements. However, certain compliance requirements are not currently subject to audit by an independent auditor as required by OMB Circular A-133.

With county-owned systems, we concluded that all SNAP expenditures must be reported on the county's Schedule of Expenditures of Federal Awards (SEFA) in order for applicable SNAP compliance requirements to be subject to testing in an OMB Circular A-133 audit. SNAP EBT benefits are not reported on the county SEFA based on guidance provided in the OMB Circular A-133 Compliance Supplement which states the following:

“A county should not be reporting expenditures for SNAP benefits in its SEFA or in its SF-SAC. This is because SNAP benefits are provided exclusively by EBT. In an EBT environment, there is no pass-through of Federal funds for SNAP benefits. Rather, benefits are processed and expenditures determined by State-level EBT systems. With respect to counties, therefore, SNAP benefits do not meet the definitions of “Federal award” and “Federal financial assistance” set out in OMB Circular A-133, section __.105.”

Questioned Costs

No specific questioned costs were identified.

Recommendations

Social Services should work with the U.S. Department of Agriculture (USDA) to determine how applicable SNAP compliance requirements are covered in county OMB Circular A-133 audits. If Social Services determines that SNAP EBT benefits should not be reported in the county SEFA, but be subject to audit at the county, it should obtain approval of its determination in writing from USDA.

Department's View and Corrective Action Plan

The California Department of Social Services (CDSS) acknowledges that the audit requirement currently is not independently performed. California's fifty-eight county welfare departments (CWDs) rely primarily on three eligibility and case management systems, namely CalWIN, C-IV, and LEADER (known as the SAWS consortia) to assist in the determination of CalFresh eligibility and benefit calculations. We will be consulting with the SAWS consortia systems as to whether this requirement reasonably can be added to the scope of their existing independent audit activities, and thus comply with the United States Department of Agriculture (USDA) requirement without having 58 counties individually and redundantly conduct testing on the same three SAWS consortia systems. Currently however, we note that from initial client applications through recertifications, these automated systems originally underwent rigorous testing of their functionality and accuracy prior to implementation, and they continue to undergo testing prior and subsequent to implementation of policy changes. As required by the USDA, Food and Nutrition Service (USDA-FNS), the CDSS annually performs extensive CalFresh management evaluations to identify areas of non-compliance and quality control activities to ensure CalFresh payment accuracy and timeliness. California's statewide SNAP payment error rates have been steadily improving from 6.98% in FFY 2006 to 2.96% in FFY 2013. In addition, California has robust engagement with stakeholders and responds quickly whenever a client raises a concern about eligibility or benefits, which bolsters our confidence in the appropriateness and accuracy of the SAWS consortia systems' output.

Contact

Sysvanh Kabkeo, Chief, CalFresh Management Operations Section

Implementation Date

Discussions with the SAWS consortia will occur soon, and an update will be provided in the next periodic audit response update.

Auditors' Conclusion

We acknowledge that Social Services has means to assess the compliance requirements referenced above and the SAWS go through testing. However, as Social Services has noted, the compliance requirements are not subject to independent audit, either by the state or county auditor. Social Services should work with USDA to determine if Social Services' monitoring is sufficient to address the compliance requirements given the relationship between the Federal government, State, and counties.

| | |
|--------------------------------|---|
| Reference Number: | 2013-003 |
| Federal Catalog Number: | 10.553, 10.555 |
| Federal Program Title: | Child Nutrition Cluster |
| Federal Award Number and Year: | 7CA300CA3; 2013 7CA300CA3; 2012 7CA300CA3; 2011 |
| Category of Finding: | Procurement; Subrecipient Monitoring |
| Type of Finding: | Significant Deficiency and Instance of Noncompliance |

State Administering Department: California 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.

TITLE 7-AGRICULTURE, CHAPTER II-FOOD AND NUTRITION SERVICE, DEPARTMENT OF AGRICULTURE, PART 210 NATIONAL SCHOOL LUNCH PROGRAM-Table of Contents, Subpart D-Requirements for State Agency Participation, Section 210.19 Additional responsibilities,

- (a) General Program management

(6) Food service management companies.

Each state agency shall annually review each contract (including all supporting documentation) between any school food authority and food service management company to ensure compliance with all the provisions and standards set forth in this part before execution of the contract by either party. When the state agency develops a prototype contract for use by the school food authority that meets the provisions and standards set forth in this part, this annual review may be limited to changes made to that contract. Each state agency shall review each contract amendment between a school food authority and food service management company to ensure compliance with all the provisions and standards set forth in this part before execution of the amended contract by either party. The state agency may establish due dates for submission of the contract or contract amendment documents. Each state agency shall perform an on-site review of each school food authority contracting with a food service management company, at least once during each five-year period. The state agency is encouraged to conduct such a review when performing reviews in accordance with Section 210.18. Such reviews shall include an assessment of the school food authority's compliance with Section 210.16 of this part. The state agency may require that all food service management companies that wish to contract for food service with any school food authority in the state register with the state agency. State agencies shall provide assistance upon request of a school food authority to assure compliance with program requirements.

Condition

During our audit for fiscal year 2011-12, we reported that Education did not fully implement adequate controls to ensure that it documented approval of food service management company contracts within the Child Nutrition Information and Payment System (CNIPS) prior to reimbursing subrecipients. Although the School Food Service Contracts Unit was created to ensure compliance with federal requirements, the unit was not able to review 16 of 38 contracts for fiscal year 2012-13. Education's failure to properly approve food service contracts increases the risk that such contracts may not comply with federal regulations.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Education should fully implement its process to review food service management company contracts to ensure compliance with federal procurement requirements

Department's View and Corrective Action Plan

Education accepts the recommendation. To ensure compliance with federal requirements prior to subrecipients' application renewal and reimbursement of federal funds, Education's School Food Service Contracts Unit (SFSCU) reviews and approves food service management company contracts submitted to Education; SFSCU approvals are documented in CNIPS to allow the disbursement of nutrition program funds to subrecipients.

The SFSCU:

- Reviewed 83 FSMC contracts and contract extensions for the 2013–14 school year
- Required SFAs that are operating under extensions of their original FSMC contract to correct problems identified in their original procurement process through amendments to their current extension requests
- Assisted the School Nutrition Programs Unit (SNPU) with their annual updates in CNIPS, which helped educate SFSCU staff on SFA CNIPS application protocols, school meal program requirements, and CNIPS FSMC protocols
- Improved Education's Food Service Management Procurement Web page
- Developed a sample FSMC Request for Proposal (RFP) and model Contract, and:
 - » Held a stakeholder meeting in December 2013 with FSMC representatives and Education staff to review the draft sample FSMC RFP and model contract
 - » Posted the sample FSMC RFP and model Contract in December 2013 to Education's Food Service Management Procurement Web page
 - » Incorporated feedback from FSMC Representatives, public school districts, and the USDA and will post the revised sample RFP and model Contract in February 2014
- Created a Microsoft Excel contract tracking system to identify and notify SFAs that are due to rebid their contracts and to track review activities to ensure that both Education and SFAs are being responsive to the established review timeline
- Submitted a CNIPS change request (CR) to improve functionality of the CNIPS FSMC Fact Sheet to better track the contract approval process (Note: CR is estimated to be implemented in 2015)
- Completed the week-long U.S. Department of Agriculture (USDA) Administrative Review Training in San Francisco (SFSCU Manager only)
- Completed online National Food Service Management Institute State Agency Guidance procurement training (SFSCU Manager and staff)

The SFSCU is currently:

- Reviewing and approving all procurement documents, including contracts, for FSMC contract rebids for the 2014–15 school year
- Reviewing and approving FSMC contract extensions for the 2014–15 school year
- Customizing the current Sample Fixed-Fee RFP and Contract
- Developing a Sample Cost-Reimbursable RFP and Contract
- Conducting weekly staff meetings to discuss contract review status, issues, and projects
- Developing Webinars to educate SFAs on procurement laws and regulations and Education's FSMC contract review and approval process (first Webinar scheduled for May 2014)
- Participating in the new USDA Administrative Review Task Force to develop State Agency SFA/FSMC oversight procedures

Contact

Sandip Kaur, Division Director, Nutrition Services Division,
Chris Kavooras, School Nutrition Programs Administration Manager, Nutrition Services Division

Implementation Date

April 2013 – February 2014

| | |
|---------------------------------|---|
| Reference Number: | 2013-004 |
| Federal Catalog Number: | 10.553, 10.555 |
| Federal Program Title: | Child Nutrition Cluster |
| Federal Award Number and Year: | 7CA300CA3; 2013 7CA300CA3; 2012 7CA300CA3; 2011 |
| Category of Finding: | Reporting; Subrecipient Monitoring |
| Type of Finding: | Significant Deficiency |
| State Administering Department: | California 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.

State Administrative Manual, Section 5300 – Information security refers to the protection of information, information systems, equipment, software and people from a wide spectrum of threats and risks. Implementing appropriate security measures and controls to provide for the confidentiality, integrity, and availability of information, regardless of its form (electronic, optical, oral, print, or other media) is critical to ensure business continuity, and protect information assets against unauthorized access, use, disclosure, disruption, modification, or destruction. Information security is also the means by which privacy of personal information held by state entities is protected.

State Administrative Manual, Section 5365 – Each state entity shall establish and implement physical security and environmental protection controls to safeguard information assets against unauthorized access, use, disclosure, disruption, modification, or destruction.

Condition

The information technology controls over logical access on the Education Child Nutrition Information and Payment System (CNIPS) were not properly designed or implemented. Education uses CNIPS to calculate reimbursements to subrecipients based on approved rates and meal counts. During our audit, we noted the following:

- Five of five users tested had access granted by an unauthorized approver.
- Seven of 273 state users with access to CNIPS were individuals no longer employed with Education.
- User access reviews are not being consistently performed. The most recent review performed was in fiscal year 2011-12 and was based off of an organization chart/Microsoft Outlook listing rather than a separation listing obtained from human resources.
- A process for identifying potential segregation of duties conflicts on the CNIPS application level is not in place. We found two groups with the ability to approve the creation of a site and sponsor, approve the submission of a claim, and move the claim to a claim tracking status. We also found one user who had a state and local account.

Failure to maintain adequate information technology controls over logical access could result in improper reimbursements from the Federal government.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Education should strengthen CNIPS information technology controls over logical access. Specifically, Education should:

1. Implement a process to ensure user access is granted by authorized approvers.
2. Implement a process to ensure employees no longer employed with Education are deactivated timely.
3. Implement periodic reviews of user access using a separation listing from human resources.
4. Implement a process for identifying potential segregation of duties conflicts within the application and ensure users cannot have a state and local account.

Department's View and Corrective Action Plan

California Department of Education's (CDE) Response to Recommendation No. 1:

- The CDE accepts the recommendation. The CDE will review the access logs for CNIPS and delete all obsolete and unauthorized employees; access will only be granted by authorized approvers.

CDE's Response to Recommendation No. 2:

- The CDE accepts the recommendation. The CDE will strengthen existing procedures to ensure that retired or other departed employees that no longer have CNIPS-related responsibilities be timely deactivated.

CDE's Response to Recommendation No. 3:

- The CDE accepts the recommendation. The CDE will conduct quarterly periodic reviews of user access to ensure that only existing authorized users have access to CNIPS.

CDE's Response to Recommendation No. 5:

- The CDE accepts the recommendation. The CDE will reassess staff duties and segregate key duties in conflict amongst appropriate staff.

Contact

Michele Vasquez, Program Integrity Unit Manager, Nutrition Services Division

Implementation Date

June 30, 2014

| | |
|---------------------------------|---|
| Reference Number: | 2013-005 |
| Federal Catalog Number: | 10.557 |
| Federal Program Title: | Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) |
| Federal Award Number and Year: | 7CA700CA7; 2013 7CA700CA7; 2012 7CA700CA1; 2012 7CA730CA7; 2012 |
| Category of Finding: | Eligibility |
| Type of Finding: | Significant Deficiency and Instance of Noncompliance |
| State Administering Department: | Department of Public Health (Public Health) |

Criteria

Title 7: Agriculture, PART 246—SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS AND CHILDREN, Subpart C—Participant Eligibility, § 246.7 Certification of participants.

- (c) *Eligibility criteria and basic certification procedures.* (1) To qualify for the Program, infants, children, and pregnant, postpartum, and breastfeeding women must:
- (i) Reside within the jurisdiction of the State (except for Indian State agencies). Indian State agencies may establish a similar requirement. All State agencies may determine a service area for any local agency, and may require that an applicant reside within the service area. However, the State agency may not use length of residency as an eligibility requirement.
- (ii) Meet the income criteria specified in paragraph (d) of this section.
- (d) *Income criteria and income eligibility determinations.* The State agency shall establish, and provide local agencies with, income guidelines, definitions, and procedures to be used in determining an applicant's income eligibility for the Program.
- (o) *Are applicants required to be physically present at certification?* — (1) In general. The State or local agency must require all applicants to be physically present at each WIC certification.

Condition

Local agencies did not have adequate policies and procedures to ensure income and other eligibility criteria were evidenced in accordance with state and federal requirements. Local agencies are responsible for eligibility determination for participants in the WIC program using the Integrated Statewide Information System (ISIS).

We tested 65 beneficiaries and found three cases in which required eligibility information was not obtained or evidenced in ISIS. As a result, we could not conclude the participants were eligible to receive \$2,211 in benefits.

- For one case, the participant provided no income documentation when the child was certified; and the local agency did not place the required hold on the case until appropriate documentation was received.

- For one case, the local agency noted an infant less than eight weeks old was not present at enrollment. The local agency did not place a hold on the case and there was no evidence the infant was present at the next appointment or within eight weeks to meet the present at certification requirement.
- For one case, the local agency did not provide supporting eligibility information.

Total federal expenditures to participants for food instruments amounted to \$797,167,300 for fiscal year 2012-13. Total benefits paid to the 65 tested participants amounted to \$38,158.

Questioned Costs

\$2,211

Recommendations

Public Health should strengthen its communication and training to local agencies to ensure intake workers responsible for eligibility determination are knowledgeable of the documentation requirements in ISIS.

Department's View and Corrective Action Plan

The California Department of Public Health (CDPH) agrees with this recommendation and has fully implemented it.

The WIC Program has procedures in place to monitor and evaluate the local agencies' (LAs) compliance with eligibility requirements and documentation policies. CDPH contract monitors evaluate the LAs for compliance as required by federal and state regulations and provide ongoing training and technical assistance. If a finding occurs during a contract monitoring review or audit, the LAs must complete a corrective action plan and the WIC Program monitors to ensure the LA resolves the finding and implements the corrective action plan.

The WIC Program has contacted the LAs to provide additional technical assistance in the areas identified in the audit findings. In two of the cases, the certification period was already over, but the WIC Program was able to verify with the LA that it made the corrections during the certification period. In the case of the infant not present during the first eight weeks, the LA stated that the infant was a high-risk premature infant and unable to be present during the first eight weeks. The WIC Program Manual 210-07 (10.557-2 Attachment C) allows an exemption from the presence at certification requirement for this type of situation.

Additionally, WIC Program staff provides ongoing technical assistance to ensure LAs successfully resolve any finding and continue compliance.

Contact

Lisa Kawano, Acting WIC Division Chief

Implementation Date

On October 16, 2013, the WIC Program spoke with the local agencies regarding the findings and provided technical assistance. In addition, at the December 10, 2013 monthly WIC Director's teleconference, the WIC Program provided further clarification and guidance in the area of certification.

| | |
|---------------------------------|---|
| Reference Number: | 2013-006 |
| Federal Catalog Number: | 10.557 |
| Federal Program Title: | Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) |
| Federal Award Number and Year: | 7CA700CA7; 2013 7CA700CA7; 2012 7CA700CA1; 2012 7CA730CA7; 2012 |
| Category of Finding: | Eligibility; Special Tests and Provisions |
| Type of Finding: | Significant Deficiency |
| State Administering Department: | Department of Public Health (Public Health) |

Criteria

State Administrative Manual, Section 5300 – Information security refers to the protection of information, information systems, equipment, software and people from a wide spectrum of threats and risks. Implementing appropriate security measures and controls to provide for the confidentiality, integrity, and availability of information, regardless of its form (electronic, optical, oral, print, or other media) is critical to ensure business continuity, and protect information assets against unauthorized access, use, disclosure, disruption, modification, or destruction. Information security is also the means by which privacy of personal information held by state entities is protected.

State Administrative Manual, Section 5365 – Each state entity shall establish and implement physical security and environmental protection controls to safeguard information assets against unauthorized access, use, disclosure, disruption, modification, or destruction

TITLE 7 – AGRICULTURE, SUBTITLE B – REGULATIONS OF THE DEPARTMENT OF AGRICULTURE, CHAPTER II – FOOD AND NUTRITION SERVICE, DEPARTMENT OF AGRICULTURE, PART 246, SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS AND CHILDREN, SUBPART E - STATE AGENCY PROVISIONS, Section 12 – Food Delivery Systems:

(g) Retail Food delivery systems: Vendor authorization –

(4) Vendor selection criteria: competitive price. The State agency must establish a vendor peer group system and distinct competitive price criteria and allowable reimbursement levels for each peer group. The State agency must use the competitive price criteria to evaluate the prices a vendor applicant charges for supplemental foods as compared to the prices charged by other vendor applicants and authorized vendors, and must authorize vendors selected from among those that offer the program the most competitive prices. The State agency must consider a vendor applicant's shelf prices or the prices it bids for supplemental foods, which may not exceed its shelf prices. In establishing competitive price criteria and allowable reimbursement levels, the State agency must consider participant access by geographic area. The State agency must inform all vendors of the criteria for peer groups, and must inform each individual vendor of its peer group assignment.

(i) Vendors that meet the above-50-percent criterion:

(D) Must ensure that the prices of above-50-percent vendors do not inflate the competitive price criteria and allowable reimbursement levels for the peer groups or result in higher total food costs if program participants transact their food instruments at above-50-percent vendors rather than at other vendors that do not meet the above-50-percent criterion. To comply with this requirement, the State agency must compare the average cost of each type of food instrument redeemed by above-50-percent vendors against the average cost of the same type of food instrument redeemed by regular vendors. The average cost per food instrument may be weighted to reflect the relative proportion of food instruments redeemed by each category of vendors in the peer group system. The State agency must compute statewide average costs per food instrument at least quarterly to monitor compliance with this requirement. If average payments per food instrument for above-50-percent vendors exceed average payments per food instrument to regular vendors, then the State agency must take necessary action to ensure compliance, such as adjusting payment levels. Where EBT systems are in use, it may be more appropriate to compare prices of individual WIC food items to ensure that average payments to above-50-percent vendors do not exceed average payments for the same food item to comparable vendors. If Food and Nutrition Service (FNS) determines that a State agency has failed to ensure that above-50-percent vendors do not result in higher costs to the program than if participants transact their food instruments at regular vendors, FNS will establish a claim against the State agency to recover excess food funds expended and will require remedial action. A State agency may exclude partially redeemed food instruments from a quarterly cost neutrality assessment based on an empirical methodology approved by FNS. A State agency may not exclude food instruments from the quarterly cost neutrality assessment based on a rate of partially redeemed food instruments.

Condition

During our audit for fiscal year 2011-12, we reported the information technology (IT) controls over logical access and change management for the Integrated Statewide Information System (ISIS) were not properly designed. In fiscal year 2012-13, we also found certain information technology controls over logical access were not properly designed and implemented. Public Health utilizes ISIS to determine eligibility for WIC participants and monitor issuance and redemption of food vouchers. IT general controls should be properly designed and operating effectively to help ensure application controls function properly.

Public Health did not properly terminate access to ISIS. We found that 16 of the 292 individuals with access to ISIS had been terminated and, therefore, should no longer have access to the system. In addition, Public Health did not properly restrict access for one of 25 users tested. Public Health granted the user access to the policy/eligibility functions within ISIS; however, the user's job function did not require this level of access. We also noted that it does not have a control in place to annually review the level of access granted to users.

Additionally, we found that the cost neutrality report generated from ISIS appears to be double counting certain food instruments. The cost neutrality report is used to perform the quarterly cost neutrality assessment, to ensure that the average price per food instruments type that above-50-percent vendors charge participants does not exceed the price charged by regular vendors, either within their peer groups or statewide. The cost neutrality report for each quarter was between 50 and 83 food instruments higher than the query used to identify the number of food instruments for regular vendors.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Public Health should improve its policies and procedures over terminating user access and granting and reviewing the appropriate level of user access. Additionally, Public Health should ensure that the cost neutrality report accurately reports the number of food instruments for regular vendors.

Department's View and Corrective Action Plan

CDPH agrees with this recommendation and has partially implemented it.

CDPH relies on local agencies (LAs) to comply with CDPH policy to ensure the security and integrity of the ISIS system. This policy requires LA supervisors to “review the agency’s ISIS logon ID Maintenance Report” and delete any logon IDs of former employees and any other unnecessary logon IDs in accordance with the California WIC Program Manual. CDPH’s Information Technology Services Division (ITSD) generates the ISIS logon ID Maintenance Report, which the WIC Program distributes monthly to LAs.

By August 31, 2014, the WIC Program will clarify instructions and expectations for use of the “ISIS logon ID Maintenance Report” and include reference to WIC 140-20 when distributing the report to the LAs.

By August 31, 2014, the WIC Program and ITSD will develop a role-based ISIS ID request/change form that defines the minimum ISIS access requirements to align with the application needs of employees. The WIC Program will continue to require three levels of signatures before any ISIS ID changes are made.

Regarding the appearance that the cost neutrality report generated from ISIS may have been double counting certain food instruments, ITSD and WIC worked together to analyze the detailed SQL parameters to confirm that the SQL used to produce the cost neutrality report from ISIS is not double counting any records. As of March 10, 2014, the WIC Program and ITSD confirmed that the SQL parameters contain no errors and ISIS is no longer double counting any food instruments.

Contact

Edwin Lieu, Data Processing Manager III, ITSD

Implementation Date

August 31, 2014

| | |
|--------------------------------|---|
| Reference Number: | 2013-007 |
| Federal Catalog Number: | 10.557 |
| Federal Program Title: | Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) |
| Federal Award Number and Year: | 7CA700CA7; 2013 7CA700CA7; 2012 7CA700CA1; 2012 7CA730CA7; 2012 |
| Category of Finding: | Subrecipient Monitoring |
| Type of Finding: | Significant Deficiency and Material Instance of Noncompliance |

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

Criteria

TITLE 31 – MONEY AND FINANCE, SUBTITLE V – GENERAL ASSISTANCE ADMINISTRATION, Sec. 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; and
- (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.

Condition

Public Health did not perform financial management reviews required by the approved State Plan for six of 84 subrecipients during the last two years. Subrecipients perform eligibility determinations, as well as distribute food instruments to beneficiaries. In addition, Public Health did not have adequate controls in place to ensure notices of audit findings were issued within 90 days of completion of the financial management review. We tested 13 financial management reviews performed in fiscal year 2012-13 and found that nine had findings which required issuance of a notice of audit findings to the subrecipient. However, Public Health did not issue the notice of audit finding for any of the nine reviews. Public Health informed us that its legal department issued a hold on issuing notices of audit finding letters to subrecipients until the document could be reviewed by legal in January 2013. Upon review, no changes were made to the notice of audit finding letters, and the hold was lifted in August of 2013. Failure to conduct required financial management reviews and issue audit finding letters increases the risk that subrecipients are utilizing federal funds for unallowable costs and activities.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Public Health should ensure that all subrecipients have a financial management review performed at least once every two years in accordance with federal regulations. Public Health should also improve its policies and procedures to ensure that notices of audit findings are issued within 90 days of completion of a financial management review.

Department's View and Corrective Action Plan

CDPH agrees with the recommendation and has partially implemented it.

The State Controller's Office (SCO) conducts subrecipient financial management reviews for CDPH via an Interagency Agreement (IAA). During the audit review period, SCO experienced a shortage of qualified audit staff. This shortage resulted in 6 of 84 reviews not completed. As soon as staff resources were available, SCO completed the six reviews identified in this finding and issued the following reports:

| | |
|--|--------------------------|
| Glenn County – Agency No. 237: | Report Issued 08/28/2013 |
| Tulare County – Agency No. 218: | Report Issued 08/28/2013 |
| Siskiyou County – Agency No. 224: | Report Issued 08/30/2013 |
| Mendocino County – Agency No. 115: | Report Issued 10/08/2013 |
| Trinity County – Agency No. 236: | Report Issued 11/08/2013 |
| Sonoma County Indian Health – Agency No. 127 | Report Issued 12/19/2013 |

SCO is currently fully staffed to perform subrecipient financial management reviews within the required timelines. CDPH closely monitors SCO's performance and deliverables to ensure ongoing compliance with the terms of the IAA.

During the audit period, SCO identified significant issues in several subrecipient financial management reviews. In addition, CDPH Office of Legal Services reviewed the regulations related to subrecipient monitoring. These two activities delayed the WIC Program's issuance of demand letters to subrecipients. On August 14, 2013, the WIC Program resumed timely issuance of the Notice of Audit Findings (NAFs).

Below is the status of the NAFs the finding identified as not issued:

| | | |
|-----------------------|-----------------|---------------------------|
| Humboldt County | Due: 04/30/2013 | Status: Issued 08/13/2013 |
| City of Berkeley | Due: 02/27/2013 | Status: Issued 08/14/2013 |
| Gardner Family Health | Due: 03/04/2013 | Status: Issued 09/25/2013 |
| Contra Costa Health | Due: 08/21/2013 | Status: Issued 09/30/2013 |
| Toiyabe Indian Health | Due: 02/11/2013 | Status: Issued 09/30/2013 |
| Community Bridges | Due: 11/26/2012 | Status: Issued 02/14/2014 |

The three NAFs listed below as pending will be issued by March 31, 2014.

| | | |
|-------------------------|-----------------|-----------------|
| L A BioMedical Research | Due: 01/08/2013 | Status: Pending |
| Santa Barbara County | Due: 12/27/2012 | Status: Pending |
| Riverside County | Due: 01/10/2013 | Status: Pending |

Contact

Lisa Kawano, Acting WIC Division Chief

Implementation Date

CDPH will issue the NAFs by March 31, 2014.

| | |
|---------------------------------|---|
| Reference Number: | 2013-008 |
| Federal Catalog Number: | 10.557 |
| Federal Program Title: | Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) |
| Federal Award Number and Year: | 7CA700CA7; 2013 7CA700CA7; 2012 7CA700CA1; 2012 7CA730CA7; 2012 |
| Category of Finding: | Subrecipient Monitoring |
| Type of Finding: | Significant Deficiency and Instance of Noncompliance |
| 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), 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

Public Health did not properly monitor its contract with the State Controllers' Office (SCO) to ensure it issued management decisions letters in accordance with the timelines outlined in the contract. Public Health contracts with the SCO to review subrecipient OMB Circular A-133 reports and issue management decisions on audit findings for the WIC program. The SCO reviewed 84 OMB Circular A-133 reports and noted four had findings related to the WIC program. However, the SCO did not issue a management decision letter within six months of receipt of the subrecipient's audit report for two of those four reports. Failure to properly follow up on audit findings increases the risk that subrecipients may inappropriately use federal funds or grant benefits to ineligible participants.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Public Health should strengthen its policies and procedures to ensure that it issues management decision letters on audit findings within six months after receipt of a subrecipient's audit report.

Department's View and Corrective Action Plan

CDPH agrees with this recommendation and has partially implemented it.

CDPH did not issue management decision letters within six months of receipt of the A-133 audit report for two subrecipients. Due to clerical oversight WIC was unaware of the finding for the County of Ventura as well as City of Long Beach and management letters were not issued. CDPH will obtain the A-133 reports, review them, and issue a management decision letter.

To ensure timely issuance of decision letters, CDPH will amend its IAA with SCO. The WIC Program, not SCO, currently reviews the A-133 audit reports and issues management decision letters. However, the IAA does not properly describe relative roles and responsibilities. CDPH will amend the IAA to reflect SCO's responsibility to ensure that A-133 reports from private non-profit (PNP) subrecipients conform to federal requirements. In addition, the amendment will reflect SCO's responsibility to timely notify CDPH of any finding in a PNP's A-133 audit that affects the WIC program.

Contact

Lisa Kawano, Acting WIC Division Chief

Implementation Date

CDPH will issue the management decision letters by March 31, 2014.

CDPH will amend the IAA with SCO by October 31, 2014.

| | |
|---------------------------------|---|
| Reference Number: | 2013-009 |
| Federal Catalog Number: | 10.557 |
| Federal Program Title: | Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) |
| Federal Award Number and Year: | 7CA700CA7; 2013 7CA700CA7; 2012 7CA700CA1; 2012 7CA730CA7; 2012 |
| Category of Finding: | Special Tests and Provisions |
| Type of Finding: | Significant Deficiency and Material Instance of Noncompliance |
| State Administering Department: | Department of Public Health (Public Health) |

Criteria

Title 7: Agriculture, PART 246—SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS AND CHILDREN, Subpart E—State Agency Provisions, § 246.12 Food delivery systems.

(k) Retail food delivery systems: Vendor claims

(4) Time frame and offset. The State agency must deny payment or initiate claims collection action within 90 days of either the date of detection of the vendor violation or the completion of the review or investigation giving rise to the claim, whichever is later. Claims collection action may include offset against current and subsequent amounts owed to the vendor.

Condition

Public Health did not have adequate controls in place to ensure it took appropriate action on findings identified during vendor inventory audits. In fiscal year 2012-13, Public Health conducted 190 vendor inventory audits. However, Public Health did not issue notice of audit findings within 90 days of completion of the audit for four of 40 compliance investigations tested. As of June 30, 2013, two of the notice of audit finding letters had been issued to vendors and the collection process had begun. However, two of the notice of audit finding letters had not been issued and a total of \$112,238 in vendor claims collections had not been initiated. Public Health informed us that its legal department issued a hold on issuing notices of audit finding letters to subrecipients until the document could be reviewed by legal in January 2013. Upon review, no changes were made to the notice of audit finding letters, and the hold was lifted in August of 2013. Failure to issue notices of audit findings on compliance investigations increases the risk that vendors inappropriately redeem food instruments and the state will not reclaim monies owed.

Questioned Costs

\$112,238

Recommendations

Public Health should implement its policies and procedures over vendor inventory audits which require notice of audit findings to be issued within 90 days of completion of the audit in order to initiate the claims collection process.

Department's View and Corrective Action Plan

CDPH agrees with this recommendation and has partially implemented it.

CDPH issued the four Notice of Audit Findings identified by the auditor as missing, on the following dates:

| | | |
|---------|-------------------------|---------------------------|
| #322617 | VALUE + EXPRESS MARKET: | Report Issued: 01/31/2014 |
| #148545 | LA PRINCESA MARKET #9: | Report Issued: 01/15/2013 |
| #312756 | EL SOL MARKET: | Report Issued: 01/24/2014 |
| #364571 | CARDENAS MARKET #1: | Report Issued: 01/16/2013 |

The WIC Program is developing policies and procedures for vendor inventory audits to ensure audit findings are issued within 90 days of completion of the audit in order to initiate the claims collection process. The WIC Program will finalize the policies and procedures by February 28, 2014.

Contact

Lisa Kawano, Acting WIC Division Chief

Implementation Date

The WIC Program issued the four Notice of Audit Findings identified by the auditor on the dates noted above.

The WIC Program will finalize new policies and procedures by April 30, 2014.

| | |
|---------------------------------|---|
| Reference Number: | 2013-010 |
| Federal Catalog Number: | 10.565, 10.568, 10.569 |
| Federal Program Title: | Food Distribution Cluster |
| Federal Award Number and Year: | 7CA400CA2; 2013 7CA400CA2; 2012 7CA810CA1; 2013 7CA810CA1; 2012 |
| Category of Finding: | Subrecipient Monitoring |
| Type of Finding: | Significant Deficiency and Instance of Noncompliance |
| State Administering Department: | Department of Social Services (Social Services); California 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 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.

TITLE 2 – GRANTS AND AGREEMENTS, PART 25 – UNIVERSAL IDENTIFIER AND CENTRAL CONTRACTOR REGISTRATION, Appendix A to Part 25 – Award Term

I. Central Contractor Registration and Universal Identifier Requirements

B. Requirement for Data Universal Numbering System (DUNS) Numbers

If you are authorized to make subawards under this award, you:

1. Must notify potential subrecipients that no entity (see definition in paragraph C of this award term) may receive a subaward from you unless the entity has provided its DUNS number to you.
2. May not make a subaward to an entity unless the entity has provided its DUNS number to you.

Condition

Social Services and Education do not have adequate policies and procedures in place to monitor subrecipients in accordance with federal requirements. Both departments administer the Food Distribution Cluster through Eligible Recipient Agencies (ERA) and local agencies. Our audit found the following:

- Education did not obtain DUNS numbers for awards made during fiscal year 2012-13. Failure to obtain DUNS numbers increases the risk that subawards may be incorrectly reported.
- Social Services did not properly monitor and follow-up on audit findings identified in ERA OMB Circular A-133 audits. Failure to properly follow-up on audit findings increases the risk that ERA may inappropriately use federal funds or provide food commodities to ineligible participants. Social Services instructs ERA to submit OMB Circular A-133 audits and performs a limited review; however, it did not obtain corrective action plans and issue management decision letters within six months of receipt of the ERA's audit report.

Social Services passed through \$8.6 million in cash and \$87.8 million in food commodities to ERA during fiscal year 2012-13. Education passed through \$4.5 million in cash and \$21.3 million in food commodities to local agencies during fiscal year 2012-13.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Social Services and Education should strengthen policies and procedures to ensure that they properly monitor subrecipients. Specifically:

1. Education should obtain DUNS numbers from local agencies.
2. Social Services should ensure that corrective action plans are obtained and management decision letters are issued for audit findings within six months after receipt of an ERA's audit report.

Department of Social Services' View and Corrective Action Plan

CDSS agrees with this finding. CDSS will implement procedures to ensure the ERA audit reports that contain findings will be addressed through the management decision letter and corrective action plan process. The target date is July 1, 2014.

Contact

Sabrina Sassman, Chief, Welfare Fraud and Emergency Food Assistance Bureau

Implementation Date

July 1, 2014

California Department of Education's View and Corrective Action Plan

Education accepts the recommendation. Education has strengthened policies and procedures to require that DUNS numbers are obtained for all Commodity Supplemental Food Program (CSFP) agency participants. Currently, Education has DUNS numbers for all six CSFP participating agencies.

Contact

Stephanie Ewing, RD, Manager, Distribution and Processing Unit, Nutrition Services Division

Implementation Date

December 2013

| | |
|---------------------------------|--|
| Reference Number: | 2013-011 |
| Federal Catalog Number: | 10.565 |
| Federal Program Title: | Food Distribution Cluster |
| Federal Award Number and Year: | 7CA400CA2; 2013 7CA400CA2; 2012 7CA810CA1; 2013 7CA810CA1; 2012 |
| Category of Finding: | Reporting |
| Type of Finding: | Significant Deficiency and Instance of Noncompliance |
| State Administering Department: | California 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

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.

Food and Nutrition Service (FNS)-153, *Monthly Report of the Commodity Supplemental Food Program and Quarterly Administrative Financial Status Report* (OMB No. 0584-0293) – This report requests the number of CSFP participants in each category (women, infants, children, and elderly), the receipt and distribution of USDA foods, and beginning and ending inventories, as well as other foods data; and on a quarterly basis, the cumulative amount of administrative funds expended and obligated, and the amounts remaining unobligated.

Condition

Education does not have adequate controls in place to ensure accuracy of FNS-153 reports submitted for the Food Distribution Cluster, including reconciliation to supporting documents. Education did not accurately report outlays or unliquidated obligations for one of two FNS-153 reports tested, resulting in a net understatement of \$4,207,970 of federal expenditures. Failure to reconcile reports to supporting documents increases the risk of errors in information reported to the federal government.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Education should strengthen its process over reconciliation and review of FNS-153 reports to ensure accuracy of the reports prior to submission.

Department's View and Corrective Action Plan

Education accepts the recommendation. To ensure the accuracy of Food and Nutrition Service (FNS)-153 reports, Education's controls include the following data review and validation procedures:

- The Local Agency reports are combined into a single state report by two CSFP staff members; one staff reviews the inventory information, another staff validates the participation information.
- Once confirmed, the data is manually entered into the Food Programs Reporting System (FPRS). Upon the initial submission, the FPRS conducts a data error check and produces an Engine Validation report which identifies key data errors and warnings of possible reporting data errors. The errors are corrected, the warnings considered, and the Engine Validation report is run again to ensure the correction of all errors.
- Copies of the FNS-153 reports and all backup documentation are submitted to the Commodity Supplemental Food Program (CSFP) Manager for final review and approval. The CSFP Manager certifies the FNS-153 report submission in the FPRS and sends an e-mail to the USDA to confirm the review and certification.
- After the FNS-153 reports are submitted to the USDA, the USDA confirms via e-mail on the sufficiency and acceptance of the reports.

The primary purpose of the FNS-153 report is to report the monthly CSFP participation, inventory levels, and funding to the USDA. The FNS-153 informs the USDA of the amount of CSFP funding released to the Local Agencies, and the amount of funding that is expected to be released for the remainder of the reporting period. The CSFP funding must be fully expended and reported to the USDA by December 30 following the end of the federal fiscal year; any unexpended funds are reverted back to the USDA. Since the USDA already has the total annual CSFP funding amounts, the key reporting FNS-153 data fields are the "Outlays" and "Unliquidated Obligations," not the "Unliquidated Balances of Advances."

The error that the auditors cite in the condition was a misreporting of "Unliquidated Balances of Advances" on Education's December 2012 FNS-153 report. However, on January 31, 2013, the USDA confirmed via email that Education's FNS-153 report was fine and posted. On March 18, 2013, at Education's request, the USDA sent Education the following message: "This confirms and reiterates that your December 2012 FNS-153 report submission was fine. There were no questions or comments from our WRO (Western Region Office) program staff or from our Headquarters Office regarding this report."

Contact

Stephanie Ewing, RD, Manager, Distribution and Processing Unit, Nutrition Services Division

Implementation Date

Current Process

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

| | |
|---------------------------------|---|
| Reference Number: | 2013-012 |
| Federal Catalog Number: | 14.239 |
| Federal Program Title: | HOME Investment Partnerships Program (HOME) |
| Federal Award Number and Year: | M12-SG060100; 2013 |
| Category of Finding: | Subrecipient Monitoring |
| Type of Finding: | Significant Deficiency and Instance of Noncompliance |
| State Administering Department: | Department of Housing and Community Development (HCD) |

Criteria

TITLE 2 – GRANTS AND AGREEMENTS, PART 25 – UNIVERSAL IDENTIFIER AND CENTRAL CONTRACTOR REGISTRATION, Appendix A to Part 25 – Award Term

I. Central Contractor Registration and Universal Identifier Requirements

B. Requirement for Data Universal Numbering System (DUNS) Numbers

If you are authorized to make subawards under this award, you:

1. Must notify potential subrecipients that no entity (see definition in paragraph C of this award term) may receive a subaward from you unless the entity has provided its DUNS number to you.
2. May not make a subaward to an entity unless the entity has provided its DUNS number to you.

Condition

During our audit for fiscal year 2011-12, we reported that HCD did not have a process in place to obtain DUNS numbers from its HOME program subrecipients prior to awarding federal funds. In fiscal year 2012-13, HCD updated its 2013 Notice of Funding Availability (NOFA) that will require subrecipients to submit DUNS numbers during the application process. However, the HOME program's 2012 NOFA, which was in place during fiscal year 2012-13, did not contain a request for subrecipients to provide DUNS numbers, and HCD did not implement another process to obtain DUNS numbers from subrecipients in fiscal year 2012-13. Failure to obtain DUNS numbers prior to awarding HOME program funds increases the risk that HCD may not properly report subawards to the federal government.

Questioned Costs

No specific questioned costs were identified.

Recommendations

HCD should follow the process implemented for its 2013 NOFA to obtain DUNS numbers from HOME program subrecipients prior to making the subaward.

Department's View and Corrective Action Plan

HCD agrees with the finding. In 2013, HCD established a process for all future Notice of Funding Availability (NOFA) beginning with the 2013 NOFA that require subrecipients to submit DUNS numbers during the application process. The Department will continue to follow the process implemented for our 2013 NOFA.

Contact

Tom Bettencourt, Branch Chief, HOME Investment Partnerships Program

Implementation Date

May 15, 2013

| | |
|---------------------------------|---|
| Reference Number: | 2013-013 |
| Federal Catalog Number: | 14.239 |
| Federal Program Title: | HOME Investment Partnerships Program (HOME) |
| Federal Award Number and Year: | M12-SG060100; 2013 |
| Category of Finding: | Reporting |
| Type of Finding: | Significant Deficiency and Instance of Noncompliance |
| State Administering Department: | Department of Housing and Community Development (HCD) |

Criteria

FEDERAL FUNDING ACCOUNTABILITY TRANSPARENCY ACT; TITLE 2 – GRANTS AND AGREEMENTS, Appendix A to Part 170 – Award Term

Reporting subaward and executive information compensation:

(a) Reporting of first tier subawards.

(1) Applicability. Unless you are exempt as provided in paragraph d. of this award term, you must report each action that obligates \$25,000 or more in federal funds that does not include Recovery funds (as defined in section 1512(a)(2) of the American Recovery and Reinvestment Act of 2009, Pub. L. 111-5) for a subaward to an entity.

Condition

During our fiscal year 2012-13 audit, we reported that HCD did not have a process in place to comply with reporting requirements of the Federal Funding Accountability Transparency Act (FFATA) for the HOME program. Although HCD approved subawards greater than \$25,000 it failed to timely report these subawards in the FFATA Subaward Reporting System within the required period. Failure to implement adequate controls over FFATA reporting increases the risk of late or nonsubmission of subaward information.

Questioned Costs

No specific questioned costs were identified.

Recommendations

HCD should implement policies and procedures to report subaward information under FFATA.

Department's View and Corrective Action Plan

HCD agrees with the finding. HCD will develop policies and procedures to report subaward information under the FFATA Act, by March 31, 2014.

Contact

Tom Bettencourt, Branch Chief, HOME Investment Partnerships Program

Implementation Date

March 31, 2014

U.S. DEPARTMENT OF JUSTICE

| | |
|---------------------------------|--|
| Reference Number: | 2013-014 |
| Federal Catalog Number: | 16.738, 16.803 |
| Federal Program Title: | JAG Program Cluster (ARRA) |
| Federal Award Number and Year: | 2009-DJ-BX-0063; 2009 2011-DJ-BX-2181; 2011 2009-SU-B9-0009; 2009 2010-DJ-BX-0384; 2010 |
| Category of Finding: | Subrecipient Monitoring |
| Type of Finding: | Significant Deficiency and Instance of Noncompliance |
| State Administering Department: | California Office of Emergency Services (CalOES) |

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

CalOES does not have adequate controls to issue management decisions on findings reported in subrecipient OMB Circular A-133 reports within six months after receipt of the audit report. We tested six audits with findings related to the JAG Program Cluster and found three in which the management decision was not issued within six months of receipt of the subrecipient's OMB Circular A-133 report. Failure to issue management decisions in a timely manner may result in delays in recovery of questioned costs and corrective action.

Questioned Costs

No specific questioned costs were identified.

Recommendations

CalOES should strengthen its policies and procedures to ensure that management decisions are issued within six months after receipt of the subrecipient's OMB Circular A-133 report.

Department's View and Corrective Action Plan

CalOES concurs that it did not meet the deadline for issuance of Management Decision Letters (MDL) on three of the audits tested. These failures were due to the State's cumbersome process for receiving, reviewing and forwarding A-133 audit reports to State agencies. For example, in two instances, the audit reports were received by CalOES 31 and 52 days prior to the MDL due dates; in the final instance, a revised audit report and supplemental information from the auditor was not received until 18 days prior to the MDL due date. In all instances, CalOES did not have sufficient time to ensure appropriate corrective action was effected within six months of the initial receipt of the audits by the State.

CalOES will provide additional training to monitoring staff on use of the monitoring database "alert" system to track Management Decision Letter due dates in order to ensure timely corrective action for noncompliance issues. CalOES will also add an additional query of the Federal Audit Clearing House to its annual audit review process in an effort to independently identify and follow-up on subrecipient audit findings related to its major grant programs.

Contact

Catherine Lewis, Chief, Grants Monitoring Branch

Implementation Date

March 2014

| | |
|---------------------------------|--|
| Reference Number: | 2013-015 |
| Federal Catalog Number: | 16.738 |
| Federal Program Title: | JAG Program Cluster |
| Federal Award Number and Year: | 2012-DJ-BX-1237 |
| Category of Finding: | Subrecipient Monitoring |
| Type of Finding: | Material Weakness and Material Instance of Noncompliance |
| State Administering Department: | Board of State and Community Corrections (BSCC) |

Criteria

TITLE 31 – MONEY AND FINANCE, SUBTITLE V – GENERAL ASSISTANCE ADMINISTRATION, Sec. 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;

Condition

BSCC does not have adequate policies and procedures to monitor its JAG program subrecipients in accordance with federal requirements. BSCC took over administration of the JAG program from the California Office of Emergency Services beginning with 2013 JAG program grants. BSCC did not perform a risk assessment of subrecipients nor did it perform any during-the-award monitoring during fiscal year 2012-13 through site visits, limited scope audits, or other means. Failure to properly monitor subrecipients increases the risk that federal dollars will be paid for unallowable costs. In fiscal year 2012-13, the JAG program administered by BSCC expended \$8.2 million, with \$6.3 million passed through to subrecipients.

Questioned Costs

No specific questioned costs were identified.

Recommendations

BSCC should implement policies and procedures to ensure it properly monitors subrecipients. BSCC should perform a risk assessment of its subrecipients to determine for which grantees it should perform site visits, limited scope audits, or other monitoring procedures.

Department's View and Corrective Action Plan

BSCC agrees with this finding. BSCC will conduct site visits with all grantees receiving JAG grant funding above \$500,000 and those grantees that have been problematic in the past.

| Grantee Name | Reason for Audit | Date of the Audit |
|--------------|------------------|-------------------|
| LaVerne PD | Grant Amount | April 2014 |
| Monrovia PD | Grant Amount | June 2014 |
| Los Angeles | Grant Amount | August 2014 |
| Alpine | Problematic | October 2014 |
| Shasta | Problematic | December 2014 |
| Alameda | Grant Amount | January 2015 |

Limited scope audits using random invoice sampling will be conducted for all noncounty grantees.

| Grantee Name | Reason for Audit | Date of the Audit |
|-----------------------------|------------------|----------------------------|
| Cal-DOJ | Random Invoice | April/May 2014 |
| Cal-DOJ | Random Invoice | June/July 2014 |
| Homeboy Industries | Random Invoice | August/September 2014 |
| Able-Disabled Advocacy, Inc | Random Invoice | October/November 2014 |
| LA CAUSA, Inc | Random Invoice | December/January 2014/2015 |

Contact

William J. Crout, Deputy Director, Corrections Planning & Programs Division, Board of State and Community Corrections

Implementation Date

April 2014

U.S. DEPARTMENT OF LABOR

| | |
|---------------------------------|--|
| Reference Number: | 2013-016 |
| Federal Catalog Number: | 17.258, 17.259, 17.278 |
| Federal Program Title: | Workforce Investment Act (WIA) Cluster |
| Federal Award Number and Year: | AA-22924-12-55-A-6; 2013 AA-21384-11-55-A-6; 2013 AA-20183-10-55-A-6; 2013 AA-22924-12-55-A-6; 2012 AA-21384-11-55-A-6; 2012 AA-20183-10-55-A-6; 2012 |
| Category of Finding: | Subrecipient Monitoring |
| Type of Finding: | Significant Deficiency and Instance of Noncompliance |
| 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:
 - (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

During our audit for fiscal year 2011–12, we reported that EDD did not have adequate controls to issue management decisions on findings reported in subrecipient OMB Circular A-133 reports within six months after receipt of the audit report. In fiscal year 2012–13, we tested four of 11 audit reports with WIA Cluster findings and found one in which the management decision was not issued within six months of receipt of the subrecipient's OMB Circular A-133 report. Failure to issue management decisions in a timely manner may result in delays in recovery of questioned costs and proper corrective action.

Questioned Costs

No specific questioned costs were identified.

Recommendations

EDD should strengthen its policies and procedures to ensure that management decisions are issued within six months after receipt of the subrecipient's OMB Circular A-133 report.

Department's View and Corrective Action Plan

The EDD concurs with the recommendation. The EDD implemented its corrective action plan stated in the auditor's report issued in March 2013. The incident involving the one management decision letter noted in the current year audit that was issued subsequent to the six-month requirement occurred prior to EDD implementing corrective actions in March 2013.

The EDD continues using online automated tools to track the status of management decision letters and send automated alerts to keep the decision process on schedule.

Contact

Jessie Mar, Staff Services Manager III – Compliance Review Office, Policy, Accountability and Compliance Branch

Implementation Date

March 2013

| | |
|---------------------------------|--|
| Reference Number: | 2013-017 |
| Federal Catalog Number: | 17.258, 17.259, 17.278 |
| Federal Program Title: | Workforce Investment Act (WIA) Cluster |
| Federal Award Number and Year: | AA-22924-12-55-A-6; 2013 AA-21384-11-55-A-6; 2013 AA-20183-10-55-A-6; 2013 AA-22924-12-55-A-6; 2012 AA-21384-11-55-A-6; 2012 AA-20183-10-55-A-6; 2012 |
| Category of Finding: | Subrecipient Monitoring |
| Type of Finding: | Significant Deficiency and Instance of Noncompliance |
| State Administering Department: | Employment Development Department (EDD) |

Criteria

TITLE 2 – GRANTS AND AGREEMENTS, PART 25 – UNIVERSAL IDENTIFIER AND CENTRAL CONTRACTOR REGISTRATION, Appendix A to Part 25 – Award Term

I. Central Contractor Registration and Universal Identifier Requirements

B. Requirement for Data Universal Numbering System (DUNS) Numbers

If you are authorized to make subawards under this award, you:

3. Must notify potential subrecipients that no entity (see definition in paragraph C of this award term) may receive a subaward from you unless the entity has provided its DUNS number to you.
4. May not make a subaward to an entity unless the entity has provided its DUNS number to you.

Condition

During our audit for fiscal year 2011–12, we reported that EDD did not properly obtain DUNS numbers from its subrecipients prior to awarding WIA Cluster funds. In response to our finding, EDD implemented policies to obtain DUNS numbers prior to issuing new subgrants. However, in fiscal year 2012–13, our testwork found that EDD did not obtain DUNS numbers prior to issuing 32 of 40 subgrants tested. Failure to obtain the DUNS numbers prior to awarding funds increases the risk that EDD may not properly report subaward information to the federal government.

Questioned Costs

No specific questioned costs were identified.

Recommendations

EDD should implement its revised procedures to obtain DUNS numbers from subrecipients prior to approving subawards of federal funds.

Department's View and Corrective Action Plan

The EDD concurs with the recommendation. The EDD took action to correct the deficiency on February 4, 2013, by revising the Subgrantee Tax Identification form which is sent out for completion with all bilateral (new) subgrant packages to include a request for the DUNS number.

The EDD determined that the 32 subgrant awards found to be non-compliant with the DUNS number requirement were funded prior to the February 4, 2013 corrective action implementation date. The EDD also determined that those subgrant awards found compliant were funded after the corrective actions were implemented and the DUNS numbers were obtained from the subrecipients prior to awarding WIA funds.

The EDD maintains a complete list of DUNS numbers in the Financial Management Unit share drive and has placed a hard copy of the DUNS numbers list in each funding binder since February 4, 2013. The EDD has effectively addressed this finding.

Contact

Melissa Bowen, Deputy Division Chief – Budget, Policy, Capacity Building and Administration Section, Workforce Services Branch

Implementation Date

February 4, 2013

| | |
|--------------------------------|--|
| Reference Number: | 2013-018 |
| Federal Catalog Number: | 17.258, 17.259, 17.278 |
| Federal Program Title: | Workforce Investment Act (WIA) Cluster |
| Federal Award Number and Year: | AA-22924-12-55-A-6; 2013 AA-21384-11-55-A-6; 2013 AA-20183-10-55-A-6; 2013 AA-22924-12-55-A-6; 2012 AA-21384-11-55-A-6; 2012 AA-20183-10-55-A-6; 2012 |

| | |
|---------------------------------|--|
| Category of Finding: | Reporting |
| Type of Finding: | Significant Deficiency and Instance of Noncompliance |
| State Administering Department: | Employment Development Department (EDD) |

Criteria

FEDERAL FUNDING ACCOUNTABILITY TRANSPARENCY ACT; TITLE 2 – GRANTS AND AGREEMENTS, Appendix A to Part 170 – Award Term

Reporting subaward and executive information compensation:

(a) Reporting of first tier subawards.

- (1) Applicability. Unless you are exempt as provided in paragraph d. of this award term, you must report each action that obligates \$25,000 or more in federal funds that does not include Recovery funds (as defined in section 1512(a)(2) of the American Recovery and Reinvestment Act of 2009, Pub. L. 111-5) for a subaward to an entity.

Condition

During our audit for fiscal year 2011–12, we reported that EDD did not have a process in place to comply with reporting requirements of the Federal Funding Accountability Transparency Act (FFATA) for the WIA Cluster. In fiscal year 2012–13, EDD made a good faith effort to report information for one subrecipient in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS). However, the subrecipient was not yet listed in FSRS. EDD was not aware that it could report information for other subrecipients who were listed within FSRS, and as a result, did not report required information for 39 of 40 subgrants tested. Failure to implement adequate processes and controls over FFATA reporting increases when the subaward information is not reported in accordance with federal requirements.

Questioned Costs

No specific questioned costs were identified.

Recommendations

EDD should strengthen its policies and procedures over FFATA reporting to ensure subaward information is reported in accordance with federal requirements.

Department's View and Corrective Action Plan

The EDD concurs with the recommendation. The EDD had taken immediate action to correct the original deficiency from the audit for State Fiscal Year 2011-12. The EDD issued Workforce Services Directive 12-11, "FFATA Compensation Data Reporting Requirements," in January 2013 that provided guidance to federally funded sub-awardees and subcontractors on FFATA reporting requirements. The EDD received confirmation of successful submission of the Program Year (PY) 2011-12 FFATA on September 26, 2013, and of the PY 2012-13 FFATA report on September 30, 2013. The EDD is currently inputting FFATA information for PY 2013-14. The EDD has effectively addressed this finding.

Contact

Melissa Bowen, Deputy Division Chief – Budget, Policy, Capacity Building and Administration Section, Workforce Services Branch

Implementation Date

September 30, 2013

| | |
|---------------------------------|--|
| Reference Number: | 2013-019 |
| Federal Catalog Number: | 17.225 |
| Federal Program Title: | Unemployment Insurance (UI) |
| Federal Award Number and Year: | UI-23881-13-55-A-6; 2013 UI-22264-12-55-A-6; 2012 |
| Category of Finding: | Reporting; Special Tests and Provisions |
| Type of Finding: | Significant Deficiency |
| 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 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.

State Administrative Manual, Section 5300 – Information security refers to the protection of information, information systems, equipment, software and people from a wide spectrum of threats and risks. Implementing appropriate security measures and controls to provide for the confidentiality, integrity, and availability of information, regardless of its form (electronic, optical, oral, print, or other media) is critical to ensure business continuity, and protect information assets against unauthorized access, use, disclosure, disruption, modification, or destruction. Information security is also the means by which privacy of personal information held by state entities is protected.

State Administrative Manual, Section 5365 – Each state entity shall establish and implement physical security and environmental protection controls to safeguard information assets against unauthorized access, use, disclosure, disruption, modification, or destruction.

Condition

During our audit for fiscal year 2011–12, we reported that information technology controls over logical access and change management for the Accounting and Compliance Enterprise System (ACES) were not properly designed or operating effectively. EDD uses ACES to calculate tax liabilities and process tax payment information and experience ratings for employers. In fiscal year 2012–13, we also found certain information technology controls over logical access and change management within ACES were not properly designed or operating effectively. We found the following:

- 23 of 32 terminated employees' system access was not deactivated timely from ACES or the system's Active Directory.
- 14 of 65 system changes tested were not properly approved prior to implementation.
- Six employees had access to approve and promote code changes to the staging environment, which does not promote proper segregation of duties.

Failure to maintain adequate information technology controls over logical access and change management could result in inaccurate or incomplete calculations of tax liabilities and processing of tax payment information and experience ratings.

Questioned Costs

No specific questioned costs were identified.

Recommendations

EDD should strengthen ACES information technology controls over logical access and change management. Specifically, EDD should:

1. Remove access upon termination and maintain evidence to reflect timely deactivation.
2. Ensure program changes are approved by authorized individuals prior to implementation.
3. Enforce segregation of duties so that employees cannot approve and promote changes to ACES staging environment.

Department's View and Corrective Action Plan

The EDD concurs with the recommendation. The EDD will address timely deactivation of terminated employees. The EDD has modified the instructions for the ACES access activation and deactivation request to address the identified deficiencies and is working to modify its Appointment/Separation Checklist (DE 7411) to include a step for notifying the proper unit of user terminations. The EDD ACES reminds managers and external agency single point of contacts quarterly to timely submit a security case or e-mail request whenever a user transfers or separates. The EDD ACES modified the quarterly process to automatically deactivate users with 90 days or more of inactivity to a nightly process in March 2013. In September 2013, ACES began receiving the Monthly Separation Reports from EDD's Human Resource Services Division in order to deactivate separated employees in a more timely manner.

In response to the 14 out of 65 changes not being recorded in the Change Control Board (CCB) meeting minutes, it appears that seven are identified as prior to EDD implementing a process change on August 23, 2012, of recording the reviewed and approved changes in the CCB meeting minutes. Of the remaining seven Solution Request Managers, three were service pack component migrations, and four changes resulted from developers and business analysts errors in labeling the changes such that those changes did not go before the CCB for approval. The EDD will continue to work with its developers and business analysts to ensure changes are properly labeled and all changes requiring CCB approval are properly reviewed.

The EDD will work to improve change control for ACES. All code changes made through the Solution Request Manager must go through multiple levels of approval, including the CCB, before being migrated into production. As an added security measure, the software used for the ACES code migration prevents any code changes once it enters the staging environment. Additional steps have been taken to improve documentation of changes approved by the CCB. Notes are added to each item

(migration or task) that has been approved by CCB. The CCB meeting minutes contain a record of all migrations or tasks discussed and approved in the CCB, including those that are being pulled back from migration.

Segregation of duties is handled systematically as shown above but also procedurally. The EDD has policies in place to address the ability of a lead programmer to approve his/her own code changes. All lead developers have the ability to approve standard changes for their team members. However, the team leads cannot approve their own changes; instead they have to seek approval for their programming changes via their counterpart lead or by the application architects. The application architects and the infrastructure architect will seek approval from each other ensuring that they will not approve their own changes. In addition, the Business Analyst needs to review, test, and approve the migration.

Finally, EDD will reevaluate its business practices relating to how employees are deactivated from Active Directory. This evaluation will focus on identifying potential changes in EDD policies, procedures, and systems that will result in terminated employees being deactivated from the system within an acceptable time period.

Contact

Carol Hallett, Alan Cooper and Rafael Rosas, EDD ACES Tax Branch
Andrew Hall, Jan Yoshioka and Navin Arora, EDD ACES IT Branch
James Matsudo and Joe Wong, EDD Active Directory IT Branch

Implementation Date

Administration Branch is making changes to DE 7411 to include ACES. The revision is tentatively to be completed and published in the spring of 2014.

U.S. DEPARTMENT OF TRANSPORTATION

| | |
|---------------------------------|--|
| Reference Number: | 2013-020 |
| Federal Catalog Number: | 20.205 (ARRA) |
| Federal Program Title: | Highway Planning and Construction Cluster (Highway Planning) |
| Federal Award Number and Year: | N4510.765; 2013 N4510.758; 2012 N4520.208; 2011 |
| Category of Finding: | Special Tests and Provisions |
| Type of Finding: | Material Weakness and Material Instance of Noncompliance |
| State Administering Department: | California Department of Transportation (Caltrans) |

Criteria

23 CFR Section 637.209 Quality Assurance: The preparation of a materials certification, conforming in substance to Appendix A of this subpart, shall be submitted to the Federal Highway Administration (FHWA) Division Administrator for each construction project which is subject to FHWA construction oversight activities.

Condition

Caltrans did not have adequate controls in place to ensure required materials certifications were prepared. Caltrans was unable to locate materials certifications for ten of 40 projects selected for quality assurance requirements testing. The materials certifications provide evidence that proper tests were performed in accordance with the approved Caltrans' quality assurance program. Failure to maintain support for materials certification testing increases the risk that materials do not conform to approved plans and specifications.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Caltrans should implement a process to maintain materials certifications to support tests performed in accordance with its quality assurance program.

Department's View and Corrective Action Plan

Caltrans recognizes the importance of preparation and maintenance of required project documentation. The required project records to be retained are documented in the Caltrans Construction Manual. Caltrans has procedures in place that detail the records to be assembled with a checklist requiring sign-off as to the completeness of the project history file. This year's audit has found instances where staff has not complied with Caltrans record retention procedures and Caltrans appreciates the feedback that helps to make continuous improvements in our procedures.

Caltrans developed and issued a new Construction Policy Directive (CPD) on October 24, 2013, which was sent to all districts. The CPD focuses on the importance of proper document retention in accordance with Federal regulations and requirements, as well as on providing training as needed to ensure that project documentation is complete. In addition, the Caltrans Construction Manual was

revised to include a detailed list of documents that are to be maintained indefinitely in the project history file. Caltrans will be updating the Construction Manual procedures with respect to a single procedure to be implemented on a uniform basis throughout the State.

Contact

John Bittermann, Senior Engineer, Division of Construction

Implementation Date

June 30, 2015

| | |
|---------------------------------|--|
| Reference Number: | 2013-021 |
| Federal Catalog Number: | 20.205 (ARRA) |
| Federal Program Title: | Highway Planning and Construction Cluster (Highway Planning) |
| Federal Award Number and Year: | N4510.765; 2013 N4510.758; 2012 N4520.208; 2011 |
| Category of Finding: | Activities Allowed/Allowable Costs, Cash Management, Matching, and Reporting |
| Type of Finding: | Significant Deficiency |
| 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

- (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.

State Administrative Manual, Section 5300 – Information security refers to the protection of information, information systems, equipment, software and people from a wide spectrum of threats and risks. Implementing appropriate security measures and controls to provide for the confidentiality, integrity, and availability of information, regardless of its form (electronic, optical, oral, print, or other media) is critical to ensure business continuity, and protect information assets against unauthorized access, use, disclosure, disruption, modification, or destruction. Information security is also the means by which privacy of personal information held by state entities is protected.

State Administrative Manual, Section 5365 – Each state entity shall establish and implement physical security and environmental protection controls to safeguard information assets against unauthorized access, use, disclosure, disruption, modification, or destruction.

Condition

During our audit for fiscal year 2011-12, we reported the information technology controls over logical access to the Caltrans Advantage Financial ERP system (Advantage) were not properly designed. In fiscal year 2012-13, Caltrans took corrective action to correct the deficiencies identified in the 2011-12 audit. However, we found certain other information technology controls over logical access and change management within Advantage were not properly designed and operating effectively. Caltrans uses

Advantage as its accounting system and to maintain federal compliance since the system is configured to calculate and submit requests to the Federal Highway Administration (FHWA) for the Highway Planning grant for reimbursement, calculate the State's share of expenditures (matching), and report expenditures to FHWA for the Highway Planning grant. In fiscal year 2012-13, we noted the following:

- Although Caltrans has a policy that requires a quarterly review of Advantage user access and a process to gather responses from managers, the manager responses are not consistently obtained.
- Advantage users that are considered administrative in nature, including users with the ability to approve the creation or modification of contracts, are excluded from the quarterly review of user access. The Security Admin team performs this review informally; however, there is no evidence of the review.
- The DOT AD group used to manage administrative access to Advantage servers and the workstations used to compile codes for production builds include developers and terminated employees.
- We found three instances in which members of the cashiering group had access to the ALL_TABLES admin role, which allows them to maintain all tables in the Advantage application. We also found one instance where an information technology developer changed job positions to an accounts payable clerk but the user's administrative access was not revoked. These instances increase segregation of duties risk because users have the ability to create contracts, receive goods /services, invoice, and issue payments.
- Some system change approvals may be provided verbally and documented after the change implementation date. In addition, change control documentation templates were not consistently utilized and e-mail change approvals were lost due to a mail server outage.
- The Unix administration team does not have unique user IDs to implement changes.

Failure to implement adequate information technology controls over logical access and change management could result in unallowable costs or inaccurate or incomplete draws, matching and reporting through Advantage.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Caltrans should strengthen Advantage information technology controls over logical access and change management. Specifically, Caltrans should:

1. Ensure manager responses are obtained from Advantage user access reviews.
2. Ensure all user access is reviewed by the appropriate team and evidence of the review is maintained.
3. Assign access to servers and workstations to appropriate and authorized individuals.
4. Implement proper segregation of duties for user access to the ALL_TABLES admin role and a process to ensure that user access roles are reviewed and revoked as necessary for any changes in job roles and descriptions.
5. Maintain approval evidence of system changes in accordance with the Caltrans change management policy.
6. Implement unique user IDs for the Unix administration team.

Department's View and Corrective Action Plan

Caltrans concurs with the recommendations:

1. Caltrans conducts quarterly Gatekeeper reviews. Previously, access was not removed if no response to the Gatekeeper request was received. Beginning with the January 2014 quarterly Gatekeeper review, Caltrans has changed the process to include follow-up to those Gatekeepers who did not respond. If the Gatekeeper does not respond to the follow-up request, users will be notified that access will be removed if no response to the request is received by a certain date. Documentation to support the quarterly reviews will be maintained.
2. Beginning in February 2014 and every month thereafter, Caltrans Chief of Fiscal Systems Management Branch, Division of Accounting, will review the Advantage users that are considered administrative in nature for appropriate user access. Documentation to support the review will be maintained.
3. Caltrans has had a process in place for granting and removing user access to servers and workstations. Caltrans conducts quarterly Gatekeeper reviews. Previously, access was not removed if no response to the Gatekeeper request was received. Caltrans has changed the process and will remove access if no response to the Gatekeeper request is received.
4. Beginning in February 2014 and every month thereafter, Caltrans Chief of Fiscal Systems Management Branch, Division of Accounting, will review the Advantage Admin Roles to ensure that users are assigned proper Admin Roles based on their job requirements and that proper segregation of duties exists. Documentation to support the monthly reviews will be maintained. The All_Update Role has been removed from the three members of the Cashiering group and they have been assigned the appropriate roles. In addition, the Administrative Role has been removed from the Accounts Payable staff.
5. Caltrans has a change-management policy in place, which includes guidelines. The lack of retained documentation was the result of staff oversight. This policy is distributed to IT staff annually and was last distributed to IT staff on January 13, 2014. Caltrans will conduct quarterly reviews beginning in April 2014 to ensure compliance with the change-management policy and will retain documentation to support system changes.
6. Currently, the Unix administration team does have unique user IDs. Caltrans has a policy in place that requires the root password and on-call staff password be changed on a system when an administrator other than the primary system administrator obtains the root or on-call password. When an administrator receives the system-generated email that the on-call administrator has viewed the password for a system, they will change the root and on-call passwords within one business day, and update the database with the change. Administrators were reminded of the procedures during a staff meeting on February 13, 2014. The current system only allows authorized Operating Systems Support Branch administrators to access the root and on-call passwords for a system.

Contact

1. Terry Zanchi, Office of Receivables and System Administration, Division of Accounting
2. Terry Zanchi, Office of Receivables and System Administration, Division of Accounting
3. David Salyer, Packaged Products Solutions Branch, Division of Information Technology
4. Terry Zanchi, Office of Receivables and System Administration, Division of Accounting
5. David Salyer, Packaged Products Solutions Branch, Division of Information Technology
6. Patrick Doyle, Operating Systems Support Branch, Division of Information Technology

Implementation Date

See above.

| | |
|---------------------------------|--|
| Reference Number: | 2013-022 |
| Federal Catalog Number: | 20.319 (ARRA) |
| Federal Program Title: | High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants (High Speed Rail) |
| Federal Award Number and Year: | FR-HSR-0116-12-01-00; 2012 FR-HSR-0068-11-01-01; 2012 FR-HSR-0036-11-01-01; 2011 FR-HSR-0022-11-01-00; 2011 FR-HSR-0018-11-01-01; 2010 |
| Category of Finding: | Davis Bacon Act |
| Type of Finding: | Material Weakness and Material Instance of Noncompliance |
| State Administering Department: | California Department of Transportation (Caltrans) |

Criteria

Title 29: Labor, PART 5—LABOR STANDARDS PROVISIONS APPLICABLE TO CONTRACTS COVERING FEDERALLY FINANCED AND ASSISTED CONSTRUCTION (ALSO LABOR STANDARDS PROVISIONS APPLICABLE TO NONCONSTRUCTION CONTRACTS SUBJECT TO THE CONTRACT WORK HOURS AND SAFETY STANDARDS ACT), Subpart A—Davis-Bacon and Related Acts Provisions and Procedures, §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 §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):

(1) Minimum wages. (i) All laborers and mechanics employed or working upon the site of the work (or under the United States Housing Act of 1937 or under the Housing Act of 1949 in the construction or development of the project), will be paid unconditionally and not less often than once a week, and without subsequent deduction or rebate on any account (except such payroll deductions as are permitted by regulations issued by the Secretary of Labor under the Copeland Act (29 CFR part 3)), the full amount of wages and bona fide fringe benefits (or cash equivalents thereof) due at time of payment computed at rates not less than those contained in the wage determination of the Secretary of Labor which is attached hereto and made a part hereof, regardless of any contractual relationship which may be alleged to exist between the contractor and such laborers and mechanics.

(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 29 CFR 5.5(a)(3)(i), except that full social security numbers and home addresses shall not be included on weekly transmittals. Instead the payrolls shall only need to include an individually identifying number for each employee (e.g., the last four digits of the employee's social security number).

Condition

Caltrans does not have procedures in place to comply with federal Davis Bacon Act requirements for the High Speed Rail program. Caltrans did not obtain certified weekly payrolls from contractors. In addition, one of two contracts tested did not contain the clauses for prevailing wage rate requirements. Failure to include the prevailing wage rate clauses and determine that the contractor or subcontractor submitted the required weekly certified payrolls increases the risk of noncompliance with Davis Bacon Act requirements.

Questioned Costs

Not determined.

Recommendations

Caltrans should strengthen its process over Davis Bacon Act requirements to ensure prevailing wage rate requirements are included in the contract. Caltrans should also implement procedures to obtain weekly the required certified payrolls.

Department's View and Corrective Action Plan

Caltrans concurs with the recommendations.

The Division of Rail will add the required language to the standard provisions for future subrecipient contract agreements under which Davis Bacon requirements are applicable. Caltrans has a contract which is governed by labor relations as defined by the Federal Railway Labor Act, whereby workers covered by this act are exempt from Davis Bacon requirements. For projects under which Davis Bacon requirements are applicable, documentation of certified payrolls will be required to be submitted with invoice reimbursement requests. In addition, grant managers will review the requests, which will be followed by invoice payment approval by the supervisor.

Contact

Crystal Ortiz, Division of Rail

Implementation Date

September 30, 2014

| | |
|--------------------------------|--|
| Reference Number: | 2013-023 |
| Federal Catalog Number: | 20.319 (ARRA) |
| Federal Program Title: | High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants (High Speed Rail) |
| Federal Award Number and Year: | FR-HSR-0116-12-01-00; 2012 FR-HSR-0068-11-01-01; 2012 FR-HSR-0036-11-01-01; 2011 FR-HSR-0022-11-01-00; 2011 FR-HSR-0018-11-01-01; 2010 |

| | |
|---------------------------------|--|
| Category of Finding: | Suspension & Debarment, Special Tests and Provisions |
| Type of Finding: | Significant Deficiency and Instance of Noncompliance |
| State Administering Department: | California Department of Transportation (Caltrans) |

Criteria

TITLE 2: GRANTS AND AGREEMENTS, PART 180—COVERED TRANSACTIONS, Subpart C—Responsibilities of Participants Regarding Transactions Doing Business with Other Persons.

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 EPLS; or
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person.

2 CFR SECTION 176.210 AWARD TERM—RECOVERY ACT TRANSACTIONS LISTED IN SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND RECIPIENT RESPONSIBILITIES FOR INFORMING SUBRECIPIENTS.

- (b) For recipients covered by the Single Audit Act Amendments of 1996 and OMB Circular A–133, *Audits of States, Local Governments, and Non-Profit Organizations*, recipients agree to separately identify the expenditures for Federal awards under the Recovery Act on the Schedule of Expenditures of Federal Awards (SEFA) and the Data Collection Form (SF–SAC) required by OMB Circular A–133. OMB Circular A–133 is available at <http://www.whitehouse.gov/omb/circulars/a133/a133.html>. This shall be accomplished by identifying expenditures for Federal awards made under the Recovery Act separately on the SEFA, and as separate rows under Item 9 of Part III on the SF–SAC by CFDA number, and inclusion of the prefix “ARRA–” in identifying the name of the Federal program on the SEFA and as the first characters in Item 9d of Part III on the SF–SAC.

Condition

Caltrans does not have adequate controls in place to ensure all subcontracts of the High Speed Rail program include required clauses or conditions. Caltrans did not include covered transactions clauses or conditions for one of two subcontracts selected for testing nor did it check the EPLS or obtain a certification. Failure to include proper clauses and conditions in contracts could result in Caltrans reimbursing subrecipients who have been suspended or debarred. In addition, for the two subawards tested, the contract did not communicate requirements for SEFA and SF-SAC presentation as required for ARRA-funded awards. Failure to communicate SEFA and SF-SAC presentation increases the risk that ARRA requirements may not be followed by subrecipients.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Caltrans should strengthen its policies and procedures to ensure contracts include required clauses and conditions.

Department's View and Corrective Action Plan

The Division of Rail, with assistance from Caltrans Legal and Caltrans Division of Procurement and Contracts DPAC, will add the required language to the standard provisions for future sub-recipient contract agreements. Additionally, staff will be trained to check the EPLS and to maintain supporting documents in the project history files.

Contact

Crystal Ortiz, Division of Rail

Implementation Date

June 30, 2014

| | |
|---------------------------------|--|
| Reference Number: | 2013-024 |
| Federal Catalog Number: | 20.319 (ARRA) |
| Federal Program Title: | High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants (High Speed Rail) |
| Federal Award Number and Year: | FR-HSR-0032-11-01-01; 2011 FR-HSR-0021-11-01-00; 2011 FR-HSR-0022-11-01-00; 2011 |
| Category of Finding: | Reporting |
| Type of Finding: | Significant Deficiency and Material Instance of Noncompliance |
| 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.

Federal Financial Report (FFR) (SF-425/SF-425A (OMB No. 0348-0061)). Recipients use the FFR as a standardized format to report expenditures under Federal awards, as well as, when applicable, cash status (Lines 10.a, 10.b, and 10c). References to this report include its applicability as both an expenditure and a cash status report unless otherwise indicated.

Condition

Caltrans does not have adequate controls in place to ensure accuracy of Federal Financial Reports (SF-425) submitted for the High Speed Rail program, including reconciliation to supporting documents. Caltrans did not accurately report the federal share of expenditures for three of nine SF-425 reports tested, resulting in a net understatement of \$2,474,375 of federal expenditures. Failure to reconcile reports to supporting documents increases the risk of errors in information reported to the federal government.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Caltrans should strengthen its process over reconciliation and review of SF-425 reports to ensure accuracy of the reports prior to submission.

Department's View and Corrective Action Plan

The Division of Rail has developed a tracking tool for grant managers (Excel spreadsheet) that calculates the amounts to be reported on the SF-425, with validation and approval being performed by the grant manager's supervisor prior to submitting the reports to FRA, and has developed training to be provided to all employees on the use of this tool for SF-425 reporting.

Contact

Crystal Ortiz, Division of Rail

Implementation Date

June 30, 2014

| | |
|---------------------------------|--|
| Reference Number: | 2013-025 |
| Federal Catalog Number: | 20.319 (ARRA) |
| Federal Program Title: | High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants (High Speed Rail) |
| Federal Award Number and Year: | FR-HSR-0058-11-01-00; 2011 FR-HSR-0021-11-01-00; 2011 FR-HSR-0018-11-01-01; 2010 |
| Category of Finding: | Reporting |
| Type of Finding: | Significant Deficiency and Material Instance of Noncompliance |
| State Administering Department: | California Department of Transportation (Caltrans) |

Criteria

OMB memorandum M-09-21, Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 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 subrecipient 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 subrecipient to address any data quality issues.

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 ARRA. 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 subrecipient.

Condition

Caltrans does not have adequate controls in place to ensure High Speed Rail program Section 1512 reports are accurate, including reconciliation to supporting documents. Caltrans did not accurately report the federal share of expenditures for three of the eight Section 1512 reports tested, resulting in a net understatement of \$9,524,055 of federal expenditures. Failure to reconcile reports to supporting documents increases the risk of errors in information reported to the federal government.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Caltrans should strengthen its process over reconciliation and review of Section 1512 reports to ensure accuracy of the reports prior to submission.

Department's View and Corrective Action Plan

The 1512 reports are a quarterly requirement and the understatements identified have been corrected as of the January 30, 2014 reporting deadline. Data entry required for the 1512 reports was first uploaded through the Caltrans CRIS - California Recovery Input System. Process improvements were implemented by requiring staff who enter the data to log into the website www.FederalReporting.gov after the batch upload and verify that all data is entered correctly. Congress repealed the recipient reporting for Recovery Act awards as of February 1, 2014. Therefore, the January 2014 reporting cycle was the last time grant recipients were required to report on an ARRA award grant, ending the requirement to submit 1512 reports.

Contact

Sharon Beasley, Division of Rail

Implementation Date

January 30, 2014

| | |
|-------------------------|----------|
| Reference Number: | 2013-026 |
| Federal Catalog Number: | 20.509 |

Federal Program Title: Formula Grants for Other than Urbanized Areas (Nonurbanized Area Formula Program)

Federal Award Number and Year: CA-18-X052-00; 2012
 CA-85-X004-00; 2011
 CA-18-X047-00; 2011
 CA-85-X003-00; 2010
 CA-18-X043-00; 2010
 CA-18-X035-00; 2010
 CA-86-X001-00; 2009
 CA-18-X028-00; 2008
 CA-85-X001-00; 2007
 CA-18-X025-00; 2007

Category of Finding: Subrecipient Monitoring

Type of Finding: Material Weakness and Material Instance of Noncompliance

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.

Condition

Caltrans does not have a process in place to ensure subrecipients who expend more than \$500,000 in federal awards submit single audit reports as required by OMB Circular A-133. In fiscal year 2012-13, Caltrans passed Formula Grants funding to 92 subrecipients, including 26 cities, 19 counties, one town, and 46 special districts.

The State Controller's Office (SCO) obtains and reviews OMB Circular A-133 reports for all cities, counties, and towns that report more than \$500,000 in federal expenditures. The SCO then sends those reports with findings to Caltrans for follow-up. Caltrans only monitors the submission of the OMB Circular A-133 reports obtained from the SCO as well as special districts who expend more than \$500,000 in federal awards from Caltrans. We identified 31 2012 special district OMB Circular A-133 reports that were not reviewed by Caltrans because they expended less than \$500,000 in federal awards received from Caltrans. In fiscal year 2012-13, Caltrans passed \$2.7 million through to subrecipients that expended less than \$500,000 in Formula Grants funds. Since Caltrans did not review these reports, it cannot determine if the Formula Grants program was audited and whether or not findings were issued that required a management decision from Caltrans. Failure to obtain and review single audit reports of subrecipients increases the risk that subrecipients may have spent monies for unallowable purposes or failed to comply with other federal regulations.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Caltrans should obtain and review single audit reports of all subrecipients who expend more than \$500,000 in federal awards and issue management decisions, as necessary.

Department's View and Corrective Action Plan

Caltrans will implement a process to ensure it obtains and reviews single audit reports, as necessary, for all special districts for which it passes through federal funds. As stated in the condition above, the State Controller's Office currently obtains single audit reports for all cities, counties, and towns, and forwards these reports to Caltrans.

Contact

MarSue Morrill, Audits and Investigations

Implementation Date

Caltrans will implement immediately for the current Fiscal Year 2013 cycle.

| | |
|---------------------------------|--|
| Reference Number: | 2013-027 |
| Federal Catalog Number: | 20.509 |
| Federal Program Title: | Formula Grants for Other than Urbanized Areas (Nonurbanized Area Formula Program) |
| Federal Award Number and Year: | CA-18-X052-00; 2012 CA-85-X004-00; 2011 CA-18-X047-00; 2011 CA-85-X003-00; 2010 CA-18-X043-00; 2010 CA-18-X035-00; 2010 CA-86-X001-00; 2009 CA-18-X028-00; 2008 CA-85-X001-00; 2007 CA-18-X025-00; 2007 |
| Category of Finding: | Reporting |
| Type of Finding: | Significant Deficiency and Instance of Noncompliance |
| 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.

Federal Financial Report (FFR) (SF-425/SF-425A (OMB No. 0348-0061)). Recipients use the FFR as a standardized format to report expenditures under Federal awards, as well as, when applicable, cash status (Lines 10.a, 10.b, and 10c). References to this report include its applicability as both an expenditure and a cash status report unless otherwise indicated.

Condition

Caltrans does not have proper controls in place to evidence its review of the SF-425, Federal Financial Report, prior to submission. In addition, Caltrans could not provide supporting amounts reported for line items G and J for four SF-425 reports selected for testing. Failure to retain supporting documentation for amounts reported and maintain adequate review controls increases the risk that Caltrans may report inaccurate information to the federal government.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Caltrans should strengthen controls over its reporting process to include evidence of review by someone other than the preparer prior to submission. Caltrans should also retain supporting documentation for amounts reported in the SF-425 reports.

Department's View and Corrective Action Plan

Caltrans agrees to strengthen controls to include evidence of SF-425 reviews by someone other than the preparer prior to submission. Caltrans will review procedures with involved staff and ensure that supporting documentation is retained to evidence this review.

Caltrans also agrees that it could not provide supporting documentation for elements of SF-425 reports; such documentation is required by current Caltrans procedures. Caltrans will review procedures with involved staff and ensure that supporting documentation is retained for amounts reported in the SF-425 reports.

Contact

Grace Kong, Chief, Office of Project Accounting

Implementation Date

February 28, 2014

| | |
|--------------------------------|--|
| Reference Number: | 2013-028 |
| Federal Catalog Number: | 20.509 |
| Federal Program Title: | Formula Grants for Other than Urbanized Areas (Nonurbanized Area Formula Program) |
| Federal Award Number and Year: | CA-18-X052-00; 2012 CA-85-X004-00; 2011 CA-18-X047-00; 2011 CA-85-X003-00; 2010 CA-18-X043-00; 2010 CA-18-X035-00; 2010 CA-86-X001-00; 2009 CA-18-X028-00; 2008 CA-85-X001-00; 2007 CA-18-X025-00; 2007 |

| | |
|---------------------------------|---|
| Category of Finding: | Cash Management |
| Type of Finding: | Significant Deficiency |
| 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

Caltrans does not have proper controls in place to evidence its review of cash draws prior to submission to the Federal government. We tested four of 15 draws and found three in which there was no evidence of review of the draw prior to submission. Failure to maintain adequate controls increases the risk that Caltrans may draw down inaccurate amounts of federal funds.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Caltrans should strengthen controls over the cash drawdown process to include evidence of review by someone other than the preparer prior to submission.

Department's View and Corrective Action Plan

Caltrans procedures require that draws are prepared and submitted by staff in the Division of Accounting and that draws are reviewed and approved by separate staff in the Division of Mass Transportation.

Caltrans agrees that documentation of review and approval of some draws had not been retained in accordance with procedures. This lack of retained documentation was the result of employee oversight. Caltrans has reviewed procedures with involved staff and will ensure that the procedures are followed to retain this supporting documentation in the future.

Contact

Grace Kong, Chief, Office of Program Accounting

Implementation Date

December 1, 2013

U.S. DEPARTMENT OF EDUCATION

| | |
|---------------------------------|--|
| Reference Number: | 2013-029 |
| Category of Finding: | Reporting |
| Type of Finding: | Significant Deficiency and Instance of Noncompliance |
| State Administering Department: | California Department of Education (Education) |
| Federal Catalog Number: | 84.010 |
| Federal Program Title: | Title I, Part A Cluster: |
| Federal Award Number and Year: | S010A120005A; 2012 S010A110005A; 2011 S010A100005A; 2010 |
| Federal Catalog Number: | 10.565 |
| Federal Program Title: | Food Distribution Cluster |
| Federal Award Number and Year: | 7CA810CA1; 2013 7CA400CA2; 2013 7CA400CA2; 2012 |
| Federal Catalog Number: | 84.011 |
| Federal Program Title: | Migrant Education – State Grant Program |
| Federal Award Number and Year: | S011A120005; 2012 S011A110005; 2011 S011A100005; 2010 |
| Federal Catalog Number: | 84.027, 84.173 (ARRA) |
| Federal Program Title: | Special Education Cluster (IDEA) |
| Federal Award Number and Year: | H027A120116; 2012 H173A120120; 2012 H027A110116; 2011 H173A110120; 2011 H173A100120; 2010 H027A100116; 2010 |
| Federal Catalog Number: | 84.282 |
| Federal Program Title: | Charter Schools |
| Federal Award Number and Year: | U282A100013-12; 2012 U282A100013-11; 2011 U282A100013A; 2010 |
| Federal Catalog Number: | 84.377 |
| Federal Program Title: | School Improvement Grants Cluster |
| Federal Award Number and Year: | S377A110005; 2011 S377A100005; 2010 |

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|--------------------------------|--|
| Federal Catalog Number: | 84.410 |
| Federal Program Title: | Education Jobs |
| Federal Award Number and Year: | S410A100005-10A; 2010 S410A100005; 2010 |

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|--------------------------------|------------------------------------|
| Federal Catalog Number: | 10.553, 10.555, 10.556, 10.559 |
| Federal Program Title: | Child Nutrition Cluster |
| Federal Award Number and Year: | 7CA300CA3; 2012 7CA300CA3; 2011 |

| | |
|--------------------------------|--|
| Federal Catalog Number: | 93.575, 93.596 |
| Federal Program Title: | Child Care and Development Fund Cluster |
| Federal Award Number and Year: | G1201CACCDF; 2012 G1201CACCD7; 2012 G1101CACCDF; 2011 G1101CACCD7; 2011 |

Criteria

FEDERAL FUNDING ACCOUNTABILITY TRANSPARENCY ACT; TITLE 2—GRANTS AND AGREEMENTS, Appendix A to Part 170 - Award Term

Reporting subaward and executive information compensation:

(a) Reporting of first tier subawards.

(1) Applicability. Unless you are exempt as provided in paragraph d. of this award term, you must report each action that obligates \$25,000 or more in Federal funds that does not include Recovery funds (as defined in section 1512(a)(2) of the American Recovery and Reinvestment Act of 2009, Pub. L. 111-5) for a subaward to an entity.

Condition

During our audit for fiscal year 2011-12, we reported that Education did not have an adequate process or controls in place to ensure information required by the Federal Funding Accountability Transparency Act (FFATA) was properly reported for each of its federally funded programs. Similar to fiscal year 2011-12, Education only reported subaward information for the Career and Technical Education – Basic Grants to States program in fiscal year 2012-13 but did not report information for any other programs. Failure to implement adequate controls over FFATA reporting increases the risk of late or nonsubmission of subaward information.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Education should implement policies and procedures to submit information for all federal programs as required by FFATA.

Department's View and Corrective Action Plan

Education accepts the recommendation. During fiscal year 2012-13, Education implemented a reporting schedule and designed processes that would ensure compliance with the requirements of the Federal Funding Accountability Transparency Act Subaward Reporting System (FSRS).

As a pilot, Special Education data was successfully uploaded to the FSRS; Education anticipates that information for other federal programs will be uploaded to the FSRS accordingly.

Contact

Mark Baude, Accounting Administrator III, Fiscal and Administrative Services Division

Implementation Date

January 2014

| | |
|---------------------------------|---|
| Reference Number: | 2013-030 |
| Federal Catalog Number: | 84.011 |
| Federal Program Title: | Migrant Education – State Grant Program |
| Federal Award Number and Year: | S010A120005; 2012 S010A110005; 2011 S010A100005; 2010 |
| Category of Finding: | Reporting; Special Tests and Provisions |
| Type of Finding: | Significant Deficiency and Instance of Noncompliance |
| State Administering Department: | California Department of Education (Education) |

Criteria

OMB CIRCULAR A-133 COMPLIANCE SUPPLEMENT - Consolidated State Performance Report, Part II, Education of Migrant Children (Title I, Part C) (OMB No. 1810-0614)

A state educational agency (SEA) must annually report population and program performance data that includes the unduplicated number of migrant children who were identified within the State as eligible to be served by the MEP, and who were identified within the State as having priority for services as defined in Title I, Part C, Section 1304(d) of ESEA (20 USC 6394(d)).

34 CFR 200.89 - MEP ALLOCATIONS; RE-INTERVIEWING; ELIGIBILITY DOCUMENTATION; AND QUALITY CONTROL

- (d) Responsibilities of an SEA to establish and implement a system of quality controls for the proper identification and recruitment of eligible migratory children. An SEA must establish and implement a system of quality controls for the proper identification and recruitment of eligible migratory children on a statewide basis.

Condition

During our audit for fiscal year 2011-12, we found that Education does not review or evaluate the counts of migrant students. Education uses the Migrant Student Information Network (MSIN) to collect child count data which is submitted on the Consolidated State Performance Report (CSPR) to the U.S. Department of Education. MSIN is owned by, and the data collection process is managed

by, a nonprofit organization on behalf of Education. Education relies on the nonprofit organization to establish the system of quality controls required by federal regulation and ensure an accurate count of migrant students. Furthermore, Education does not review or evaluate the information obtained by the nonprofit organization. As a result, Education may not report accurate information to the federal government.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Education should implement policies and procedures to evaluate the system of quality controls established by the nonprofit organization and review the information obtained through the MSIN to ensure the information is accurate and complete.

Department's View and Corrective Action Plan

Education accepts the recommendation. In 2012–13, Education matched Migrant Student Information Network (MSIN) data with data from the California Longitudinal Pupil Achievement Data System (CALPADS) and determined that 93 percent of students in kindergarten through twelfth grade had a valid Statewide Student Identifier (SSID). Education will continue this matching process in 2013–14 and forward. In addition, Education will implement a new data reconciliation policy whereby MEP staff will work with local district CALPADS administrators to review and reconcile student files.

To further improve the quality of data accuracy, Education's nonprofit data management organization provides Education biweekly updates on pending and incorrect information found in MSIN. Education reviews these reports and contacts regions to provide technical assistance to remedy any identified data quality issues.

In September 2013, Education developed the enclosed 2013–14 Migrant Education Office Plan for Obtaining and Verifying SSIDs. In November 2013, Education commenced implementation of the plan; full implementation is scheduled for March 1, 2014.

Contact

Fernando Rodriguez-Valls, Administrator, Migrant Education Office
Karen Cadiero-Kaplan, Director English Learner Support Division

Implementation Date

November 2013 - March 2014

| | |
|--------------------------------|--|
| Reference Number: | 2013-031 |
| Federal Catalog Number: | 84.048 |
| Federal Program Title: | Career and Technical Education – Basic Grants to States (Perkins IV) |
| Federal Award Number and Year: | V048A120005; 2012 V048A110005; 2011 V048A100005; 2010 |

| | |
|---------------------------------|---|
| Category of Finding: | Subrecipient Monitoring |
| Type of Finding: | Material Weakness and Material Instance of Noncompliance |
| State Administering Department: | California Community Colleges Chancellor's Office (Chancellor's Office) |

Criteria

TITLE 31 – MONEY AND FINANACE, SUBTITLE V – GENERAL ASSISTANCE ADMINISTRATION, CHAPTER 75 - REQUIREMENTS FOR SINGLE AUDITS, Section 7502 – Audit Requirements

(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.

Condition

During our audit for fiscal year 2011-12, we reported that the California Community Colleges Chancellor's Office (Chancellor's Office) lacked adequate controls to monitor the use of federal awards through site visits, limited scope audits, or other means and did not review community college district OMB Circular A-133 audits for findings related to the Career and Technical Education (CTE) program. The Chancellor's Office relied on its review of quarterly expenditure reports submitted by community college districts to determine if expenditures were allowable; however, those reports contained summarized data and did not include other support such as invoices or receipts. In response to the finding, in fiscal year 2012-13 the Chancellor's Office developed a risk-based monitoring plan, including a selection process for site visits and desk reviews. However, no site visits, desk reviews or other monitoring procedures were performed in fiscal year 2012-13. In addition, we tested subrecipient OMB Circular A-133 reports and found that six of the 72 subrecipients had CTE program findings. The Chancellor's Office did not issue management decisions within the required six months for these findings. Failure to properly monitor subrecipients increases the risk that Federal funds may be spent for unallowable purposes.

Questioned Costs

No specific questioned costs were identified.

Recommendations

The Chancellor's Office should fully implement its corrective action plan by conducting site visits, desk reviews, or other monitoring procedures in accordance with its plan and issue management decisions on subrecipient audit reports within the required time frame.

Department's View and Corrective Action Plan

In response to the 2011-12 fiscal audit, the California Community Colleges made significant changes in their monitoring practices for the Carl D. Perkins federal awards. We implemented an A-133 audit monitoring and response system. All subrecipients that had CTE program findings were issued management decisions as all had complied and corrected their findings. However, it was not done within the required six months. A new shared file has been put in place with checks and balances to ensure that the subrecipients are issued management decisions within the required six months.

Additionally, the California community colleges Chancellor's Office developed a risk assessment monitoring tool and is implementing a new system. Division staff were trained over six sessions in monitoring the grants.

At this time the Chancellor's Office is implementing its corrective action plan by conducting site visits in accordance with its monitoring plan and issuing management decisions on subrecipient audit reports within the required time frame.

Contact

Debra Jones, Dean, Workforce and Economic Development Division, California Community Colleges Chancellor's Office

Implementation Date

March 2014

| | |
|---------------------------------|--|
| Reference Number: | 2013-032 |
| Federal Catalog Number: | 84.027 |
| Federal Program Title: | Special Education Cluster (IDEA) |
| Federal Award Number and Year: | H027A120116; 2012 H173A120120; 2012 H027A110116; 2011 H173A110120; 2011 H173A100120; 2010 H027A100116; 2010 |
| Category of Finding: | Level of Effort – Maintenance of Effort |
| Type of Finding: | Instance of Noncompliance |
| State Administering Department: | Department of Education |

Criteria

TITLE 20 – EDUCATION, CHAPTER 33 – EDUCATION OF INDIVIDUALS WITH DISABILITIES, SUBCHAPTER II – ASSISTANCE FOR EDUCATION OF ALL CHILDREN WITH DISABILITIES, Section 1412 – State Eligibility

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

(18) Maintenance of State financial support

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

(B) Reduction of funds for failure to maintain support

The Secretary shall reduce the allocation of funds under section 1411 of this title for any fiscal year following the fiscal year in which the State fails to comply with the requirement of subparagraph (A) by the same amount by which the State fails to meet the requirement.

(C) Waivers for exceptional or uncontrollable circumstances

The Secretary may waive the requirement of subparagraph (A) for a State, for 1 fiscal year at a time, if the Secretary determines that—

- (i) granting a waiver would be equitable due to exceptional or uncontrollable circumstances such as a natural disaster or a precipitous and unforeseen decline in the financial resources of the State; or
- (ii) the State meets the standard in paragraph (17)(C) for a waiver of the requirement to supplement, and not to supplant, funds received under this subchapter.

(D) Subsequent years

If, for any year, a State fails to meet the requirement of subparagraph (A), including any year for which the State is granted a waiver under subparagraph (C), the financial support required of the State in future years under subparagraph (A) shall be the amount that would have been required in the absence of that failure and not the reduced level of the State's support.

Condition

During our audit for fiscal year 2011-12, we reported that Education lacked adequate controls to ensure it met maintenance of effort (MOE) requirements and did not request a waiver from the Federal Department of Education. In fiscal year 2012-13, Education again did not meet its MOE requirement by \$93,351,516, nor did it request a waiver.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Education should monitor compliance throughout the grant period to ensure MOE requirements are being met. If Education cannot meet the MOE requirement, it should apply for a waiver from the U.S. Department of Education.

Department's View and Corrective Action Plan

Education has internal controls in place to ensure MOE requirements are met in accordance with federal regulations. However, the Legislature controls the appropriations that provide financial support for services to students with disabilities across state agencies, not Education. Education exercises full control over the distribution and expenditures of the allocations it receives, but has no control over the financial support appropriated by the Legislature and approved by the Governor.

Education monitors the budget process; if the proposed budget threatens the State's ability to meet federal Maintenance of Effort (MOE) for the Individuals with Disabilities Education Act (IDEA), Education promptly notifies the Legislature of the potential shortfall.

Throughout the year, Education obtains information regarding funds other state agencies provide directly to LEAs for special education services and any state funds other agencies directly pay to staff or contractors for the delivery of services pursuant to an Individualized Education Program. At this time, other state agencies have not finalized the actual expenditures for calculating fiscal year 2011-12 Special Education MOE. Once Education obtains the final expenditure data from the other state agencies, Education will assess compliance with federal MOE requirements. If the expenditure data demonstrates that state financial support did not meet MOE requirements, Education will request the necessary funding from the Legislature. However, if the Legislature does not provide Education with sufficient funding to meet MOE requirements, Education will seek a remedy from the federal Office of Special Education Program.

Contact

Fred Balcom, Director, Special Education Division

Implementation Date

July/August 2014

| | |
|---------------------------------|---|
| Reference Number | 2013-033 |
| Federal Catalog Number: | 84.126 |
| Federal Program Title: | Rehabilitation Services - Vocational Rehabilitation Grants to States |
| Federal Award Number and Year: | H126A120005-12A; 2013 H126A1100005-11B; 2012 H126A100005C; 2011 |
| Category of Finding: | Eligibility |
| Type of Finding: | Material Weakness and Material Instance of Noncompliance |
| State Administering Department: | Department of Rehabilitation (DOR) |

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) Time frame 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).

TITLE 34 – EDUCATION – PART 361 – STATE VOCATIONAL REHABILITATION SERVICES PROGRAM – Subpart B – State Plan and Other Requirements for Vocational Rehabilitation Services, Section 361.45 – Development of the individualized plan for employment

(a) General requirements. The State plan must assure that –

- (1) An individualized plan for employment (IPE) meeting the requirements of this section and § 361.46 is developed and implemented in a timely manner for each individual determined to be eligible for vocational rehabilitation services or, if the designated State unit is operating under an order of selection in accordance with § 361.36, for each eligible individual to whom the State unit is able to provide services.

CALIFORNIA CODE OF REGULATIONS TITLE 9 – REHABILITATIVE AND DEVELOPMENTAL SERVICES, ARTICLE 5 – THE INDIVIDUALIZED PLAN FOR EMPLOYMENT (IPE), § 7128 – General Requirements.

- (a) An Individualized Plan for Employment (IPE) shall be developed and implemented consistent with the requirements of this Article. Services shall be provided in accordance with the provisions of the IPE.
- (b) Once an individual with an application date of October 1, 2006 or later has been determined eligible to receive services from the Department and is in a priority category being served under an Order of Selection implemented pursuant to Section 7053 of these regulations, the IPE must be developed within 90 days from the date of the eligibility determination, if the eligibility determination is made on or after the effective date of this subsection, which is August 27, 2007. For individuals with an application date of October 1, 2006 or later who are on a waiting list to receive services, an IPE must be developed within 90 days from the date the individual is removed from the waiting list, if that date is on or after the effective date of this subsection, which is August 27, 2007. The following exceptions apply:
 - (1) If exceptional and unforeseen circumstances beyond the control of the Department arise, and the individual and the Department agree to a specific extension of time for IPE development, a rationale and date for the extension, signed by the individual and the Senior Vocational Rehabilitation Counselor (SVRC), must be entered into the record of services for that individual.

Condition

During our audit for fiscal year 2011-12, we reported that DOR lacked adequate controls to determine applicant eligibility for services within the required 60-day time period and to develop an IPE within 90 days of eligibility determination. In fiscal year 2012-13, we found DOR continued to lack adequate controls and was not compliant with federal regulations. We tested 65 applicant cases and found the following:

- Thirteen cases were not deemed eligible within the 60-day time period.
- Four cases did not have an IPE developed within the 90-day time period.
- Seventeen cases had application dates in the file that did not agree to the application dates in the AWARE system. DOR relies on the application dates input into the AWARE system as a tracking mechanism to meet the 60-day and 90-day requirements.
- Six case files were missing either the Eligibility Determination form (DR 212) or the required signatures on the form.
- Four case files were missing either the IPE or the required signatures on the IPE.
- One case did not have a signature or date by the applicant or DOR counselor on the application form (DR-222).
- Ten cases lacked evidence of a supervisor's review to confirm that eligibility was properly determined.

Failure to determine an applicant's eligibility and develop an IPE within the required time period prohibits applicants from receiving timely vocational rehabilitation services.

Questioned Costs

Not determined.

Recommendations

DROR should strengthen its controls to assist caseworkers in managing and meeting eligibility determination and IPE deadlines. DROR should implement controls to ensure the dates entered into the AWARE system are accurate based on the supporting documents and forms and clarify the expectation that supervisors frequently review and document the review of those cases in which eligibility was determined solely by a senior counselor.

Department's View and Corrective Action Plan

The Department of Rehabilitation (DROR) agrees with the finding related to determining eligibility within 60-days, developing an Individualized Plan for Employment (IPE) within 90-days, discrepancies between application dates on the Vocational Rehabilitation (VR) Services Application (DR-222) compared to Accessible Web-based Activity Environment (AWARE), missing forms, and requisite signatures.

Corrective Action Plan:

In accordance with federal regulations, qualified VR counselors have the authority to determine eligibility and approve payments. DROR will strengthen its internal controls through standardized casework reviews of senior counselors with approval authority who determine eligibility and authorize payments to consumers.

DROR initiated and implemented a statewide monitoring plan for the 60-day eligibility and 90-day IPE timelines to address the findings from the Fiscal Year 2011-12 audit. The most recent reports indicate that monitoring has been effective in reducing the number of cases with eligibility not determined within 60-days of application and IPEs not developed within 90-days of eligibility determination. DROR Assistant Deputy Director, VR Employment Division, will assume oversight of this process.

- District Administrators (DA) and Team Managers (TM) received training on how to generate AWARE reports to identify consumers who have eligibility determinations and IPEs due in the next 30-days. DA implementation began after training was completed on December 3, 2013. TM training was completed on September 26, 2013 and January 29, 2014.
- DAs and TMs will review regulations and policies regarding requisite forms and signatures with applicable staff during monthly management team meetings.
- DROR will strengthen controls for the periodic review of casework for rehabilitation counselors with approval authority. TMs will conduct annual reviews of at least ten percent (10%) of the cases of a rehabilitation counselor with post-approval authority to ensure compliance with all applicable regulations. TMs will document the review findings, and per existing policy, take appropriate action for non-compliance.
- DROR will develop policy guidance to be released in Rehabilitation Administration Manual Chapter 30 (RAM 30) to include instructions on requisite documentation by DROR for cases where the application date on the DR 222 does not match the application date in AWARE.
- DROR will revise the AWARE Reference Guide to include instructions on requisite documentation by DROR for cases where the application date on the DR 222 does not match the application date in AWARE.

Contact

Mark Erlichman, Assistant Deputy Director, VR Employment Division

Implementation Date

July 1, 2014

| | |
|---------------------------------|---|
| Reference Number: | 2013-034 |
| Federal Catalog Number: | 84.126 |
| Federal Program Title: | Rehabilitation Services - Vocational Rehabilitation Grants to States |
| Federal Award Number and Year: | H126A120005-12A; 2013 H126A1100005-11B; 2012 H126A100005C; 2011 |
| Category of Finding: | Procurement |
| Type of Finding: | Instance of Noncompliance |
| State Administering Department: | Department of Rehabilitation (DOR) |

Criteria

State Contracting Manual (SCM), Volume 2, 4.A1.0 Procurement Standards. Departments granted purchasing authority to conduct competitive procurements for non-IT goods will do so in a manner that promotes open, fair and equal competition among prospective suppliers.

State Contracting Manual (SCM), Volume 2, 4.C1.1 Non-IT Good Transactions Valued from \$5,000.00 to \$50,000.00. Achieving competition within this dollar range is defined as receiving responsive bids (each bid must meet all specifications and requirements) from at least two responsible bidders, if the solicitation is not advertised in the California State Contracts Register (CSCR). Although advertising in the CSCR is not required within this dollar range; it is recommended. Solicitations advertised in the CSCR may result in only one bid response. If the sole bid response is responsible and responsive then the contract may be awarded. The Buyer must document the procurement file with the justification to award to the sole bidder.

Condition

There was one incident where two DOR employees did not follow state procurement policies and procedures at one of its offices. These employees failed to solicit and obtain competitive bids from at least two responsible bidders when procuring maintenance services valued at \$10,000. State policy requires competitive bids be obtained for purchases greater than \$5,000, unless an exemption applies. Instead, these employees circumvented DOR's policies and procedures and directly contracted with the vendor.

Questioned Costs

\$10,315

Recommendations

DOR should determine whether any additional controls and training are needed at the district office to ensure the State's procurement policies and procedures are followed.

Department's View and Corrective Action Plan

The Department of Rehabilitation (DOR) agrees that two DOR employees failed to solicit appropriate bids as required. However, DOR has existing controls in place to ensure State procurement policies and procedures are followed which aided in identifying this procurement noncompliance prior to the audit. Corrective actions were taken resulting in an employee being terminated. DOR will review existing procedures to determine whether any clarifications are needed.

Contact

Tina Watson, Chief, Financial Management Branch

Implementation Date

Employee terminated July 19, 2013

Determination of any clarifications to existing procedures, May 2014

| | |
|---------------------------------|---|
| Reference Number: | 2013-035 |
| Federal Catalog Number: | 84.126 |
| Federal Program Title: | Rehabilitation Services - Vocational Rehabilitation Grants to States |
| Federal Award Number and Year: | H126A120005-12A; 2013 H126A1100005-11B; 2012 H126A100005C; 2011 |
| Category of Finding: | Activities Allowed/Allowable Costs |
| Type of Finding: | Significant Deficiency |
| State Administering Department: | Department of Rehabilitation (DOR) |

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

DOR does not have adequate controls in place to approve expenditures charged to the federal grant. DOR was unable to provide evidence of review for six of 25 central/internal service items tested and one of 25 indirect costs tested. Failure to review supporting documentation for expenditures increases the risk of federal funds spent on unallowed activities or costs.

Questioned Costs

No specific questioned costs were identified.

Recommendations

DOF should strengthen its controls to ensure expenditures are properly reviewed for allowable activities and costs and approval is documented.

Department's View and Corrective Action Plan

The Department of Rehabilitation (DOF) has controls in place to approve expenditures charged to the federal grant, however, agrees that expenditure approvals for certain types of invoices were not evidenced on the invoice via a wet signature. All invoices approved by Central Office Accounting are evidenced as approved through an electronic payment approval in its accounting system. DOF will review existing procedures and strengthen the evidence of its approval process.

Contact

Tina Watson, Chief, Financial Management Branch

Implementation Date

March 14, 2014

| | |
|---------------------------------|---|
| Reference Number: | 2013-036 |
| Federal Catalog Number: | 84.126 |
| Federal Program Title: | Rehabilitation Services - Vocational Rehabilitation Grants to States |
| Federal Award Number and Year: | H126A120005-12A; 2013 H126A1100005-11B; 2012 H126A100005C; 2011 |
| Category of Finding: | Level of Effort – Maintenance of Effort |
| Type of Finding: | Instance of Non-Compliance |
| State Administering Department: | Department of Rehabilitation (DOF) |

Criteria

TITLE 34 – EDUCATION, CHAPTER 3 – OFFICE OF SPECIAL EDUCATION AND REHABILITATIVE SERVICES, DEPARTMENT OF EDUCATION, Part 361 - STATE VOCATIONAL REHABILITATION SERVICES PROGRAM, Subpart C - Financing of State Vocational Rehabilitation Programs, Section 361.62 - Maintenance of effort requirements.

(a) General requirements.

- (1) The Secretary reduces the amount otherwise payable to a State for a fiscal year by the amount by which the total expenditures from non-Federal sources under the State plan for the previous fiscal year were less than the total of those expenditures for the fiscal year 2 years prior to the previous fiscal year. For fiscal year 2001, a State's maintenance of effort level is based on the amount of its expenditures from non-Federal sources for fiscal year 1999. Thus, if the State's non-Federal expenditures in 2001 are less than they were in 1999, the State has a maintenance of effort deficit, and the Secretary reduces the State's allotment in 2002 by the amount of that deficit.

(2) If, at the time the Secretary makes a determination that a State has failed to meet its maintenance of effort requirements, it is too late for the Secretary to make a reduction in accordance with paragraph (a)(1) of this section, then the Secretary recovers the amount of the maintenance of effort deficit through audit disallowance.

Condition

DOF did not meet its maintenance of effort requirement by \$821,488. This appears to be a result of the downturn in the economy causing a decline in the State's general fund resources. As a result, DOF could be subject to a reduction of federal funding.

Questioned Costs

No specific questioned costs were identified.

Recommendations

DOF should ensure it meets MOE requirements.

Department's View and Corrective Action Plan

The Department of Rehabilitation (DOF) agrees that Maintenance of Effort (MOE) requirements were not met for Federal Fiscal Year (FFY) 2011 due to California experiencing a serious economic downturn that resulted in a general reduction of programs within the State. A MOE waiver for FFY 2011 will be submitted following instruction from the United States Department of Education (US ED)/Rehabilitation Services Administration (RSA).

Contact

Tina Watson, Chief, Financial Management Branch

Implementation Date

Upon instruction from the US ED/RSA

| | |
|---------------------------------|--|
| Reference Number: | 2013-037 |
| Federal Catalog Number: | 84.282 |
| Federal Program Title: | Charter Schools |
| Federal Award Number and Year: | U282A100013-12; 2012 U282A100013-11; 2011 U282A100013A; 2010 |
| Category of Finding: | Period of Availability |
| Type of Finding: | Instance of Noncompliance |
| State Administering Department: | California Department of Education (Education) |

Criteria

TITLE 34 – EDUCATION, SUBTITLE A – ADMINISTRATIVE OFFICE OF THE SECRETARY, DEPARTMENT OF EDUCATION, PART 80 – UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS, SUBPART C – POST-AWARD REQUIREMENTS, Section 80.23 – Period of Availability of Funds

- (a) General. Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period.

Condition

Education obligated federal funds totaling \$517,500 to one charter school outside the period of availability. The fiscal year 2011-12 Charter Schools grant agreement stated the period of availability was from August 1, 2011 to July 31, 2012. The charter school originally applied for funding during fiscal year 2011-12; however, its application was denied due to low enrollment projections and the charter requested a second review. The charter school was approved in fiscal year 2012-13 but since its application was open longer than one year as specified by the federal grant, it would not have been eligible for approval at that time. To fund the charter school, Education reopened its original application and obligated and paid the full three-year grant totaling \$517,500 in one payment, eight months after the period of availability. Failure to obligate funds in the period of availability increases the risk that amounts may be owed to the Federal government.

Questioned Costs

\$517,500

Recommendations

Education should strengthen its process to ensure funds are obligated from the Charter Schools grant within the period of availability.

Department's View and Corrective Action Plan

Education accepts the recommendation. Education has controls in place to reasonably assess grantees' sustainability and to ensure Charter School's funding is obligated within the Charter Schools grant's period of availability. The example cited by the auditors was a situation in which Education identified a potential fiscal risk with the charter school's enrollment projections, which resulted in a delay in funding. Pursuant to the Public Charter Schools Grant Program (PCSGP) Request for Applications (RFA), if a grantee is concerned that it will not meet the enrollment requirements, in lieu of meeting this requirement, Education will consider a budget report submitted by the grantee that attests to the sustainability of the school beyond the duration of the grant.

Upon denial of the grant due to low enrollment projections, the charter school requested that Education consider a fiscal review to ascertain the school's sustainability. Based on the initial fiscal information provided by the charter school, Education concluded that the school was ineligible for the grant due to indicators that questioned the school's fiscal solvency. Subsequently, the charter school provided its audited financial information. After Education's review of the audited financial information, the school was reassessed as being sustainable for the duration of the grant. Consequently, the application that the charter school submitted within being open less than a year was approved for funding.

Education maintains that circumstances regarding the charter school in question were necessary to ensure the proper approval, resolution, and disbursement of PCSGP funding. However, Education has revised the timelines for future application reviews and approvals to prevent funding from being disbursed outside the period of availability. In light of the circumstances surrounding this condition, Education will contact the U.S. Department of Education to confirm whether a waiver is necessary.

Contact

Julie Russell, Charter Schools Division Director

Implementation Date

Fiscal Year 2013-14

| | |
|---------------------------------|--|
| Reference Number: | 2013-038 |
| Federal Catalog Number: | 84.282 |
| Federal Program Title: | Charter Schools |
| Federal Award Number and Year: | U282A100013-12; 2012 U282A100013-11; 2011 U282A100013A; 2010 |
| Category of Finding: | Subrecipient Monitoring |
| Type of Finding: | Significant Deficiency |
| State Administering Department: | California 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

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

Education does not have adequate controls in place to ensure the accuracy and allowability of costs submitted by subrecipients on the quarterly expenditure reports. Subrecipients submit quarterly reports to show expenditures incurred to date and request from Education the next apportionment of federal funding. One of 24 subrecipient expenditure reports selected for testing was not reviewed prior to disbursing the charter school its next apportionment of federal funds. Failure to review the expenditure reports increases the risk that a subrecipient may spend federal funds on unallowed activities or costs.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Education should strengthen controls to review quarterly expenditure reports submitted by the charter schools prior to disbursing the next apportionment.

Department's View and Corrective Action Plan

Education has addressed this finding with the 2012–13 Fiscal Year (FY) Public Charter Schools Grant Program (PCSGP) subgrantee applicants. Beginning with the 2012–13 FY PCSGP applicants, Education instituted the following Corrective Action Plan:

Budget/Expenditure Approval Process

- All PCSGP applicants are required to submit a narrative budget and summary budget that addresses all expenditures for each year of the grant.
 - » Three-year grant: 1 Planning Year & 2 Implementation Years
 - » Two-year grant: 2 Implementation Years
- All narrative and summary budgets are reviewed by a PCSGP program consultant for allowable expenditures. If unallowable expenditures are identified, the narrative and summary budget forms are returned to the subgrantee for revisions. Once all expenditures have met the allowability criteria, the PCSGP program consultant approves the PCSGP subgrantee budget and places it in the subgrantee file.

Budget/Expenditure Reporting Process

- Beginning with FY 2013–14, all subgrantees are required to use the Quarterly Expenditure Reporting (QER) forms.
- All PCSGP subgrantees that used the on-line Quarterly Benchmark Report (QBR) were required to submit a budget narrative and budget summary form for the remainder of their respective grant.
- QERs are reviewed by PCSGP program analysts and program consultants for accuracy and adherence to the approved budget narrative and summary.
 - » If the QER is accurate and correct, the PCSGP program consultant signs the approved QER and a quarterly payment is processed to the subgrantee.
 - » If there are inaccuracies identified in the QER, the subgrantee is contacted by the PCSGP program consultant and the inaccuracies and unallowable expenditures are reviewed with the subgrantee. Once the inaccuracies and/or unallowable expenditures are corrected, the PCSGP program consultant signs the approved QER and a quarterly payment is processed.

If an identified inaccuracy in an object code is greater than 10 percent of the approved budget and a change needs to be made to the approved budget, the subgrantee is required to submit a PCSGP Budget/Program Change Form. The PCSGP Budget/Program Change Form is reviewed by a PCSGP program consultant. If the requested change is allowable, the PCSGP program consultant signs the approved change form and the subgrantee must revise the QER to reflect the approved change. The PCSGP program consultant signs the approved QER and a quarterly payment is processed.

Contact

Julie Russell, Charter Schools Division Director

Implementation Date

The budget/expenditure approval process was implemented in October 2012 with the 2012–13 PCSGP Request for Applications.

The budget/expenditure reporting process was implemented in FY 2013–14, Quarter 1.

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|---------------------------------|--|
| Reference Number: | 2013-039 |
| Category of Finding: | Reporting |
| Type of Finding: | Significant Deficiency and Instance of Noncompliance |
| State Administering Department: | California Department of Education (Education) |
| Federal Catalog Number: | 84.388 (ARRA) |
| Federal Program Title: | School Improvement Grant Cluster |
| Federal Award Number and Year: | S388A090005A; 2009 |
| <hr/> | |
| Federal Catalog Number: | 84.410 |
| Federal Program Title: | Education Jobs Fund |
| Federal Award Number and Year: | S411A100005-10A; 2010 S410A100005; 2010 |

Criteria

OMB memorandum M-09-21, Implementing Guidance for the Reports on Use of Funds pursuant to the American Recovery and Reinvestment Act of 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.

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 ARRA. 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.

Condition

During our audit for fiscal year 2011-12, we reported that Education did not have an adequate process or controls in place to ensure accuracy of the quarterly Section 1512 report prior to submission for the School Improvement Grant Cluster. Similar to the finding in 2011-12, Education prepares the report from information maintained by program personnel but that information is not reconciled to accounting records, such as the general ledger. In addition, the amount reported as disbursed to one local educational agency for the School Improvement Grant was understated by \$75,821. Lack of adequate controls over Section 1512 reports increases the risk that inaccurate or incomplete information will be reported to the federal government.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Education should strengthen its process over preparation of reports to ensure the reports are prepared based on expenditures in the general ledger and reviewed for accuracy prior to submission.

Department's View and Corrective Action Plan

Education accepts the recommendation. The reporting error identified by the auditors was corrected on November 13, 2013. Education will ensure that the final report to the federal government reconciles with Education's accounting records. The ARRA School Improvement grant period is over and the LEA Section 1512 reporting period ended on January 31, 2014.

Contact

Carol Bingham, Senior Fiscal Policy Advisor Government Affairs Division

Implementation Date

November 2013

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

| | |
|---------------------------------|--|
| Reference Number | 2013-040 |
| Category of Finding: | Reporting |
| Type of Finding: | Significant Deficiency and Instance of Noncompliance |
| State Administering Department: | Department of Social Services (Social Services) |
| Federal Catalog Number: | 93.658 |
| Federal Program Title: | Foster Care Title IV-E |
| Federal Award Number and Year: | 1301CA1401; 2013 1201CA1401; 2012 1201CA1404; 2012 |
| Federal Catalog Number: | 93.659 |
| Federal Program Title: | Adoption Assistance |
| Federal Award Number and Year: | 1301CA1407; 2013 1201CA1407; 2012 |
| Federal Catalog Number: | 93.558 |
| Federal Program Title: | Temporary Assistance for Needy Families (TANF) Cluster |
| Federal Award Number and Year: | G-1302CATANF; 2013 G-1202CATANF; 2012 |

Criteria

FEDERAL FUNDING ACCOUNTABILITY TRANSPARENCY ACT; TITLE 2—GRANTS AND AGREEMENTS, Appendix A to Part 170 – Award Term

Reporting subaward and executive information compensation:

(a) Reporting of first tier subawards.

(1) Applicability. Unless you are exempt as provided in paragraph d. of this award term, you must report each action that obligates \$25,000 or more in Federal funds that does not include Recovery funds (as defined in section 1512(a)(2) of the American Recovery and Reinvestment Act of 2009, Pub. L. 111-5) for a subaward to an entity.

Condition

During our fiscal year 2011-12 audit, we reported that Social Services did not comply with reporting requirements of the Federal Funding Accountability Transparency Act (FFATA) for its federally funded programs. Social Services is in the process of implementing its FFATA reporting process, but failed to submit the fiscal year 2012-13 FFATA reports.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Social Services should implement policies and procedures to report subaward information under the Federal Funding Accountability Transparency Act, and implement controls to ensure information is accurate and complete.

Department's View and Corrective Action Plan

Social Services agrees with the audit finding. Since the original audit finding for fiscal year 2011-12, Social Services developed a corrective action plan and has been working with the respective federal agencies and subaward recipients to comply with all FFATA reporting requirements for mandatory grants. This audit finding has been partially corrected based on guidance received by the Administration for Children and Families Region IX. The Department anticipates full compliance by May 2014.

Contact

Didi Okamoto, Chief, Fiscal Systems and Accounting Branch

Implementation Date

May 2014

| | |
|---------------------------------|--|
| Reference Number: | 2013-041 |
| Federal Catalog Number: | 93.772, 93.775, 93.777, 93.778 |
| Federal Program Title: | Medicaid Cluster |
| Federal Award Number and Year: | 05-1305CA5MAP; 2013 05-1205CA5MAP; 2012 1205CAARRA; 2012 |
| Category of Finding: | Subrecipient Monitoring |
| Type of Finding: | Material Weakness and Material Instance of Noncompliance |
| State Administering Department: | Department of Health Care Services (Health Care Services) |

Criteria

California has a county-administered system where local county welfare departments bear the responsibility for making eligibility determinations and redeterminations of beneficiaries. Attachment 1.2-D, Description of Staff Performing Eligibility Determinations, states that, Health Care Services is the single state agency for administration of the Title XIX (Medicaid) program and may make eligibility determinations for programs under Title XIX State plan and waivers. Under the administrative guidance of Health Care Services and the supervision of the California Department of Social Services (Social Services), county welfare departments make most Title XIX eligibility determinations.

OMB Circular A-133 Section 400(d) requires a pass-through entity to advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.

OMB Circular A-133, Compliance Supplement provides guidance on Split Eligibility Determination Functions.

- (1) Background – Some nonfederal entities pay the federal benefits to the eligible participants but arrange with another entity to perform part or all of the eligibility determination. For example, a State arranges with local government social services agencies to perform the “intake function” (e.g., the meeting with the social services client to determine income and categorical eligibility) while the State maintains the computer systems supporting the eligibility determination process and actually pays the benefits to the participants. In such cases, the State is fully responsible for federal compliance for the eligibility determination, as the benefits are paid by the State. Moreover, the State shows the benefits paid as federal awards expended on the State’s Schedule of Expenditures of Federal Awards. Therefore, the auditor of the State is responsible for meeting the internal control and compliance audit objectives for eligibility. This may require the auditor of the State to perform, coordinate, or arrange for additional procedures to ensure compliant eligibility determinations when another entity performs part of the eligibility determination functions. The responsibility of the auditor of the State for auditing eligibility does not relieve the auditor of the other entity (e.g., local government) from responsibility for meeting those internal control and compliance audit objectives for eligibility that apply to the other entity’s responsibilities. An exception occurs when the auditor of the other entity confirms with the auditor of the State that certain procedures are not necessary.

Condition

State automated welfare systems (SAWS) were implemented to manage various county welfare processes, including Medicaid, Supplemental Nutrition Assistance Program (SNAP), and Temporary Assistance for Needy Families (TANF). In California, the State does not maintain the computer systems supporting the eligibility determination process but the State does pay benefits on behalf of participants for Medicaid.

All 58 counties aligned themselves into one of three consortia. Each county consortium is responsible for the design, development, implementation, maintenance, and operation of its SAWS. As a result of setting up these consortia, counties are thereby responsible for monitoring these systems to ensure they meet the federal requirements necessary to ensure compliance, including federal compliance related to eligibility determination and redetermination.

Health Care Services communicates to counties information required by federal regulations through the State Plan, alert letters, and other agreements. However, as identified during our fiscal year 2011-12 audit, Health Care Services did not evaluate that the use of county-owned systems for eligibility determination rather than a state-owned system created the need for additional communication to counties as to how federal compliance requirements related to eligibility were to be addressed in county OMB Circular A-133 audits. Health Care Services also did not report subrecipient expenditures for fee-for-service amounts and managed care premiums to counties. In other words, the OMB A-133 Compliance Supplement guidance on split eligibility does not apply in California. Instead, the county auditor is responsible for meeting internal control and compliance objectives for eligibility.

During fiscal year 2012-13, Health Care Services began to evaluate how to communicate to counties and auditors their responsibilities under OMB Circular A-133; however, no changes were made. As part of its evaluation, Health Care Services began to consider implication of the federal Patient Protection and Affordable Care Act (PPACA), which expands Medicaid coverage and simplifies eligibility requirements to be based on financial and nonfinancial criteria including income and citizenship/immigration status for a majority of beneficiaries.

Health Care Services partnered with the California Health Benefit Exchange (Covered California) to implement the State’s health benefit exchange or marketplace, as required by the PPACA. Covered California is a related organization to the State of California and not considered a department or component unit.

Through Covered California, the California Healthcare Eligibility, Enrollment and Retention System (CalHEERS) was deployed on October 1, 2013 to meet the requirements of the PPACA. CalHEERS was designed to determine eligibility based on modified adjusted gross income and citizenship, immigration status, incarceration status and other health care coverage among others. The county is also responsible for determining eligibility in certain circumstances, including those not determined based on modified adjusted gross income. In addition, counties continue to be responsible for redeterminations, and case management for all beneficiaries.

Even with the changes to eligibility under the PPACA, the OMB A-133 Compliance Supplement guidance on split eligibility still does not apply in California. The counties and Covered California perform all parts of eligibility determination. As a result, the county auditor is responsible for meeting internal control and compliance objectives for eligibility.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Health Care Services should work with relevant parties, including the Centers for Medicare and Medicaid, counties, and Covered California, to ensure relevant eligibility control and compliance objectives are subject to audit at the county. Health Care Services should report fee-for-service amounts and managed care premiums to counties as subrecipient expenditures for inclusion on the county Schedule of Expenditures of Federal Awards.

Department's View and Corrective Action Plan

DHCS agrees that the automated welfare systems (SAWS) are owned, operated and maintained by the respective 58 counties throughout the state. However, DHCS contends that existing federally mandated Medi-Cal eligibility quality control reviews performed by DHCS, along with additional reviews that DHCS is planning to implement in FY 2015/16, is more than sufficient to meet county internal control and compliance objectives for eligibility. The fact that DHCS is performing the reviews instead of county auditors should not preclude the objectives from being met.

DHCS is currently working closely with the Centers of Medicare and Medicaid Services (CMS) to obtain approval to implement a series of four new Medicaid eligibility quality control pilots over the next three years that are designed to replace pre-ACA quality control requirements (Medi-Cal Eligibility Quality Control and Payment Error Rate Measurement programs). The new pilot programs will consist of DHCS staff re-performing eligibility determinations from a random sample that will identify potential errors made by SAWS and/or county eligibility workers.

In addition, pursuant to Senate Bill 28 (Hernandez, Chapter 4, Statutes of 2013), DHCS is required to implement a new budgeting methodology for county administrative costs that DHCS plans to implement in FY 2015/16. The new budgeting methodology is intended to address the changes in eligibility determination rules and processes resulting from implementation of the ACA. A core element of the new budgeting methodology is to utilize state auditors from DHCS' Audits and Investigations Division, with assistance from a private contractor, to perform county reviews, including, time studies to assess how long it takes county eligibility workers to perform various tasks under new ACA rules. The data obtained by the auditors will be used as part of the new budgeting methodology. DHCS suggests the auditor of the State continue to audit Medi-Cal eligibility performed by the SAWS/ counties for FY 2014/15 and close out this audit finding based on implementation of the DHCS review processes described above.

Contact

Robert Sugawara, Chief, Program Review Branch, Medi-Cal Eligibility Division

Implementation Date

Ongoing and FY 15/16

| | |
|---------------------------------|--|
| Reference Number: | 2013-042 |
| Federal Catalog Number: | 93.772, 93.775, 93.777, 93.778 |
| Category of Finding: | Activities Allowed/Allowable Costs |
| Type of Finding: | Significant Deficiency |
| State Administering Department: | Department of Health Care Services (Health Care Services) |
| Federal Program Title: | Medicaid Cluster |
| Federal Award Number and Year: | 05-1305CA5MAP; 2013 05-1205CA5MAP; 2012 1205CAARRA; 2012 |
| <hr/> | |
| Federal Catalog Number: | 93.767 |
| Federal Program Title: | Children's Health Insurance Program |
| Federal Award Number and Year: | 05-11A5CA5021; 2012 |

Criteria

45 CFR Part 95, General Administration – Grant Programs (Public Assistance, Medical Assistance, and State Children’s Health Insurance Programs, Sec. 95.621 ADP Reviews (f) ADP System Security Requirements and Review Process)

ADP System Security Requirement. State agencies are responsible for the security of all ADP projects under development, and operational systems involved in the administration of HHS programs. State agencies shall determine the appropriate ADP security requirements based on recognized industry standards or standards governing security of federal ADP systems and information processing.

ADP Security Program. State ADP Security requirements shall include the following components: (i) Determination and implementation of appropriate security requirements as specified in paragraph (f) (1) of this section. (ii) Establishment of a security plan and, as appropriate, policies and procedures to address the following area of ADP security: (A) Physical security of ADP resources; (B) Equipment security to protect equipment from theft and unauthorized use; (C) Software and data security; (D) Telecommunications security; (E) Personnel security; and (F) Contingency plans to meet critical processing needs in the event of short or long-term interruption of service.

Condition

During our fiscal year 2011-12 audit, we reported that certain information security and change management controls over the California Medicaid Management System (CA-MMIS) were not operating effectively. Health Care Services utilizes a third-party fiscal intermediary (FI) to adjudicate fee-for-service claims and effective October 1, 2011 a new FI was engaged.

Health Care Services obtained a Service Organization Control (SOC1) report over logical security, change management, backup and restoration, and production job processing functions of CA-MMIS for the period from July 1, 2012 through June 30, 2013. The SOC1 contained a qualified opinion as controls over job processing and system access were found to be not operating effectively for the period. Ineffective controls over job processing and system access could result in inappropriate claims being processed.

Specifically, the SOC1 report identified the following:

- The FI does not maintain formal policy documentation to assure proper processing of jobs through documentation of job description, job dependencies, job escalation, and restart procedures.
- Controls related to handing deviations in job processing were not consistently followed.
- Management approvals prior to setting up access in mainframe and mid-range systems supporting CA-MMIS were not consistently obtained and documented.
- Controls related to removing/disabling of user access after the use is terminated were not consistently followed.
- Periodic review of access appropriateness of users with access to the Mainframe and Mid-range systems supporting CA-MMIS were not consistently performed.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Health Care Services should work with the FI to develop a corrective action plan to address the deficiencies that were noted in the SOC1 report for job processing and system access.

Department's View and Corrective Action Plan

DHCS agrees with the Service Organization Control (SOC1) report referenced by KPMG in their finding. When the SOC1 report was released to CAMMIS, CAMMIS issued a request for a corrective action plan to Xerox on December 17, 2013. DHCS received a response from Xerox via FI Letter T4092 on February 18th, 2014. DHCS CAMMIS is currently reviewing FI Letter T4092, along with monitoring Xerox's progress toward achieving security improvements. DHCS will complete its review and respond by March 21, 2014

Contact

Cynthia Guest, Chief IT Management Branch, CAMMIS

Implementation Date

December 31, 2014

| | |
|---------------------------------|--|
| Reference Number: | 2013-043 |
| Federal Catalog Number: | 93.772, 93.775, 93.777, 93.778 |
| Category of Finding: | Activities Allowed/Allowable Costs |
| Type of Finding: | Significant Deficiency |
| State Administering Department: | Department of Health Care Services (Health Care Services) |
| Federal Program Title: | Medicaid Cluster |
| Federal Award Number and Year: | 05-1305CA5MAP; 2013 05-1205CA5MAP; 2012 1205CAARRA; 2012 |

| | |
|--------------------------------|-------------------------------------|
| Federal Catalog Number: | 93.767 |
| Federal Program Title: | Children's Health Insurance Program |
| Federal Award Number and Year: | 05-11A5CA5021; 2012 |

Criteria

45 CFR Part 95, General Administration – Grant Programs (Public Assistance, Medical Assistance, and State Children's Health Insurance Programs, Sec. 95.621 ADP Reviews (f) ADP System Security Requirements and Review Process)

ADP System Security Requirement. State agencies are responsible for the security of all ADP projects under development, and operational systems involved in the administration of HHS programs. State agencies shall determine the appropriate ADP security requirements based on recognized industry standards or standards governing security of federal ADP systems and information processing.

ADP Security Program. State ADP Security requirements shall include the following components: (i) Determination and implementation of appropriate security requirements as specified in paragraph (f) (1) of this section. (ii) Establishment of a security plan and, as appropriate, policies and procedures to address the following area of ADP security: (A) Physical security of ADP resources; (B) Equipment security to protect equipment from theft and unauthorized use; (C) Software and data security; (D) Telecommunications security; (E) Personnel security; and (F) Contingency plans to meet critical processing needs in the event of short or long-term interruption of service.

Condition

Health Care Services utilizes the CAPMAN system to adjudicate managed care provider monthly payments based on the number of beneficiaries enrolled during the period. We found that certain program access controls were not operating effectively during fiscal year 2012-13. Failure to properly implement controls could result in inappropriate users gaining access to the system and failure of application controls embedded in the system.

Specifically, we identified the following:

- For one of eight new users tested, Health Care Services was unable to provide support for the approval of the access granted.
- Three of the 24 users with access to CAPMAN had been terminated and, therefore, should no longer have access to the system.
- Two of 60 administrators with access to CAPMAN servers had transferred to another department or been terminated and no longer required access.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Health Care Services should improve its policies and procedures over system access. Specifically, Health Care Services should:

1. Maintain support documenting approvals for access granted.
2. Identify individuals who have been terminated and promptly remove their system access.

3. Identify administrators who have transferred to another department or been terminated and promptly remove their system access.

Department's View and Corrective Action Plan

DHCS agrees with the recommendation, "Health Care Services should improve its policies and procedures over system access," and is carrying out the following Corrective Action Plan:

1. Create and follow a new process, "Annual review of system access to CAPMAN."

Implementation Date

The first review was completed in October 2013, which resulted in the removal of access rights for 20 individuals who no longer had a business need to access CAPMAN. In the process of documenting the process in *820/834 Production Support, Roles and Responsibilities*.

2. Create a new form for managers to formally request access additions, removals, and changes. Include level/type of access requested on the form. Store the forms for future retrieval and documentation purposes

Implementation Date

1. Completed in September 2013. *Documented in 820/834 Production Support, Roles and Responsibilities.*
2. March 2014. Please note that corrective actions have already begun. The only remaining item, targeted for completion in March 2014, is to update the *820/834 Production Support, Roles and Responsibilities* document to include a description of the annual review process.

Contact

Deepa Pochiraju, Chief HIPAA Transactions Section, Office of HIPAA Compliance

| | |
|---------------------------------|---|
| Reference Number: | 2013-044 |
| Federal Catalog Number: | 93.772, 93.775, 93.777, 93.778 |
| Federal Program Title: | Medicaid Cluster |
| Federal Award Number and Year: | 05-1305CA5MAP; 2013 05-1205CA5MAP; 2012 05-1205CAARRA; 2012 05-1105CAARRA; 2011 05-1105CA5MAP; 2011 |
| Category of Findings: | Eligibility; Subrecipients Monitoring |
| Type of Finding: | Significant Deficiency and Instance of Non-Compliance |
| State Administering Department: | Department of Health Care Services (Health Care Services) |

Criteria

TITLE 31 – MONEY AND FINANCE, SUBTITLE V – GENERAL ASSISTANCE ADMINISTRATION
– Sec. 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; and
- (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.

SOCIAL SECURITY ACT, TITLE XIX – GRANTS TO STATES FOR MEDICAL ASSISTANCE PROGRAMS – SECTION 1902, STATE PLANS FOR MEDICAL ASSISTANCE – SECTION (e) (12), CONTINUOUS ELIGIBILITY FOR CHILDREN

(12) At the option of the State, the plan may provide that an individual who is under an age specified by the State (not to exceed 19 years of age) and who is determined to be eligible for benefits under a State plan approved under this title under subsection (a)(10)(A) shall remain eligible for those benefits until the earlier of:

- (A) the end of a period (not to exceed 12 months) following the determination; or
- (B) the time that the individual exceeds that age.

Condition

Counties did not have adequate controls to ensure eligibility determinations and redeterminations were appropriate and timely. Health Care Services contracts with the counties to perform eligibility determinations for Medicaid beneficiaries. Three county consortium systems are used to assist in the determination of Medicaid eligibility. An aid code is generated for each beneficiary which details the beneficiary's scope of benefits and a share of cost, if required. The consortium systems interface with the Health Care Services system that holds eligibility information, Medicaid Eligibility Database System (MEDS). Health Care Services uses aid code information in MEDS to determine the allowability of claims by confirming the beneficiary's eligibility.

We tested 100 beneficiaries and reperformed the counties' eligibility determinations and redeterminations and found:

- One instance where a county did not perform the redetermination.
- One instance where a county case worker adjusted the beneficiary's eligibility determination benefit calculation (EDBC) in May 2013 and overrode the previous EDBC dating back to September 2012 instead of adjusting the EDBC on a go-forward basis as of May 2013. As a result, the beneficiary's aid code for the period from September through April 2013 was incorrect. We found that the change in aid codes did not impact the beneficiary's level of benefits in this instance.

Total direct federal Medicaid expenditures made by the Health Care Services for provider payments and managed care amounted to \$27 billion for the fiscal year 2012-13.

Questioned Costs

\$2,948

Recommendations

Health Care Services should improve policies, procedures, and monitoring for county eligibility determinations. Health Care Services should reissue guidance to counties to:

1. Ensure that redeterminations are made in a timely manner.
2. Ensure EDBC are updated appropriately.

Department's View and Corrective Action Plan

DHCS agrees with the recommendations. In addition, DHCS has validated and confirmed the findings and will reissue guidance to counties as recommended.

Contact

Robert Sugawara, Chief, Program Review Branch, Medi-Cal Eligibility Division

Implementation Date

Fall 2014

| | |
|---------------------------------|---|
| Reference Number: | 2013-045 |
| Federal Catalog Number: | 93.772, 93.775, 93.777, 93.778 |
| Federal Program Title: | Medicaid Cluster |
| Federal Award Number and Year: | 05-1305CA5MAP; 2013 05-1205CA5MAP; 2012 05-1205CAARRA; 2012 05-1105CAARRA; 2011 05-1105CA5MAP; 2011 |
| Category of Finding: | Subrecipient Monitoring |
| Type of Finding: | Significant Deficiency and Instance of Noncompliance |
| State Administering Department: | Department of Health Care Services (Health Care Services) |

Criteria

TITLE 31 – MONEY AND FINANCE, SUBTITLE V – GENERAL ASSISTANCE ADMINISTRATION – Sec. 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; and
- (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 2 – GRANTS AND AGREEMENTS, PART 25 – UNIVERSAL IDENTIFIER AND CENTRAL CONTRACTOR REGISTRATION, Appendix A to Part 25 – Award Term

I. Central Contractor Registration and Universal Identifier Requirements

B. Requirement for Data Universal Numbering System (DUNS) Numbers

If you are authorized to make subawards under this award, you:

1. 1. Must notify potential subrecipients that no entity (see definition in paragraph C of this award term) may receive a subaward from you unless the entity has provided its DUNS number to you.
2. May not make a subaward to an entity unless the entity has provided its DUNS number to you.

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

During our audit for fiscal year 2011–12, we reported that Health Care Services did not have adequate policies and procedures in place to monitor subrecipients in accordance with federal requirements. In fiscal year 2012-13, we found Health Care Services implemented some corrective action but continues to lack adequate policies and procedures to monitor subrecipients. Health Care Services provides services under the Medicaid program through various subrecipients. For example, monies are passed through to counties, or local government agencies, which are responsible for eligibility determination and other administrative activities. Funds are also passed through to local education consortiums and other nonprofit organizations for reimbursement of expenditures for Medicaid programs and administrative costs. Health Care Services disbursed \$1.96 billion to subrecipients for county and school-based administrative activities in fiscal year 2012-13.

Health Care Services monitors its subrecipients through various mechanisms. For example, Health Care Services policy requires that a site visit be conducted for each county or local government agency once every four years and once every three years for school-based organizations. Our audit found the following:

- Health Care Services does not have policies and procedures in place to ensure that DUNS numbers are obtained from its subrecipients prior to awarding of federal funds. Failure to obtain DUNS numbers increases the risk that subrecipients may spend federal funds for unallowable purposes or incorrectly reporting subawards.
- In April 2011, Health Care Services implemented travel restrictions and analysts were unable to perform all planned site visits. The school-based unit performs desk reviews when unable to travel which are equivalent in scope to a site visit. However, we identified 9 of the 28 local government agencies or local education consortiums that are part of the school-based program which had no site visit or desk review performed within the last three years. Lack of adequate monitoring increases the risk that Medicaid funds may not be spent for an allowable purpose.

- Health Care Services does not have policies and procedures in place to obtain OMB Circular A-133 audit reports from local education consortiums and nonprofit organizations. As a result, Health Care Services does not determine whether appropriate and timely corrective action has been taken with respect to Medicaid findings.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Health Care Services should implement policies and procedures to ensure that it properly monitors subrecipients. Health Care Services should:

1. Develop policies and procedures to obtain DUNS numbers prior to awarding federal funds.
2. Ensure that site visits are performed in accordance with department policy.
3. Develop policies and procedures to ensure OMB Circular A-133 audit reports for all subrecipients reporting federal funds of more than \$500,000 are received and management decisions are issued as necessary.

Department's View and Corrective Action Plan

1. Develop policies and procedures to obtain DUNS numbers prior to awarding federal funds.

DHCS Response: DHCS agrees with the recommendation.

DHCS' Medi-Cal Administrative Activities (MAA) program contract agreements do not currently contain relevant award language for obtaining contractors data universal numbers (DUNS) prior to the awarding of federal funds. DHCS will add contract language in the Exhibit B, Budget Detail and Payment Provision section to require Local Governmental Agencies (LGAs) and Local Educational Consortiums (LECs) to submit the appropriate documentation to Health Care Services indicating their DUNS number prior to final execution of the contract agreement. The MAA program will forward a copy to DHCS accounting section prior to the payment of invoices.

DHCS will also revise contract language to require LGAs and LECs to include this language in contracts with their subrecipients and/or vendors. LGA/LECs compliance with this directive will be monitored and verified during onsite visits.

2. Ensure that site visits are performed in accordance with department policy.

DHCS Response: DHCS agrees with the recommendation.

In April 2011, DHCS imposed travel restrictions and all site visits were issued a directive to cease. During Fiscal Year 2011/12, the MAA programs instituted desk review processes that are equitable to the site visit process to ensure that adherence to the requirement to conduct LGA/LEC reviews every four years. The School-Based MAA (SMAA) program has resumed to conducting site visits and/or desk reviews in accordance with department policy during the 2012/13 Fiscal Year. However, due to the implementation of the current deferral on the SMAA program and the development of a new statewide claiming plan and time survey methodology to be in compliance with the Office of Management and Budget A-87, the SMAA program was not able to perform the nine counties site visits and/or desk reviews (Sonoma, Orange, Fresno, Riverside, San Diego, San Luis Obispo, Santa Cruz, Solano, and City of Pasadena). The SMAA program is anticipating on completing site visits and/or desk reviews on all nine counties by June 30, 2014.

3. Develop policies and procedures to ensure OMB Circular A-133 audit reports for all subrecipients reporting federal funds of more than \$500,000 are received and management decisions are issued as necessary.

DHCS Response: DHCS agrees with the recommendation.

The Audits and Investigation Division (A&I) has procedures to track, monitor, and review the corrective action plan(s) to address the audit finding(s) contained in the A-133 Single Audit Report. The State Controller's Office (SCO) has a Single Audit oversight responsibility and preparing audit-finding reports in accordance with the A-133 Single Audit Report. A&I will establish procedures to ensure that it contacts the SCO in a timely manner to secure A-133 Single Audit Reports that are not received. Regarding the LEAs who receive Medi-Cal Billing Option Program funds (Medi-Cal Billing Option), the SCO is the single state oversight agency and conducts the annual LEA audits. Currently, SCO does not send the LEA reports to other state agencies. A&I will request Single Audit Reports of the LEA who received Medi-Cal Billing Option funds from the SCO starting with the fiscal year ended June 30, 2013, and include the reports in our tracking, monitoring, and follow-up system.

Contact

Michelle Kristoff, Chief, Administrative Claiming and Local School Services Branch, Safety Net Financing Division

Implementation Date

July 1, 2014

| | |
|---------------------------------|--|
| Reference Number: | 2013-046 |
| Federal Catalog Number: | 93.917 |
| Federal Program Title: | HIV Care Formula Grants (Ryan White HIV/AIDS Program Part B) |
| Federal Award Number and Year: | X07HA12778; 2013 X07HA12778; 2012 X09HA24703; 2012 X08HA19011; 2012 X09HA20246; 2012 |
| Category of Finding: | Cash Management |
| Type of Finding: | Significant Deficiency and Instance of Noncompliance |
| State Administering Department: | Department of Public Health (Public Health) |

Criteria

TITLE 2 – GRANTS AND AGREEMENTS, PART 215—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND AGREEMENTS WITH INSTITUTIONS OF HIGHER EDUCATION, HOSPITALS, AND OTHER NON-PROFIT ORGANIZATIONS (OMB CIRCULAR A-110), Subpart C—Post-Award Requirements, Financial and Program Management

§ 215.22 Payment.

- (g) To the extent available, recipients shall disburse funds available from repayments to and interest earned on a revolving fund, program income, rebates, refunds, contract settlements, audit recoveries and interest earned on such funds before requesting additional cash payments.

Condition

Public Health does not have proper controls in place to ensure that rebate income is disbursed prior to requesting reimbursement from the Federal government. Rebate income is periodically used to fund expenditures; however, no tracking is performed to ensure rebate income is utilized prior to requesting Federal funds. Failure to utilize rebate income may result in inaccurate or untimely drawdowns of Federal funds.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Public Health should strengthen its policies and procedures over cash management to ensure that individuals are knowledgeable of the Federal requirements and controls are implemented to use rebate income prior to requesting reimbursement from the Federal government.

Department's View and Corrective Action Plan

CDPH agrees with this recommendation and has fully implemented it.

CDPH agrees we should have policies and procedures over cash management to ensure that individuals are knowledgeable of the Federal requirements and controls are implemented to ensure rebate income is disbursed prior to requesting reimbursement from the Federal government.

In November 2012, the Health Resources Services Administration (HRSA) notified CDPH's Office of AIDS (OA) that grantees are required to spend rebate funds prior to drawing down Ryan White grant funds. On November 29, 2012, OA requested guidance from its HRSA Project Officer regarding this policy. Due to fiscal processes established prior to HRSA's notice, OA had spent most of the 2012 federal funds from July 2012 through December 2012. In January 2013, OA's HRSA Project Officer verbally informed OA that it could continue to maintain a rebate fund reserve. However, in June 2013, HRSA verbally informed OA that it must use rebate funds prior to spending federal funds.

Effective July 1, 2013, OA modified its fiscal processes and now monitors weekly cash balance reports for the ADAP Rebate Fund (Special Fund 3080). OA verbally notified staff on November 20, 2012 of this change, followed by a procedure memo documenting this change. In December 2013, OA's HRSA Project Officer provided verbal approval for OA to keep rebate funds available to cover the Insurance Assistance Programs. When the rebate fund cash balance is approximately \$2-\$3 million, OA uses federal ADAP funds. On January 23, 2014, OA issued a memo to AIDS Drug Assistance Program (ADAP) Branch Fiscal Staff documenting the new procedure.

Contact

Niki Dhillon, ADAP Branch Chief

Implementation Date

July 1, 2013

| | |
|-------------------------|--|
| Reference Number: | 2013-047 |
| Federal Catalog Number: | 93.917 |
| Federal Program Title: | HIV Care Formula Grants (Ryan White HIV/AIDS Program Part B) |

| | |
|---------------------------------|--|
| Federal Award Number and Year: | X07HA12778; 2013 X07HA12778; 2012 X09HA24703; 2012 X08HA19011; 2012 X09HA20246; 2012 |
| Category of Finding: | Subrecipient Monitoring |
| Type of Finding: | Significant Deficiency and Instance of Noncompliance |
| 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

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

Condition

Public Health does not have adequate controls over subawards. Public Health did not properly communicate the Catalog of Federal Domestic Assistance (CFDA) title and number for the nine subrecipients tested. Failure to properly communicate award information increases the risk that subrecipients may inappropriately spend federal funds or fail to comply with federal regulations. Public Health passed through \$29.4 million to subrecipients during fiscal year 2012-2013.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Public Health should improve its processes to communicate the CFDA title and number to subrecipients.

Department's View and Corrective Action Plan

CDPH agrees it should have processes to communicate the CFDA title and number to subrecipients.

CFDA number and title will be displayed on the scope of work documents that are sent to the county when the current scope of work is amended July 1, 2014 for 2014-2015.

Contact

Peter Domich, Fiscal Manager

Implementation Date

July 1, 2014

| | |
|---------------------------------|---|
| Reference Number: | 2013-048 |
| Federal Catalog Number: | 93.958 |
| Federal Program Title: | Block Grants for Community Mental Health |
| Federal Award Number and Year: | 3B09SM010005-13; 2013 2B09SM010005-12; 2012 |
| Category of Finding: | Subrecipient Monitoring; Special Tests and Provisions |
| Type of Finding: | Material Weakness and Material Instance of Noncompliance |
| State Administering Department: | Department of Health Care Services (Health Care Services) |

Criteria

TITLE 2 – GRANTS AND AGREEMENTS, PART 25 – UNIVERSAL IDENTIFIER AND CENTRAL CONTRACTOR REGISTRATION, Appendix A to Part 25 – Award Term

I. Central Contractor Registration and Universal Identifier Requirements

B. Requirement for Data Universal Number System (DUNS) Numbers

If you are authorized to make subawards under this award, you;

1. Must notify potential subrecipients that no entity (see definition in paragraph C of this award term) may receive a subaward from you unless the entity has provided its DUNS number to you.
2. May not make a subaward to an entity unless the entity has provided its DUNS number to you.

TITLE 31 – MONEY AND FINANCE, SUBTITLE V – GENERAL ASSISTANCE ADMINISTRATION, Sec. 7502. Audit requirements; exemptions:

(f)(2) Each pass-through entity shall:

(C) 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;

(D) monitor the subrecipient's use of federal awards through site visits, limited scope audits, or other means; and,

(E) 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 42 – THE PUBLIC HEALTH AND WELFARE, Subpart III – General Provisions, Sec. 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

Health Care Services does not have adequate policies and procedures to monitor its Block Grants for Community Mental Health program (Mental Health) subrecipients and ensure the required peer reviews are performed in accordance with federal requirements. Failure to properly monitor subrecipients and perform peer reviews increases the risk that federal monies will be paid for unallowable costs and that programs may not meet quality, appropriateness, and efficacy of treatment services standards of the state. In fiscal year 2012-13 the Mental Health program expended \$67.6 million, with \$67 million passed through to 57 county subrecipients.

The Department of Mental Health was consolidated into Health Care Services effective July 1, 2012. Health Care Services did not obtain DUNS numbers from its Mental Health subrecipients prior to awarding federal funds. In addition, Health Care Services did not perform performance or fiscal monitoring during fiscal year 2012-13 through site visits, limited scope audits, or other means. Finally, Health Care Services did not perform any peer reviews during fiscal year 2012-13.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Health Care Services should implement policies and procedures to ensure it properly monitors subrecipients and performs required peer reviews. Health Care Services should:

1. Obtain DUNS numbers from Mental Health program subrecipients prior to approving the subaward.
2. Perform site visits, limited scope audits, or other monitoring of counties.
3. Perform peer reviews in accordance with federal regulations.

Department's View and Corrective Action Plan

Recommendation One – Obtain DUNS numbers from Mental Health program subrecipients prior to approving subaward.

The Department of Health Care Services (DHCS) agrees with the recommendation. DHCS will implement this in its State Fiscal Year (SFY) 2014-15 Planning Estimate and Renewal Application for the Mental Health Block Grant, (MHBG). The application instructions will require all participating

MHBG counties to provide their DUNS Number within their county application. Renewal Applications that do not contain a DUNS number will not be approved and those counties will not receive an allocation. Implementation date is April 2014. DHCS plans to include language in the SFY 2014-15 Renewal Application that will require county mental health departments to provide a DUNS number. The Planning Estimate and Renewal Application are set for release in March 2014.

Recommendation Two – Perform site visits, limited scope audits, or other monitoring of counties.

DHCS agrees with the recommendation. DHCS is working to update its existing site review protocols to include a request to review financial information. After completing its revision of the site review protocol, DHCS will conduct site visits of the MHBG programs in Sacramento County, Placer County, and San Joaquin County prior to the end of Fiscal Year 2013-14. DHCS will conduct site reviews of the MHBG program in three counties on an annual basis in subsequent fiscal years. These site reviews will include a review of expenditures charged to the MHBG. DHCS plans to complete its site review protocol by the end of March 2014. DHCS plans to conduct a site review in Sacramento County in April 2014; a site review in Placer County in May 2014; and a site review of San Joaquin County in June, 2014. DHCS plans to incorporate more than three site visits in subsequent fiscal years.

Recommendation Three – Perform peer reviews in accordance with federal regulations.

DHCS agrees with the recommendation. Federal regulations require that the State conduct peer reviews of not less than 5% of the entities providing mental health services in the State on an annual basis. DHCS will perform peer reviews in accordance with federal regulations to decrease the risk of federal dollars being utilized for unallowable costs and to ensure program quality, appropriateness, and efficacy of treatment service standards of the state. These peer reviews are expected to be integrated with the site reviews described under recommendation two. DHCS will request the mental health director from a neighboring county identify a county employee who is familiar with the MHBG to participate in the site review team. Peer reviews will be implemented at the same time that site reviews are implemented.

Contact

Kimberly Wimberly, Chief, Grants Management Unit

Implementation Date

April 2014

See above.

| | |
|---------------------------------|---|
| Reference Number: | 2013-049 |
| Federal Catalog Number: | 93.959 |
| Federal Program Title: | Block Grants for Prevention and Treatment of Substance Abuse |
| Federal Award Number and Year: | 2B08TI010005-13; 2013 3B08TI010005-12; 2012 3B08TI010005-11S5; 2011 |
| Category of Finding: | Allowable Costs |
| Type of Finding: | Significant Deficiency and Instance of Noncompliance |
| 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), APPENDIX a – 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 credits.
 - j. Be adequately documented

Condition

Health Care Services did not have adequate policies and procedures to ensure documentation was maintained during the transition of the Department of Alcohol and Drug Programs (ADP). On July 1, 2013, ADP was combined into Health Care Services which took over management and operations of all ADP programs. We tested 40 payroll costs charged to the grant and found seven in which the amount tested did not agree to the expenditure detail provided by Health Care Services. Health Care Services informed us that the differences were related to manual adjustments which may have related to other individuals recorded in the lump sum detail they provided. However, given the transition from ADP, records were not organized in a manner that would allow the adjustments to be easily identified and to locate supporting documentation. The differences totaled \$1,197 of \$168,442 tested. Payroll for the program was \$5.6 million.

Questioned Costs

\$1,197

Recommendations

Health Care Services should ensure it implements its own policies and procedures so that books and records are available to support grant expenditures.

Department's View and Corrective Action Plan

DHCS agrees with the recommendation to implement its own policies and procedures so the records are available to support grant expenditures.

On July 1, 2013, the Department of Alcohol and Drug Prevention (ADP) transitioned over to DHCS. DHCS immediately began to implement DHCS policies and procedures to ensure that adequate documentation is prepared and maintained to support allowable costs. It should be noted that during the 2012 audit of the Medicaid Cluster-Medical Assistance Program (Medi-Cal), that no findings were presented to DHCS regarding inadequate supporting documentation.

Contact

John Cathey, Chief, Accounting

Implementation Date

July 1, 2013

| | |
|---------------------------------|---|
| Reference Number: | 2013-050 |
| Federal Catalog Number: | 93.959 |
| Federal Program Title: | Block Grants for Prevention and Treatment of Substance Abuse |
| Federal Award Number and Year: | 2B08TI010005-13; 2013 3B08TI010005-12; 2012 3B08TI010005-11S5; 2011 |
| Category of Finding: | Cash Management |
| Type of Finding: | Significant Deficiency and Instance of Noncompliance |
| State Administering Department: | Department of Health Care Services (Health Care Services) |

Criteria

TITLE 2 GRANTS AND AGREEMENTS, Subpart C – Post Award Requirements, Section 215.22 – Payment

- (a) Payment methods shall minimize the time elapsing between the transfer of funds from the United States 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 default procedures codified at 31 CFR part 205.

Condition

ADP did not have adequate policies and procedures to ensure federal draw requests are reconciled to amounts recorded by the State Controller's Office (SCO). On July 1, 2013, ADP was combined into Health Care Services which took over management and operations of all ADP programs. Given the transition, Health Care Services was unable to reconcile the difference between the listing of federal draws provided by ADP to the amount drawn as reported by the SCO by approximately \$3.1 million dollars. As a result, the Cash Management Improvement Act (CMIA) worksheets used by the Department of Finance to calculate interest owed may not have been accurate and complete.

Questioned Costs

No specific questioned costs were identified

Recommendations

Health Care Services should ensure it implements its own policies and procedures to ensure federal draw requests are reconciled to SCO records.

Department's View and Corrective Action Plan

DHCS agrees with the recommendation to implement its own policies and procedures to ensure Federal draw requests are reconciled to State Controller's Office (SCO) records. We began following the DHCS established policies and procedures for transactions beginning July 1, 2013.

Reconciling DHCS's listing of Federal draws for the Medicaid Cluster-Medical Assistance Program (Medi-Cal) to the SCO records has been a regular process performed at DHCS timely. The Block Grants for Prevention and Treatment of Substance Abuse will be incorporated into DHCS's reconciliation process. It should be noted that during the 2012 audit of the Medi-Cal Program that no questioned costs have been presented to DHCS regarding its process's over cash management.

Contact

John Cathey, Chief, Accounting

Implementation Date

July 1, 2013

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AUDITEE'S SECTION

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**Schedule Of Expenditures Of Federal Awards
Fiscal Year Ended June 30, 2013**

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STATE OF CALIFORNIA
SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS FOR THE FISCAL YEAR ENDED JUNE 30, 2013

California State Auditor Report 2013-002
May 2014

121

| FEDERAL AGENCY/PROGRAM TITLE/ PASS-THROUGH ENTITY OR PROGRAM | FEDERAL CATALOG NUMBER | PASS-THROUGH ENTITY IDENTIFYING NUMBER | FEDERAL EXPENDITURES | AMOUNTS PASSED THROUGH TO SUBRECIPIENTS |
|--|---------------------------|---|-------------------------|---|
| U.S. Department of Agriculture | | | | |
| Plant and Animal Disease, Pest Control, and Animal Care | 10.025 | | \$ 67,200,828 | \$ 24,667,790 |
| Voluntary Public Access and Habitat Incentive Program | 10.093 | | 60,388 | - |
| Market Protection and Promotion | 10.163 | | 3,216,528 | - |
| Specialty Crop Block Grant Program – Farm Bill | 10.170 | | 19,228,487 | 16,500,714 |
| Organic Certification Cost Share Programs | 10.171 | | 675,951 | - |
| Farm Labor Housing Loans and Grants | 10.405 | | 2,277,602 | - |
| Cooperative Agreements with States for Intrastate Meat and Poultry Inspection | 10.475 | | 254,265 | - |
| Meat, Poultry, and Egg Products Inspection | 10.477 | | 121,556 | 56,961 |
| Food Safety Cooperative Agreements | 10.479 | | 193,190 | - |
| Special Supplemental Nutrition Program for Women, Infants, and Children | 10.557 | | 1,108,075,568 | 257,352,849 |
| Child and Adult Care Food Program | 10.558 | | 343,270,661 | 340,346,756 |
| State Administrative Expenses for Child Nutrition | 10.560 | | 26,544,524 | - |
| WIC Farmers' Market Nutrition Program (FMNP) | 10.572 | | 1,500,584 | - |
| Team Nutrition Grants | 10.574 | | 95,614 | - |
| Senior Farmers Market Nutrition Program | 10.576 | | 897,514 | 731,315 |
| Child Nutrition Discretionary Grants Limited Availability | 10.579 | | 115,441 | (95,220) |
| Fresh Fruit and Vegetable Program | 10.582 | | 8,727,514 | 8,727,514 |
| Cooperative Forestry Assistance | 10.664 | | 5,084,878 | 1,434,200 |
| Urban and Community Forestry Program | 10.675 | | 1,342,982 | - |
| Forest Legacy Program | 10.676 | | 1,721,043 | 10,245 |
| Forest Stewardship Program | 10.678 | | 658,095 | 137,107 |
| Forest Health Protection | 10.680 | | 376,885 | 212,887 |
| ARRA – Recovery Act of 2009: Wildland Fire Management, Recovery Act Funded | 10.688 | | 562,314 | - |
| Soil and Water Conservation | 10.902 | | 58,208 | - |
| Environmental Quality Incentives Program | 10.912 | | (15,300) | - |
| Long-Term Standing Agreements For Storage, Transportation, and Lease | 10.999 | | 13,526,272 | - |
| Total Excluding Clusters | | | 1,605,771,592 | 650,083,118 |
| SNAP Cluster | | | | |
| Supplemental Nutrition Assistance Program, Recovery Act Funded | 10.551 | | 7,456,702,934 | - |
| State Administrative Matching Grants for the Supplemental Nutrition Assistance Program | 10.561 | | 747,183,607 | 632,959,899 |
| Total SNAP Cluster | | | 8,203,886,541 | 632,959,899 |
| Child Nutrition Cluster | | | | |
| School Breakfast Program | 10.553 | | 410,993,151 | 410,993,151 |
| National School Lunch Program | 10.555 | | 1,367,217,595 | 1,367,217,595 |
| Special Milk Program for Children | 10.556 | | 375,831 | 375,831 |
| Summer Food Service Program for Children | 10.559 | | 19,877,165 | 19,728,959 |
| Total Child Nutrition Cluster | | | 1,798,463,742 | 1,798,315,536 |

| FEDERAL AGENCY/PROGRAM TITLE/ PASS-THROUGH ENTITY OR PROGRAM | FEDERAL CATALOG NUMBER | PASS-THROUGH ENTITY IDENTIFYING NUMBER | FEDERAL EXPENDITURES | AMOUNTS PASSED THROUGH TO SUBRECIPIENTS |
|---|---------------------------|---|-------------------------|---|
| Food Distribution Cluster | | | | |
| Commodity Supplemental Food Program | 10.565 | | \$ 4,497,954 | \$ 4,493,406 |
| Emergency Food Assistance Program (Administrative Costs) | 10.568 | | 9,122,648 | 8,646,142 |
| Total Food Distribution Cluster | | | 13,620,602 | 13,139,548 |
| Forest Service Schools and Roads Cluster | | | | |
| Schools and Roads – Grants to States | 10.665 | | 35,777,071 | 35,777,071 |
| Total Forest Service Schools and Roads Cluster | | | 35,777,071 | 35,777,071 |
| Research and Development Cluster | | | | |
| Plant and Animal Disease, Pest Control, and Animal Care | 10.025 | | 282,447 | - |
| Research and Development Cluster | | | 282,447 | - |
| Total U.S. Department of Agriculture | | | <u>11,657,801,995</u> | <u>3,130,275,172</u> |
| Department of Commerce | | | | |
| Interjurisdictional Fisheries Act of 1986 | 11.407 | | (3,970) | - |
| Coastal Zone Management Administration Awards | 11.419 | | 2,861,616 | 311,700 |
| Coastal Zone Management Estuarine Research Reserves | 11.420 | | 786,850 | 570,857 |
| Marine Sanctuary Program | 11.429 | | 25,903 | 25,903 |
| Pacific Fisheries Data Program | 11.437 | | - | - |
| <i>Pass-Through from Pacific States Marine Fisheries</i> | R1070002/ R1270003 | | 1,245,310 | - |
| Pacific Coast Salmon Recovery-Pacific Salmon Treaty Program | 11.438 | | 13,562,575 | - |
| Regional Fishery Management Councils | 11.441 | R1170002/ R1270004 | - | - |
| <i>Pass-Through from Pacific Fisheries Management Council</i> | | | 142,469 | 116,746 |
| Habitat Conservation | 11.463 | | 1,552,147 | 1,404,261 |
| Meteorologic and Hydrologic Modernization Development | 11.467 | | 849,219 | - |
| Applied Meteorological Research | 11.468 | | 77,724 | 77,718 |
| Public Safety Interoperable Communications Grant Program | 11.555 | | 2,725,813 | 2,725,813 |
| ARRA – State Broadband Data and Development Grant Program, Recovery Act Funded | 11.558 | | 1,614,936 | - |
| Other – U.S. Department of Commerce | 11.999 | | 47,915 | - |
| Total Excluding Cluster | | | 25,488,507 | 5,232,998 |
| Research and Development Cluster | | | | |
| Unallied Management Projects | 11.454 | | 1,121,878 | - |
| Unallied Science Program | 11.472 | | 18,565 | - |
| Research and Development Cluster | | | 1,140,443 | - |
| Total Department of Commerce | | | <u>26,628,950</u> | <u>5,232,998</u> |

| FEDERAL AGENCY/PROGRAM TITLE/ PASS-THROUGH ENTITY OR PROGRAM | FEDERAL CATALOG NUMBER | PASS-THROUGH ENTITY IDENTIFYING NUMBER | FEDERAL EXPENDITURES | AMOUNTS PASSED THROUGH TO SUBRECIPIENTS |
|---|---------------------------|---|-------------------------|---|
| Department of Defense | | | | |
| Planning Assistance to States | 12.110 | | \$ 1,624,981 | - |
| Payments to States in Lieu of Real Estate Taxes | 12.112 | | 180,940 | - |
| State Memorandum of Agreement Program for the Reimbursement of Technical Services | 12.113 | | 16,387,822 | \$3,621,402 |
| Electronic Absentee Systems for Elections | 12.217 | | 308,820 | - |
| National Guard Military Operations and Maintenance (O&M) Projects | 12.401 | | 74,156,128 | - |
| National Guard Challenge Program | 12.404 | | 10,662,479 | - |
| Community Economic Adjustment Assistance for Compatible Use and Joint Land Use Studies | 12.610 | | 24,350 | - |
| Other – U.S. Department of Defense | 12.999 | | 1,457,344 | - |
| Total Excluding Cluster | | | 104,802,864 | 3,621,402 |
| Research and Development Cluster | | | | |
| Planning Assistance to States | 12.110 | | 1,685,449 | - |
| Basic and Applied Scientific Research | 12.300 | | 9,351 | - |
| Air Force Defense Research Sciences Program | 12.800 | | 32,117 | - |
| Research and Development Cluster | | | 1,726,917 | - |
| Total Department of Defense | | | <u>106,529,781</u> | <u>3,621,402</u> |
| Department of Housing and Urban Development | | | | |
| Manufactured Home Dispute Resolution | 14.171 | | 248,330 | - |
| Emergency Solutions Grant Program | 14.231 | | 8,387,606 | 7,309,817 |
| Home Investment Partnerships Program | 14.239 | | 83,144,342 | 78,690,822 |
| Housing Opportunities for Persons with AIDS | 14.241 | | 3,631,812 | - |
| ARRA – Homelessness Prevention and Rapid Re-Housing Program, Recovery Act Funded | 14.257 | | 2,772,632 | 2,777,572 |
| Equal Opportunity in Housing | 14.400 | | 1,753,265 | - |
| Lead-Based Paint Hazard Control in Privately-Owned Housing | 14.900 | | 475,505 | 336,614 |
| Total Excluding Clusters | | | 100,413,492 | 89,114,825 |
| CDBG – State Administered CDBG Cluster | | | | |
| Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii | 14.228 | | 57,746,393 | 54,571,898 |
| ARRA – Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii, Recovery Act Funded | 14.255 | | 726,738 | 721,796 |
| Total CDBG – State Administered CDBG Cluster | | | 58,473,131 | 55,293,694 |
| Housing Voucher Cluster | | | | |
| Section 8 Housing Choice Vouchers | 14.871 | | 1,347,326 | - |
| Total Housing Voucher Cluster | | | 1,347,326 | - |
| Total Department of Housing and Urban Development | | | <u>160,233,949</u> | <u>144,408,519</u> |

| FEDERAL AGENCY/PROGRAM TITLE/ PASS-THROUGH ENTITY OR PROGRAM | FEDERAL CATALOG NUMBER | PASS-THROUGH ENTITY IDENTIFYING NUMBER | FEDERAL EXPENDITURES | AMOUNTS PASSED THROUGH TO SUBRECIPIENTS |
|---|---------------------------|---|-------------------------|---|
| Department of the Interior | | | | |
| National Fire Plan – Wildland Urban Interface Community Fire Assistance | 15.228 | | \$ (12,210) | - |
| Fish, Wildlife and Plant Conservation Resource Management Environmental Quality and Protection Resource Management, Recovery Act Funded | 15.231 | | 1,982,459 | 1,947,176 |
| ARRA – Environmental Quality and Protection Resource Management, Recovery Act Funded | 15.236 | | 157,543 | - |
| Federal Oil and Gas Royalty Management State and Tribal Coordination | 15.236 | | 99,655 | - |
| Minerals Leasing Act | 15.427 | | 882,775 | - |
| Providing Water to At-Risk Natural Desert Terminal Lakes | 15.508 | | 49,307 | - |
| Central Valley Project Improvement Act, Title XXXIV | 15.512 | | 2,141,129 | - |
| Fish and Wildlife Coordination Act, Recovery Act Funded | 15.517 | | 145,616 | - |
| ARRA – Fish and Wildlife Coordination Act, Recovery Act Funded | 15.517 | | 51,361 | - |
| Total Fish and Wildlife Coordination Act | | | 196,977 | - |
| Recreation Resources Management | 15.524 | | 2,284,070 | - |
| Central Valley Project, Trinity River Division, Trinity River Fish and Wildlife Management | 15.532 | | 38,643 | - |
| California Water Security and Environmental Enhancement | 15.533 | | 85,590 | - |
| Lake Tahoe Regional Wetlands Development Program | 15.543 | | 53,857 | - |
| Fish and Wildlife Management Assistance | 15.608 | | 81,447 | - |
| Coastal Wetlands Planning, Protection and Restoration Act | 15.614 | | 771,919 | 765,521 |
| Cooperative Endangered Species Conservation Fund | 15.615 | | 23,051,676 | - |
| Clean Vessel Act | 15.616 | | 1,707,200 | - |
| Sportfishing and Boating Safety Act | 15.622 | | 468,000 | - |
| Coastal Program | 15.630 | | 5,860 | - |
| Landowner Incentive Program | 15.633 | | 107,086 | - |
| State Wildlife Grants | 15.634 | | 109,178 | - |
| Research Grants (Generic) | 15.650 | | 40,132 | - |
| Endangered Species Conservation – Recovery Implementation Funds | 15.657 | | 8,185 | - |
| Natural Resource Damage Assessment, Restoration and Implementation | 15.658 | | 505,911 | - |
| Coastal Impact Assistance Program | 15.668 | | 1,937,580 | 1,937,580 |
| National Wildlife Refuge Fund | 15.669 | | 2,619 | - |
| Earthquake Hazards Reduction Program | 15.807 | | 46,812 | - |
| U.S. Geological Survey – Research and Data Collection | 15.808 | | 134,708 | - |
| National Cooperative Geologic Mapping Program | 15.810 | | 242,599 | - |
| National Geological and Geophysical Data Preservation Program | 15.814 | | 2,261 | - |
| Historic Preservation Fund Grants-In-Aid | 15.904 | | 1,205,559 | - |
| Outdoor Recreation – Acquisition, Development and Planning | 15.916 | | 1,788,116 | - |

| FEDERAL AGENCY/PROGRAM TITLE/ PASS-THROUGH ENTITY OR PROGRAM | FEDERAL CATALOG NUMBER | PASS-THROUGH ENTITY IDENTIFYING NUMBER | FEDERAL EXPENDITURES | AMOUNTS PASSED THROUGH TO SUBRECIPIENTS |
|---|---------------------------|---|-------------------------|---|
| ARRA – Abandoned Mine Hazard Mitigation, Recovery Act Funded | 15.934 | | \$ 810,835 | - |
| ARRA – Redwood National Park Cooperative Management with the State of California, Recovery Act Funded | 15.937 | | 3,078 | - |
| Other – U.S. Department of the Interior | 15.999 | | 4,852,986 | - |
| Total Excluding Clusters | | | 131,017,893 | 4,650,277 |
| Fish and Wildlife Cluster | | | | |
| Sport Fish Restoration Program | 15.605 | | 2,137,005 | - |
| Wildlife Restoration and Basic Hunter Education | 15.611 | | 1,949,868 | - |
| Total Fish and Wildlife Cluster | | | 4,086,873 | - |
| Research and Development Cluster | | | | |
| Challenge Cost Share | 15.238 | | (3,655) | - |
| ARRA – Central Valley Project Improvement Act, Title XXXIV, Recovery Act Funded | 15.512 | | 2,141,129 | - |
| San Luis Unit, Central Valley Project | 15.527 | | 38,624 | - |
| California Water Security and Environmental Enhancement | 15.533 | | 115,493 | - |
| Sport Fish Restoration Program | 15.605 | | 13,672,892 | - |
| Fish and Wildlife Management Assistance | 15.608 | | 248,169 | - |
| Wildlife Restoration and Basic Hunter Education | 15.611 | | 10,954,194 | - |
| Cooperative Endangered Species Conservation Fund | 15.615 | | 4,185,388 | - |
| State Wildlife Grants | 15.634 | | 3,089,937 | - |
| Migratory Bird Conservation | 15.647 | | 132,398 | - |
| Central Valley Project Improvement (CVPI) Anadromous Fish Restoration Program (AFRP) | 15.648 | | 279,730 | - |
| Research Grants (Generic) | 15.650 | | 84,224 | - |
| U.S. Geological Survey – Research and Data Collection | 15.808 | | 6,000 | - |
| Technical Preservation Services | 15.915 | | 42,465 | - |
| Research and Development Cluster | | | 34,986,988 | - |
| Total Department of the Interior | | | 170,091,754 | 4,650,277 |
| Department of Justice | | | | |
| Law Enforcement Assistance – Narcotics and Dangerous Drugs – Laboratory Analysis | 16.001 | | 113,726 | - |
| Sexual Assault Services Formula Program | 16.017 | | 619,529 | 604,888 |
| Juvenile Accountability Block Grants | 16.523 | | 6,062,321 | - |
| Juvenile Justice and Delinquency Prevention – Allocation to States | 16.540 | | 9,268,331 | - |
| Title V – Delinquency Prevention Program | 16.548 | | 87,733 | - |
| National Criminal History Improvement Program (NCHIP) | 16.554 | | 145,710 | - |
| National Institute of Justice Research, Evaluation, and Development Project Grants | 16.560 | | 172,239 | - |
| Crime Victim Assistance | 16.575 | | 47,337,459 | 45,334,213 |

| FEDERAL AGENCY/PROGRAM TITLE/ PASS-THROUGH ENTITY OR PROGRAM | FEDERAL CATALOG NUMBER | PASS-THROUGH ENTITY IDENTIFYING NUMBER | FEDERAL EXPENDITURES | AMOUNTS PASSED THROUGH TO SUBRECIPIENTS |
|--|---------------------------|---|-------------------------|---|
| Crime Victim Compensation | 16.576 | | \$ 30,938,708 | - |
| Crime Victim Assistance/Discretionary Grants | 16.582 | | 13,764 | - |
| Drug Court Discretionary Grant Program | 16.585 | | 67,034 | - |
| Violence Against Women Formula Grants, Recovery Act Funded | 16.588 | | 10,993,545 | 10,093,431 |
| Residential Substance Abuse Treatment for State Prisoners | 16.593 | | 1,811,493 | 1,690,301 |
| State Criminal Alien Assistance Program | 16.606 | | 51,229,996 | - |
| Bulletproof Vest Partnership Program | 16.607 | | 2,448,939 | 2,448,939 |
| Project Safe Neighborhoods | 16.609 | | \$638,468 | \$573,966 |
| Regional Information Sharing Systems | 16.610 | | | |
| <i>Pass-Through from Western States Information Network, Inc.</i> | | WSIN MOU | 1,973,738 | - |
| ARRA – Public Safety Partnership and Community Policing Grants, Recovery Act Funded | 16.710 | | 286,684 | - |
| Enforcing Underage Drinking Laws Program | 16.727 | | 230,502 | - |
| Protecting Inmates and Safeguarding Communities Discretionary Grant Program | 16.735 | | 10,926 | - |
| DNA Backlog Reduction Program | 16.741 | | 5,365,928 | 1,428,908 |
| Paul Coverdell Forensic Sciences Improvement Grant Program | 16.742 | | 2,166,420 | 2,137,008 |
| Convicted Offender and/or Arrestee DNA Backlog Reduction Program | 16.748 | | 102,898 | - |
| Edward Byrne Memorial Competitive Grant Program | 16.751 | | 1,877 | - |
| Congressionally Recommended Awards | 16.753 | | 2,101 | - |
| Harold Rogers Prescription Drug Monitoring Program | 16.754 | | 29,005 | - |
| ARRA – Recovery Act – State Victim Assistance Formula Grant Program, Recovery Act Funded | 16.801 | | 120,392 | 120,389 |
| ARRA – Recovery Act – Edward Byrne Memorial Competitive Grant Program, Recovery Act Funded | 16.808 | | (7,426) | - |
| ARRA – Recovery Act – Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program, Recovery Act Funded | 16.810 | | 5,043 | - |
| John R. Justice Prosecutors and Defenders Incentive Act | 16.816 | | 58,441 | - |
| Total Excluding Clusters | | | 172,295,524 | 64,432,043 |
| JAG Program Cluster | | | | |
| Edward Byrne Memorial Justice Assistance Grant Program | 16.738 | | 20,427,164 | 16,213,622 |
| ARRA – Recovery Act – Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories, Recovery Act Funded | 16.803 | | 20,734,778 | 19,119,704 |
| Total JAG Program Cluster | | | 41,161,942 | 35,333,326 |
| Total Department of Justice | | | 213,457,466 | 99,765,369 |
| Department of Labor | | | | |
| Labor Force Statistics | 17.002 | | 6,701,238 | - |
| Compensation and Working Conditions | 17.005 | | 603,594 | - |
| Unemployment Insurance, Recovery Act Funded | 17.225 | | 12,751,743,576 | - |

| FEDERAL AGENCY/PROGRAM TITLE/ PASS-THROUGH ENTITY OR PROGRAM | FEDERAL CATALOG NUMBER | PASS-THROUGH ENTITY IDENTIFYING NUMBER | FEDERAL EXPENDITURES | AMOUNTS PASSED THROUGH TO SUBRECIPIENTS |
|--|---------------------------|---|-------------------------|---|
| ARRA – Unemployment Insurance, Recovery Act Funded | 17.225 | | \$ 20,506,807 | - |
| Total Unemployment Insurance | | | 12,772,250,383 | - |
| Senior Community Service Employment Program | 17.235 | | 7,293,901 | \$6,890,388 |
| Trade Adjustment Assistance | 17.245 | | 9,337,951 | - |
| WIA Dislocated Workers, Recovery Act Funded | 17.260 | | 539,330 | 539,330 |
| ARRA – WIA Dislocated Workers, Recovery Act Funded | 17.260 | | 2,133,336 | 2,133,336 |
| Total WIA Dislocated Workers | | | 2,672,666 | 2,672,666 |
| Work Opportunity Tax Credit Program (WOTC) | 17.271 | | 2,651,935 | - |
| Temporary Labor Certification for Foreign Workers | 17.273 | | 1,833,039 | - |
| ARRA – Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors, Recovery Act Funded | 17.275 | | 1,943,582 | 1,954,712 |
| Workforce Investment Act (WIA) National Emergency Grants | 17.277 | | 8,668,600 | 8,148,034 |
| Occupational Safety and Health – State Program | 17.503 | | 27,778,008 | - |
| ARRA – Occupational Safety and Health – State Program, Recovery Act Funded | 17.503 | | 75 | - |
| Total Occupational Safety and Health | | | 27,778,083 | - |
| Consultation Agreements | 17.504 | | 5,369,341 | - |
| Mine Health and Safety Grants | 17.600 | | 273,849 | - |
| Total Excluding Clusters | | | 12,847,378,162 | 19,665,800 |
| Employment Service Cluster | | | | |
| Employment Service/Wagner-Peyser Funded Activities | 17.207 | | 61,593,633 | 26,321,175 |
| Disabled Veterans' Outreach Program (DVOP) | 17.801 | | 11,576,470 | - |
| Local Veterans' Employment Representative Program | 17.804 | | 6,420,752 | - |
| Total Employment Service Cluster | | | 79,590,855 | 26,321,175 |
| WIA Cluster | | | | |
| WIA Adult Program | 17.258 | | 137,485,943 | 131,378,383 |
| WIA Youth Activities | 17.259 | | 128,916,042 | 120,657,077 |
| WIA Dislocated Worker Formula Grants | 17.278 | | 179,113,707 | 171,520,117 |
| Total WIA Cluster | | | 445,515,692 | 423,555,577 |
| Total Department of Labor | | | <u>13,372,484,709</u> | <u>469,542,552</u> |
| Department of Transportation | | | | |
| Airport Improvement Program | 20.106 | | 134,487 | - |
| Highway Research and Development Program | 20.200 | | 486,357 | - |

| FEDERAL AGENCY/PROGRAM TITLE/ PASS-THROUGH ENTITY OR PROGRAM | FEDERAL CATALOG NUMBER | PASS-THROUGH ENTITY IDENTIFYING NUMBER | FEDERAL EXPENDITURES | AMOUNTS PASSED THROUGH TO SUBRECIPIENTS |
|--|---------------------------|---|-------------------------|---|
| Highway Training and Education | 20.215 | | \$ 15,409 | - |
| National Motor Carrier Safety | 20.218 | | 16,616,083 | - |
| Performance and Registration Information Systems Management | 20.231 | | 196,485 | - |
| Commercial Driver's License Program Improvement Grant | 20.232 | | 795,082 | - |
| Fuel Tax Evasion – Intergovernmental Enforcement Effort | 20.240 | | 142,122 | - |
| Capital Assistance to States – Intercity Passenger Rail Service | 20.317 | | 11,072,186 | 11,072,186 |
| High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants, Recovery Act Funded | 20.319 | | 4,908,349 | 89,052 |
| ARRA – High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants, Recovery Act Funded | 20.319 | | 109,836,303 | 3,868,746 |
| Total High Speed Rail Corridors and Intercity Passenger Rail Service | | | 114,744,652 | 3,957,798 |
| Metropolitan Transportation Planning | 20.505 | | 69,823,885 | 68,585,233 |
| Formula Grants for Rural Areas | 20.509 | | 21,939,971 | 20,575,141 |
| ARRA – Formula Grants for Rural Areas, Recovery Act Funded | 20.509 | | 2,133,788 | 1,354,456 |
| Total Formula Grants for Rural Areas | | | 24,073,759 | 21,929,597 |
| Public Transportation Research | 20.514 | | 34,020 | - |
| Minimum Penalties for Repeat Offenders for Driving While Intoxicated | 20.608 | | 69,500,800 | - |
| E-911 Grant Program | 20.615 | | 1,931,000 | - |
| Pipeline Safety Program State Base Grant | 20.700 | | 3,534,045 | - |
| Interagency Hazardous Materials Public Sector Training and Planning Grants | 20.703 | | 1,760,274 | 279,037 |
| Total Excluding Clusters | | | 314,860,646 | 105,823,851 |
| Highway Planning and Construction Cluster | | | | |
| Highway Planning and Construction | 20.205 | | 3,316,494,224 | 930,901,094 |
| <i>Pass-Through from Metropolitan Transportation Commission</i> | | | 282,887 | - |
| ARRA – Highway Planning and Construction, Recovery Act Funded | 20.205 | | 202,592,277 | 34,737,839 |
| Total Highway Planning and Construction Cluster | | | 3,519,369,388 | 965,638,933 |
| Federal Transit Cluster | | | | |
| Federal Transit – Capital Investment Grants, Recovery Act Funded | 20.500 | | 521,509 | 145,028 |
| Total Federal Transit Cluster | | | 521,509 | 145,028 |
| Transit Services Programs Cluster | | | | |
| Enhanced Mobility of Seniors and Individuals with Disabilities | 20.513 | | 13,064,515 | 12,497,447 |
| Job Access And Reverse Commute Program | 20.516 | | 2,069,679 | 1,953,627 |
| New Freedom Program | 20.521 | | 1,943,204 | 1,880,855 |

| FEDERAL AGENCY/PROGRAM TITLE/ PASS-THROUGH ENTITY OR PROGRAM | FEDERAL CATALOG NUMBER | PASS-THROUGH ENTITY IDENTIFYING NUMBER | FEDERAL EXPENDITURES | AMOUNTS PASSED THROUGH TO SUBRECIPIENTS |
|---|---------------------------|---|-------------------------|---|
| Total Transit Services Programs Cluster | | | \$ 17,077,398 | \$ 16,331,929 |
| Highway Safety Cluster | | | | |
| State and Community Highway Safety | 20.600 | | 25,349,382 | - |
| Alcohol Impaired Driving Countermeasures Incentive Grants I | 20.601 | | 3,887,924 | - |
| Occupant Protection Incentive Grants | 20.602 | | 1,735,029 | - |
| Safety Belt Performance Grants | 20.609 | | 265,730 | - |
| State Traffic Safety Information System Improvement Grants | 20.610 | | 2,764,869 | - |
| Incentive Grant Program to Increase Motorcyclist Safety | 20.612 | | 385,579 | - |
| Child Safety and Child Booster Seats Incentive Grants | 20.613 | | 437,661 | - |
| Total Highway Safety Cluster | | | 34,826,174 | - |
| Research and Development Cluster | | | | |
| Highway Planning and Construction | 20.205 | | 15,778,000 | - |
| Formula Grants for Rural Areas | 20.509 | | 190,575 | - |
| State and Community Highway Safety | 20.600 | | 1,270 | - |
| Alcohol Impaired Driving Countermeasures Incentive Grants I | 20.601 | | 181,784 | - |
| Minimum Penalties for Repeat Offenders for Driving While Intoxicated | 20.608 | | 136,048 | - |
| Research and Development Cluster | | | 16,287,677 | - |
| Total Department of Transportation | | | <u>3,902,942,792</u> | <u>1,087,939,741</u> |
| Department of Treasury | | | | |
| National Foreclosure Mitigation Counseling | 21.000 | | <u>2,501,792</u> | <u>2,501,792</u> |
| Equal Opportunity Employment Commission | | | | |
| Employment Discrimination – Title VII of the Civil Rights Act of 1964 | 30.001 | | <u>2,986,789</u> | <u>-</u> |
| General Services Administration | | | | |
| Election Reform Payments | 39.011 | | <u>1,353,310</u> | <u>-</u> |
| National Endowment for the Arts | | | | |
| Promotion of the Arts – Partnership Agreements | 45.025 | | 1,123,860 | 642,855 |
| Grants to States | 45.310 | | 14,118,837 | 8,482,955 |
| Total National Endowment for the Arts | | | <u>15,242,697</u> | <u>9,125,810</u> |
| Small Business Administration | | | | |
| State Trade and Export Promotion Pilot Grant Program | 59.061 | | <u>1,254,374</u> | <u>873,637</u> |
| Department of Veterans Affairs | | | | |

| FEDERAL AGENCY/PROGRAM TITLE/ PASS-THROUGH ENTITY OR PROGRAM | FEDERAL CATALOG NUMBER | PASS-THROUGH ENTITY IDENTIFYING NUMBER | FEDERAL EXPENDITURES | AMOUNTS PASSED THROUGH TO SUBRECIPIENTS |
|---|---------------------------|---|-------------------------|---|
| Grants to States for Construction of State Home Facilities | 64.005 | | \$ 31,735,546 | - |
| Burial Expenses Allowance for Veterans | 64.101 | | 342,472 | - |
| All-Volunteer Force Educational Assistance | 64.124 | | 1,038,380 | - |
| State Cemetery Grants | 64.203 | | 887,068 | - |
| Total Department of Veterans Affairs | | | 34,003,466 | - |

Environmental Protection Agency

| | | | | |
|---|--------|----------|----------------|----------------|
| Air Pollution Control Program Support | 66.001 | | 5,891,895 | \$5,891,895 |
| State Indoor Radon Grants | 66.032 | | 127,367 | - |
| Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act | 66.034 | | 457,177 | - |
| National Clean Diesel Emissions Reduction Program, Recovery Act Funded | 66.039 | | 626,412 | 626,412 |
| ARRA – National Clean Diesel Emissions Reduction Program, Recovery Act Funded | 66.039 | | 30,978 | 30,978 |
| Total National Clean Diesel Emissions Reduction Program | | | 657,390 | 657,390 |
| State Clean Diesel Grant Program, Recovery Act Funded | 66.040 | | 317,185 | 317,185 |
| The San Francisco Bay Water Quality Improvement Fund | 66.126 | | 67,519 | 43,869 |
| <i>Pass-Through from Association of Bay Area Governments</i> | | | 35,987 | 35,987 |
| State Environmental Justice Cooperative Agreement Program | 66.312 | | 11,053 | - |
| Water Pollution Control State, Interstate, and Tribal Program Support | 66.419 | | 7,814,494 | - |
| <i>Pass-Through from San Jose State University Foundation</i> | | R1175004 | 832,092 | - |
| State Public Water System Supervision | 66.432 | | 8,595,269 | - |
| State Underground Water Source Protection | 66.433 | | 499,516 | - |
| Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements – Section 104(b)(3) of the Clean Water Act | | | | - |
| <i>Pass-Through from Association of Bay Area Governments</i> | 66.436 | | 100,000 | |
| Urban Waters Small Grants | 66.440 | | 7,029 | - |
| Water Quality Management Planning, Recovery Act Funded | 66.454 | | 416,950 | 246,371 |
| Nonpoint Source Implementation Grants | 66.460 | | 8,839,145 | 4,671,408 |
| Regional Wetland Program Development Grants | 66.461 | | 27,382 | 17,994 |
| Beach Monitoring and Notification Program Implementation Grants | 66.472 | | 628,004 | 106,810 |
| Water Protection Grants to the States | 66.474 | | 22,610 | - |
| Surveys, Studies, Investigations and Special Purpose Grants | 66.606 | | 453,663 | 453,663 |
| Environmental Information Exchange Network Grant Program and Related Assistance | 66.608 | | 927,717 | - |
| Consolidated Pesticide Enforcement Cooperative Agreements | 66.700 | | 1,461,910 | - |
| TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals | 66.707 | | 490,425 | - |
| Hazardous Waste Management State Program Support | 66.801 | | 7,585,437 | - |
| Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements, Recovery Act Funded | 66.802 | | 1,155,033 | - |

| FEDERAL AGENCY/PROGRAM TITLE/ PASS-THROUGH ENTITY OR PROGRAM | FEDERAL CATALOG NUMBER | PASS-THROUGH ENTITY IDENTIFYING NUMBER | FEDERAL EXPENDITURES | AMOUNTS PASSED THROUGH TO SUBRECIPIENTS |
|--|---------------------------|---|-------------------------|---|
| Underground Storage Tank Prevention, Detection and Compliance Program | 66.804 | | \$ 606,840 | \$ 263,173 |
| Leaking Underground Storage Tank Trust Fund Corrective Action Program, Recovery Act Funded | 66.805 | | 2,795,435 | - |
| Superfund State and Indian Tribe Core Program Cooperative Agreements | 66.809 | | 86,716 | - |
| Brownfields Training, Research, and Technical Assistance Grants and Cooperative Agreements | 66.814 | | 75,142 | - |
| State and Tribal Response Program Grants | 66.817 | | 1,012,620 | - |
| Brownfields Assessment and Cleanup Cooperative Agreements, Recovery Act Funded | 66.818 | | 867,699 | 867,699 |
| Total Excluding Cluster | | | 52,866,701 | 13,573,444 |
| Research and Development Cluster | | | | |
| Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements, Recovery Act Funded | 66.802 | | 79,281 | - |
| Research and Development Cluster | | | 79,281 | - |
| Total Environmental Protection Agency | | | <u>52,945,982</u> | <u>13,573,444</u> |
| Department of Energy | | | | |
| State Energy Program | 81.041 | | 1,876,878 | - |
| ARRA – State Energy Program, Recovery Act Funded | 81.041 | | 3,990,291 | 2,547,872 |
| Total State Energy Program | | | 5,867,169 | 2,547,872 |
| Weatherization Assistance for Low-Income Persons | 81.042 | | 4,507,282 | 3,713,542 |
| ARRA – Weatherization Assistance for Low-Income Persons, Recovery Act Funded | 81.042 | | 9,488,732 | 8,408,725 |
| Total Weatherization Assistance for Low-Income Persons | | | 13,996,014 | 12,122,267 |
| Nuclear Waste Disposal Siting | 81.065 | | 325,229 | - |
| ARRA – Conservation Research and Development, Recovery Act Funded | 81.086 | | 271,129 | - |
| Renewable Energy Research and Development | 81.087 | | 276,343 | - |
| Fossil Energy Research and Development | 81.089 | | 765,379 | 765,379 |
| Environmental Remediation and Waste Processing and Disposal | 81.104 | | 285,740 | - |
| State Energy Program Special Projects | 81.119 | | 162,274 | 161,494 |
| ARRA – Electricity Delivery and Energy Reliability, Research, Development and Analysis, Recovery Act Funded | 81.122 | | 1,525,680 | 32,576 |
| <i>Pass-Through from Sacramento Municipal Utility District (SMUD)</i> | 81.122 | | 2,315,931 | - |
| Total ARRA – Electricity Delivery and Energy Reliability, Research, Development and Analysis, Recovery Act Funded | | | 3,841,611 | 32,576 |
| ARRA – Energy Efficient Appliance Rebate Program (EEARP), Recovery Act Funded | 81.127 | | (4,750) | - |

| FEDERAL AGENCY/PROGRAM TITLE/ PASS-THROUGH ENTITY OR PROGRAM | FEDERAL CATALOG NUMBER | PASS-THROUGH ENTITY IDENTIFYING NUMBER | FEDERAL EXPENDITURES | AMOUNTS PASSED THROUGH TO SUBRECIPIENTS |
|--|---------------------------|---|-------------------------|---|
| ARRA – Energy Efficiency and Conservation Block Grant Program (EECBG), Recovery Act Funded | 81.128 | | \$ 22,129,175 | \$ 21,557,719 |
| Long-Term Surveillance and Maintenance | 81.136 | | 13,639 | - |
| Total Department of Energy | | | 47,928,952 | 37,187,307 |

Department of Education

| | | | |
|---|--------|----------------------|----------------------|
| Adult Education – Basic Grants to States | 84.002 | 76,964,621 | 74,005,376 |
| Migrant Education – State Grant Program | 84.011 | 138,118,872 | 117,151,790 |
| Title I State Agency Program for Neglected and Delinquent Children and Youth | 84.013 | 1,599,094 | 1,584,686 |
| Career and Technical Education – Basic Grants to States | 84.048 | 118,955,876 | 109,284,587 |
| Rehabilitation Services – Vocational Rehabilitation Grants to States | 84.126 | 273,978,131 | - |
| Rehabilitation Services – Client Assistance Program | 84.161 | 1,328,330 | - |
| Independent Living – State Grants | 84.169 | 2,783,021 | 2,801,555 |
| Rehabilitation Services – Independent Living Services for Older Individuals Who are Blind | 84.177 | 3,322,003 | 3,145,081 |
| Safe and Drug-Free Schools and Communities – National Programs | 84.184 | 4,218,037 | 1,503,031 |
| Safe and Drug-Free Schools and Communities – State Grants | 84.186 | (425) | - |
| Supported Employment Services for Individuals with the Most Significant Disabilities | 84.187 | 3,015,117 | - |
| Education for Homeless Children and Youth | 84.196 | 9,349,870 | 8,963,212 |
| Even Start – State Educational Agencies | 84.213 | 189,668 | 155,200 |
| Assistive Technology | 84.224 | 958,058 | - |
| Tech-Prep Education | 84.243 | 12 | 12 |
| Rehabilitation Training – State Vocational Rehabilitation Unit In-Service Training | 84.265 | 355,928 | - |
| Charter Schools | 84.282 | 28,039,206 | 26,513,521 |
| Twenty-First Century Community Learning Centers | 84.287 | 127,091,010 | 124,277,848 |
| Special Education – State Personnel Development | 84.323 | 2,392,017 | 2,388,140 |
| Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants) | 84.330 | 10,083,732 | 10,083,732 |
| Grants to States for Workplace and Community Transition Training for Incarcerated Individuals | 84.331 | 88,018 | - |
| Credit Enhancement for Charter School Facilities | 84.354 | 8,300,000 | - |
| Rural Education | 84.358 | 1,385,688 | 1,381,533 |
| English Language Acquisition State Grants | 84.365 | 177,971,626 | 173,002,072 |
| Mathematics and Science Partnerships | 84.366 | 24,520,628 | 23,680,357 |
| Improving Teacher Quality State Grants | 84.367 | 298,881,342 | 287,988,684 |
| Grants for State Assessments and Related Activities | 84.369 | 29,937,448 | 21,842,486 |
| Striving Readers | 84.371 | 293,258 | - |
| College Access Challenge Grant Program | 84.378 | 13,599,985 | 5,571,559 |
| Education Jobs Fund | 84.410 | 49,744,082 | 49,438,382 |
| Race to the Top – Early Learning Challenge | 84.412 | 12,404,298 | 10,648,020 |
| Total Excluding Clusters | | 1,419,868,551 | 1,055,410,864 |

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|--|---------------------------|---|-------------------------|---|
| Title I, Part A Cluster | | | | |
| Title I Grants to Local Educational Agencies | 84.010 | | \$ 1,680,801,666 | \$ 1,668,589,297 |
| ARRA – Title I Grants to Local Educational Agencies, Recovery Act Funded | 84.389 | | 141,051 | 141,051 |
| Total Title I, Part A Cluster | | | 1,680,942,717 | 1,668,730,348 |
| Special Education Cluster (IDEA) | | | | |
| Special Education – Grants to States | 84.027 | | 954,789,189 | 923,876,762 |
| Special Education – Preschool Grants | 84.173 | | \$31,866,464 | \$30,912,428 |
| Total Special Education Cluster (IDEA) | | | 986,655,653 | 954,789,190 |
| Early Intervention Services (IDEA) Cluster | | | | |
| Special Education-Grants for Infants and Families | 84.181 | | 19,742,839 | 19,742,839 |
| Total Early Intervention Services (IDEA) Cluster | | | 19,742,839 | 19,742,839 |
| Educational Technology State Grants Cluster | | | | |
| Educational Technology State Grants | 84.318 | | 5,308,147 | 5,101,130 |
| ARRA – Education Technology State Grants, Recovery Act Funded | 84.386 | | 365,544 | 345,363 |
| Total Educational Technology State Grants Cluster | | | 5,673,691 | 5,446,493 |
| School Improvement Grants Cluster | | | | |
| School Improvement Grants | 84.377 | | 59,022,747 | 58,502,513 |
| ARRA – School Improvement Grants, Recovery Act Funded | 84.388 | | 104,989,782 | 104,989,782 |
| Total School Improvement Grants Cluster | | | 164,012,529 | 163,492,295 |
| State Fiscal Stabilization Fund Cluster | | | | |
| ARRA – State Fiscal Stabilization Fund (SFSF) – Education State Grants (Education Stabilization Fund), Recovery Act Funded | 84.394 | | 21,468 | - |
| Total State Fiscal Stabilization Fund Cluster | | | 21,468 | - |
| Total Department of Education | | | <u>4,276,917,448</u> | <u>3,867,612,029</u> |
| U.S. Election Assistance Commission | | | | |
| Help America Vote Act Requirements Payments | 90.401 | | 6,036,832 | - |
| U.S. Election Assistance Commission Research Grants | 90.403 | | 77 | - |
| Total U.S. Election Assistance Commission | | | <u>6,036,909</u> | <u>-</u> |
| Department of Health and Human Services | | | | |
| State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program | 93.006 | | 8,819 | - |
| Strengthening Public Health Services at the Outreach Offices of the U.S.-Mexico Border Health Commission | 93.018 | | 285,192 | - |

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|--|---------------------------|---|-------------------------|---|
| Special Programs for the Aging – Title VII, Chapter 3 – Programs for Prevention of Elder Abuse, Neglect, and Exploitation | 93.041 | | \$ 473,741 | \$ 470,044 |
| Special Programs for the Aging – Title VII, Chapter 2 – Long- Term Care Ombudsman Services for Older Individuals | 93.042 | | 1,646,410 | 1,546,611 |
| Special Programs for the Aging – Title III, Part D – Disease Prevention and Health Promotion Services | 93.043 | | 2,099,031 | 2,099,031 |
| Special Programs for the Aging – Title IV – and Title II – Discretionary Projects, Recovery Act Funded | 93.048 | | 221,117 | - |
| ARRA -Special Programs for the Aging – Title IV – and Title II – Discretionary Projects, Recovery Act Funded | 93.048 | | 208,292 | - |
| Total Special Programs for the Aging – Title IV – and Title II – Discretionary Projects | | | 429,409 | - |
| Alzheimer's Disease Demonstration Grants to States | 93.051 | | 306,215 | 306,215 |
| National Family Caregiver Support, Title III, Part E | 93.052 | | 15,676,155 | 15,073,327 |
| Public Health Emergency Preparedness | 93.069 | | 10,615,119 | 29,880,188 |
| Environmental Public Health and Emergency Response | 93.070 | | 75,997 | - |
| Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements | 93.074 | | 41,059,491 | - |
| Systems Interoperability – Health and Human Services Emergency System for Advance Registration of Volunteer Health Professionals | 93.075 | | 439,857 | - |
| 93.089 | | | 70,596 | - |
| ARRA – Guardianship Assistance, Recovery Act Funded | 93.090 | | 37,046,748 | 36,991,329 |
| Affordable Care Act (ACA) Personal Responsibility Education Program | 93.092 | | 5,605,556 | 4,433,867 |
| Food and Drug Administration – Research | 93.103 | | 1,094,620 | - |
| Maternal and Child Health Federal Consolidated Programs | 93.110 | | 149,194 | 127,820 |
| Project Grants and Cooperative Agreements for Tuberculosis Control Programs | 93.116 | | 7,082,460 | 3,831,176 |
| Emergency Medical Services for Children | 93.127 | | 218,849 | - |
| Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices | 93.130 | | 285,040 | - |
| Centers for Research and Demonstration for Health Promotion and Disease Prevention | 93.135 | | 780,169 | - |
| Injury Prevention and Control Research and State and Community Based Programs | 93.136 | | 2,886,518 | - |
| Projects for Assistance in Transition from Homelessness (PATH) | 93.150 | | 10,970,996 | - |
| Health Program for Toxic Substances and Disease Registry | 93.161 | | 593,421 | - |
| Grants to States for Loan Repayment Program | 93.165 | | 753,694 | 753,694 |
| Disabilities Prevention | 93.184 | | (4,630) | - |
| Grants to States to Support Oral Health Workforce Activities | 93.236 | | 857,228 | - |
| State Rural Hospital Flexibility Program | 93.241 | | \$500,447 | - |
| Substance Abuse and Mental Health Services – Projects of Regional and National Significance | 93.243 | | 4,024,216 | 850,000 |
| Universal Newborn Hearing Screening | 93.251 | | 405,255 | 100,000 |
| Adult Viral Hepatitis Prevention and Control | 93.270 | | 18,459 | - |
| Substance Abuse and Mental Health Services – Access to Recovery | 93.275 | | 3,597,453 | - |
| Centers for Disease Control and Prevention – Investigations and Technical Assistance | 93.283 | | 17,767,680 | 4,165,059 |
| Small Rural Hospital Improvement Grant Program | 93.301 | | \$406,590 | - |

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|---|---------------------------|---|-------------------------|---|
| ARRA – State Loan Repayment Program, Recovery Act Funded | 93.402 | | \$ 1,311,294 | \$ 1,311,294 |
| ARRA – Equipment to Enhance Training for Health Professionals, Recovery Act Funded | 93.411 | | 15,552 | - |
| ARRA – State Primary Care Offices, Recovery Act Funded | 93.414 | | 359,186 | 207,177 |
| Food Safety and Security Monitoring Project | 93.448 | | 631,123 | - |
| ARRA – Pregnancy Assistance Fund Program, Recovery Act Funded | 93.500 | | 2,451,338 | \$1,512,906 |
| Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program | 93.505 | | 23,251,220 | 10,775,720 |
| ACA Nationwide Program for National and State Background Checks for Direct Patient Access Employees of Long Term Care Facilities and Providers | 93.506 | | 636,697 | 499,240 |
| PPHF 2012 National Public Health Improvement Initiative | 93.507 | | 864,891 | - |
| Affordable Care Act (ACA) State Health Care Workforce Development Grants | 93.509 | | 28,052 | - |
| Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review | 93.511 | | 1,102,736 | - |
| Affordable Care Act (ACA) Personal and Home Care Aide State Training Program (PHCAST) | 93.512 | | 830,933 | 751,612 |
| Affordable Care Act – Aging and Disability Resource Center | 93.517 | | 224,782 | - |
| Affordable Care Act – Medicare Improvements for Patients and Providers | 93.518 | | 187,058 | 187,058 |
| Affordable Care Act (ACA) – Consumer Assistance Program Grants | 93.519 | | 3,408,559 | - |
| Centers for Disease Control and Prevention – Affordable Care Act (ACA) – Communities Putting Prevention to Work | 93.520 | | 338,325 | - |
| The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements; PPHF | 93.521 | | 212,188 | - |
| The Affordable Care Act: Human Immunodeficiency Virus (HIV) Prevention and Public Health Fund Activities | 93.523 | | (529) | - |
| <i>Pass-Through from Public Health Institute</i> | 93.536 | 1017721 | 1,555,254 | - |
| PPHF 2012 – Prevention and Public Health Fund (Affordable Care Act) – Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by 2012 Prevention and Public Health Funds | 93.539 | | 496,167 | 594,000 |
| The Patient Protection and Affordable Care Act of 2010 (Affordable Care Act) authorizes Coordinated Chronic Disease prevention and Health Promotion Program | 93.544 | | 1,044,864 | - |
| PPHF2013: State Nutrition, Physical Activity, and Obesity Programs – financed in part by 2013 PPHF | 93.548 | | 401,426 | - |
| Promoting Safe and Stable Families | 93.556 | | 34,644,530 | 33,102,342 |
| Child Support Enforcement | 93.563 | | 620,114,284 | 491,251,702 |
| Child Support Enforcement Research | 93.564 | | 11,885 | - |
| Refugee and Entrant Assistance – State Administered Programs | 93.566 | | 28,655,264 | 15,077,102 |
| Low-Income Home Energy Assistance | 93.568 | | 197,264,858 | 187,834,206 |
| Refugee and Entrant Assistance – Discretionary Grants | 93.576 | | 1,360,305 | 1,169,445 |
| U.S. Repatriation | 93.579 | | 10,030 | - |
| Refugee and Entrant Assistance – Targeted Assistance Grants | 93.584 | | 6,452,330 | 6,288,602 |
| State Court Improvement Program | 93.586 | | 2,369,160 | - |

| FEDERAL AGENCY/PROGRAM TITLE/ PASS-THROUGH ENTITY OR PROGRAM | FEDERAL CATALOG NUMBER | PASS-THROUGH ENTITY IDENTIFYING NUMBER | FEDERAL EXPENDITURES | AMOUNTS PASSED THROUGH TO SUBRECIPIENTS |
|---|---------------------------|---|-------------------------|---|
| Community-Based Child Abuse Prevention Grants | 93.590 | | \$ 4,833,080 | \$ 4,540,896 |
| Grants to States for Access and Visitation Programs | 93.597 | | 979,933 | - |
| Chafee Education and Training Vouchers Program (ETV) | 93.599 | | 5,930,769 | 5,892,633 |
| Adoption Incentive Payments | 93.603 | | (35,796) | (35,796) |
| Voting Access for Individuals with Disabilities – Grants to States | 93.617 | | 1,287,247 | - |
| Developmental Disabilities Basic Support and Advocacy Grants | 93.630 | | 6,677,208 | - |
| Children's Justice Grants to States | 93.643 | | 1,868,652 | 1,724,116 |
| Stephanie Tubbs Jones Child Welfare Services Program | 93.645 | | 31,683,608 | 31,683,608 |
| Child Welfare Research Training or Demonstration | 93.648 | | 3,579,966 | 3,567,215 |
| Foster Care – Title IV-E, Recovery Act Funded | 93.658 | | 1,179,432,670 | 1,117,982,105 |
| ARRA – Foster Care – Title IV-E | 93.658 | | 39,200 | 39,200 |
| Total Foster Care – Title IV-E | | | 1,179,471,870 | 1,118,021,305 |
| Adoption Assistance, Recovery Act Funded | 93.659 | | 432,947,290 | 416,878,606 |
| ARRA – Adoption Assistance | 93.659 | | (10,570) | (10,570) |
| Total Adoption Assistance | | | 432,936,720 | 416,868,036 |
| Social Services Block Grant | 93.667 | | 576,975,899 | 305,238,945 |
| Child Abuse and Neglect State Grants | 93.669 | | 3,423,537 | 3,163,502 |
| Family Violence Prevention and Services/Grants for Battered Women's Shelters – Grants to States and Indian Tribes | 93.671 | | 7,944,879 | 7,928,638 |
| Chafee Foster Care Independence Program | 93.674 | | 16,372,833 | 15,357,039 |
| ARRA – Prevention and Wellness – State, Territories and Pacific Islands | 93.723 | | 485,801 | - |
| ARRA – Prevention and Wellness – Communities Putting Prevention to Work Funding Opportunities Announcement (FOA) | 93.724 | | 385,254 | 410,251 |
| Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance – financed in part by the Prevention and Public Health Fund (PPHF-2012) | 93.733 | | - | 234,000 |
| Empowering Older Adults and Adults with Disabilities through Chronic Disease Self-Management Education Programs – financed by 2012 Prevention and Public Health Funds (PPHF-2012) | 93.734 | | 16,980 | - |
| State Public Health Approaches for Ensuring Quitline Capacity – Funded in part by 2012 Prevention and Public Health Funds (PPHF-2012) | 93.735 | | 82,623 | - |
| PPHF-2012: Breast Cancer and Screening Opportunities for States, Tribes and Territories solely financed by 2012 Prevention and Public Health Funds | 93.744 | | 404,106 | - |
| PPHF-2012: Health Care Surveillance/Health Statistics – Surveillance Program Announcement: Behavioral Risk Factor Surveillance System Financed in Part by 2012 Prevention and Public Health Funds (PPHF-2012) | 93.745 | | 89,378 | 99,888 |
| Children's Health Insurance Program | 93.767 | | 1,135,411,384 | - |
| Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations | 93.779 | | 5,007,893 | 4,412,031 |
| Money Follows the Person Rebalancing Demonstration | 93.791 | | 35,668,594 | - |

| FEDERAL AGENCY/PROGRAM TITLE/ PASS-THROUGH ENTITY OR PROGRAM | FEDERAL CATALOG NUMBER | PASS-THROUGH ENTITY IDENTIFYING NUMBER | FEDERAL EXPENDITURES | AMOUNTS PASSED THROUGH TO SUBRECIPIENTS |
|---|---------------------------|---|-------------------------|---|
| Specially Selected Health Projects | 93.888 | | \$ (21,358) | - |
| National Bioterrorism Hospital Preparedness Program | 93.889 | | 18,642,031 | 23,732,450 |
| <i>Pass-Through from Emergency Preparedness Office</i> | | | 620,080 | - |
| Grants to States for Operation of Offices of Rural Health | 93.913 | | 146,201 | - |
| HIV Care Formula Grants | 93.917 | | 165,651,369 | 29,449,403 |
| Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems | 93.938 | | 662,410 | - |
| HIV Prevention Activities – Health Department Based | 93.940 | | 18,325,847 | - |
| ARRA - Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups | 93.943 | | 4,239,542 | - |
| Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance | 93.944 | | 4,475,464 | - |
| Tuberculosis Demonstration, Research, Public and Professional Education | 93.947 | | (435,241) | - |
| Block Grants for Community Mental Health Services | 93.958 | | 67,611,664 | 67,083,991 |
| Block Grants for Prevention and Treatment of Substance Abuse | 93.959 | | 89,537,519 | - |
| Preventive Health Services – Sexually Transmitted Diseases Control Grants | 93.977 | | 5,484,887 | - |
| Preventive Health and Health Services Block Grant | 93.991 | | 3,735,721 | - |
| Maternal and Child Health Services Block Grant to the States | 93.994 | | 30,349,426 | 19,908,574 |
| Other-Department of Health and Human Services | 93.999 | | 22,092,103 | - |
| ARRA – Other – Department of Health and Human Services, Recovery Act Funded | 93.999 | | 179,454 | 179,454 |
| Total Other – Department of Health and Human Services | | | 22,271,557 | 179,454 |
| Total Excluding Clusters | | | 4,981,239,294 | 2,722,816,740 |
| Aging Cluster | | | | |
| Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers | 93.044 | | 39,079,290 | 36,655,585 |
| Special Programs for the Aging – Title III, Part C – Nutrition Services | 93.045 | | 60,949,733 | 58,907,576 |
| Nutrition Services Incentive Program | 93.053 | | 13,142,370 | 13,142,370 |
| ARRA – Aging Congregate Nutrition Services for States, Recovery Act Funded | 93.707 | | 1 | 1 |
| Total Aging Cluster | | | 113,171,394 | 108,705,532 |
| Immunization Cluster | | | | |
| Immunization Cooperative Agreements | 93.268 | | 28,212,194* | - |
| Total Immunization Cluster | | | 28,212,194 | - |
| TANF Cluster | | | | |
| Temporary Assistance for Needy Families | 93.558 | | 3,128,279,833 | 2,242,964,028 |

| FEDERAL AGENCY/PROGRAM TITLE/ PASS-THROUGH ENTITY OR PROGRAM | FEDERAL CATALOG NUMBER | PASS-THROUGH ENTITY IDENTIFYING NUMBER | FEDERAL EXPENDITURES | AMOUNTS PASSED THROUGH TO SUBRECIPIENTS |
|--|---------------------------|---|-------------------------|---|
| ARRA – Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program, Recovery Act Funded | 93.714 | | \$ 34,354,404 | \$ 34,354,404 |
| Total TANF Cluster | | | 3,162,634,237 | 2,277,318,432 |
| CSBG Cluster | | | | |
| Community Services Block Grant | 93.569 | | 55,417,789 | 52,908,554 |
| Total CSBG Cluster | | | 55,417,789 | 52,908,554 |
| CCDF Cluster | | | | |
| Child Care and Development Block Grant | 93.575 | | 232,868,772 | 220,710,075 |
| Child Care Mandatory and Matching Funds of the Child Care and Development Fund | 93.596 | | 302,025,056 | 275,702,350 |
| Total CCDF Cluster | | | 534,893,828 | 496,412,425 |
| Head Start Cluster | | | | |
| Head Start | 93.600 | | 157,475 | - |
| ARRA – Head Start, Recovery Act Funded | 93.708 | | 4,664,588 | 4,471,337 |
| Total Head Start Cluster | | | 4,822,063 | 4,471,337 |
| Medicaid Cluster | | | | |
| Survey and Certification Ambulatory Surgical Center Healthcare-Associated Infection (ASC-HAI) Prevention Initiative, Recovery Act Funded | 93.720 | | (2,409) | - |
| State Medicaid Fraud Control Units | 93.775 | | 20,299,780 | - |
| State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare | 93.777 | | 47,123,922 | - |
| Medical Assistance Program | 93.778 | | 31,508,293,790 | 6,253,354,889 |
| Total Medicaid Cluster | | | 31,575,715,083 | 6,253,354,889 |
| Research and Development Cluster | | | | |
| Tuberculosis Demonstration, Research, Public and Professional Education | 93.947 | | 436,605 | - |
| Research and Development Cluster | | | 436,605 | - |
| Total Department of Health and Human Services | | | 40,456,542,487 | 11,915,987,909 |
| Corporation for National and Community Service | | | | |
| State Commissions | 94.003 | | 884,780 | - |
| Learn and Serve America – School and Community Based Programs | 94.004 | | 61,905 | 55,000 |
| AmeriCorps, Recovery Act Funded | 94.006 | | 22,815,385 | 22,815,385 |
| Volunteer Generation Fund | 94.021 | | 247,843 | - |
| Total Excluding Clusters | | | 24,009,913 | 22,870,385 |

| FEDERAL AGENCY/PROGRAM TITLE/ PASS-THROUGH ENTITY OR PROGRAM | FEDERAL CATALOG NUMBER | PASS-THROUGH ENTITY IDENTIFYING NUMBER | FEDERAL EXPENDITURES | AMOUNTS PASSED THROUGH TO SUBRECIPIENTS |
|---|---------------------------|---|-------------------------|---|
| Foster Grandparent/Senior Companion Cluster | | | | |
| Foster Grandparent Program | 94.011 | | \$ 1,065,481 | \$ 467,988 |
| Total Foster Grandparent/Senior Companion Cluster | | | 1,065,481 | 467,988 |
| Total Corporation for National and Community Service | | | <u>25,075,394</u> | <u>23,338,373</u> |
| Executive Office of the President | | | | |
| High Intensity Drug Trafficking Areas Program | 95.001 | | | |
| Pass-Through from INCH/LA Police Chief's Association/Riverside County | | G11LA0007A | 39,716 | - |
| Pass-Through from INCH/LA Police Chief's Association/Riverside County | | G12LA0007A | 32,448 | - |
| Pass-Through from LA Clear/LA Police Chief's Association/City of Monrovia | | G10LA0006A | 6,534 | - |
| Pass-Through from LA Clear/LA Police Chief's Association/City of Monrovia | | G11LA0006A | 76,862 | - |
| Pass-Through from LA Clear/LA Police Chief's Association/City of Monrovia | | G12LA0006A | 942,408 | - |
| Pass-Through from LA Clear/LA Police Chief's Association/City of Monrovia | | G10LA0006A | 2,921 | - |
| Pass-Through from LA Clear/LA Police Chief's Association/City of Monrovia | | G11LA0006A | 72,268 | - |
| Pass-Through from LA Clear/LA Police Chief's Association/City of Monrovia | | G12LA0006A | 105,587 | - |
| Pass-Through from LA Clear/LA Police Chief's Association/City of Monrovia | | G11LA0006A | 82,492 | - |
| Pass-Through from LA Clear/LA Police Chief's Association/City of Monrovia | | G12LA0006A | 203,093 | - |
| Pass-Through from NV HIDTA/LA Police Chief's Association/Las Vegas Metro PD | | G11NV0001A | 13,723 | - |
| Pass-Through from NV HIDTA/LA Police Chief's Association/Las Vegas Metro PD | | G11NV0001A | 13,744 | - |
| Pass-Through from CV HIDTA/LA Police Chief's Association/Sacramento County | | G10CV0002A | 4,291 | - |
| Pass-Through from CV HIDTA/LA Police Chief's Association/Sacramento County | | G11CV0002A | 39,944 | - |
| Pass-Through from CV HIDTA/LA Police Chief's Association/Sacramento County | | G12CV0002A | 9,792 | - |
| Pass-Through from CA Border Alliance Group/City of San Diego/San Diego Police Dept (BL) | | G12SC0001A | <u>598,562</u> | <u>-</u> |
| Total Executive Office of the President | | | 2,244,385 | - |
| Social Security Administration | | | | |
| Disability Insurance/SSI Cluster | | | | |
| Social Security – Disability Insurance | 96.001 | | 204,042,650 | |
| Total Social Security Administration | | | <u>204,042,650</u> | <u>-</u> |
| Department of Homeland Security | | | | |
| Non-Profit Security Program | 97.008 | | 2,023,103 | 1,935,450 |
| Boating Safety Financial Assistance | 97.012 | | 4,357,092 | - |
| Community Assistance Program State Support Services Element (CAP-SSSE) | 97.023 | | 267,848 | - |
| Flood Mitigation Assistance | 97.029 | | 1,454,297 | 1,371,664 |

| FEDERAL AGENCY/PROGRAM TITLE/ PASS-THROUGH ENTITY OR PROGRAM | FEDERAL CATALOG NUMBER | PASS-THROUGH ENTITY IDENTIFYING NUMBER | FEDERAL EXPENDITURES | AMOUNTS PASSED THROUGH TO SUBRECIPIENTS |
|---|---------------------------|---|-------------------------|---|
| Disaster Grants - Public Assistance (Presidentially Declared Disasters) | 97.036 | | \$ 101,225,269 | \$ 98,462,965 |
| Hazard Mitigation Grant | 97.039 | | 12,117,853 | 10,865,548 |
| National Dam Safety Program | 97.041 | | 134,821 | - |
| Emergency Management Performance Grants | 97.042 | | 22,225,139 | 13,119,435 |
| Assistance to Firefighters Grant | 97.044 | | \$15,448 | - |
| Cooperating Technical Partners | 97.045 | | 1,065,597 | - |
| Fire Management Assistance Grant | 97.046 | | 27,290,405 | 26,134,903 |
| Pre-Disaster Mitigation | 97.047 | | 1,698,784 | 1,202,685 |
| Emergency Operations Center | 97.052 | | 3,390,176 | 3,390,176 |
| Interoperable Emergency Communications | 97.055 | | 3,298,506 | 2,812,159 |
| Homeland Security Grant Program | 97.067 | | 298,021,227 | 277,880,438 |
| <i>Pass-Through from San Diego Sheriff's Department</i> | | Unknown | 503,220 | - |
| <i>Pass-Through from Imperial County</i> | | Unknown | 160,745 | - |
| <i>Pass-Through from CalEMA</i> | | 000-92091 | 321,443 | - |
| <i>Pass-Through from Sacramento County Sheriff's Department</i> | | R0995006 #3 | 10,175 | 24,906 |
| <i>Pass-Through from Imperial County</i> | | R1095002/ R1095012/ R1195012 | 123,670 | 77,302 |
| <i>Pass-Through from San Diego County Sheriff's Department</i> | | R1095007 #2 | 116,385 | 95,423 |
| Total Homeland Security Grant Program | | | 299,256,865 | 278,078,069 |
| Rail and Transit Security Grant Program | 97.075 | | 13,265,949 | 12,874,153 |
| Buffer Zone Protection Program (BZPP) | 97.078 | | 9,084,670 | 8,936,093 |
| Earthquake Consortium | 97.082 | | 318,435 | 120,364 |
| Driver's License Security Grant Program | 97.089 | | 2,101,881 | |
| Severe Repetitive Loss Program | 97.110 | | 1,132,575 | 1,038,925 |
| Regional Catastrophic Preparedness Grant Program (RCPGP) | 97.111 | | 6,524,207 | 6,524,207 |
| Border Interoperability Demonstration Project | 97.120 | | 684,237 | 669,854 |
| Radiological/Nuclear Detection Pilot Evaluations Program | 97.121 | | 261,825 | 261,825 |
| Total Department of Homeland Security | | | 513,194,982 | 467,798,475 |
| Miscellaneous Grants and Contracts | | | | |
| Miscellaneous Expenditures of Federal Awards | 99.099 | | 50,516 | - |
| Miscellaneous Federal Receipts | 99.999 | | 4,153,150 | - |
| Pass-through from Miscellaneous Entities | Unknown | | 115,859 | - |
| Total Miscellaneous Grants and Contracts | | | 4,319,525 | - |
| Total Expenditures of Federal Awards | | | \$75,256,762,538 | \$21,283,434,806 |

* This program has noncash federal assistance, which may include a variety of items such as commodities, vaccines, or federal excess property. For the value of the assistance, see Note 5.

** This program has loans and/or loan guarantees outstanding as of June 30, 2013. See Note 6.

Notes to the Schedule of Expenditures of Federal Awards

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**STATE OF CALIFORNIA
NOTES TO THE SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS FISCAL YEAR ENDED JUNE 30, 2013**

1. GENERAL

The accompanying Schedule of Expenditures of Federal Awards (Schedule) presents the expenditures for all federal award programs received by the State of California (State) for the fiscal year ended June 30, 2013, except for federal awards received by the University of California system, a component unit of the State of California, the California State University system, the California State Water Resources Control Board Water Pollution Control Revolving Fund, the California Department of Public Health's Safe Drinking Water State Revolving Fund, and the California Housing Finance Agency, a component unit of the State of California which received \$4.1 billion, \$2.5 billion, \$181.4 million, \$116.4 million, and \$64.1 million, respectively. 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).

2. BASIS OF ACCOUNTING

The federal award expenditures reported in the Schedule are prepared from records maintained by each State department for federal funds. All expenditures for each program are net of applicable program income and refunds. Expenditures included in the Schedule are presented on a cash basis.

State departments' records are periodically reconciled to State Controller Office's records for federal receipts and department expenditures. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

3. UNEMPLOYMENT INSURANCE

The Employment Development Department (EDD) administers the Unemployment Insurance program (CFDA No. 17.225). EDD lacks programming to differentiate all federal funds received and expended for unemployment benefit payments under the American and Reinvestment Recovery Act (Recovery Act), but believes only a small portion of the benefit payments in fiscal year 2012-13 were Recovery Act funded. The Recovery Act amount of \$20,506,807 shown on the Schedule is for administrative expenditures.

4. RECOVERY ACT FUNDING OF SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM BENEFITS

The reported expenditures 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 expenditures for SNAP benefits 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 USDA from obtaining the regular and Recovery Act components of SNAP benefits expenditures 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 7.79 percent of USDA's total expenditures for SNAP benefits in the Federal fiscal year ended September 30, 2013.

5. NONCASH FEDERAL AWARDS

The State is the recipient of federal award programs that do not result in cash receipts or disbursements. These noncash federal awards include a variety of items, such as commodities, vaccines, or federal excess property. Noncash awards for fiscal year ended June 30, 2013 are as follows:

| FEDERAL CATALOG NUMBER | PROGRAM | NONCASH AWARDS FOR THE YEAR ENDED JUNE 30, 2013 |
|------------------------|---|---|
| 10.565 | Commodity Supplemental Food Program | \$21,297,180 |
| 10.569 | Emergency Food Assistance Program (Food Commodities) | 87,795,499 |
| 10.555 | National School Lunch Program | 143,167,136 |
| 39.003 | Donation of Federal Surplus Personal Property | 59,870,307 |
| 93.116 | Project Grants and Cooperative Agreements for Tuberculosis Control Programs | 445,545 |
| 93.268 | Immunization Cooperative Agreements | 403,648,421 |
| 94.031 | Volunteers in Service to America | 167,046 |
| None * | Upper Truckee River Sunset Stables Reach 5 | 249,751 |
| Total | | \$ 716,640,885 |

* 08-CS-11051900-018 Participating Agreement with USDA Forest Service

6. LOANS, LOAN GUARANTEES OUTSTANDING, AND INSURANCE IN EFFECT

Loans, loan guarantees outstanding and insurance in effect at June 30, 2013 are summarized below:

| FEDERAL CATALOG NUMBER | PROGRAM | LOANS/LOAN GUARANTEES OUTSTANDING AT JUNE 30, 2013 | INSURANCE IN EFFECT AT JUNE 30, 2013 |
|------------------------|--|--|--------------------------------------|
| 14.228 | Community Development Block Grants- State's Program and Non-Entitlement Grants in Hawaii | \$34,269,337 | \$ |
| 14.235 | Supportive Housing Program | 773,257 | |
| 81.041 | State Energy Program | 1,863,319 | |
| 21.999 | State Small Business Credit Initiative Program | 84,036,716 | 3,454,645 |
| 64.114 | Veterans Housing- Guaranteed and Insured Loans | | 71,434,648 |
| Total | | \$ 120,942,629 | \$ 74,889,293 |

7. PASS-THROUGH

Federal awards received by the State from a pass-through entity are included in the Schedule and are italicized.

8. SUBRECIPIENTS

Amounts provided to subrecipients from each federal program are included in a separate column on the Schedule.

9. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

The regulations and guidelines governing the preparation of federal financial reports vary by federal agency and among programs. Accordingly, the amounts reported in the federal financial reports do not necessarily agree with the amounts reported in the accompanying Schedule which is prepared on the basis explained in Note 2.

Summary Schedule of Prior Audit Findings

Prepared by Department of Finance

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| | |
|---------------------------------|---|
| Reference Number: | 2012-12-2 |
| Federal Program: | 10.551 |
| State Administering Department: | Department of Social Services (Social Services) |
| Fiscal Year Initially Reported: | 2011-12 |
| Audit Finding: | <p><u>Subrecipient Monitoring.</u> Social Services did not formally communicate with the state automated welfare systems consortia and county welfare departments the specific federal laws and regulations related to their responsibility to monitor their Supplemental Nutrition Assistance Program (SNAP) eligibility determination systems and for Electronic Benefit Transfers card security.</p> |
| Status of Corrective Action: | Partially Corrected. On June 28, 2013, an All-County Welfare Directors Letter was issued to the Statewide Automated Welfare Systems (SAWS) consortia and county welfare departments (CWDs) which specified the specific federal laws and regulations related to their responsibility to monitor their SNAP eligibility determination systems and for Electronic Benefit Transfer (EBT) card security. |
| <i>Auditors' Comment:</i> | We reported a similar finding in the 2013 audit. Please refer to finding 2013-002. |

| | |
|---------------------------------|--|
| Reference Number: | 2012-12-3 |
| Federal Program: | 10.557 |
| State Administering Department: | Department of Public Health (Public Health) |
| Fiscal Year Initially Reported: | 2011-12 |
| Audit Finding: | <p><u>Eligibility.</u> Public Health did not properly design or implement certain information security and change management controls over the Integrated Statewide Information Systems (ISIS). The deficiencies noted in these controls were due to a lack of adequate policies and procedures in place during the year. Information technology (IT) general controls over the IT environment should be properly designed and operating effectively to help ensure a properly functioning information system.</p> |
| Status of Corrective Action: | Partially Corrected. Public Health has implemented a certification process to document the review and approval of ISIS change order requests for production implementation. The certificate is signed by Information Technology Services Division (ITSD) managers and/or Women, Infants, and Children (WIC) Program managers. The certificate is stored/kept by the ITSD Change Control Coordinator. |
| | ITSD has also entered into queue, a work order change request item to encrypt ISIS passwords at the database level. The planned date of change is December 2013 |
| | Public Health utilizes the ISIS State Admin Log form to formally document the separation of WIC employees and to "Delete ISIS Logon ID". The form is signed/approved by WIC Program managers with a copy sent to the Program Business Integrity Section for retention. |

Auditors' Comment: We reported a similar finding in the 2013 audit. Please refer to finding 2013-006.

| | |
|---------------------------------|--|
| Reference Number: | 2012-12-4 |
| Federal Program: | 10.557 |
| State Administering Department: | Department of Public Health (Public Health) |
| Fiscal Year Initially Reported: | 2011-12 |
| Audit Finding: | <p><u>Reporting</u>. Public Health does not have adequate controls in place to ensure information required by the Federal Funding Accountability Transparency Act (FFATA) is properly reported. Public Health did not report six of the nine local agencies appropriately in the FFATA subaward reporting system. When a contract amendment increased the amount of a subaward, Public Health reported the total amount of the subaward rather than the incremental portion of the subaward amendment. As a result, Public Health over-reported the amount of these subawards by \$14.7 million.</p> |
| Status of Corrective Action: | <p>Fully Corrected. In December 2012, Women, Infants and Children's (WIC) Financial Management and Reporting Branch (FMRB) reopened the report in question and adjusted the discrepancies identified by the auditor. FMRB has also resolved some technical problems with the reporting system and provided additional training to staff. In addition, WIC worked with Public Health Accounting to establish more internal controls.</p> <p>On February 6, 2013, the U.S. Department of Agriculture provided new FFATA reporting requirements. WIC has updated its desk procedures with the new FFATA requirements.</p> |

| | |
|---------------------------------|---|
| Reference Number: | 2012-12-5 |
| Federal Program: | 93.658 |
| | 93.659 |
| | 93.667 |
| | 93.720 |
| | 93.775 |
| | 93.777 |
| | 93.778 |
| State Administering Department: | Department of Social Services (Social Services) |
| Fiscal Year Initially Reported: | 2011-12 |
| Audit Finding: | <p><u>Subrecipient Monitoring</u>. Social Services does not have adequate policies and procedures to monitor subrecipients in accordance with federal requirements. Social Services also does not have a documented risk-based audit plan, including an approach to selecting counties for site visits. As a result, counties with a higher risk profile, such as those receiving a large percentage of the State's funding, will not be subject to audit more than once every 10 years or more. Failure to properly monitor subrecipients increases the risk that federal monies will be paid for unallowable costs.</p> |

Status of Corrective Action:

Fully Corrected. Social Services agrees with the recommendations and has established a risk-based monitoring plan using specified criteria. Social Services also notes it has frequent and open communication regarding its processes for onsite monitoring reviews with the federal cognizant agencies, including the federal Administration for Children and Families (ACF) Region IX and the United States Department of Food and Agriculture Food and Nutrition Service (FNS). To date, neither of these federal agencies has expressed concern over its processes for the fiscal year 2011-12 on-site monitoring reviews.

Social Services received approval of its Corrective Action Implementation Plan (CAIP) related to multiple audit findings issued in 2010. In accordance with the CAIP, Social Services completed five county on-site monitoring reviews in 2010-11 through a one-time redirection of staff. In a September 23, 2011 letter from ACF, Social Services was commended for "well-planned and executed on-site monitoring reviews," but was also notified that Social Services must complete additional on-site monitoring reviews in 2011-12 to avoid additional audit findings and enforcement actions. The California State Auditor's Office cleared Social Services of all findings related to on-site monitoring reviews in its "Interim Reporting: Fiscal Year 2010-11 Single Audit" issued in December 2011.

Subsequently, Social Services informed ACF that it intended to perform on-site monitoring reviews in 2011-12 on a more limited basis. Due to the timing of the negotiations with ACF, the on-site monitoring reviews included one review per quarter for the remainder of 2011-12 which at that time was a total of three reviews. All scheduled on-site monitoring reviews were completed in 2011-12.

Per discussions with FNS, every county should have a review regardless of size. ACF has not prescribed any specific criteria for identifying which counties to review, nor have they prescribed any specific number of counties to review each fiscal year. ACF acknowledged on-site monitoring reviews must continue at a minimum of one county per quarter. Additionally, ACF acknowledged improvement in Social Services' monitoring process and has stated its appreciation of its continuing work to improve the process and meet federal expectations. ACF will also continue to monitor Social Services' on-site monitoring reviews.

Of the three counties monitored in 2011-12, one county (Sacramento County) was chosen based on some of the on-going criteria established in the CAIP. One criterion relates to risk: if a county has been designated as "high-risk" based on the Office of Management and Budget A-133 annual county audits. This criterion is used in conjunction with two additional criteria: a county's caseload as well as expenditure information for the largest social services programs (Foster Care and California Work Opportunity and Responsibility to Kids [CalWORKs]). Another original CAIP criteria was related to American Recovery and Reinvestment Act (ARRA) funding; however, it is no longer applicable as ARRA funding for these programs ended in September 2011.

Two additional counties (Santa Cruz County and Mendocino County) were chosen for review in 2011-12 based on requests from those counties. These counties had expressed concerns regarding their interpretation of allowable costs and requested Social Services' assistance in validating their claims. Social Services believes that reviewing a county that has expressed claiming issues could prevent future disallowances, should improper claiming be discovered. It is important, therefore, to prioritize on-site monitoring reviews of counties that request Social Services' oversight.

To correct this finding, Social Services will add an additional criterion for review beginning with reviews conducted in 2013-14: as part of the risk-based monitoring plan, the top five counties based on caseload and expenditures will be reviewed once every five years. This will ensure that over half of the state's caseload and expenditures for the larger social services programs are reviewed regularly.

Social Services will continue with one on-site monitoring review per quarter. The four counties reviewed annually will include one county based on the aforementioned risk-based monitoring plan criteria, and the three remaining counties each fiscal year will be chosen based on the original CAIP criteria or based on requests for review and technical assistance, as noted above.

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|---------------------------------|---|
| Reference Number: | 2012-12-6 |
| Federal Program: | 10.551 10.561 20.205 (ARRA) 20.219 93.558 93.714 (ARRA) 93.772 93.775 93.777 93.778 |
| State Administering Department: | State Controller's Office (SCO) |
| Fiscal Year Initially Reported: | 2011-12 |
| Audit Finding: | <u>Subrecipient Monitoring.</u> SCO does not have adequate procedures to ensure findings are identified in OMB-A133 reports and submitted to the appropriate State department. As a result, the department may not have been aware of findings applicable to its federal program and may not have issued a management decision letter. In 67 audits tested that were reviewed by SCO, it was found that four reports contained findings applicable to federal programs administered by certain State departments that were not submitted to the respective department or submitted to a department not responsible for managing the federal program. SCO has indicated that it was not fully responsible for identifying findings related to federal funds and that State departments are ultimately responsible for review of OMB A-133 reports. However, discussions with various State departments revealed that they rely on the initial review by the SCO and ultimately only follow up on findings reported to them by the SCO. |

Status of Corrective Action: Fully Corrected. SCO revised its preliminary review procedures in November 2012 to require that all audit reports are secondarily reviewed by a lead auditor to ensure all audit findings are identified, and the appropriate state department is notified. SCO has corrected all of the issues identified in the finding.

Reference Number: 2012-12-7

Federal Program: 14.239

State Administering Department: Department of Housing and Community Development (Housing)

Fiscal Year Initially Reported: 2011-12

Audit Finding: Subrecipient Monitoring. Housing does not have a process in place to obtain Data Universal Numbering System (DUNS) numbers from its HOME Investment Partnerships Program (HOME Program) subrecipients prior to awarding federal funds. As a result, HOME Program subrecipients were not aware of the requirement to provide their DUNS number to Housing. By not obtaining a DUNS number prior to awarding HOME Program funds, Housing puts at risk its federal funding.

Status of Corrective Action: Fully Corrected. DUNS numbers have been obtained on all active contracts (funded after 10/10/2010 and later). DUNS numbers were required in all HOME applications submitted in 2013. DUNS numbers will be required from all applicants for HOME funding going forward.

Auditors' Comment: We reported a similar finding in the 2013 audit due to the fact that EDD was not in compliance during the full year. Please refer to finding 2013-012.

Reference Number: 2012-12-8

Federal Program: 17.225

State Administering Department: Employment Development Department (EDD)

Fiscal Year Initially Reported: 2010-11

Audit Finding: Special Tests and Provisions. EDD's formal information security and user awareness policies and procedures were not in place for the entire fiscal year. EDD did not have a policy to formally document timely deactivation of employee's access to the Accounting and Compliance Enterprise System (ACES). Additionally, the information technology (IT) general controls over emergency and system changes to ACES were not operating effectively. EDD also did not enforce proper segregation of duties and did not follow its policy and maintain evidence of approval prior to changes being made. Finally, EDD did not logically separate the production and development environments within ACES.

Status of Corrective Action:

Fully Corrected. The review of user access will continue to be made regularly on an annual basis. The following are the corrective actions taken by the Employment Development Department (EDD):

1. Remove access upon termination and maintain evidence to reflect timely deactivation, and review access on a periodic basis.

To help keep the Automated Collection Enhancement System (ACES) user profiles current, in the fall of 2012 EDD implemented a quarterly email reminder to all Tax Branch managers and supervisors and non-Tax and external agency single points of contact to remind them to notify ACES security of all transfers, terminations, and separations.

The EDD has cleared ACES of inactive users. In September 2012, EDD inactivated all users who had not accessed ACES within 120 days. In January 2013, EDD performed manual adjustments to deactivate all users who had not accessed ACES within 90 days.

On March 14, 2013, an automated nightly job was implemented that inactivates all users who have not accessed ACES within 90 days. In February 2013, EDD updated the ACES Access procedures on the Information Technology Branch's self-service portal to include instructions for access deletions. In addition, EDD's Appointment/Separation Checklist was modified to include removal of access to ACES upon termination from EDD. The updated checklist has been sent to EDD's Information Security Office for approval.

2. Enforce segregation of duties so that employees cannot make and approve changes to ACES.

On September 15, 2012, EDD implemented the ACES Developer Segregation of Duties Standards that enforces segregation of duties such that an employee cannot make and approve changes in ACES. The standard states that a developer cannot be the approver of changes that they make and must have the team lead developer over their area approve the changes. The team lead developer will then schedule the migration.

The same standard applies to the team lead developer. If a team lead developer is making changes, he/she will have to obtain approval of the changes from their peer team lead before the code is presented to the ACES change control board and ultimately migrated into production.

3. Ensure program changes are approved by authorized individuals prior to implementation.

In September 2011, the ACES Standards Change Control Process was implemented to ensure that authorized individuals approve all program changes.

For a standard change, a developer will have to get the Business Analyst to approve the code via a user acceptance test. The next level of approval is the team lead developer. Once the team lead developer approves the change, the requested change is then reviewed during the weekly Change Control Board meeting where it receives the final approval.

For urgent changes, the developer will have to get the Business Analyst to approve the code via a user acceptance test. The next level of approval is both the business and Information Technology Branch management teams. Finally, it is approved by the vendor lead developer for migration into production.

Auditors' Comment:

While EDD implemented certain recommendations from the prior year, we reported a similar finding in the 2013 audit. Please refer to finding 2013-019.

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|---------------------------------|---|
| Reference Number: | 2012-12-9 |
| Federal Program: | 17.225 |
| State Administering Department: | Employment Development Department (EDD) |
| Fiscal Year Initially Reported: | 2011-12 |
| Audit Finding: | <u>Special Tests and Provisions – UI Benefit Payments.</u> An EDD Benefit Accuracy Measurement (BAM) analyst misclassified the results of a file review and the peer review by another BAM analyst did not detect the error. The misclassification and review by a peer analyst that did not detect the misclassification constitutes a failure in the operation of the BAM review process. EDD should reinforce its policies and procedures, and provide additional training to ensure BAM analysts properly classify results and peer reviewers perform thorough reviews over case files. |
| Status of Corrective Action: | Fully Corrected. On February 25, 2013, EDD's Unemployment Insurance Program Analysis and Evaluation Section Chief sent an email to BAM staff reinforcing the need to properly classify results to ensure that the coding reflects the evidence collected and that a thorough peer review should be conducted. |
| Reference Number: | 2012-12-10 |
| Federal Program: | 17.225 |
| State Administering Department: | Employment Development Department (EDD) |
| Fiscal Year Initially Reported: | 2008-2009 |
| Audit Finding: | <u>Special Tests and Provisions – Awards with ARRA Funding.</u> EDD has not updated its financial management systems to 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 Unemployment Insurance (UI) program. EDD could not separately identify Recovery Act expenditures for the Federal Additional Compensation (FAC) program, the Emergency Unemployment Compensation (EUC) program, or the Federal-State Extended Benefits (Fed-Ed) program. Since EDD is unable to separately identify Recovery Act funds, it cannot identify what portion of the total expenditures for these two programs were paid for with Recovery Act funds. |

Status of Corrective Action:

Fully Corrected. The programming for the financial management systems to identify and report on Recovery Act funds related to the benefit expenditures (known as BAG reports) has been completed, tested, and was released for EDD's use in March 2013. EDD is currently in the process of re-running the expenditure reports prior to March 2013 to properly report on the Recovery Act funds. The re-run process is expected to be completed by October 2013. Once that process has been completed, accounting staff will complete the analysis of the data.

EDD is still working on the portion of the reports that capture overpayment information (known as OARG reports) in order to identify and report that Recovery Act fund activity. There are separate overpayment reports that capture daily, weekly, and monthly information. The reports that capture the daily and weekly overpayment information have been programmed, tested, and were released for EDD's use in May 2013. Changes to the reports that capture the monthly overpayment information have been programmed, tested, and were released for EDD's use as of the beginning of July 2013. EDD is currently in the process of preparing to re-run the OARG reports prior to July 2013 and will begin that re-run process shortly so that EDD can properly report on the Recovery Act funds.

Reference Number: 2011-12-11

Federal Program:
17.258
17.259
17.278

State Administering Department: Employment Development Department (EDD)

Fiscal Year Initially Reported: 2011-12

Audit Finding:
Reporting. EDD did not have a process in place to comply with reporting requirements of the Federal Funding Accountability Transparency Act (FFATA) for the Workforce Investment Act cluster. Failure to implement adequate controls over FFATA reporting increases the risk of late or nonsubmission of subaward information.

Status of Corrective Action:
Fully Corrected. EDD published the FFATA Directive WSD 12-11 on January 18, 2013. The purpose of the directive is to provide guidance to federally funded subawardees and subcontractors on FFATA reporting requirements.

Auditors' Comment:
We reported a similar finding in the 2013 audit due to the fact that EDD was not in compliance during the full year. Please refer to finding 2013-018.

Reference Number: 2011-12-12

Federal Program:
17.258
17.259
17.278

State Administering Department: Employment Development Department (EDD)

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| Fiscal Year Initially Reported: | 2011-12 |
| Audit Finding: | <p><u>Subrecipient Monitoring.</u> EDD did not have adequate controls to issue management decisions on findings reported in OMB Circular A-133 reports within six months after receipt of the subrecipient's audit report. Of 22 audits tested, 2 were found in which the management letter was not issued within six months of the receipt of the subrecipient's OMB Circular A-133 reports. Failure to comply with timely issuance of management decisions on audit findings will not allow the subrecipient to take appropriate and timely corrective action.</p> |
| Status of Corrective Action: | Fully Corrected. Procedural changes have been made to ensure letters are issued timely. All management decision letters have been issued on time for the current period. |
| <i>Auditors' Comment:</i> | We reported a similar finding in the 2013 audit due to the fact that EDD was not in compliance during the full year. Please refer to finding 2013-016. |

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| Reference Number: | 2012-12-13 |
| Federal Program: | 17.258 17.259 17.278 |
| State Administering Department: | Employment Development Department (EDD) |
| Fiscal Year Initially Reported: | 2011-12 |
| Audit Finding: | <p><u>Subrecipient Monitoring.</u> EDD did not ensure its subrecipients provided Data Universal Numbering System (DUNS) numbers prior to awarding Workforce Investment Act funds. EDD was unaware of these requirements and, as a result, did not implement a process to inform its subrecipients of the requirement.</p> |
| Status of Corrective Action: | Fully Corrected. EDD has resolved this finding by adding the request for DUNS number to the "Subgrantee Employee Identification Number" form that the Workforce Services Branch sends out with the Workforce Investment Act Title 1 – Youth Subgrant Award packages. EDD requires subgrantees return this form prior to funding. |
| <i>Auditors' Comment:</i> | We reported a similar finding in the 2013 audit due to the fact that EDD was not in compliance during the full year. Please refer to finding 2013-017. |

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| Reference Number: | 2012-12-14 |
| Federal Program: | 20.205 (ARRA) |
| State Administering Department: | California Department of Transportation (Caltrans) |

Audit Finding:

Cash Management, Matching, and Reporting. Caltrans information technology (IT) general controls over its accounting system were not properly designed. Lack of adequate IT controls could result in inappropriate access and unauthorized changes to the system. In addition, Caltrans also has no role manager, such as a gatekeeper or knowledge manager, to determine whether the access privileges requested are appropriate given the employee's role and responsibility.

Status of Corrective Action:

Fully Corrected. Caltrans identified key roles and user profiles for the Advantage System. Role managers were designated and are responsible for providing secondary approval (in addition to supervisory approval) for access to the key roles and user profiles. Caltrans implemented a policy for periodic review of employees' assigned access to the Advantage System. This policy requires quarterly reviews by managers and/or supervisors. Caltrans also implemented changes to ensure that each system administrator has a unique ID which can be used to identify changes in the production environment. In addition, Caltrans has implemented a change in which development staff do not have access to the production environment and are unable to change production code.

Auditors' Comment:

Caltrans implemented the prior year recommendations; however, we identified other deficiencies in general IT controls. Please refer to finding 2013-021.

Reference Number:

2012-12-15

Federal Program:

20.205 (ARRA)

State Administering Department:

California Department of Transportation (Caltrans)

Fiscal Year Initially Reported:

2011-12

Audit Finding:

Subrecipient Monitoring. Caltrans did not have a process in place to obtain Data Universal Numbering System (DUNS) numbers from its subrecipients prior to awarding Highway Planning and Constructors funds. As a result, subrecipients were not aware of the requirement to provide their DUNS number to Caltrans.

Status of Corrective Action:

Fully Corrected. Caltrans has notified all divisions that subrecipients of federal funds shall have a DUNS number and include that number in their subaward application. No federal funds will be subawarded if a DUNS number is not provided.

Reference Number:

2012-12-16

Federal Program:

81.041 (ARRA)

State Administering Department:

California Energy Commission (Energy Commission)

Fiscal Year Initially Reported:

2011-12

Audit Finding:

Cash Management. The Energy Commission did not have adequate controls in place to ensure cash management requirements were met for the State Energy Program. Of 16 cash draws tested, it was found that the Energy Commission disbursed funds for two draws well after the funds were received from the federal government. The Energy Commission also did not have a policy in place to track and remit interest earned to the federal government. Finally, the Energy Commission did not have proper segregation of duties in place when submitting cash draw requests to the federal government until November 2012. Lack of segregation of duties could result in improper amounts drawn from the federal government.

Status of Corrective Action:

Fully Corrected. The Energy Commission has documented and implemented new procedures for drawing and reconciling funds. Cash draws are reviewed, signed and dated by the Accounting Administrator which provides better oversight and segregation of duties. The Energy Commission cannot remit interest earned on drawn federal funds because no interest was earned on them. The United States Department of Education was notified of this fact and acknowledged and accepted the fact that interest was not earned and therefore could not be remitted back to them.

Reference Number:

2012-12-17

Federal Program:

81.041

State Administering Department:

California Energy Commission (Energy Commission)

Fiscal Year Initially Reported:

2011-12

Audit Finding:

Reporting. The Energy Commission does not have proper controls in place to evidence its review of the Federal Financial Report (SF-425), prior to submission. Failure to maintain adequate controls increases the risk that the Energy Commission may report inaccurate information to the federal government.

Status of Corrective Action:

Fully Corrected. The Grants and Loans Officer now reviews, signs and dates the SF-425 reports before the Accounting Officer submits them to the United States Department of Education.

Reference Number:

2012-12-18

Federal Program:

84.011

84.027

84.173

84.048

84.287

84.365

84.367

84.377

10.553

10.555

10.556

10.559

10.558

93.575

93.596

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| State Administering Department: | California Department of Education (Education) |
| Fiscal Year Initially Reported: | 2010-11 |
| Audit Finding: | <p><u>Reporting.</u> Education did not comply with reporting requirements of the Federal Funding Accountability Transparency Act (FFATA) for each of its federally funded programs. Education reported subaward information for the Career and Technical Education (CTE) - Basic Grants to States program as a pilot for reporting all programs in fiscal year 2011-12, but did not report information for each of its other programs. Furthermore, Education did not have adequate controls to ensure the subaward information was accurate. More specifically, Education did not include one local education agency in the report due to insufficient Data Universal Numbering System (DUNS) documentation.</p> |
| Status of Corrective Action: | Partially Corrected. Education is currently testing the submission process for the other federal programs and will report subaward information once deemed successful; Education expects this process to be completed in September 2013. In addition, Education is working to incorporate the FFATA requirements in its Funding Handbook. |
| <i>Auditors' Comment:</i> | We reported a similar finding in the 2013 audit. Please refer to finding 2013-029. |
| Reference Number: | 2012-12-19 |
| Federal Program: | 84.010 84.389 (ARRA) 93.575 93.596 |
| State Administering Department: | California Department of Education (Education) |
| Fiscal Year Initially Reported: | 2005-06 |
| Audit Finding: | <p><u>Subrecipient Monitoring.</u> Education lacks adequate controls over monitoring of local education agencies (LEAs) participating in Title I grants and Child Care and Development Grant Programs. Education also lacks evidence of review by a Regional Team Lead over the on-site monitoring visit and related findings. Additionally, Education lacks adequate controls to ensure subrecipients implement proposed corrective actions in a timely manner on deficiencies its consultants identified. Education does not have a sufficient tracking mechanism to determine when its subrecipients are approaching the due date for corrective actions so that Education can perform a follow-up. Education's failure to determine whether corrective action was implemented on deficiencies noted in the on-site reviews increases the risk of noncompliance with federal requirements.</p> |
| Status of Corrective Action: | Fully Corrected. An automated notification in the California Accountability Improvement System was established for the 2012-13 school year that notifies LEA staff and program reviewers 10 days prior to the 45-day deadline to resolve findings. In addition, program managers are provided with a list of unresolved findings at monthly Federal Program Monitoring (FPM) Program Managers Meetings to follow up with LEAs and ensure that Resolution Agreement deadlines do not exceed a total of 225 calendar days. These corrective actions have been incorporated in the FPM Protocols. |

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| Reference Number: | 2012-12-20 |
| Federal Program: | 84.011 |
| State Administering Department: | California Department of Education (Education) |
| Fiscal Year Initially Reported: | 2011-12 |
| Audit Finding: | <p><u>Reporting and Special Tests and Provisions.</u> Education uses the Migrant Student Information Network (MSIN) to collect child count data, which is then submitted to the U.S. Department of Education. MSIN is owned by and the data collection process is managed by, a nonprofit organization on behalf of Education. Education relies on the nonprofit organization to establish the system of quality controls. Education lacks adequate controls to review and evaluate the information; as a result, Education may not report accurate information to the federal government.</p> |
| Status of Corrective Action: | <p>Partially Corrected. Education established a monthly process for May, August, and September whereby it plans to continue matching MSIN and California Longitudinal Pupil Achievement Data System (CALPADS) data to obtain Statewide Student Identifier (SSID) information. After three months of matching, Education will establish a quarterly schedule to conduct SSID matching with CALPADS. Education is also taking other steps that will lay the foundation for the collection of accurate program service and outcome data. Education will implement a year-long process beginning in fiscal year (FY) 2013–14 to standardize the service codes utilized by migrant regions when entering service data into the Certificate of Eligibility (COEstar) database.</p> <p>During FY 2013–14, Education will also take other steps to ensure that the corrective actions taken to this recommendation are focused on addressing all data needs. The first step will include the hiring of a consultant to conduct a gap analysis of data needs and services as well as a study of viable options/solutions that exist both in-state and out-of-state. The second step will include a review of the consultant's findings and the selection of a course of action regarding a data-collection solution, either newly-designed or existing.</p> |
| <i>Auditors' Comment:</i> | We reported a similar finding in the 2013 audit. Please refer to finding 2013-030. |
| Reference Number: | 2012-12-21 |
| Federal Program: | 84.027 84.391 (ARRA) |
| State Administering Department: | California Department of Education (Education) |
| Fiscal Year Initially Reported: | 2010-11 |
| Audit Finding: | <p><u>Level of Effort – Maintenance of Effort.</u> Education lacks adequate controls to ensure maintenance of effort (MOE) requirements are met. Education's MOE expenditures for the 2009-10 fiscal year was \$83,464,446 less than its 2008-09 federal fiscal year expenditures. Unless a waiver is received from the federal government, Education could be subject to a reduction of federal funding.</p> |

Status of Corrective Action: Partially Corrected. To meet the federal Special Education MOE requirements for fiscal year (FY) 2009-10, Education submitted a request for Proposition 98 General Fund which was included in the Department of Finance's April Letter to the budget committees. The Education omnibus trailer bill, Assembly Bill (AB) 86 (Chapter 48), Section 84, provided the funding to meet the FY 2009-10 MOE. AB 86 was approved by the Governor and filed with the Secretary of State on July 1, 2013.

Auditors' Comment: We reported a similar finding in the 2013 audit. Please refer to finding 2013-032.

Reference Number: 2012-12-22

Federal Program: 84.048

State Administering Department: California Department of Education (Education)

Fiscal Year Initially Reported: 2010-11

Audit Finding: Level of Effort – Maintenance of Effort. Education lacks adequate controls over evaluation of the maintenance of effort (MOE) requirements of the Career and Technical Education Program. More specifically, Education cannot ensure the completeness and accuracy of amounts reported by local educational agencies. Without accurate amounts from subrecipients, Education cannot ensure compliance with MOE requirements.

Status of Corrective Action: Fully Corrected. In the last year, Education has initiated and engaged in efforts to increase the local education agencies' awareness over the importance of reporting expenditures accurately. Education will continue to provide technical assistance and training as part of regional and statewide conferences, meetings and forums. Additionally, Education will continue to provide technical assistance as part of monitoring visits and as requested by subrecipients. Education will continue to monitor subrecipients' reporting practices to ensure accuracy and completeness. Feedback from subrecipients indicates that reporting practices have improved statewide.

Reference Number: 2012-12-23

Federal Program: 84.048

State Administering Department: California Community Colleges Chancellor's Office (CCCCO)

Fiscal Year Initially Reported: 2011-12

Audit Finding: Subrecipient Monitoring. CCCCO lacks adequate controls to monitor subrecipients and is not in compliance with federal requirements. Specifically, CCCCO does not provide the Catalog of Federal Domestic Assistance (CFDA) number for the Career and Technical Education (CTE) Program to the community college districts in grant awards or other communications. CCCCO also lacks adequate controls to monitor the use of federal awards through site visits, limited scope audits, or other means. Finally, CCCCO lacks adequate controls to obtain and review the OMB A-133 audits of community college districts and follow up on findings related to the CTE grant.

Status of Corrective Action: Partially Corrected. The CCCCO communicates the CFDA number to community college districts on each grant application and award letter. Additionally, the CFDA number is posted at the login page of all applications and quarterly expenditure reports of the Carl Perkins online reporting system. The CCCCO developed a risk-based monitoring system, selection process, and monitoring tool that includes a desk review and on-site monitoring for those districts that meet established risk criteria. The CCCCO established and implemented a process to review the OMB A-133 audits of community college districts and follow up with those districts to ensure that Carl D. Perkins related findings have been corrected.

Auditors' Comment: We reported a similar finding in the 2013 audit. Please refer to finding 2013-031.

Reference Number: 2012-12-24

Federal Program: 84.126
84.390 (ARRA)

State Administering Department: Department of Rehabilitation (Rehabilitation)

Fiscal Year Initially Reported: 2008-09

Audit Finding: Eligibility. Rehabilitation lacks adequate controls to determine applicant eligibility for services within the required 60-day time period. Out of 65 applicant cases tested, it was found that six cases were not determined eligible within the 60-day time period. In addition, Rehabilitation lacks adequate controls to develop an Individual Plan for Employment (IPE) within 90 days of eligibility determination. For 6 of the 65 applicant cases, Rehabilitation did not develop an IPE within the 90-day time period. Failure to determine an applicant's eligibility and develop an IPE within the required time period prohibits applicants from receiving timely vocational rehabilitation services.

Status of Corrective Action:

Partially Corrected. Districts generate Accessible Web-based Activity Reporting Environment (AWARE) report(s) to identify consumers who have eligibility and IPE's due in the next 30-days. Counselors are provided with their respective caseload report/list of consumers requiring eligibility determination and IPE development. Team managers take appropriate action to ensure that eligibility and IPE timelines have been met, including the meeting of timelines for applicable extensions. Actions include reviewing Senior Vocational Rehabilitation Counselors (SVRC) - Qualified Rehabilitation Professional (QRP) caseload reports; identifying and communicating to SVRC-QRPs respective cases requiring action; monitoring and tracking SVRC-QRP effectiveness in meeting regulatory case timelines and implement corrective action as appropriate. Monthly AWARE report(s) for consumers with overdue eligibilities or IPE's are generated for each District and provided to the district administrators (DAs). Technical assistance and guidance is provided to the DAs to rectify specific District/Unit/counselor issues related to timely eligibility determination and IPE development (e.g. CSU Manager technical guidance and instruction related to: a) electronic case recording system, AWARE, report generation and customization; b) development of "managed layout/reports specific to district needs; c) interpretation of AWARE reports/data for district and statewide). The DAs work with the Personnel Services Section to implement corrective actions, as appropriate. A summary report on District timely eligibility and IPEs is provided to the Vocational Rehabilitation Employment Division Deputy Director monthly.

Auditors' Comment:

We reported a similar finding in the 2013 audit. Please refer to finding 2013-033.

Reference Number:

2012-12-25

Federal Program:

84.389 (ARRA)
84.391 (ARRA)
84.392 (ARRA)

State Administering Department:

California Department of Education (Education)

Fiscal Year Initially Reported:

2010-11

Audit Finding:

Reporting. Education lacks adequate controls to ensure accuracy of the quarterly Section 1512 report for the School Improvement Grant, Title I Grants to Local Educational Agencies, and the Special Education Cluster. Although Education prepares the report from information maintained by program personnel, the information is not reconciled to the accounting records, such as the general ledger. Education also needs to ensure that the Section 1512 report is reviewed for accuracy prior to submission.

Status of Corrective Action:

Fully Corrected. Per the U.S. Department of Education, Office of Elementary and Secondary Education's (OESE) determination, Education has taken sufficient steps to address the problems cited in the finding and does not require further documentation.

Auditors' Comment:

We reported a similar finding in the 2013 audit. Please refer to finding 2013-039.

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|---------------------------------|--|
| Reference Number: | 2012-12-26 |
| Federal Program: | 84.377 84.388 (ARRA) |
| State Administering Department: | California Department of Education (Education) |
| Fiscal Year Initially Reported: | 2010-11 |
| Audit Finding: | <p><u>Subrecipient Monitoring.</u> Education lacks adequate controls over monitoring of local educational agencies (LEAs) participating in the School Improvement Grant program. Education lacks evidence of review by a supervisor over the on-site monitoring visit and related findings. Furthermore, Education lacks adequate controls to ensure LEAs implement proposed corrective actions in a timely manner on deficiencies noted. Finally, Education does not have a tracking mechanism to determine when LEAs are approaching the due date for corrective actions so that a follow-up can be performed.</p> |
| Status of Corrective Action: | Fully Corrected. An automated notification in the California Accountability Improvement System was established for the 2012-13 school year that notifies LEA staff and program reviewers 10 days prior to the 45-day deadline to resolve findings. In addition, program managers are provided with a list of unresolved findings at monthly Federal Program Monitoring (FPM) Program Managers Meetings to follow up with LEAs and ensure that Resolution Agreement deadlines do not exceed a total of 225 calendar days. These corrective actions have been incorporated in the FPM Protocols. |
| Reference Number: | 2012-12-27 |
| Federal Program: | 10.553 10.555 |
| State Administering Department: | California Department of Education (Education) |
| Fiscal Year Initially Reported: | 2009-10 |
| Audit Finding: | <p><u>Procurement, Subrecipient Monitoring.</u> Education did not implement appropriate internal controls and procedures to ensure that the approval process of food service management company contracts was documented prior to reimbursing subrecipients.</p> |
| Status of Corrective Action: | Partially Corrected. To ensure compliance with federal requirements prior to sub-recipients' application renewal and reimbursement of federal funds, Education's School Food Service Contracts Unit (SFSCU) reviews and approves food service management company contracts submitted to Education; SFSCU approvals are documented in Child Nutrition Information and Payment System. |
| <i>Auditors' Comment:</i> | We reported a similar finding in the 2013 audit. Please refer to finding 2013-003. |

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| Reference Number: | 2012-12-28 |
| Federal Program: | 93.044 93.045 93.053 |
| State Administering Department: | Department of Aging (Aging) |
| Fiscal Year Initially Reported: | 2011-12 |
| Audit Finding: | <u>Reporting.</u> Aging lacks adequate controls to ensure information required by the Federal Funding Accountability Transparency Act (FFATA) was properly reported. Aging also lacks controls to ensure FFATA reporting information is submitted in a timely manner. Failure to implement adequate controls over FFATA increases the risk that inaccurate or incomplete information will be reported. |
| Status of Corrective Action: | Fully Corrected. Aging has procedures in place that was updated by April 15, 2013 to reflect supervisor review of the information being reported prior to posting to the federal website and ensure timely reporting. Aging's reporting is currently up to date on the FFATA website. |

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| Reference Number: | 2012-12-29 |
| Federal Program: | 93.268 93.712 (ARRA) |
| State Administering Department: | Department of Public Health (Public Health) |
| Fiscal Year Initially Reported: | 2011-12 |
| Audit Finding: | <u>Reporting.</u> Public Health does not have proper controls in place to ensure accuracy and completeness of the Federal Financial Reports (SF-425) submitted for the Immunization Grants Cluster. Failure to reconcile spreadsheets to final submission increases the risk of errors in information reported to the federal government. |
| Status of Corrective Action: | Fully Corrected. The Federal Financial Reports (FFR) procedures were revised in February to require reviews by two levels of supervisors and a reconciliation of the amounts listed on the FFR to CALSTARS reports. The Accounting Section now uses an FFR checklist as part of the reviews and this checklist is filled with the FFR and matching CALSTARS reports in the grant folder. |

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| Reference Number: | 2012-12-30 |
| Federal Program: | 93.268 93.712 (ARRA) |
| State Administering Department: | Department of Public Health (Public Health) |
| Fiscal Year Initially Reported: | 2009-10 |

Audit Finding:

Special Tests and Provisions – Control, Accountability, and Safeguarding of Vaccine. Public Health lacks adequate policies and procedures to ensure Quality Assurance Reviews (QARs) are performed and properly documented. Out of 40 QAR reports tested, 10 were identified as being incomplete. Failure to appropriately complete and document results for the QAR increases the risk that Public Health may not properly follow up on deficiencies noted during the review.

Status of Corrective Action:

Fully Corrected. The California Vaccines for Children (VFC) Program quality assurance coordinator and senior field representatives will monitor and review field staff site visits. The monitoring will include supervisors accompanying each field staff on at least one site visit a year. The supervisory reviews will evaluate the quality of the site visit reports and determine if additional guidance or training are needed. Supervisors will complete site visits in every region by December 31, 2013. The VFC Program Coordinator will continue to provide monthly training and updates to all field staff. As of February 2013, this training addresses any changes in program policies or site visit tools to help field staff more fully understand the QAR questions and improve the quality of the site visit reports. As of March 1, 2013, senior field representatives review all QARs and site visit reports to providers to ensure that all documents are complete and spot check them for accuracy. These reviews will occur monthly. As of March 1, 2013, field staff call providers a day ahead of site visits to ensure that appropriate provider staff is present to reduce the likelihood of unanswered questions on the QAR.

The VFC Program is developing a database that will allow field staff to use tablets to enter QAR responses during the site visit. Based on the entered responses, the database will generate an electronic written report to the provider outlining results of the visit and a standardized corrective action plan. The direct linkage between the data entered on-site and the written report will reduce errors in summarizing visit observations and results. The database will also generate follow up reminders to the field staff of any unimplemented corrective actions. Public Health will implement this electronic entry of site visit results in fall 2013.

Reference Number:

2012-12-31

Federal Program:

93.558
93.714 (ARRA)

State Administering Department:

Department of Social Services (Social Services)

Fiscal Year Initially Reported:

2011-12

Audit Finding:

Subrecipient Monitoring. Social Services did not have adequate policies and procedures to monitor subrecipients in accordance with federal requirements. Social Services did not establish and document a risk-based monitoring plan, including the selection process for site visits compliance requirements to be addressed, and plan for performing site visits to those counties receiving a large portion of the State's funding. Social Services also did not perform all planned site visits during fiscal year 2011-12. Finally, Social Services lacks policies and procedures to assess Temporary Assistance for Needy Families eligibility determinations, redeterminations, and termination of benefits made by the counties as well as other special test and provisions as part of the risked-based monitoring plan. Failure to properly monitor subrecipients increases the risk that federal monies will be paid for unallowable costs.

Status of Corrective Action:

Fully Corrected. Regarding the third recommendation, an update to the 60 day corrective action plan is needed as the initial case review plan was found to be too aggressive for the review of the eligibility criteria. The California Work Opportunity and Responsibility to Kids (CalWORKs) Eligibility Bureau is continuing to develop a case review tool for the on-site review of CalWORKs cases. The review tool will help Social Services ensure County Welfare Departments (CWDs) are properly determining eligibility, both at application and annual redetermination, and will also assess whether benefits were correctly terminated. More specifically, the review tool includes an analysis of the following factors of CalWORKs eligibility: residency of the family; child deprivation; family income; family resources; immigration status of all family members; the composition of the assistance unit (i.e., whether everyone receiving aid is eligible for aid, including whether the maximum family grant rule is applicable); and the grant calculation, including recoupment of any applicable overpayments.

Additional factors the review tool examines include cooperation with child support requirements, whether the case has all required documentation on file, and whether clients were given timely and adequate notice with respect to adverse case actions. The review tool will provide Social Services staff with guidance, based on CalWORKs regulations, to determine whether the aforementioned eligibility factors are applied correctly in the case file. Social Services is working with county partners, including the County Welfare Directors Association, to solicit feedback on the review tool. Social Services anticipates the review tool will be completed by the end of calendar year 2013.

As to Social Services' monitoring strategy, a risk-based auditing plan is under development. As such, Social Services intends to conduct 100 case reviews annually. The cases will be randomly sampled and proportioned to represent the state: Los Angeles, the remaining Performance Monitoring Counties (i.e., the 18 largest counties in the state), and the smaller counties. The sample will be weighted.

The 100 annual case reviews will not all be on-site reviews. Some will be on-site, whereas the remainder will be conducted off-site electronically or via desk reviews. Actual on-site reviews will commence in calendar year 2014. For each on-site visit, five to eight case reviews will be conducted.

With regard to county surveys, recent legislation revised various CalWORKs rules. Specifically, changes will be made to grant levels, earned income disregard and vehicle asset limit. These three changes are set to occur at different times between October 1, 2013 and March 1, 2014. Social Services intends to survey CWDs, along with the Statewide Automation Welfare Systems (SAWS) responsible for programming the changes, to ensure the changes are correctly implemented. Written responses from CWDs, and SAWS consortia will be requested and reviewed. Social Services is in the process of developing the county surveys. The anticipated completion date is March 2014. Social Services intends to complete the combination of county surveys and desk reviews by the end of calendar year 2014.

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| Reference Number: | 2012-12-32 |
| Federal Program: | 93.659 |
| State Administering Department: | Department of Social Services (Social Services) |
| Fiscal Year Initially Reported: | 2011-12 |
| Audit Finding: | <p><u>Eligibility.</u> Social Services does not have adequate controls to ensure eligibility determinations were appropriate and benefits paid were accurate. Social Services should strengthen its policies and procedures for eligibility to ensure all documentation is included in the case file and benefit amounts and determination dates are properly entered into the system.</p> |

Status of Corrective Action: Fully Corrected. Social Services has addressed the finding and the recommendation has been partially implemented as of January 16, 2013. Full implementation was expected by March 29, 2013. The Adoptions Assistance Program (AAP) benefit amount is entered on the Payment Instructions Adoption Assistance Program (AAP 2) form and sent to the financially responsible county, which sends the Notice of Action (NOA) to the adoptive parent. The AAP 2 and NOA reflect the most current and accurate activities related to the AAP case. The Access Database is an internal database specific to the Adoptions Service Bureau (ASB) district office, used for caseload tracking and for bureau management reports. It is not used to generate the AAP payment. The benefit amount in question was the accurate rate as stated on the AAP 2 and NOA, therefore an overpayment did not occur. The termination date entered in the system was a typographical error and the AAP case was not terminated in error. It is at the adoptive parent's discretion to file a Nonrecurring Adoption Expenses Reimbursement claim and to sign the Nonrecurring Adoption Expenses agreement, but they are not required to do so. Also, there is no statutory time limit to submit the claim which could account for the claim and agreement not being found in the case file at the time of the recent audit.

In order to strengthen the policies and procedures to ensure eligibility determinations are appropriate and benefit amounts are accurate, the ASB central office is implementing the numerous actions. A policy is already in place for the adoptions specialist to complete a closing case summary checklist. This is reviewed and signed off by the adoptions supervisor. Training will be provided to the managers and supervisors at the quarterly managers' meeting to ensure policy is understood and protocol is followed. Another case summary checklist form will be developed and will be required at each reassessment to be completed by staff and signed off by their supervisor. A memo that will review policy and update these procedures will be sent out by the ASB central office to the managers and supervisors. Additional training will be scheduled during the quarterly managers' meetings and will become a standing agenda item.

At the quarterly managers' meetings, a sampling of AAP cases from each district office is monitored. Training for database accuracy and staying current will be provided by the ASB central office at the managers' quarterly meetings. This will become a standing agenda item.

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| Reference Number: | 2012-12-33 |
| Federal Program: | 93.658 93.659 93.558 93.667 |
| State Administering Department: | Department of Social Services (Social Services) |
| Fiscal Year Initially Reported: | 2011-12 |
| Audit Finding: | <u>Reporting</u> . Social Services did not comply with reporting requirements of the Federal Funding Accountability Transparency Act (FFATA). Social Services lacks policies and procedures to report subaward information under the FFATA and lacks controls to ensure information is accurate and complete. |

Status of Corrective Action: Partially Corrected. After verbal discussions with the Administration for Children and Families (ACF) Region IX, Social Services submitted a plan to achieve compliance with the FFATA requirements to ACF in August 2013. The proposed methodology is consistent with what is currently being utilized to report FFATA for the Supplemental Nutrition Assistance Program administrative expenditures.

Auditors' Comment: We reported a similar finding in the 2013 audit. Please refer to finding 2013-040.

Reference Number: 2012-12-34

Federal Program: 93.959

State Administering Department: Department of Alcohol and Drug Programs (ADP)

Fiscal Year Initially Reported: 2011-12

Audit Finding: Subrecipient Monitoring. ADP does not have sufficient on-site monitoring of subrecipients to ensure that federal awards are used for authorized purposes in accordance with federal requirements. During fiscal year 2012, ADP performed only three site visits, which covered less than 5 percent of monies disbursed by ADP. Failure to properly monitor subrecipients increases the risk the federal monies will be paid for unallowable costs.

Status of Corrective Action: Fully Corrected.

Fiscal policies and procedures to monitor subrecipients. ADP disagrees with the audit finding indicating it does not have adequate fiscal policies and procedures to monitor subrecipients to ensure the federal awards are used for authorized purposes in accordance with federal requirements.

ADP believes it has adequate, documented fiscal policies and procedures to monitor subrecipients that meet the requirements in 45 CFR 96.31 (b) (2). This regulation permits the review of Office of Management and Budget (OMB) Circular A-133 audits, or use of other means (e.g., program reviews) if the subgrantee has not had such an audit, in determining whether the subgrantee spent federal funds in accordance with applicable laws and regulations.

Furthermore, this specific reference is a repeat finding from at least two prior year's Single Audit findings (FY 2007-08 and FY 2008-09) that were disputed by ADP and forwarded to the Substance Abuse and Mental Health Services Administration (SAMHSA) for resolution.

In regards to the 2007-08 audit finding, SAMHSA issued a Determination Letter indicating that based on ADP's responses to the auditor's findings in the audit report and additional information ADP sent in response to SAMHSA's audit resolution letters, SAMHSA considered ADP's audit report satisfactorily resolved and no further actions were required. Therefore, ADP's existing monitoring procedures to review and resolve county A-133 audit findings meets the requirement to determine whether subgrantees spent Substance Abuse Prevention and Treatment (SAPT) Block Grant funds in accordance with applicable laws and regulations [45 CFR 96.31 (b)].

For the 2008-09 audit finding, SAMHSA issued a Determination Letter indicating that based on ADP's responses to the auditor's findings in the audit report and additional information ADP sent in response to SAMHSA's audit resolution letters, SAMHSA considered ADP's existing monitoring procedures to review and resolve county A-133 audit findings meets the requirement to determine whether subgrantees spent SAPT Block Grant funds in accordance with applicable laws and regulations [45 CFR 96.31 (b)]. However, for this specific fiscal year audit period, SAMHSA agreed with the auditor in that ADP did not carry out its established procedures to ensure completion of audits in accordance with its annual county audit plan. SAMHSA requested a corrective action plan (CAP) to address deficiencies in carrying out ADP's established procedures, completion of audits in accordance with its annual county audit plan, and an anticipated completion date. ADP's Audit Branch immediately implemented a CAP that included additional procedures and checks and balances to enhance the already existing county OMB A-133 audit process and to address the deficiencies associated with the prior year's audit finding. ADP continues to monitor and follow-up on the annual county OMB A-133 audits for timely resolution.

Risk-based audit plan audit selection methodology. The assertion made in the audit finding that ADP's documented risk-based audit plan does not emphasize selection of counties receiving a large portion of the state's funding is not completely accurate. The criterion used in ADP's audit selection methodology and outlined in the documented risk-based audit plan includes "Funding Received" as a consideration.

At the beginning of each fiscal year, ADP's Audit Branch prepares an annual audit plan that identifies all anticipated audits to be conducted for that fiscal year. The plan includes both Drug Medi-Cal (DMC) and Non-DMC audits. The Non-DMC audits are the County SAPT Block Grant audits. The audit plan is developed based on risk analysis (e.g., A-133 findings, claims and billing data and in-house referrals from ADP's County Monitoring staff). Once the counties have been identified, they are assigned to audit staff at the beginning of the fiscal year. The County SAPT Block Grant audits are specifically designed to audit any of the pass through costs associated with the federal awards administered by ADP. That process includes the authorization, verification, and testing of costs associated with those federal funds. This can be substantiated by fiscal disallowances resulting from audits performed. While the amount of funding received is a consideration in ADP's overall selection process, it has not been emphasized over other criterion in ADP's risk analysis (e.g., A-133 findings, claims and billing data, and in-house referrals from County Monitoring staff).

Response to recommendations. The audit recommendations propose a revision of ADP's risk-based audit plan to include site visits to those counties receiving a large portion of the state's funding and the quantity of County SAPT Block Grant audits performed each state fiscal year. It was communicated to both the on-site audit team and the senior audit manager that the quality of County SAPT Block Grant audits performed by ADP in any given year is impacted by the amount of time and effort it takes to complete a county audit and limited resources.

Implementation date for corrective action plan. ADP revised its risk-based monitoring plan by April 2, 2013. Completion of all scheduled site visits in accordance with the risk-based audit plan will be determined by Health Care Services on or after July 1, 2013.

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| Reference Number: | 2012-12-35 |
| Federal Program: | 93.720 93.775 93.777 93.778 93.767 |
| State Administering Department: | Department of Health Care Services (Health Care Services) |
| Fiscal Year Initially Reported: | 2011-12 |
| Audit Finding: | <p><u>Activities Allowed/Allowable Costs.</u> Health Care Services does not have policies and procedures in place to ensure Information Technology general controls are operating effectively so that access is properly approved, removed upon termination, evaluated and limited to the level required by job responsibilities, and reviewed on a periodic basis. Health Care Services also lacks policies and procedures to ensure program changes are approved by authorized individuals prior to implementation.</p> |
| Status of Corrective Action: | Partially Corrected. Release I has been implemented. Release II is scheduled for an October 2013 implementation and a new release III is scheduled to implement after release II. |
| <i>Auditors' Comment:</i> | We reported a similar finding in the 2013 audit. Please refer to finding 2013-042. |
| Reference Number: | 2012-12-36 |
| Federal Program: | 93.720 93.775 93.777 93.778 |
| State Administering Department: | Department of Health Care Services (Health Care Services) |
| Fiscal Year Initially Reported: | 2011-12 |
| Audit Finding: | <p><u>Subrecipient Monitoring.</u> Health Care Services did not communicate to county welfare departments as to how federal compliance requirements related to internal control and compliance objectives for Medicaid eligibility were to be addressed in the county single audit. As a result, county single audits have not addressed eligibility compliance for all Medicaid beneficiaries.</p> |
| Status of Corrective Action: | Remains Uncorrected. Health Care Services continues to work with relevant parties, including county welfare departments to ensure federal requirements related to internal control and compliance objectives to Medicaid eligibility are properly addressed county single audits. |

Auditors' Comment: We reported a similar finding in the 2013 audit. Please refer to finding 2013-041.

Reference Number: 2012-12-37

Federal Program: 93.720
93.775
93.777
93.778

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

Fiscal Year Initially Reported: 2008-09

Audit Finding: Subrecipient Monitoring. Health Care Services lacks adequate policies, procedures and monitoring for county eligibility determinations.

Status of Corrective Action: Partially Corrected. Of the four corrective actions Health Care Services agreed to perform, all have been completed with the exception of #3, which is to issue an All County Welfare Director's Letter that addresses the specific issues that resulted in the assigning of improper aid codes as identified in the KPMG review once adequate case detail regarding the errors are provided by KPMG. Health Care Services anticipates completing this last corrective action within 30 days.

Auditors' Comment: We reported a similar finding in the 2013 audit. Please refer to finding 2013-044.

Reference Number: 2012-12-38

Federal Program: 93.720
93.775
93.777
93.778

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

Fiscal Year Initially Reported: 2009-10

Audit Finding: Subrecipient Monitoring. Health Care Services does not have adequate policies and procedures to monitor subrecipients in accordance with federal requirements.

Status of Corrective Action: Partially Corrected. All local governmental agencies (LGAs) and local educational consortia (LECs) were notified either by email or through a Policy and Procedure Letter of this requirement. To date, 33 contractual agreements have been amended. The remaining 41 contractual agreements will be amended by November 30, 2013.

In April 2011, Health Care Services imposed travel restrictions and all site visits were halted. In fiscal year (FY) 2012-13, Health Care Services rescinded the travel restrictions and site visits were resumed. During FY 2012-13, all but 4 required Medi-Cal Administrative Activities (MAA) program site visits were completed. The remaining 4 site visits will be conducted in FY 2013-14. By June 30, 2014, all required MAA site visits will be conducted in accordance with department policy.

In April 2011, Health Care Services imposed travel restrictions and all site visits were halted. In fiscal year (FY) 2012-13, Health Care Services rescinded the travel restrictions and site visits were resumed. During FY 2012-13, all but 4 required Medi-Cal Administrative Activities (MAA) program site visits were completed. The remaining 4 site visits will be conducted in FY 2013-14. By June 30, 2014, all required MAA site visits will be conducted in accordance with department policy.

Health Care Services' proposed concept to develop an attachment to MAA program invoice requiring LGA/LEC claiming units to identify the amounts passed through to subrecipients has been deemed an ineffective method of obtaining and monitoring this information. Health Care Services has developed an annual Policy and Procedure Letter, wherein the LGA/LEC claiming units will be required to submit this information to Health Care Services annually upon the close of each fiscal year. This concept will be implemented by Health Care Services by November 30, 2013.

All LGAs and LECs were notified by email and through a Policy and Procedure Letter of this requirement. To date, 33 contractual agreements have been amended. The remaining 41 contractual agreements will be amended by November 30, 2013.

Health Care Services is still in the process of updating and revising the Department's current policies and procedures regarding the OMB Circular A-133 reports for all subrecipients claiming amounts more than \$500,000. Added written policies and procedures will include the following: 1.) Standard protocol for receiving all A-133 reports from the State Controller's Office (SCO) relating to Medicaid funding. This will include OMB Circular A-133 reports for local government agencies and local education consortiums. In order to establish protocol, Health Care Services is currently corresponding with the State Controller's Office. 2.) Steps to ensure that policies and procedures are in place for reviewing the recommended corrective action plans (CAP). 3.) Ensure that steps are established for Health Care Services to follow up on the management letters sent to the subrecipients who need corrective action. This will include additional steps for Health Care Services to ensure that the CAP is fully corrected in accordance to their Single Audit report. 4.) Department's disciplinary action procedures to apply for subrecipients who fail to implement the CAP in a timely manner. The revised policies and procedures will be implemented by November 30, 2013.

Auditors' Comment:

We reported a similar finding in the 2013 audit. Please refer to finding 2013-045.

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| Reference Number: | 2012-12-39 |
| Federal Program: | 93.720 93.775 93.777 93.778 |
| State Administering Department: | Department of Health Care Services (Health Care Services) |
| Fiscal Year Initially Reported: | 2006-07 |

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| Audit Finding: | <p><u>Special Tests and Provisions – Provider Eligibility.</u> Health Care Services lacks adequate policies and procedures to strengthen and complete its efforts to re-enroll all active Medicaid providers to ensure that all providers have a provider agreement in place and that the required provider agreements are maintained.</p> |
| Status of Corrective Action: | <p>Partially Corrected. Health Care Services 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 a re-enrollment application package updated to current federal standards in order to retain Medi-Cal eligibility. Health Care Services also requires that all providers must submit a new application package to report additional, or change of service location, as well as a change in ownership. Health Care Services continually verifies provider information to ensure compliance with state and federal requirements in its ongoing re-enrollment efforts. The 2010 Patient Protection and Affordable Care Act created a new requirement that state Medicaid programs revalidate provider enrollment information, regardless of provider type, every five years so Health Care Services continues to work toward completing the re-enrollment of all providers every five years to the extent that resources allow. Health Care Services also continues to examine and strengthen its policies and procedures to ensure that the required provider agreements and supporting documents are maintained in its document management system.</p> |
| <i>Auditors' Comment:</i> | <p>The finding was not repeated in the 2013 audit as Health Care Services has taken sufficient action to address the finding.</p> |
| Reference Number: | 2012-12-40 |
| Federal Program: | 93.720 93.775 93.777 93.778 |
| State Administering Department: | Department of Health Care Services (Health Care Services) |
| Fiscal Year Initially Reported: | 2005-06 |
| Audit Finding: | <p><u>Activities Allowed/ Allowable Costs.</u> Health Care Services' Provider Manual policy states that Computed Tomography (CT) Angiography (CTA) codes may not be reimbursed on the same date of service as CT codes. Of the claims tested, one claim was reimbursed to the provider for both the CTA and CT. Based upon current policy, this claim should have been denied for one of the procedures.</p> |
| Status of Corrective Action: | <p>Fully Corrected. The modified policy was implemented on 7/1/13 via Operating Instruction Letters 245c-05 and 245d-05 retroactive to 5/1/13. As a result, the problem is corrected. Health Care Services has initiated Erroneous Payment Correction 14451 to reprocess those claims falling within the retroactive period. Any claim paid in error will be corrected retroactively.</p> |
| Reference Number: | 2012-12-41 |

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| Federal Program: | 93.720 93.775 93.777 93.778 |
| State Administering Department: | Department of Health Care Services (Health Care Services) |
| Fiscal Year Initially Reported: | 2005-06 |
| Audit Finding: | <p><u>Eligibility.</u> Health Care Services lacks an adequate internal controls process to obtain and track the enrollment presumptive eligibility identification numbers issued to prevent unauthorized use of identification numbers. Furthermore, Health Care Services lacks procedures to authenticate the existence of the recipient, prevent duplicate issuances, and reconcile the presumptive eligibility number against the recipient enrollment listing field at Health Care Services during the claims adjudication process.</p> |
| Status of Corrective Action: | Partially Corrected. Health Care Services agrees with the recommendations, however lacks the necessary resources needed to develop and implement automation of the enrollment of patients into the presumptive eligibility program. |
| <i>Auditors' Comment:</i> | The finding was not repeated in the 2013 audit as Health Care Services has taken sufficient action to address the finding. |

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| Reference Number: | 2012-12-42 |
| Federal Program: | 97.067 |
| State Administering Department: | California Emergency Management Agency (Cal EMA) |
| Fiscal Year Initially Reported: | 2011-12 |
| Audit Finding: | <p><u>Reporting.</u> Cal EMA did not have adequate controls in place to ensure information required by the Federal Funding Accountability Transparency Act (FFATA) was properly reported. Cal EMA did not review FFATA information prior to submission. Additionally, while Cal EMA did make attempts to submit subaward information, they did not go back into the system to resubmit the information until eight months later. Failure to implement adequate controls over FFATA increases the risk that inaccurate or incomplete information will be reported.</p> |
| Status of Corrective Action: | Fully Corrected. Cal EMA implemented a new process to correct the finding. New controls were put into place to ensure information was properly reported, with several rounds of review and approval. FFATA information is initially reviewed by program representative through the Grant Award Facesheet and FFATA tab in the Financial Management Forms Workbook. FFATA information is entered into the fsrs.gov website, with a draft of the report created. This draft report goes through a review with another staff member, then a final managerial review and approval. The approved report is then submitted on fsrs.gov within 30 days of award obligation. |

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Response to the Audit - Department of Finance

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April 21, 2014

KPMG LLP
500 Capitol Mall, Suite 2100
Sacramento, CA 95814

Ladies and Gentlemen:

Thank you for the opportunity to respond to the federal compliance audit report for the fiscal year ended June 30, 2013. This report was the result of your examination of the state's administration of federal programs for the fiscal year ended June 30, 2013, and will be part of the Single Audit Report covering this period. We accept the reported findings and recommendations and recognize the compliance findings resulted in 20 unqualified opinions and 10 qualified opinions for the 30 major programs audited. We also recognize there are areas where internal controls and administration of federal awards need 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 controls 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 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 statewide policy and providing technical advice to departments on various issues. The results of the fiscal year 2012-13 Single Audit will be disseminated to all departments and Finance will remind departments of their responsibility for implementing corrective action plans. The state is committed to sound and effective fiscal oversight.

The head of each state department is responsible for establishing and maintaining a system of internal accounting and administrative controls within their department. This responsibility includes documenting the system, communicating system requirements to employees, and assuring 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 department to conduct an internal review of its controls and report the results. Finance will continue to provide education and guidance to assist departments in meeting the FISMA requirements.

KPMG LLP
April 21, 2014
Page 2

Individual departments have separately responded to the 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 proper financial operations and business practices of the state, as well as ensuring internal controls exist for the safeguarding and effective use of assets and resources. We will take the 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 Rick Sierra, Chief, Office of State Audits and Evaluations, at (916) 322-2985.

Sincerely,



MICHAEL COHEN
Director