



State of California

Federal Compliance Audit Report for the Fiscal Year
Ended June 30, 2014

Report 2014-002

COMMITMENT
INTEGRITY
LEADERSHIP

The first five copies of each California State Auditor report are free. Additional copies are \$3 each, payable by check or money order. You can obtain reports by contacting the California State Auditor's Office at the following address:

California State Auditor
621 Capitol Mall, Suite 1200
Sacramento, California 95814
916.445.0255 or TTY 916.445.0033

OR

This report is also available on our Web site at www.auditor.ca.gov.

The California State Auditor is pleased to announce the availability of an online subscription service.
For information on how to subscribe, visit our Web site at www.auditor.ca.gov.

Alternate format reports available upon request.

Permission is granted to reproduce reports.

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

For complaints of state employee misconduct, contact the California State Auditor's
Whistleblower Hotline: 1.800.952.5665.

March 26, 2015

2014-002

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, 2014. The state auditor contracted with KPMG LLP (KPMG) to perform this review for fiscal year 2013–14.

This report concludes that the State did not materially comply with certain requirements for six of the 26 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

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>	2
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 and OMB Circular A-133, <i>Audits of States, Local Governments, and Non-Profit Organizations</i>	4
Independent Auditors' Report on Compliance for Each Major Program and Report on Internal Control Over Compliance Required by OMB Circular A-133	6
Schedule of Findings and Questioned Costs	10
Schedule of Expenditures of Federal Awards Findings and Questioned Costs	14
Schedule of Federal Award Findings and Questioned Costs	17
U.S. Department of Agriculture	18
U.S. Department of Housing and Urban Development	32
U.S. Department of Labor	34
U.S. Department of Transportation	40
U.S. Department of Education	59
U.S. Department of Health And Human Services	63
AUDITEE'S SECTION	82
Schedule Of Expenditures of Federal Awards	83
Notes to the Schedule of Expenditures of Federal Awards	101
Summary Schedule of Prior Audit Findings	104
Response to the Audit - Department of Finance	134

Auditors' Section



KPMG LLP
500 Capitol Mall, Ste 2100
Sacramento, CA 95814-4754

Telephone +1 916 448 4700
Fax +1 916 554 1199
Internet www.us.kpmg.com

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, 2014.

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, for the year ended June 30, 2014, 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 Agency, a component unit of the State of California, which received \$5.4 billion, \$2.4 billion, \$102.3 million, \$211.5 million, and \$59.7 million, respectively, in federal awards which are not included in the Schedule for the year ended June 30, 2014. 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*. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2015 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. 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
March 19, 2015



KPMG LLP
500 Capitol Mall, Ste 2100
Sacramento, CA 95814-4754

Telephone +1 916 448 4700
Fax +1 916 554 1199
Internet www.us.kpmg.com

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* and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*

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, for the year ended June 30, 2014, and have issued our report thereon dated March 19, 2015. Our report includes an emphasis of matter paragraph to describe those entities which are not included in the Schedule. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit 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 2014-001 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 the 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* 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
March 19, 2015



KPMG LLP
500 Capitol Mall, Ste 2100
Sacramento, CA 95814-4754

Telephone +1 916 448 4700
Fax +1 916 554 1199
Internet www.us.kpmg.com

Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133

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, 2014. 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 \$5.4 billion, \$2.4 billion, \$102.3 million, \$211.5 million, and \$59.7 million, respectively, in federal awards which are not included in the schedule of expenditures of federal awards for the year ended June 30, 2014. 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified and modified audit opinions on compliance. 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	FEDERAL PROGRAM OR CLUSTER
Davis-Bacon Act			
	2014-015	California Department of Transportation	High-Speed Rail Corridors and Intercity Passenger Rail Services - Capital Assistance Grants (20.319) (ARRA)
Eligibility, Subrecipient Monitoring			
	2014-003	Department of Public Health	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) (10.557)
Equipment and Real Property Management			
	2014-023	California Department of Transportation	Transit Services Cluster
Subrecipient Monitoring			
	2014-028, 2014-029	Department of Health Care Services	Medicaid Cluster Children's Health Insurance Program (CHIP) (93.767)
Special Tests and Provisions			
	2014-013	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 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 paragraph for the year ended June 30, 2014

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, 2014.

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.

COMPLIANCE REQUIREMENT(S)	FINDING NUMBER	STATE ADMINISTERING DEPARTMENT	FEDERAL PROGRAM OR CLUSTER
Activities Allowed/Allowable Costs			
	2014-031	Department of Health Care Services	Medicaid Cluster Children's Health Insurance Program (CHIP) (93.767)
Matching, Level of Effort, Earmarking			
	2014-025	California Department of Education	Special Education Cluster (IDEA)
Reporting			
	2014-008	California Department of Education	Food Distribution Cluster
	2014-012	Employment Development Department	Unemployment Insurance (17.225)
	2014-018	California Department of Transportation	High-Speed Rail Corridors and Intercity Passenger Rail Services - Capital Assistance Grants (20.319) (ARRA)
	2014-019	California Department of Transportation	Transit Services Cluster Metropolitan Transportation Planning (20.505)
	2014-021	California Department of Transportation	Transit Services Cluster Formula Grants for Rural Areas (20.509)
Subrecipient Monitoring			
	2014-005	Department of Public Health	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) (10.557)
	2014-009	Department of Housing and Community Development	HOME Investment Partnerships Program (14.239)
	2014-020	California Department of Transportation	Metropolitan Transportation Planning (20.505)
	2014-022	California Department of Transportation	Formula Grants for Rural Areas (20.509) Transit Services Cluster
	2014-024	California Department of Transportation	Transit Services Cluster
	2014-026	California Department of Education	Charter Schools (84.282)
	2014-032	Department of Health Care Services	Medicaid Cluster
	2014-033	Department of Public Health	HIV Care Formula Grants (Ryan White HIV/AIDS Program Part B) (93.917)
	2014-034	Department of Health Care Services	Block Grants for Community Mental Health (93.958) Block Grants for Prevention and Treatment of Substance Abuse (93.959)
Special Tests and Provisions			
	2014-006, 2014-007	Department of Public Health	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) (10.557)

Our opinion on each major federal program is not modified with respect to these matters.

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 2014-003, 2014-010, 2014-015, 2014-023, 2014-028, 2014-029, and 2014-030 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 2014-002, 2014-004, 2014-005, 2014-006, 2014-007, 2014-008, 2014-009, 2014-011, 2014-012, 2014-013, 2014-014, 2014-016, 2014-017, 2014-018, 2014-019, 2014-020, 2014-021, 2014-022, 2014-024, 2014-026, 2014-027, 2014-031, 2014-032, 2014-033, and 2014-034 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
March 19, 2015

Schedule of Findings and Questioned Costs

**STATE OF CALIFORNIA
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Section I – Summary of Auditors’ Results

Financial Statements

Issued under a separate cover. See California State Auditor’s 2014-001.1 report entitled *State of California: Internal Control and Compliance Audit Report for the Fiscal Year Ended June 30, 2014*.

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 SEFA 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	Highway Planning and Construction Cluster (ARRA)
Various	Transit Services Programs 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
93.767	Children's Health Insurance Program

Unmodified

CFDA Number	Federal Program or Cluster
Various	SNAP Cluster
Various	Child Nutrition Cluster
Various	Food Distribution Cluster
Various	WIA Cluster
Various	Special Education Cluster (IDEA)
Various	School Improvement Grants Cluster (ARRA)
Various	TANF Cluster
10.558	Child and Adult Care Food Program
14.239	Home Investment Partnerships Program
17.225	Unemployment Insurance
17.503	Occupational Safety and Health – State Program
20.505	Metropolitan Transportation Planning
20.509	Formula Grants for Rural 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
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

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	\$114,694,753
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	WIA Cluster
Various	Highway Planning and Construction Cluster (ARRA)
Various	Transit Services Programs Cluster
Various	Special Education Cluster (IDEA)
Various	School Improvement Grants Cluster (ARRA)
Various	TANF Cluster
Various	Medicaid Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
10.558	Child and Adult Care Food Program
14.239	Home Investment Partnership Program
17.225	Unemployment Insurance
17.503	Occupational Safety and Health – State Program
20.319	High-Speed Rail Corridors and Intercity Passenger Rail Services – Capital Assistance Grants
20.505	Metropolitan Transportation Planning
20.509	Formula Grants for Rural 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
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

Schedule of Expenditures of Federal Awards Findings and Questioned Costs

DEPARTMENT OF FINANCE AND OTHER DEPARTMENTS

Reference Number: 2014-001

Criteria

State Administrative Manual (SAM) Section 7974 – Year-End Report No. 13, Report of Expenditures of Federal Funds, states that at year-end, departments will prepare a Report of Expenditures of Federal Awards, Report No. 13 (Report 13), for all federal funds

Condition

The Department of Finance (Finance) and certain departments 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:

- Department of Health Care Services excluded \$5.1 billion of amounts passed through to subrecipients from total federal expenditures reported to Finance.
- Finance reported expenditures of approximately \$144.6 million for the State Small Business Credit Initiative Program, which was not a federal program subject to OMB Circular A-133 requirements.
- Finance reported expenditures of \$59.7 million for the Section 8 Project-Based Cluster which has a separate OMB Circular A-133 audit and should not have been reported on the Schedule.
- Finance misclassified expenditures from federal funds received from other state agencies as pass-through expenditures. These expenditures were included in total federal expenditures, and were reported again as pass-through expenditures on the Schedule. This resulted in a \$251.8 million overstatement on the Schedule.

Department of Health Care Services Recommendations

The Department of Health Care Services should ensure that amounts passed through to subrecipients are included in total federal expenditures.

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.

Department of Health Care Service's View and Corrective Action Plan

Department of Health Care Services Accounting has prepared a Single Audit Report-Schedule of Expenditures of Federal Awards Report procedure to ensure the "Direct Award Expenditures" column includes the amount to subrecipients.

Contact

Yi-Wen Tsai, Accounting Administrator II

Implementation Date

March 6, 2015

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 continue to perform additional analytical procedures of the data presented in the Schedule.

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

July 2015

Schedule of Federal Award Findings and Questioned Costs

U.S. DEPARTMENT OF AGRICULTURE

Reference Number:	2014-002
Category of Finding:	Subrecipient Monitoring; Reporting
Type of Finding:	Significant Deficiency
State Administering Department:	California Department of Education (Education)
Federal Catalog Number:	10.553, 10.555, 10.556, 10.559
Federal Program Title:	Child Nutrition Cluster
Federal Award Number and Years:	7CA300CA3; 2013 7CA300CA3; 2012 7CA300CA3; 2011

Federal Catalog Number:	10.558
Federal Program Title:	Child and Adult Care Food Program
Federal Award Number and Years:	7CA300CA3; 2013 7CA300CA3; 2012 7CA300CA3; 2011

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 2012-13, we reported that the information technology controls over logical access for Education's Child Nutrition Information and Payment System (CNIPS) were not properly designed or implemented. We found the same control deficiency in the 2013-14 audit. Education uses CNIPS to calculate reimbursements to its subrecipients based on approved rates and meal counts. This system is critical to federal compliance since it is configured to calculate and submit requests to the U.S. Department of Education for reimbursement. During our audit, we noted the following:

- Although Education has a process that requires a quarterly review of CNIPS user access and check for terminated employees, it does not have a central monitoring process to ensure managers review active employee permissions.
- Education does not have a process for identifying potential segregation of duties conflicts on the CNIPS application level. 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 three users who had a state and a local account.

Failure to maintain adequate information technology controls over logical access could result in improper reimbursements through CNIPS.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Education should strengthen CNIPS IT general controls over logical access. Specifically, Education should:

1. Implement a central monitoring process to review active employee permissions.
2. Implement a process for identifying potential segregation of duties conflicts within the application.

Department's View and Corrective Action Plan

Education accepts the recommendations to strengthen CNIPS information technology general controls over logical access. Education has implemented the following processes to more effectively monitor active employee permissions, as well as identify and correct any potential segregation of duties conflicts within the application:

1. Education began utilizing spreadsheets to track audit inquiries from managers and subject matter experts (SME) in April 2014. The spreadsheets include pertinent information including: (1) dates of audit inquiries; (2) manager/SME response dates; (3) response details; and (4) the names of individuals that did not respond. This centralized tracking system will allow Education to maintain a historical record of security audits and ensure that only authorized employees have CNIPS permissions

Education removed the local account permissions from the users identified by KPMG that have both state and local accounts. To ensure that there were no other active employees with multiple accounts, Education conducted a name-to-name search between state and sponsor accounts; no additional double accounts were found. In addition, under the new procedures, CNIPS will not allow a user to have multiple accounts.

2. To identify potential segregation of duties conflicts within CNIPS, Education has reviewed all security groups to identify and remove state staff permissions based on potential conflicts of interest and business needs for; (1) creating sites and sponsors; (2) approving claim submissions; and (3) changing claim tracking status.

Contact

Michele Vasquez, Program Integrity Unit Manager, Nutrition Services Division

Implementation Date

April 2014

Reference Number:	2014-003
Federal Catalog Number:	10.557
Federal Program Title:	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
Federal Award Number and Years:	7CA700CA7; 2014 7CA700CA7; 2013
Category of Finding:	Eligibility, Subrecipient Monitoring
Type of Finding:	Material Weakness 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 C – Participant Eligibility Section 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.

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's subrecipient monitoring did not ensure that local agencies policies and procedures were adequate 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 state-owned Integrated Statewide Information System (ISIS).

We tested 65 beneficiaries and found 11 instances in which at least one type of required eligibility information was not obtained or evidenced in ISIS. As a result, we could not conclude the participants were eligible to receive \$7,859 in benefits.

- For one case, the local agency noted an infant less than eight weeks old was not present at enrollment. The local agency placed a hold on the case and removed the hold three months later. There was no documentation or evidence to support removal of the hold.
- For three cases, 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 could not provide supporting eligibility information to document the participant's adjunctive eligibility through another federal program.
- For 11 cases, the local agency could not provide what form of identification verification was used to certify the participant.
- For three cases, the local agency noted no address documentation was obtained when child was certified. The local agency did not place a hold on the case and there was no evidence address documentation was eventually provided to meet the certification requirement.

Total federal expenditures paid to participants for food instruments amounted to \$763,514,478 for fiscal year 2013–14. Total benefits paid to the 65 tested participants amounted to \$53,934.

Questioned Costs

\$7,859

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. Public Health should also consider additional monitoring of local agencies to ensure compliance with eligibility requirements.

Department’s View and Corrective Action Plan

Public Health concurs with the findings. Public Health/WIC Division will determine the feasibility of making changes to ISIS to categorize specific fields as mandatory so local agency staff cannot move forward without completing the appropriate documentation. Public Health/WIC Division will make changes to its internal processes for monitoring local agency contractors to strengthen compliance. Public Health/WIC Division will determine the feasibility of creating a quarterly report of participant ISIS “holds” and other information that may provide the opportunity for enhanced monitoring and focused technical assistance to local agency contractors that appear to have holds in ISIS records beyond the acceptable timeframes. Public Health/WIC Division will also review and update the tools used for monitoring local agencies to prioritize eligibility criteria. Lastly, Public Health/WIC Division will issue written communication to local agency contractors to reiterate the importance of correctly documenting all participant eligibility determinations in ISIS and host two training webinars for local agency contractors that will be focused on WIC eligibility determination and proper documentation.

Contact

Barbara Longo, Deputy Chief, Nutrition and Local Program Services

Implementation Date

- Written communication to local agency contractors – March 16, 2015
- Webinar trainings for local agency contractors – April 21, 2015
- Creation of new monitoring reports – June 30, 2015
- Monitoring tool update – June 30, 2015
- Changes to ISIS fields – July 31, 2015

Reference Number:	2014-004
Federal Catalog Number:	10.557
Federal Program Title:	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
Federal Award Number and Year:	7CA700CA7; 2014 7CA700CA7; 2013
Category of Finding:	Eligibility; Reporting
Type of Finding:	Significant Deficiency
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 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, 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 2012–13, we reported the information technology (IT) controls over logical access for the Integrated Statewide Information System (ISIS) were not properly designed and implemented. In fiscal year 2013–14, we also found certain IT controls over logical access were not properly designed and implemented. Public Health utilizes ISIS to determine eligibility for WIC participants as well as to monitor and report issuance and redemption of food vouchers. IT general controls should be properly designed and operating effectively to help ensure application controls function properly.

Specifically, we identified the following:

- Public Health granted an unapproved level of access to two of 25 users tested.
- Public Health did not properly terminate access to ISIS for 10 of the 377 individuals with access to ISIS that had been terminated and, therefore, should no longer have access to the system.
- Public Health did not formally document the annual user access review. Additionally, this review does not include a review of users' key roles and permissions.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Public Health should improve its policies and procedures over logical access. Specifically, Public Health should:

1. Ensure that individuals are granted the appropriate level of access.
2. Identify individuals who have been terminated and promptly remove their access.
3. Formally document the annual user access review and enhance this review to include a review of users' key roles and permissions.

Department's View and Corrective Action Plan

Public Health concurs with the findings.

Public Health/WIC Division will issue a policy and procedure memo to reiterate existing instructions to WIC local agency contractors regarding the responsibilities of the local agencies to ensure ISIS user account security. These instructions will include the appropriate level of access to ISIS, removal of ISIS access to staff who have changed jobs or are no longer employed with the local agency, creation of reports to identify ISIS users for monthly reconciliation, and refreshing of instructions for ISIS password requirements. In addition, Public Health/WIC Division will update its semi-annual reporting template to require local agency contractors to verify that they have reviewed ISIS access and that access has been removed for terminated staff.

Public Health/WIC Division will review monthly ISIS reports and verify that state staff identified still engage in activities that require ISIS access as part of their essential functions. Public Health/WIC will incorporate ISIS access verification as part of the exit process for terminated state employees. Public Health/WIC will also participate in the annual user account review by verifying state staff's key roles and permissions with Public Health/WIC management in order to ensure appropriate levels of access.

Contact

Lisa Kawano, Assistant Chief, Women, Infants and Children (WIC) Division

Implementation Date

Local Agency Memo - February 27, 2015

Semi-annual reporting template – March 31, 2015

State exit process – March 31, 2015

Reference Number:	2014-005
Federal Catalog Number:	10.557
Federal Program Title:	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
Federal Award Number and Years:	7CA700CA7; 2014 7CA700CA7; 2013
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, 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 have adequate controls in place to ensure notices of audit findings were issued within 90 days of completion of a financial management review. Financial management reviews are performed to ensure that cost reimbursement claims made by local agencies comply with the applicable cost principles and include a review of the local agency's financial management system and cost allocations for direct and indirect costs. We tested eight financial management reviews performed in fiscal year 2013–14 and found that two had findings that required issuance of a notice of audit findings to the local agency. However, Public Health did not issue the notice of audit finding within the 90 days due to program staff believing that the legal department had placed a hold on issuing these notices. No legal hold had been placed. Failure to issue findings in a timely manner increases the risk that local agencies may utilize federal funds for unallowable costs and activities.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Public Health should work with its legal department to resolve any matters impacting the issuance of audit findings so that notices are issued within 90 days of completion of a financial management review.

Department's View and Corrective Action Plan

Public Health concurs with the findings. The two letters of findings that were issued beyond the 90 day time period were the result of a miscommunication within Public Health/WIC Division regarding staff's understanding regarding advice provided by Public Health Office of Legal Services. All staff involved in the issuance of audit findings letters have been advised that there is no "hold" placed on issuance of audit findings letters. In addition, Public Health/WIC Division will centralize its audit coordination and response functions to ensure appropriate oversight and follow up on all audit findings and resulting actions. Currently, responsibility for follow up of findings resides in a variety of programmatic areas. Centralizing the various audit coordination and response functions will strengthen communication, oversight, follow up, and reporting.

Contact

Lisa Kawano, Assistant Chief, Women, Infants and Children (WIC) Division

Implementation Date

Miscommunication clarification for staff - January 2015
Create centralized audits unit – June 30, 2015

Reference Number:	2014-006
Federal Catalog Number:	10.557
Federal Program Title:	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
Federal Award Number and Years:	7CA700CA7; 2014 7CA700CA7; 2013
Category of Finding:	Special Tests and Provisions
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 E—State Agency Provisions, § 246.12 Food delivery systems.

- (r) Retail purchase systems
- (5) The State agency shall establish procedures to ensure the propriety of redeemed food instruments.
 - (i) The State agency shall design and implement a system of review of food instrument to detect suspected overcharges and to identify food vendors with high levels of suspected overcharges. (ii) The State agency shall design and implement a system of review of food instruments to detect errors, including, at least, purchase price missing, participant signature missing, vendor identification missing, redemption by vendor outside of the valid date and, as appropriate, altered prices. The State agency shall implement procedures to reduce the number of errors, where possible.

Condition

Public Health did not have adequate controls in place to ensure that food instruments redeemed by vendors conform to program regulations. In its representative sample of food instruments reviewed for amounts that exceeded the maximum monetary purchase amount or other errors, such as an altered purchase price, Public Health did not appropriately report and follow up on certain food instruments. We tested 65 food instruments reviewed by Public Health and identified three food instruments where the review appropriately identified an altered purchase price; however, Public Health did not appropriately include these food instruments as errors in its 2013 WIC Food Instrument Audit Report. Of the three food instruments identified, one was appropriately investigated to determine whether or not an improper payment was made; however, no follow-up was performed on the remaining two food instruments identified. Improper reporting and follow-up on food instruments with altered purchase price increases the risk that vendors inappropriately redeem food instruments, and the state will not reclaim monies owed.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Public Health should implement a process to ensure follow up is made on findings identified during food instrument reviews and such findings are properly reported in the WIC Food Instrument Audit Report.

Department's View and Corrective Action Plan

Public Health concurs with the findings. The spreadsheet used by Public Health/WIC Division to document whether a vendor submitted a Food Instrument (FI) with an error or not has been modified to add a formula to automatically calculate the total number of errors identified for each FI. The calculating formula has been added to the FI audit spreadsheet template and will be utilized for the 2014 FI Audit process.

Contact

Susan Sabatier, , Chief, Data Analysis, Research and Evaluation Section

Implementation Date

Template modification – September 8, 2014

Recalculated 2013 FI Audit Findings – September 8, 2014

Reference Number:	2014-007
Federal Catalog Number:	10.557
Federal Program Title:	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
Federal Award Number and Years:	7CA700CA7; 2014 7CA700CA7; 2013
Category of Finding:	Special Tests and Provisions
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 E—State Agency Provisions, § 246.12 Food delivery systems.

(j) Retail food delivery systems: Monitoring vendors and identifying high-risk vendors –

- (4) Compliance investigations. (i) High-risk vendors. The State agency must conduct compliance investigations of a minimum of five percent of the number of vendors authorized by the State agency as of October 1 of each fiscal year. The State agency must conduct compliance investigations on all high-risk vendors up to the five percent minimum. The State agency may count toward this requirement a compliance investigation of a high-risk vendor conducted by a Federal, State, or local law enforcement agency. The State agency also may count toward this requirement a compliance investigation conducted by another WIC State agency provided that the State agency implements the option to establish State agency sanctions based on

mandatory sanctions imposed by the other WIC State agency, as specified in paragraph (l) (2)(iii) of this section. A compliance investigation of a high-risk vendor may be considered complete when the State agency determines that a sufficient number of compliance buys have been conducted to provide evidence of program noncompliance, when two compliance buys have been conducted in which no program violations are found, or when an inventory audit has been completed.

(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 properly monitored high risk vendors and took appropriate action on findings identified during vendor inventory audits. In fiscal year 2013–14, Public Health conducted 158 vendor inventory audits. However, Public Health did not issue a notice of audit finding within 90 days of completion of the audit for 13 of 30 compliance investigations tested due to program staff believing that the legal department had placed a hold on issuing these notices. No legal hold had been placed. As of June 30, 2014, eight of 13 notice of audit finding letters had been issued to vendors and the collection process had begun. The remaining five notice of audit finding letters were issued subsequent to June 30, 2014. Additionally, Public Health did not evidence its review of five of 35 undercover compliance buys tested. Failure to issue notices of audit findings on compliance investigations and failure to properly review compliance buy audits increases the risk that vendors inappropriately redeem food instruments and the state will not reclaim monies owed.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Public Health should adhere to 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. Additionally, Public Health should strengthen controls over compliance buys to ensure they are properly reviewed.

Department's View and Corrective Action Plan

Public Health concurs with the findings. Currently, on a bi-weekly basis, Public Health/WIC Division is monitoring the vendor inventory audit report for the update and status of vendors that have audit findings. This review is a cross-check to ensure that letters are being issued timely.

To verify that compliance buys are properly reviewed, Public Health/WIC Division will implement an "Internal Management Quality Assurance File Review Checklist" form. Public Health/WIC management will use this form to conduct random monthly samples to review vendor compliance buys resulting in a "no findings" or "minimal findings" status. Additionally, a "Compliance Monitoring Investigation File Peer Review Checklist" form will be developed for management to complete a review when compliance investigations have been conducted and results in findings that lead to a vendor termination and/or disqualification.

In addition, Public Health/WIC Division will centralize its audit coordination and response functions to ensure appropriate oversight and follow up on all audit findings and resulting actions. Currently, responsibility for follow up of findings resides in a variety of programmatic areas. Centralizing the various audit coordination and response functions will strengthen communication, oversight, follow up, and reporting.

Contact

Sharon G. Lindner, Chief, Vendor Integrity Section

Implementation Date

- Vendor Inventory Audit Report – August 4, 2014
- Internal Management Quality Assurance File Review Checklist – March 30, 2015
- Compliance Monitoring Investigation File Peer Review Checklist – March 30, 2015
- Create centralized audits unit – June 30, 2015

Reference Number:	2014-008
Federal Catalog Number:	10.565
Federal Program Title:	Commodity Supplemental Food Program
Federal Award Number and Years:	7CA300CA3; 2014 7CA810CA1; 2013
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.

TITLE 7 – AGRICULTURE, PART 247 – COMMODITY SUPPLEMENTAL FOOD PROGRAM, § 247.29 Reports and recordkeeping.

- (2) FNS-153, Monthly Report of the Commodity Supplemental Food Program and Quarterly Administrative Financial Status Report. The State agency must submit the FNS-153 on a monthly basis. FNS may permit the data contained in the report to be submitted less frequently, or in another format. The report must be submitted within 30 days after the end of the reporting period. On the FNS-153, the State agency reports:
- (i) The number of program participants in each population category (e.g., infants, children, and elderly);
 - (ii) The receipt and distribution of commodities, and beginning and ending inventories, as well as other commodity data; and
 - (iii) On a quarterly basis, the cumulative amount of administrative funds expended and obligated, and the amount 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 three FNS-153 reports tested, resulting in a net understatement of \$1,385,075 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. The primary purpose of Food and Nutrition Service (FNS)-153 reporting is to inform the United States Department of Agriculture (USDA) of: 1) the amount of Commodity Supplemental Food Program (CSFP) funding released to the local agencies; and 2) 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 revert 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."

To ensure the accuracy of FNS-153 reports, Education strengthened internal controls which include the following data review and validation procedures:

- The Local Agency reports are combined into a single state report by two Education CSFP staff members; one staff member reviews the inventory information, another staff member 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 data reporting errors. The errors are corrected, the warnings considered, and another Engine Validation report is produced to ensure the correction of all errors.

- Copies of the FNS-153 reports and all back-up documentation are submitted to the CSFP manager for final review and approval. The manager certifies the FNS-153 report submission in the FPRS and sends an e-mail to the USDA confirming the review and certification.

After the FNS-153 reports are submitted to the USDA, the USDA confirms the sufficiency and acceptance of the reports via e-mail.

Contact

Jacqueline Henderson, Manager, Distribution and Processing Unit, Nutrition Services Division

Implementation Date

July 1, 2015

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Reference Number:	2014-009
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

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

HCD 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 four of 11 audit reports with HOME Program 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

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

Department’s View and Corrective Action Plan

HCD will ensure that a HOME A-133 subrecipient audit finding tracking system is kept up to date, either in CAPES or in an Excel file stored in the DFA group drive. The staff or Manager responsible for sending out the management letters will keep this report up to date. The responsible person’s supervisor

will check the report monthly to ensure that the management letters are going out within six months. If not, the responsible person's supervisor will adjust their priorities to allow time for the letter to go out or will delegate as necessary to other HCD employees.

Contact

Tom Bettencourt, Branch Chief, HOME Investment Partnerships Program

Implementation Date

June 30, 2015

U.S. DEPARTMENT OF LABOR

Reference Number:	2014-010
Federal Catalog Number:	17.225
Federal Program Title:	Unemployment Insurance (UI)
Federal Award Number and Years:	UI-23881-13-55-A-6, 2014 UI-22264-12-55-A-6, 2013
Category of Finding:	Eligibility
Type of Finding:	Material Weakness
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.

Condition

EDD does not have a process in place to reconcile the UI benefit expenditures raw data extract provided for eligibility testing, to its general ledger system. UI claimant expenditure detail is maintained within EDD's Single Client Database (SCDB) system and the variance between the raw data provided and the general ledger was approximately \$600 million. Upon our request, EDD reconciled the claimant expenditures in SCDB to amounts reported in the general ledger. EDD did not reconcile this data throughout the year and took six months to complete the reconciliation for fiscal year 2013-14. Failure to reconcile claimant expenditures to the general ledger may result in errors in amounts reported in their general ledger and to the Federal government.

Questioned Costs

No specific questioned costs were identified.

Recommendations

EDD should implement a reconciliation process over claimant expenditures raw data from SCDB to amounts reported in the general ledger.

Department's View and Corrective Action Plan

The EDD complied with the criteria cited for this finding. Specifically, the EDD has internal controls over federal programs to ensure compliance with applicable federal laws, regulations, and contract and grant agreements. The EDD maintains controls to ensure the amounts recorded in the general ledger and reported to the federal government are accurate. The controls include weekly, monthly, and year-end processes which consist of reconciling claimant expenditures from the Single Client Data Base and other related systems (e.g., Accounting and Compliance Enterprise System [ACES], and Benefit

Accounting System). Therefore, these processes would identify any discrepancies before the amounts are reported to the federal government. This was further validated, as the KPMG audit did not disclose deficiencies with management of federal monies.

The condition as stated by KPMG appears to refer to the “raw” data extract initially provided to their auditors, which does not relate to the criteria cited for this finding. The challenge encountered was that the initial extract provided to the auditors only included the payments portion of the raw data. This is the extract from which the KPMG auditors have historically pulled their test work. Subsequently, our understanding of what the auditors were requesting was to ensure that the raw data provided reconciled directly to the general ledger (Report of Expenditures of Federal Funds [Report No. 13]). This required extensive work since there are various data sources that provide the raw data that make up the expenditures recorded in the general ledger for Report No. 13, not just the payments portion of the data.

To reconcile the general ledger to the raw data extract for KPMG, we had to define the expenditure types (e.g., overpayments, paper warrants, electronic benefit transfers, combined wages to and from other states, federal income tax withholdings, and extension expenditures) generated from each subsystem within each business unit. These expenditures made up the majority of the difference from the initial data extract. Subsequently to defining the expenditure types, we had to identify the computer programmers that could write the computer programs to extract the data from each subsystem. Once the computer programs were written and the data was extracted, each business unit had to verify that the individual claimant expenditures reported for Fiscal Year 2013-14, were included in the extract. In addition, research had to be conducted to identify whether other expenditures were missing or the computer program had to be revised.

The EDD recognizes the importance of providing accurate information to the auditors for testing and has developed a process to ensure data extracts are reconciled to the general ledger before the information is released to the auditors. As of December 15, 2014, the EDD has computer programs readily available for future audits that will extract detailed claimant expenditure data from multiple subsystems to provide the auditors with the universe of claimant expenditures for a given fiscal year. In addition, the Fiscal Programs Division will work with the Information Technology Branch and other business units who provide claimant expenditures to ensure data extracts provided to auditors agree with the general ledger and Report No. 13.

Contact

Cathy Barratt, Unemployment Insurance Branch, Policy and Coordination Division

Implementation Date

December 2014

Auditors' Conclusion

The condition within the finding does not comment on the management of federal monies. EDD acknowledges that the request for the raw data extract has historically been made and is necessary for audit purposes. While we identified reconciling matters in the prior year audits, the variance between the raw data and general ledger was \$600 million in fiscal year 2013-14 and the effort needed by EDD this year to resolve the difference was significantly greater than in prior years. As a result, we concluded that the controls are not operating effectively to reconcile detailed claimant data to the general ledger.

Reference Number:	2014-011
Federal Catalog Number:	17.225
Federal Program Title:	Unemployment Insurance (UI)
Federal Award Number and Years:	UI-23881-13-55-A-6, 2014 UI-22264-12-55-A-6, 2013
Category of Finding:	Eligibility
Type of Finding:	Significant Deficiency
State Administering Department:	Employment Development Department (EDD)

Criteria

TITLE 20 EMPLOYEES' BENEFITS, CHAPTER V – EMPLOYMENT AND TRAINING ADMINISTRATION, DEPARTMENT OF LABOR, Part 602 – Quality Control in the Federal-State Unemployment Insurance System, Subpart B – Federal Requirements, Section 602.11 – Secretary's Interpretation

- (a) The Secretary interprets section 303(a)(1), SSA, to require that a State law provide for such methods of administration as will reasonably ensure the prompt and full payment of unemployment benefits to eligible claimants, and collection and handling of income for the State unemployment fund (particularly taxes and reimbursements), with the greatest accuracy feasible.

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

EDD uses the Single Client Data Base (SCDB) system to handle claims intake, processing, eligibility determination, and payment of unemployment insurance claims. The SCDB was designed with various edit checks and application controls to promote segregation of duties and ensure proper eligibility determinations and claims processing. EDD had established global security patterns within the SCDB so that claim processors who had access to initiate payments could not file claims and vice versa. Edit

checks were also implemented to stop benefit payments if continuing eligibility requirements allowing claimants to receive their benefits were not met. EDD staff worked to manually clear these edit checks, if appropriate, in order to process the claim for payment.

In September 2013, EDD implemented the California Unemployment Benefits Payment System (CUBS) to add functionality to its unemployment processing system, the SCDB. CUBS has built-in logic to determine whether a claimant is eligible for payment (based on information obtained from the SCDB), calculate and process benefit payments, and authorize the payment.

In fiscal year 2013-14, we noted that EDD had not yet established the policies to address which users are authorized to have certain permissions within CUBS that would ensure a proper segregation of duties. EDD determined that staff with the ability to file claims in SCDB also had the ability to create weekly certifications that are required for CUBS to determine claimant eligibility. Providing staff with the permission to file claims in SCDB and the permission to create weekly certifications in CUBS constitutes a lack of segregation of duties within the eligibility process which could result in a payment to a claimant who was not deemed eligible.

Failure to maintain adequate information technology controls could result in improper eligibility determinations and benefit payments.

Questioned Costs

No specific questioned costs were identified.

Recommendations

EDD should establish permissions within CUBS that promote segregation of duties within the claim filing process. Specifically, the permission should prevent staff with the ability to file claims from creating weekly certifications.

Department's View and Corrective Action Plan

We understand the necessity of establishing permissions within CUBS that promote separation of duties within the claim filing process; specifically, that the permissions should prevent staff with the ability to file claims from creating weekly certifications. Since the implementation of CUBS, we have been working on mapping the CUBS permissions to SCDB global security patterns in order to establish our CUBS global security policies to ensure proper separation of duties. Beginning in April 2014, for staff with SCDB claim filing authority, we began revoking the CUBS permission that allowed them to create the weekly certifications. As of mid-August 2014, we have identified all affected claim filing staff and removed their permission to create weekly certifications. Since August 2014, we have been doing periodic checks to make sure that staff with SCDB Claim Filing authorization do not also have access to create weekly certifications.

Contact

Cathy Barratt, Unemployment Insurance Branch, Policy and Coordination Division

Implementation Date

August 2014

Reference Number:	2014-012
Federal Catalog Number:	17.225
Federal Program Title:	Unemployment Insurance (UI)
Federal Award Number and Year:	UI-23881-13-55-A-6, 2014
Category of Finding:	Reporting
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 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.

ETA 2208A, *Quarterly UI Contingency Report* (OMB No. 1205-0132) – Quarterly report of staff years worked and paid by program category. Key line items are 1 through 7 of Section A.

Condition

EDD does not have adequate controls in place to evidence its review of the ETA 2208A, *Quarterly UI Contingency Report*. In addition, EDD did not properly reconcile the underlying detail to the report, and as a result, for the two ETA 2208A reports tested, EDD did not accurately report the number of Staff Years Paid for program categories Claims Activities, Employer Activities, UI Performs, and Support AS&T. 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

EDD should strengthen its process over reconciliation and review of ETA 2208A reports to ensure accuracy of the reports prior to submission.

Department's View and Corrective Action Plan

The EDD currently has a process in place that includes a review and a reconciliation of the underlying detail to the ETA 2208A report. This process has been modified to ensure documentation of all ETA 2208A report reviews are in writing (via email).

Although EDD agrees that errors in the tested report existed, we disagree that it was due to failure to reconcile reports to supporting documents. All detail behind the data that is included in the ETA 2208A is meticulously reconciled with workload reports, cost accounting reports, and invoice reports each quarter. The errors were a result of a complication in backup worksheets used to consolidate the report data. The complication in the methodology involved the fact that backup files collected staff years worked and paid data on separate sheets, where activity codes were categorized into Department of Labor workload types independently of each other. This increased the possibility that the same activity codes could potentially be placed into different categories on each sheet if a link was inadvertently changed due to human error. The EDD does not produce any reports that would facilitate reconciliation of staff years by Department of Labor workload category. Although activity code categorization is researched and reviewed for accuracy when a new activity code is created, the worksheet links are not re-verified each quarter, as they should remain the same throughout the lifetime of the coding.

The EDD has improved the methodology used to categorize staff years worked and paid to ensure activity codes are not placed in more than one category. KPMG tested reports that were submitted prior to an update in reporting methodology that was completed in the fall of 2014 and implemented beginning with the ETA 2208A for the quarter ending December 31, 2014. The new methodology has simplified the worksheet for collecting data, which now utilizes an Excel “lookup” formula for both staff years worked and paid using the same reference table to categorize both, eliminating the possibility of the same type of errors that were discovered by KPMG.

The EDD would like to note that for the two ETA 2208A reports that KPMG tested, quarter ending December 31, 2013 and quarter ending June 30, 2014, the discrepancies found in the Claims Activities Staff Years Paid resulted in the EDD receiving \$34,855 less than it should have received in above base earnings for those two quarters, which equates to 0.09 percent of the \$37.2 million in total funding received for those two quarters (less postage and other).

Contact

Laura Jacobson, Administration Branch, Fiscal Division, Staff Services Manager

Implementation Date

Fall 2014

Auditors' Conclusion

In the two instances noted, our audit detected the errors in the ETA 2208A report by recalculating amounts and reconciling to underlying data. Further, under the provisions of the March 2014 OMB Circular A-133 *Compliance Supplement*, we are required to test key line items 1 through 7 of Section A of the ETA 2208A report, which reports number of staff-year usage. Therefore we did not comment on the dollar amount of the discrepancies.

U.S. DEPARTMENT OF TRANSPORTATION

Reference Number:	2014-013
Federal Catalog Number:	20.205 (ARRA)
Federal Program Title:	Highway Planning and Construction Cluster (Highway Planning)
Federal Award Number and Year:	N 4510.765; 2013 N 4510.758; 2012
Category of Finding:	Special Tests and Provisions
Type of Finding:	Significant Deficiency and Material Instance of Noncompliance
State Administering Department:	California Department of Transportation (Caltrans)

Criteria

TITLE 23 – HIGHWAYS, CHAPTER I – FEDERAL HIGHWAY ADMINISTRATION, DEPARTMENT OF TRANSPORTATION, SUBCHAPTER G – ENGINEERING AND TRAFFIC OPERATIONS, Part 637, Construction Inspection and Approval, Section 207 - Quality Assurance Program

- (a) (3) 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

During our audit for fiscal year 2012-13, we reported that Caltrans did not have adequate controls in place to ensure required materials certifications were prepared. The materials certifications are required by federal regulation and provide evidence that proper tests were performed in accordance with the approved Caltrans quality assurance program. In July 2009, Caltrans implemented procedures to obtain materials certifications for projects accepted after this date. We tested 53 projects both prior and subsequent to July 2009 since the regulation has been in place prior to 2009. We found that Caltrans was unable to locate materials certifications for nine projects accepted prior to July 2009 and one project accepted after July 2009. 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 strengthen its procedures 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. Prior to July 2009, the Caltrans Construction Manual instructed resident engineers to prepare a memorandum for project materials acceptance. Form CEM-6302 was created in July 2009 for documentation of project materials acceptance. 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. For this audit, the materials memorandum or certification was not located for 10 projects. Of the 10 projects without a materials memorandum or certificate, all but one project was accepted prior to July 2009. As a result, the Division of Construction is aware that this may continue to be a challenge on projects accepted prior to July 2009. On October 24, 2013, a construction policy directive was issued to remind staff of the importance of project documentation at project completion. Construction is editing the *Construction Manual* to clarify the list of documents to be maintained in the project history file required for permanent records retention. Staff are informed of changes to the *Construction Manual* through a construction policy bulletin. Caltrans will continue to inform staff when changes to record retention policies occur through updates to the *Construction Manual*.

Contact

John Bittermann, Senior Engineer, Division of Construction

Implementation Date

June 30, 2015

Reference Number:	2014-014
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-0121-12-01-00; 2012 FR-HSR-0117-12-01-00; 2011 FR-HSR-0116-12-01-00; 2011 FR-HSR-0108-12-01-00; 2011 FR-HSR-0107-12-01-00; 2011 FR-HSR-0106-12-01-00; 2011 FR-HSR-0100-11-01-00; 2011 FR-HSR-0092-11-01-00; 2011 FR-HSR-0091-11-01-00; 2011 FR-HSR-0068-11-01-00; 2011 FR-HSR-0058-11-01-00; 2011 FR-HSR-0045-11-01-00; 2011 FR-HSR-0032-11-01-00; 2011 FR-HSR-0022-11-01-00; 2011 FR-HSR-0021-11-01-00; 2011
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 18 draws and found no evidence of review of eight of the draws prior to submission. Failure to maintain adequate controls increases the risk that Caltrans may draw 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

A reminder memorandum will be sent to staff regarding the review and signature of cash drawdown requests by first line supervisors or managers prior to submittal in FRA's electronic invoice submittal system (eInvoice). Contract managers will be reminded to retain this evidence of review in the project file.

Contact

Crystal Ortiz, Division of Rail and Mass Transportation

Implementation Date

April 30, 2015

Reference Number:	2014-015
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-0058-11-01-01; 2011 FR-HSR-0022-11-01-00; 2011 FR-HSR-0021-11-01-01; 2011
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

During our audit for fiscal year 2012-13, we reported that Caltrans did not have procedures in place to comply with federal Davis-Bacon Act requirements because it did not obtain certified weekly payrolls from contractors for the High Speed Rail program. In fiscal year 2013-14, Caltrans had not yet implemented procedures to obtain the weekly certified payrolls. Failure to obtain the required weekly certified payrolls increases the risk of noncompliance with Davis-Bacon Act requirements.

Questioned Costs

Not determined.

Recommendations

Caltrans should implement procedures to obtain the weekly required certified payrolls.

Department's View and Corrective Action Plan

Caltrans currently has approved Davis-Bacon compliance language. For future contracts, Caltrans Legal will determine Davis-Bacon applicability and this determination will be documented in the project file. For future contracts under which Davis-Bacon does apply, Caltrans will ensure that the appropriate language is included in the contract and weekly certified payrolls will be required to be submitted by the contractor with their invoice reimbursement requests.

Caltrans Legal is in the process of reviewing all existing contracts to determine the applicability of Davis Bacon provisions and whether the proper language was included in the contracts if Davis-Bacon does apply. Once it is determined which contracts require Davis-Bacon, and that the proper language was included in the contract, contract managers will notify the contractor to submit weekly certified payrolls.

Caltrans Legal has completed its review of the contract funded by Grant number FR HSR 0022 11-01-00. Legal determined that Davis-Bacon does apply but that the contract did not contain Davis-Bacon compliance language. Caltrans will seek to amend this contract to add the Davis-Bacon requirement. If the contractor does not agree to amend, Caltrans will not be able to require submission of certified weekly payrolls.

Regarding the status of the remaining two grants, the contract for Grant number FR-HSR-0058-11-01-01 was completed as of August 31, 2014 and is in the process of closeout with FRA. Further, Caltrans Legal is still in the process of reviewing the contract for Grant number FR-HSR-0021-11-01-01.

Contact

Crystal Ortiz, Division of Rail and Mass Transportation

Implementation Date

June 30, 2015

Reference Number:	2014-016
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-0009-10-01-05; 2010
Category of Finding:	Davis-Bacon Act
Type of Finding:	Significant Deficiency
State Administering Department:	California High Speed Rail Authority (Rail Authority)

Criteria

TERMS AND CONDITIONS OF THE GRANT/COOPERATIVE AGREEMENT BETWEEN UNITED STATES DEPARTMENT OF TRANSPORTATION – FEDERAL RAILROAD ADMINISTRATION AND THE CALIFORNIA HIGH-SPEED RAIL AUTHORITY

Attachment 2; General Provisions, Subpart 6b—Audit and Inspection

- (1) General Audit Requirements: A Grantee that is:
 - a. A State, local government or Indian tribal government agrees to comply with the audit requirements of 49 CFR 18.26 and OMB Circular A-133, and any revision or supplement thereto.

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 that could have a material effect on each of its Federal programs.

U.S. OFFICE OF MANAGEMENT AND BUDGET A-133 COMPLIANCE SUPPLEMENT; PART 6 – INTERNAL CONTROL; General Guidance – Internal Control Over Compliance For Major Programs With Expenditures of ARRA Awards

Section 1 – It is essential that auditee management establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements, including internal controls designed to ensure compliance with ARRA requirements. The auditor then performs and documents testwork relating to internal controls as required by OMB Circular A-133.

Section 3 – At many entities, awards funded by ARRA funds will result in material increases in funding, which may result in a material increase in the level of resources needed by management to properly manage, monitor, and account for Federal awards and effectively operate internal control. As part of the consideration for internal control over compliance, auditors should consider “capacity” issues as follows:

- When evaluating whether identified control deficiencies, individually or in combination, are significant deficiencies or material weaknesses, the auditor should consider the likelihood and magnitude of noncompliance. One of the factors that affects the magnitude is the volume of activity exposed to the deficiency in the current period or expected in the future.

Condition

During fiscal year 2013-14, the California High Speed Rail Authority (Rail Authority) began construction on the first segment of its high speed rail system. During the audit, we tested for compliance with the Davis-Bacon Act and found that the Rail Authority complied with these requirements. However, our review noted that the Rail Authority lacked finalized and documented procedures designed to detect or prevent noncompliance with Davis-Bacon Act requirements. As the Rail Authority increases construction activity in the future on other segments of its high speed rail system, having a written, formalized process will better enable it to monitor compliance with the Davis-Bacon Act and ARRA requirements. The Rail Authority’s contract compliance and small business administrator acknowledged that his agency did not yet have an official/finalized process. However, to its credit, the Rail Authority is in the process of developing procedures in its Labor Compliance Operating Manual and provided the audit team with a draft of such procedures during the audit. The Rail Authority needs to finalize and distribute such procedures to its staff.

Questioned Costs

No specific questioned costs were identified.

Recommendations

To ensure that its staff are properly monitoring its contractors for compliance with the Davis-Bacon Act, the Rail Authority should finalize and implement internal controls to prevent and detect potential noncompliance.

Department's View and Corrective Action Plan

The Authority does have, and has been using, a draft version of the procedures designed to detect and/or prevent noncompliance. The Authority acknowledges that it does not have a finalized procedure regarding internal controls to prevent and detect potential noncompliance. It is a priority of the Authority to adopt procedures before construction activities increase to guarantee an effective compliance program. The draft version of this procedure can be found in the Authority's Labor Compliance Operating Manual (manual). The Authority will finalize and formally adopt this manual by June 30, 2015. The Authority, its staff and representatives, will continue using the draft manual until it is finalized to ensure proper compliance monitoring of its contractors with the Davis-Bacon Act.

Contact

Paula Rivera, California High-Speed Rail Authority, Audit Division, Senior Management Auditor

Implementation Date

June 30, 2015

Reference Number:	2014-017
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-0009-10-01-05; 2010
Category of Finding:	Reporting
Type of Finding:	Significant Deficiency
State Administering Department:	California High Speed Rail Authority (Rail Authority)

Criteria

TITLE 49—TRANSPORTATION—SUBTITLE A—OFFICE OF THE SECRETARY OF TRANSPORTATION—PART 18—UNIFORM ADMINISTRATION REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS

§18.20 Standards for financial management systems.

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

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

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

U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULATOR 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 that could have a material effect on each of its Federal programs.

Condition

Although we found that the Rail Authority reported accurate financial information on the SF-425 report, it lacks adequate internal controls to ensure that the SF-425 captures all relevant spending information. Specifically, the Rail Authority's financial grant administrator told us that she uses a manual process to track federal financial data in an internally developed Excel workbook (workbook) and uses this workbook as the basis of preparing the SF-425 report. However, we noted that the Rail Authority lacked procedures to ensure that its workbook was accurate and complete when compared to its official accounting records. Although the financial grant administrator stated that Rail Authority staff review the California State Accounting and Reporting System (CALSTARS) and the state controller's financial data when entering financial transactions into the workbook, she does not compare the financial information reported in the SF-425 reports to the Rail Authority's official accounting records before submitting the report to the Federal Railroad Administration. Further, the Rail Authority's financial officer told us that his review consists of comparing the SF-425 reports to the workbook and not with the State's financial records. As a result, it is not clear how the Rail Authority's management would identify errors or omissions in its workbook and we believe it would be prudent for the Rail Authority to at least compare the amounts reported on the SF-425 to its official accounting records prior to submission.

Questioned Costs

No specific questioned costs were identified.

Recommendations

The Rail Authority needs to develop procedures to verify that the amounts reported on the SF-425 are consistent with its official accounting records prior to submission.

Department's View and Corrective Action Plan

We concur with this finding. The Authority Fiscal Services Division (FINO) has developed a policy to ensure that all amounts are compared to its official accounting record. FINO has also implemented procedures for comparing amounts reported on the SF-425 to the accounting records prior to submission.

Contact

Paula Rivera, California High-Speed Rail Authority, Audit Division, Senior Management Auditor

Implementation Date

March 3, 2015

Reference Number:	2014-018
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-0121-12-01-00; 2012 FR-HSR-0117-12-01-00; 2011 FR-HSR-0116-12-01-00; 2011 FR-HSR-0108-12-01-00; 2011 FR-HSR-0107-12-01-00; 2011 FR-HSR-0106-12-01-00; 2011 FR-HSR-0100-11-01-00; 2011 FR-HSR-0092-11-01-00; 2011 FR-HSR-0091-11-01-00; 2011 FR-HSR-0068-11-01-00; 2011 FR-HSR-0058-11-01-00; 2011 FR-HSR-0045-11-01-00; 2011 FR-HSR-0032-11-01-00; 2011 FR-HSR-0022-11-01-00; 2011 FR-HSR-0021-11-01-00; 2011
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

During our audit for fiscal year 2012-13, we reported that Caltrans did not have adequate controls in place over FFRs (SF-425) submitted for the High Speed Rail program. In fiscal year 2013-14, Caltrans did not accurately report the federal share of expenditure for five of the nine SF-425 reports tested, resulting in a net understatement of \$358,747 of federal expenditures. In addition, for all nine reports, Caltrans reported errors in various other line items. Failure to maintain and 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 review and reconciliation of SF-425 reports to ensure accuracy of the reports prior to submission.

Department's View and Corrective Action Plan

In March 2014, Caltrans Division of Rail and Mass Transportation (DRMT) received new guidance from the Federal Railroad Administration (FRA) on the way to correctly complete the SF 425 report. The new guidance was distributed to staff and was implemented on subsequent reports beginning with the April 2014 - June 2014 reporting period. Additionally, DRMT will work with the Division of Accounting to ensure that the proper expenditure reports are used to calculate amounts for the SF-425s. A reminder memorandum will be sent to staff with the FRA guidance and the requirement that SF-425s be reviewed and signed by first-line supervisors or managers. Contract managers will be reminded to retain supporting documentation and evidence of review in the project file.

Contact

Crystal Ortiz, Division of Rail and Mass Transportation

Implementation Date

August 31, 2015

Reference Number:	2014-019
Category of Finding:	Reporting
Type of Finding:	Significant Deficiency and Instance of Noncompliance
State Administering Department:	California Department of Transportation (Caltrans)
Federal Catalog Number:	20.513, 20.516, 20.521
Federal Program Title:	Transit Services Cluster
Federal Award Number and Year:	CA-16-0057-00; 2012 CA-37-X166-00; 2012 CA-57-X085-00; 2012 CA-16-0055-00; 2010 CA-37-X128-00; 2010 CA-37-X131-00; 2010 CA-57-X053-00; 2010

Federal Catalog Number:	20.505
Federal Program Title:	Metropolitan Transportation Planning
Federal Award Number and Year:	CA-81-0011-00; 2014 CA-81-0010-00; 2013

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

Caltrans did not have a process in place to comply with reporting requirements of the Federal Funding Accountability Transparency Act (FFATA) for the Metropolitan Transportation Planning program and the Transit Services Cluster. As a result, the information required under FFATA was not submitted for any of the first-tier subwards awarded under the Metropolitan Transportation Planning Program. In addition, 23 of the 24 samples tested for the Transit Services Cluster were not submitted timely, with 17 not being reported at all. Failure to implement a process over FFATA reporting results in late or non-submission of subaward information and noncompliance with the grant agreement.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Caltrans should implement policies and procedures to report subaward information under FFATA for the Metropolitan Transportation Planning program and the Transit Services Cluster.

Department's View and Corrective Action Plan

Caltrans Office of Regional Planning (ORP) Fund Specialists will create an account with the Federal Subaward Reporting System (FSRS) and report information for subawards of \$25,000 or more awarded through the Metropolitan Transportation Planning Program. ORP Fund Specialists will update this information at the beginning of the state fiscal year 2015/2016 and on an ongoing basis through periodic visits to the FSRS.

Contact

Erin Thompson, Regional Planning Branch Chief

Implementation Date

July 1, 2015

Reference Number:	2014-020
Federal Catalog Number:	20.505
Federal Program Title:	Metropolitan Transportation Planning
Federal Award Number and Year:	CA-81-0011-00; 2014 CA-81-0010-00; 2013

Category of Finding:	Subrecipient Monitoring
Type of Finding:	Significant Deficiency and Instance of Noncompliance
State Administering Department:	California Department of Transportation (Caltrans)

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;
- (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

Caltrans does not have adequate controls over award communication to subrecipients. Caltrans did not properly communicate the Catalog of Federal Domestic Assistance (CFDA) title and number for all 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. Caltrans passed through \$63.1 million to Metropolitan Transportation Planning subrecipients during fiscal year 2013-14.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Caltrans should improve its award communication process to subrecipients to ensure that it includes the CFDA title and number in all subawards.

Department’s View and Corrective Action Plan

Effective July 1, 2015, ORP will include the CFDA title and number on the encumbrance document for all Metropolitan Planning Organizations and Regional Transportation Planning Agencies that receive Metropolitan Planning funds

Contact

Erin Thompson, Regional Planning Branch Chief

Implementation Date

July 1, 2015

Reference Number:	2014-021
Category of Finding:	Reporting
Type of Finding:	Significant Deficiency and Instance of Noncompliance
State Administering Department:	California Department of Transportation (Caltrans)
Federal Catalog Number:	20.513, 20.516, 20.521
Federal Program Title:	Transit Services Cluster
Federal Award Number and Year:	CA-16-0057-00; 2012 CA-37-X166-00; 2012 CA-57-X085-00; 2012 CA-16-0055-00; 2010 CA-37-X128-00; 2010 CA-37-X131-00; 2010 CA-57-X053-00; 2010

Federal Catalog Number:	20.509
Federal Program Title:	Formula Grants for Rural Areas
Federal Award Number and Year:	CA-18-X059-00; 2013 CA-18-X052-00; 2012 CA-85-X004-00; 2011 CA-18-X043-00; 2010 CA-86-X001-00; 2009 CA-18-X025-00; 2007

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

During our fiscal year 2012-13 audit, we reported that Caltrans did not have adequate controls in place to evidence its review of SF-425 reports and could not provide support for certain key line items within the SF-425 for the Formula Grants for Rural Areas program. In fiscal year 2013-14, Caltrans did not provide evidence of review of the SF-425 for both the Formula Grants for Rural Areas Program and the Transit Services Cluster. In addition, for three of four reports tested for the Formula Grants for Rural Areas Program and all four reports tested for the Transit Services Cluster, support for the Recipient Share of Expenditures, Federal Share of Unliquidated Obligations, and Recipient Share of Unliquidated Obligations line items could not be provided. Failure to retain supporting documentation for amounts reported and lack of adequate review controls 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 review process over the SF-425 reports to evidence its review by someone other than the preparer, and maintain the support for amounts reported.

Department’s View and Corrective Action Plan

Caltrans implemented procedures to retain supporting documentation and evidence of supervisory approvals in response to the previous year’s audit report. However, the issues identified in the current year audit occurred prior to implementation in February 2014 of the improved procedures. Caltrans will continue current procedures to retain supporting documentation and evidence of supervisory approvals.

Contact

Rico Pobre, Division of Accounting

Implementation Date

February 2014

Reference Number:	2014-022
Category of Finding:	Subrecipient Monitoring
Type of Finding:	Significant Deficiency and Instance of Noncompliance
State Administering Department:	California Department of Transportation (Caltrans)
Federal Catalog Number:	20.509
Federal Program Title:	Formula Grants for Rural Areas
Federal Award Number and Year:	CA-18-X059-00; 2013 CA-18-X052-00; 2012 CA-85-X004-00; 2011 CA-18-X043-00; 2010 CA-86-X001-00; 2009 CA-18-X025-00; 2007

Federal Catalog Number:	20.513, 20.516, 20.521
Federal Program Title:	Transit Services Cluster
Federal Award Number and Year:	CA-16-0057-00; 2012 CA-37-X166-00; 2012 CA-57-X085-00; 2012 CA-16-0055-00; 2010 CA-37-X128-00; 2010 CA-37-X131-00; 2010 CA-57-X053-00; 2010

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

During our audit for fiscal year 2012-13, we reported that 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 for the Formula Grants program. In fiscal year 2013-14, Caltrans passed Formula Grants funding to 90 subrecipients, including 24 cities, 15 counties, one town, and 50 special districts, and had not yet implemented its corrective action plan from the fiscal year 2012-13 audit. For the Transit Services Cluster, Caltrans passed funding to 61 subrecipients, including nine cities, two counties, and 50 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. For the Formula Grants program, we identified eight 2013 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 2013-14, Caltrans passed \$15.2 million through to subrecipients that expended less than \$500,000 in Formula Grants funds. For the Transit Services Cluster, we identified 26 special district OMB Circular A-133 reports for 2013 that were not reviewed by Caltrans because they expended less than \$500,000 in federal awards received from Caltrans. In fiscal year 2013-14, Caltrans passed \$4.1 million through to subrecipients that expended less than \$500,000 in Transit Services Cluster funds.

Since Caltrans did not review these reports, it cannot determine if the Formula Grants program or Transit Services Cluster were audited and whether or not findings were issued that required a management decision from Caltrans. Failure to obtain and review single audit reports of all 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 implement its process to obtain and review single audit reports of all subrecipients who expend more than \$500,000 in federal awards and issue management decisions, as necessary. Caltrans should verify that all subrecipients who did not submit single audit reports incurred less than \$500,000 in federal expenditures.

Department's View and Corrective Action Plan

All special districts for which Caltrans knew federal funds were passed through in fiscal year 2012-13 were followed up with and either a single audit report or an exemption was received. Some of this follow-up occurred after KPMG's cut-off of June 30, 2014, but we are not aware of any deadline by which to follow up with subrecipient entities. There were some special districts included in KPMG's testing, however, that Caltrans was not aware had received federal pass-through funds. Caltrans will follow up with these entities to ensure they have either submitted a single audit report or are exempt. Caltrans administering programs will work with the Division of Accounting to ensure we have a complete list of subrecipients moving forward.

Subsequent to the audit period reviewed by KPMG, Caltrans administering programs met on procedures to ensure they follow up with all entities to which they pass through federal funds, regardless of Caltrans' expenditures, to ensure the entities either receive a single audit report or certification the entity is exempt. Caltrans shared the procedures with KPMG and received their input.

Contact

MarSue Morrill, Audits and Investigations

Implementation Date

Beginning fiscal year 2014-15

Reference Number:	2014-023
Federal Catalog Number:	20.513, 20.516, 20.521
Federal Program Title:	Transit Services Cluster
Federal Award Number and Year:	CA-16-0057-00; 2012 CA-37-X166-00; 2012 CA-57-X085-00; 2012 CA-16-0055-00; 2010 CA-37-X128-00; 2010 CA-37-X131-00; 2010 CA-57-X053-00; 2010
Category of Finding:	Equipment and Real Property Management
Type of Finding:	Material Weakness and Material Instance of Noncompliance

State Administering Department: California Department of Transportation
(Caltrans)

Criteria

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: Property Standards, 215.34 - Equipment.

- (f) The recipient's property management standards for equipment acquired with Federal funds and federally owned equipment shall include all of the following:
 - (3) A physical inventory of equipment shall be taken and the results reconciled with the equipment records

Condition

Caltrans does not have controls in place to ensure that all equipment is inspected within the required time frame for the Transit Services Cluster. Caltrans did not inspect 106 of the 849 pieces of equipment that were required to be inspected within the last three years. In addition, of 65 equipment inspections tested, Caltrans was unable to provide supporting inspection reports and monitoring letters for eight inspections. Failure to perform equipment inspections increases the risk that subrecipients are not utilizing equipment in accordance with federal requirements.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Caltrans should strengthen its procedures around equipment inspections to ensure all equipment is inspected every three years and that the reports and monitoring letters are maintained.

Department's View and Corrective Action Plan

Physical Inspections - The Division of Rail and Mass Transportation works diligently to comply with all federal requirements documented in our State Management Plan (SMP) and approved by the Federal Transit Administration (FTA). As identified in this finding, not all equipment was inspected as the division worked through an unprecedented State fiscal crisis and a subsequent staffing reduction of almost 50%. During the three-year period reviewed, the Division performed monitoring inspections to the maximum extent possible, but did not achieve all needed inspections. The Division is committed to following the SMP and is working to perform all needed inspections at a rate of 1/3, 1/3 and 1/3 per year, so that all inspections are completed in a three-year cycle.

Inspection Reports - The inspection records not found during the audit were due to a one-time filing mistake. The original inspection reports were mailed to local agencies without copies being kept and maintained in the Caltrans project history folders

Contact

Bruce Plowman Chief, Section 5310 Program

Implementation Date

January 2015

Reference Number:	2014-024
Federal Catalog Number:	20.513, 20.516, 20.521
Federal Program Title:	Transit Services Cluster
Federal Award Number and Year:	CA-16-0057-00; 2012 CA-37-X166-00; 2012 CA-57-X085-00; 2012 CA-16-0055-00; 2010 CA-37-X128-00; 2010 CA-37-X131-00; 2010 CA-57-X053-00; 2010
Category of Finding:	Subrecipient Monitoring
Type of Finding:	Significant Deficiency and Instance of Noncompliance
State Administering Department:	California Department of Transportation (Caltrans)

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

Caltrans did not have proper controls in place to obtain DUNS numbers prior to making subawards under the Transit Services Cluster. We noted for 23 of the 24 subgrants tested, subawards were made prior to obtaining a DUNS number for the subrecipient. Failure to obtain the DUNS numbers prior to awarding funds increases the risk that subawards may be incorrectly reported.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Caltrans should develop policies and procedures to obtain DUNS numbers prior to awarding federal funds for the Transit Services Cluster.

Department's View and Corrective Action Plan

To comply with the DUNS number requirements stated in #1 and # 2 above, we changed our DUNS number collection process. In our call for Projects that was issued 10/1/2014, we added a field on our grant applications for subrecipient agencies to enter their DUNS number. Without the DUNS number the application will be considered incomplete and will not be approved. These changes are already in effect.

Contact

Bruce Plowman Chief, Section 5310 Program

Implementation Date

January 1, 2015

U.S. DEPARTMENT OF EDUCATION

Reference Number:	2014-025
Federal Catalog Number:	84.027
Federal Program Title:	Special Education Cluster (IDEA)
Federal Award Number and Years:	H027A130122; 2013 H173A130120; 2013 Hf027A120116; 2012 H173A120120; 2012 H027A110116; 2011 H173A110120; 2011
Category of Finding:	Level of Effort – Maintenance of Effort
Type of Finding:	Instance of Noncompliance
State Administering Department:	California Department of Education (Education)

Criteria

TITLE 20 – EDUCATION, CHAPTER 33 – EDUCATION OF INDIVIDUALS WITH DISABILITIES, SUBCHAPTER II – ASSISTANCE FOR EDUCATION OF ALL CHILDREN WITH DISABILITIES, Section 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 audits for fiscal years 2011-12 and 2012-13, we reported that Education did not meet its maintenance of effort (MOE) requirements and did not obtain a waiver from the U.S. Department of Education. In fiscal year 2013-14, Education again did not meet its MOE requirement by \$19,172,953, nor did it request a waiver. Failure to meet MOE requirements increases the risk of reduced federal funding.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Education should monitor compliance throughout the grant period to ensure MOE requirements are 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 appropriates special education expenditures on the basis of the AB 602 funding formula. The AB 602 funding formula requires Education to make multiple calculations/appropriations of state special education funds over a two year period. Thus, the fiscal year 2013-14 AB 602 final principal apportionment will not be calculated and made available until July 2016. As part of California's Annual State Application for 2015, Section V – Maintenance of State Financial Support (SMFS), Education provides the U.S. Department of Education, Office of Special Education Programs (OSEP), preliminary maintenance of state financial support for fiscal year 2012-13 and fiscal year 2013-14 which is based upon the most current certified special education appropriation amounts. In prior year applications, the CDE has informed OSEP that the SMFS is preliminary; this approach has been acceptable to OSEP in previous years.

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. If the expenditure data demonstrates that state financial support did not meet MOE requirements, Education will request the necessary funding from the Legislature. In prior years, the Legislature has responded to our identification of final MOE shortfalls in the past by appropriating additional funding to offset the shortage of funds; however, there have also been years where the final data reflected no shortfall.

The Legislature controls the appropriations that provide financial support for services to students with disabilities across state agencies. Education exercises control over the distribution and expenditures of the allocations received, but has no control over the financial support appropriated by the Legislature and approved by the Governor. If the Legislature does not provide Education with sufficient funding to meet MOE requirements, Education will seek a remedy, such as a waiver, from the federal Office of Special Education Program.

Contact

Fred Balcom, Director, Special Education Division

Implementation Date

July/August 2015

Reference Number:	2014-026
Category of Finding:	Subrecipient Monitoring
Type of Finding:	Significant Deficiency and Instance of Noncompliance
State Administering Department:	California Department of Education (Education)
Federal Catalog Number:	84.282
Federal Program Title:	Charter Schools
Federal Award Number and Year:	U282A100013-13; 2014 U282A100013-12; 2013 U282A100013-11; 2012 U282A100013-11B; 2012 U282A100013; 2011 U282A100013A; 2011

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.

Condition

In fiscal year 2013-14, Education did not have a process in place to obtain DUNS numbers from its Charter Schools Program subrecipients, and therefore, did not obtain DUNS numbers prior to awarding federal funds. Failure to obtain DUNS numbers increases the risk that subawards may be incorrectly reported.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Education should implement policies and procedures to obtain DUNS numbers from Charter Schools Program subrecipients prior to approving the subaward.

Department's View and Corrective Action Plan

Education accepts the recommendation. Beginning with the Fiscal Year 2014-15 Public Charter Schools Grant Program Request for Applications (Revised February 2015), Education has implemented changes to the policies and procedures for obtaining DUNS numbers prior to approving subawards. Education added a requirement to the sub-recipient application process which now requires the DUNS numbers be provided.

Contact

Cindy S. Chan, Interim Director, Charter Schools Division

Implementation Date

February 2015

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Reference Number:	2014-027
Federal Catalog Number:	93.767
Federal Program Title:	Children’s Health Insurance Program (CHIP)
Federal Award Number and Years:	05-14A5CA5021; 2014 05-13A5CA5021; 2013 05-12A5CA5021; 2012
Category of Finding:	Allowable Activities Foster Care Title IV-E
Type of Finding:	Significant Deficiency
State Administering Department:	Department of Health Care Services (Health Care Services)

Criteria

U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133—*AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS* (OMB Circular A-133), Subpart 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 7974 – *Year-End Report No. 13, Report of Expenditures of Federal Funds* states that at year-end, departments will prepare a Report of Expenditures of Federal Funds, Report No. 13, for all federal funds.

The original signed Report No. 13 is to be submitted to the Department of Finance (Finance), Fiscal Systems and Consulting Unit by August 20th. A copy of Report No. 13 must be submitted to the State Controller’s Office with the year-end financial reports. Supporting documentation used to prepare the Report No. 13 must be maintained by the department in the event Finance, Office of State Audits and Evaluations, or the California State Auditor’s Office requests to review.

Condition

Health Care Services does not have a process in place to reconcile CHIP fee-for-service claims to its general ledger system. Fee-for-service claims detail is maintained within the California Medicaid Management System (CA-MMIS) and is recorded by Health Care Services into its general ledger system through a weekly check-write. Upon our request, Health Care Services reconciled the fee-for-service claims to amounts reported in the general ledger; however, Health Care Services did not identify claims that had a split funding source resulting from the enactment of the Affordable Care Act so it took 10 months to reconcile these amounts. Failure to reconcile fee-for-service claims detail to the general ledger may result in errors on the state’s Report No. 13 and in reporting to the federal government.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Health Care Services should implement a reconciliation process over fee-for-service claims detail from CA-MMIS to amounts reported in the general ledger.

Department's View and Corrective Action Plan

Health Care Services does not agree with the finding that there is no process to reconcile fee-for-service claims. On a weekly basis there are multiple systematic checks and balancing that occur to ensure that the checkwrite amounts match the amounts funded within the CMS64 accounting system. The dollars are balanced prior to transmission to the Accounting System, and a further check/balance occurs within the CMS64 system.

Health Care Services acknowledges that two system issues were identified that affected the value in the funding field on CA-MMIS history for Affordable Care Act (ACA) claims. These claims funded correctly during the weekly checkwrite process. However, when claims were pulled from history for the audit request, a small subset of claims did not contain an identifier that indicated that the claims had split funding sources. Therefore, the entire amount of the claim was included in the calculation; where only a portion of the claim was funded MCHIP.

Health Care Services has opened projects to correct the system for the two issues identified. These efforts are referenced in Problem Statement CMMIS26407, initiated on December 17, 2014 and FI Letter A-4617, dated February 13, 2015.

Contact

Bill Otterbeck, Assistant Deputy Director, CAMMIS

Implementation Date

Not applicable

Auditors' Conclusion

We acknowledge that Health Care Services has a process to reconcile checkwrite amounts to the CMS64 system; however, Health Care Services does not have a process to reconcile fee-for-service individual transactions to the checkwrite or general ledger. As a result, Health Care Services was not able to provide detail necessary for audit purposes without significant effort towards the reconciliation. As a result, we concluded that the controls are not operating effectively to reconcile detailed claimant data to the general ledger.

Reference Number:	2014-028
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)
Federal Catalog Number:	93.775, 93.777, 93.778
Federal Program Title:	Medicaid Cluster
Federal Award Number and Year:	05-1405CA5MAP; 2014 05-1405CA5ADM; 2014 05-1305CA5MAP; 2013 05-1305CA5ADM; 2013

Federal Catalog Number:	93.767
Federal Program Title:	Children's Health Insurance Program (CHIP)
Federal Award Number and Year:	05-14A5CA5021; 2014 05-13A5CA5021; 2013 05-12A5CA5021; 2012

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 non-MAGI 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.

OMB Circular A-133, Compliance Supplement was revised to also provide guidance over Medicaid Eligibility.

E. Eligibility

1. Eligibility for Individuals

The auditor should not test eligibility for determinations based on Modified Adjusted Gross Income (MAGI-based determination) made after September 30, 2013. Detailed testing is performed under the Medicaid and CHIP Eligibility review Pilots, which serve as CMS' oversight of Medicaid and CHIP eligibility determinations during the initial years of Affordable Care Act implementation. Since the Medicaid and CHIP Eligibility Review Pilots do not review non-MAGI based cases (i.e. Aged, Blind, and Disabled), the auditor should test non-MAGI determinations.

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 expanded Medicaid coverage and simplified 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 (MAGI) and citizenship, immigration status, incarceration status and other healthcare 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.

During fiscal year 2013–14, Health Care Services reassessed the need to ensure relevant eligibility control and compliance objectives were subject to audit at the county. Health Care Services estimates there are approximately 1 million Medi-Cal beneficiaries whose determinations were made by the counties using the SAWS. Health Care Services also concluded that given anticipated changes in federally mandated Medi-Cal eligibility quality control reviews to include non-MAGI determinations,

ensuring eligibility was audited at the county was not necessary. Given that non-MAGI beneficiaries make up approximately 9 percent of the 10.9 million Medi-Cal beneficiaries and counties perform all parts of non-MAGI eligibility determinations, the county auditor is responsible for meeting internal control and compliance objectives for non-MAGI 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 Services (CMS) and counties, to ensure relevant eligibility control and compliance objectives are subject to audit at the county or obtain written approval from CMS that non-MAGI eligibility should not be in the scope of county OMB Circular A-133 audits and instead be tested by the state auditor.

Department's View and Corrective Action Plan

Health Care Services agrees that the SAWS are owned, operated and maintained by the respective 58 counties throughout the state. However, Health Care Services contends that existing federally mandated Medi-Cal eligibility quality control reviews performed by Health Care Services, along with additional reviews that Health Care Services is planning to implement in fiscal year 2015-16, is more than sufficient to meet county internal control and compliance objectives for eligibility. The fact that Health Care Services is performing the reviews instead of county auditors should not preclude the objectives from being met. Health Care Services is currently working closely with the 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 Health Care Services staff re-performing eligibility determinations from a random sample that will identify potential errors made by SAWS and/or county eligibility workers, including non-MAGI determinations starting in Round 3 (10/1/14 – 3/31/15) of the quality control pilots. In addition, pursuant to Senate Bill 28 (Hernandez, Chapter 4, Statutes of 2013), Health Care Services is required to implement a new budgeting methodology for county administrative costs that Health Care Services plans to implement no sooner than FY 2015/16. The new budgeting methodology is intended to address the changes in eligibility determination rules and processes resulting from implementation of ACA. A core element of the new budgeting methodology is to utilize 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 contractor will be used as part of the new budgeting methodology. Health Care Services suggests the auditor of the State continue to audit Medi-Cal eligibility performed by the SAWS/counties for fiscal year 2014-15 and close out this audit finding based on implementation of the Health Care Services review processes described above.

Contact

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

Implementation Date

Not applicable

Auditors' Conclusion

Health Care Services should obtain approval of their corrective action plan in writing from CMS.

Reference Number:	2014-029
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)
Federal Catalog Number:	93.775, 93.777, 93.778
Federal Program Title:	Medicaid Cluster
Federal Award Number and Year:	05-1405CA5MAP; 2014 05-1405CA5ADM; 2014 05-1305CA5MAP; 2013 05-1305CA5ADM; 2013

Federal Catalog Number:	93.767
Federal Program Title:	Children's Health Insurance Program (CHIP)
Federal Award Number and Year:	05-14A5CA5021; 2014 05-13A5CA5021; 2013 05-12A5CA5021; 2012

Criteria

TITLE 42 – PUBLIC HEALTH, PART 431 – STATE ORGANIZATION AND GENERAL ADMINISTRATION

– Sec. 431 – Single State Agency

(c) Determination of eligibility.

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

- (iii) The Federal agency administering the supplemental security income program under title XVI (SSI). In this case, the plan must also specify whether the Medicaid agency or the title IV-A agency determines eligibility for any groups whose eligibility is not determined by the Federal agency
- (3) The plan must specify whether the entity that determines eligibility is an Exchange established under sections 1311(b)(1) or 1321(c)(1) of the Affordable Care Act (Pub. L. 111-148), provided that if the Exchange is operated as a nongovernmental entity as permitted under 45 CFR 155.110(c), or contracts with a private entity for eligibility services, as permitted under 1311(f)(3) of the Affordable Care Act and 45 CFR 155.110(a), final determinations of eligibility are limited to determinations using MAGI-based methods as set forth in § 435.603 of this subchapter.
- (4) The single State agency is responsible for ensuring eligibility determinations are made consistent with its policies, and if there is a pattern of incorrect, inconsistent, or delayed determinations for ensuring that corrective actions are promptly instituted.

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

Health Care Services did not have a process in place throughout fiscal year 2013–14 to monitor counties to ensure that non-MAGI eligibility determinations are made in accordance with state and federal regulations. Health Care Services estimates there are approximately 1 million Medi-Cal beneficiaries whose eligibility determinations were made by the counties using the county-owned state Automated Welfare Systems (SAWS). Failure to monitor eligibility increases the risk that payments may be made to providers for ineligible beneficiaries.

In a letter dated August 15, 2013, the Centers for Medicare & Medicaid Services (CMS) notified California that due to the implementation of the Patient Protection and Affordable Care Act of 2010, Payment Error Rate Measurement (PERM) and the Medicaid Eligibility Quality Control (MEQC) programs would be replaced by an annual 50-state pilot program beginning January 1, 2014. Based on this guidance, Health Care Services eliminated all monitoring programs in October 2013, including those for non-MAGI eligibility determinations.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Health Care Services should implement policies and procedures to monitor county non-MAGI determinations.

Department's View and Corrective Action Plan

Health Care Services disagrees with the recommendation. In response to the implementation of ACA, CMS issued a directive on August 15, 2013, that instructed states to suspend MEQC and PERM reviews effective December 31, 2013. This directive mandated states to participate in a series of four separate pilot review programs, the first of which commenced in January 2014. To date, Health Care Services has completed two of the four required pilot programs; however, prior to the suspension of MEQC and PERM reviews, Health Care Services quality control staff continued to perform reviews of Non-MAGI determinations through December 31, 2013; therefore, Health Care Services did have review processes in place to monitor Non-MAGI determinations for part of FY 2013/14. In addition, KPMG performed audits on Non-MAGI determinations for FY 2013/14 and KPMG did not identify any errors in the eligibility determinations reviewed. Based on these findings, DHCS believes that sufficient processes were in place to monitor Non-MAGI determinations for the FY 2013/14.

Under the initial two pilot programs, CMS did not mandate states conduct quality control reviews of Non-MAGI determinations. In January 2015, CMS issued guidance for the third pilot program, which required states to resume reviews of this population. Consequently, beginning April 2015, Health Care Services will commence quality control reviews of non-MAGI determinations. Since CMS requires Health Care Services to perform quality control reviews of non-MAGI determinations, Health Care Services contends that additional internal processes for monitoring Non-MAGI determinations are not needed.

Contact

Rocky Evans, Acting Chief, Program Review Branch

Implementation Date

April 2015

Auditors' Conclusion

OMB Circular A-133 requires Health Care Services to "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." The recommendation does not comment on procedures in addition to those required by CMS, only that policies and procedures to monitor non-MAGI determinations done by counties be put into place. Health Care Services only reviewed non-MAGI determinations made through September 2014 (these reviews were completed in December 2014); therefore, nine months of non-MAGI determinations were not reviewed. In addition, as noted in finding no. 2014-028, Health Care Services did not inform county auditors that non-MAGI eligibility was the responsibility of the county auditor.

Reference Number:	2014-030
Category of Finding:	Allowable Activities/Allowable Costs
Type of Finding:	Material Weakness
State Administering Department:	Department of Health Care Services (Health Care Services)
Federal Catalog Number:	93.775, 93.777, 93.778
Federal Program Title:	Medicaid Cluster

Federal Award Number and Year: 05-1405CA5MAP; 2014
 05-1405CA5ADM; 2014
 05-1305CA5MAP; 2013
 05-1305CA5ADM; 2013

Federal Catalog Number: 93.767
 Federal Program Title: Children’s Health Insurance Program
 Federal Award Number and Year: 05-14A5CA5021; 2014
 05-13A5CA5021; 2013
 05-12A5CA5021; 2012

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.

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 2012-13 audit, we reported that certain information security controls over the California Medicaid Management System (CA-MMIS) were not operating effectively. Health Care Services utilizes a third-party fiscal intermediary to adjudicate fee-for-service (FFS) claims.

In the 2013-14 audit, we found that certain information security and change management controls over CA-MMIS were also not operating effectively. The failure of these controls was due to the lack of adequate implementation of CA-MMIS policies and procedures. Ineffective IT general controls over the information technology environment, including access and change management, could result in inappropriate claims being processed.

Specifically, we identified the following:

- CA-MMIS policy requires users to log onto the mainframe every 29 days. We identified 174 accounts that have been idle for more than 29 days. This includes 16 accounts that appear to have never been accessed and 42 accounts that have not been accessed in over 98 days. Of the 174 accounts identified two are test accounts, 14 are Help Desk accounts and the remainder are user accounts.
- We identified 84 User ID (UID) strings that are not defined on the Xerox role sheet. As a result, we were unable to identify the associated roles and privileges associated with these accounts to validate the appropriateness of the user privileges. These UID strings belong to 500 Access Control Facility (ACF2) accounts.
- Health Care Services was unable to produce a complete listing of employees. We found 1,303 CA-MMIS user accounts that could not be found on the HR listings provided. Given the large volume of user accounts, maintaining a complete listing of employees and comparing that listing to user accounts would provide a reliable way to identify terminated employees and validate user access and privilege levels.
- We selected five standard changes promoted into the production environment for testing and identified one change with an invalid test result for one test script performed and one change with invalid test results for all test scripts performed. Both changes identified were marked "Passed" and promoted into the production environment despite not passing the required test scripts.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Health Care Services should work with the FI to ensure IT general controls are operating effectively. Specifically, Health Care Services should:

1. Ensure accounts that have been idle for more than 29 days are disabled.
2. Identify and document the associated roles and privileges for all UID strings.
3. Maintain a complete employee listing that can be used to identify terminated employees.
4. Ensure program changes are thoroughly reviewed and all test scripts are valid prior to promotion into the production environment.

Department's View and Corrective Action Plan

Health Care Services agrees with the Audit Finding.

The fiscal year 2013-14 CA-MMIS audit material weakness findings are known to Health Care Services. The Contract requires annual reviews and/or updates for all CA-MMIS documentation listed in the Contract, Exhibit A, Attachment II, Sections HH-QQ including but not limited to Manuals, Deliverables, Plans, Policies, and Procedures. Several CA-MMIS Policies, Procedures, Plans, and other documentation are missing, inadequate, or have not been updated since fiscal year 2010-11.

Timely and accurate documentation is essential to maintain security and confidentiality of the CA-MMIS systems. Evidence that documentation creation, reviews and updates are not taking place, or lack of adequate procedures to ensure required documentation is created, reviewed and updated, at least annually, are of the greatest concern to Health Care Services. CA-MMIS issued two Corrective Action Plan (CAP) requests to Xerox within the last 12 months to address these findings and concerns.

CAP 022 addressed user access and other system security deficiencies. Xerox responded with a request for closure, referencing existing plans that addressed Health Care Services concerns. On March 2nd, 2015, DHCS formally denied Xerox's request to close CAP 022, Ref. A4672. The denial basis highlighted non-existent process or procedure level documentation necessary to address gaps where Xerox does not follow security policies. The current audit findings further support previous CA-MMIS analyses and decision to ultimately deny Xerox's CAP closure request.

CA-MMIS sent another CAP Request on February 24th, 2015, to address deficient documentation, Ref. A-4604. This CAP intended to update documentation failing to meet contract compliance standards. The CAP must define methods by which improvements will be attained, the specific timeline and milestones, and assigned resources for achieving satisfactory and sustained performance including a specific and measurable criterion to be utilized in determining satisfactory and sustained performance. CA-MMIS requires this documentation to be formally submitted to Health Care Services. However, Xerox failed to prepare and submit a CAP response to this issue by 2:00p.m. on March 5, 2015. CA-MMIS will follow up with a delinquency letter by March 13th, 2015.

Currently, no sanctions are actively exercised against Xerox. CA-MMIS will reaffirm the need for a formal extension of time when Xerox cannot meet Health Care Services' deadlines. From an accountability perspective, if Xerox was egregiously non-responsive, the Department could in its discretion withhold the General Adjudicated Claim Line invoice as a consequence for non-compliance of the Corrective Action Plan.

CA-MMIS is confident that these two CAPs address the 2013-14 audit findings as well as other deficiencies. However, each CAP scope is highly complex and addresses both mainframe and other CA-MMIS enterprise systems, 90+ subsystems in all. While it is possible to prioritize correction of the 2013-14 audit findings early in the resolution plan, the scale and effort to address the entire CAP is considerably large. For this reason, CA-MMIS chooses to initiate a separate third CAP request to specifically address the current findings. With a minimized scope, the third CAP achieves a more timely resolution of these specific findings:

- Enforcement of the mainframe account policy to deactivate user IDs that have been idle for 29 days.
- Complete documentation of the 84 User ID (UID) strings not currently defined on Xerox's role based security sheet.
- Develop process and procedures to regularly compare current employee listings, from all CA-MMIS business partners, to the mainframe account user database.
- Update change control documentation to include checklist approval criteria associated with test script review and validation.

CA-MMIS plans to immediately initiate this third CAP request to Xerox and will issue the CAP no later than March 13, 2015.

Contact

Dr. Jazz Kaur, CA-MMIS Audit Coordinator

Implementation Date

June 30, 2015

Reference Number:	2014-031
Federal Catalog Number:	93.775, 93.777, 93.778
Federal Program Title:	Medicaid Cluster
Federal Award Number and Year:	05-1405CA5MAP; 2014 05-1405CA5ADM; 2014 05-1305CA5MAP; 2013 05-1305CA5ADM; 2013
Category of Finding:	Activities Allowed/ Allowable Costs
Type of Finding:	Significant Deficiency and Instance of Noncompliance
State Administering Department:	Department of Health Care Services (Health Care Services)

Federal Catalog Number:	93.767
Federal Program Title:	Children's Health Insurance Program
Federal Award Number and Year:	05-14A5CA5021; 2014 05-13A5CA5021; 2013 05-12A5CA5021; 2012

Criteria

State Administrative Manual, Section 5300 – Information security means the protection of information and information systems, equipment, 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, print, or other media) is critical to ensure business continuity and protection against unauthorized access, use, disclosure, disruption, modification, or destruction.

State Administrative Manual, Section 5305 – State agencies need to ensure the integrity of computerized information resources by protecting them from unauthorized access, modification, destruction, or disclosure and to ensure the physical security of these resources.

OMB CIRCULAR A-133 COMPLIANCE SUPPLEMENT – Part 4 Agency Program Requirements, Medicaid Cluster

Managed care providers must be eligible to participate in the program at the time services are rendered, payments to managed care plans should only be for eligible clients for the proper period, and the capitation payment should be properly calculated.

Condition

Health Care Services has not properly configured the capitation file extracted from the Medicaid Eligibility Database System (MEDS) used to calculate capitation payments to health plans. The extraction contains a 13-month aid code history and is designed by MEDS to retrieve capitated historical information as of a point in time. Since the extraction is as of a point in time, it would not reflect a retroactive change in aid code and status posted in a previous month. As a result, changes in aid codes that affect capitation payments are correctly recorded in the month subsequent to the change being posted; however, Health Care Services does not adjust previous months for changes that should be retroactive. Total federal Medicaid expenditures made by Health Care Services for capitation

payments to health plans amounted to \$10.8 billion for the fiscal year 2013–14. Health Care Services could not determine the amount of questioned costs, if any, resulting from this error in configuration without significant cost and effort.

Questioned Costs

Questioned costs could not be determined.

Recommendations

Health Care Services should reevaluate the capitation file extracted from MEDS to ensure retroactive changes in aid codes are properly adjusted in subsequent capitation payments. Additionally, Health Care Services should work with the Centers for Medicare and Medicaid Services to determine whether or not it should quantify any questioned costs in prior years resulting from this erroneous configuration.

Department’s View and Corrective Action Plan

Health Care Services agrees with the recommendation. Health Care Services will begin work to be completed by the end of June 30, 2015. This will require IT resources to evaluate the ability to enhance the aid code methodology that extracts the aid code from MEDS. The intent of the effort will be to ensure the payment system is receiving the accurate date for payment in regards to the aid code for the current month and the retroactive periods.

Health Care Services will assess any negative impact to determine whether or not any cost negatively impacted the program. This assessment will be done by September 30, 2015.

Contact

Javier Portela, Acting Chief Managed Care Project Management Operations Division

Implementation Date

September 2015

Reference Number:	2014-032
Federal Catalog Number:	93.775, 93.777, 93.778
Federal Program Title:	Medicaid Cluster
Federal Award Number and Year:	05-1405CA5MAP; 2014 05-1405CA5ADM; 2014 05-1305CA5MAP; 2013 05-1305CA5ADM; 2013
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) 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 audits for fiscal years 2011–12 and 2012–13, 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 2013–14, 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 certain eligibility determinations 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 \$1.9 billion to subrecipients for county and school-based administrative activities in fiscal year 2013–14.

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 and 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 they are unable to travel which are equivalent in scope to a site visit. However, we identified 15 of the 28 local government agencies or local education consortiums that are part of the school-based program 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. The Department agrees with the finding and is working with our contractors to finalize a process to obtain DUNS numbers from contractors and sub-recipients. A Policy and Procedure Letter (PPL) will be issued to all contractors advising of the requirement.
2. The Department agrees with the finding and is currently reviewing site visit requirements to include new implementation plans and is expected to begin site visits spring 2015.
3. In conjunction with Item #1 - the Department agrees with the finding and is finalizing a process to collect the expenditures of federal funds passed through to sub-recipients. This new process will be disseminated in the PPL issued in Item #1.

Contact

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

Implementation Date

March 2015

Reference Number:	2014-033
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; 2015 X09HA26794; 2015 X07HA12778; 2014 X08HA19011; 2014 X09HA20246; 2014 X09HA19011; 2013 X09HA20246; 2013 X09HA24703; 2013
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, 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

During our fiscal year 2012-13 audit, we reported that Public Health did 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. Public Health is in the process of notifying subrecipients of the CFDA title and number, but again did not communicate this information during fiscal year 2013-14. Failure to properly communicate award information increases the risk that subrecipients may inappropriately spend federal funds or fail to comply with federal regulations, including OMB Circular A-133 audit requirements. Public Health passed through \$23.8 million to subrecipients during fiscal year 2013-14.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Public Health should implement policies and procedures to communicate the CFDA title and number to subrecipients when it issues subawards.

Department's View and Corrective Action Plan

Public Health agrees with the recommendation for State Fiscal Year 2013-14 and will immediately implement policies and procedures to communicate the CFDA title and number to subrecipients. Public Health will immediately communicate the CFDA number and title via email and Management Memo issued to subrecipients and is processing amended contracts with an effective date of April 1, 2015, which is in State Fiscal Year 2014-15. Public Health will display the CFDA title and number on the amended contract scopes of work and have notified OA contract processing staff that inclusion of the CFDA number and title is standard practice.

Public Health is amending contracts with an effective date of April 1, 2015 and thereafter to display the CFDA number and title in the scope of work.

Public Health did fail to implement part of its the corrective action plan. The steps taken by Public Health were:

1. CDPH did not immediately communicate CFDA number and title through informal written communication, but is doing so now;
2. immediately revised Public Health contract policies and procedures to include the CDFA number and title in the scope of work; and,
3. developed a formal implementation plan that was initiated through Management Memos and review of Contracts Management Unit subject memo and contract amendments.

Public Health was unable to change existing contracts in place during State Fiscal Year 2013-14 due to time needed to amend contracts. However, Public Health took the above steps to implement the corrective action plan that resulted in contract amendments for State Fiscal Year 2014-15, which have an effective start date of April 1, 2015.

Contact

Schenelle Flores, HIV Administration Branch Chief, Office of AIDS, Center for Infectious Diseases, California Department of Public Health

Implementation Date

Implementation date is in State Fiscal Year 2014-15 and no earlier than April 1, 2015. The contracts effective date for FY 2014-15 starts April 1, 2015.

Reference Number:	2014-034
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)
Federal Catalog Number:	93.958
Federal Program Title:	Block Grants for Community Mental Health Services
Federal Award Number and Year:	2B09SM010005-14; 2014 3B09SM010005-13; 2013 2B09SM010005-13; 2013 2B09SM010005-12; 2012

Federal Catalog Number:	93.959
Federal Program Title:	Block Grants for Prevention and Treatment of Substance Abuse
Federal Award Number and Year:	3B08TI010062-14; 2014 3B08TI010062-13; 2013 3B08TI010005-12; 2012

Criteria

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

II. 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;

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

Health Care Services did not obtain DUNS numbers from its Block Grants for Community Mental Health Services (Mental Health) or Block Grants for Prevention and Treatment of Substance Abuse (SABG) subrecipients prior to awarding federal funds. Failure to obtain DUNS numbers increases the risk that subawards may be incorrectly reported.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Health Care Services should implement policies and procedures to ensure that it obtains DUNS numbers from Mental Health and SABG program subrecipients prior to approving the subaward.

Department's View and Corrective Action Plan

Health Care Services agrees with the finding of not obtaining DUNS numbers from its Block Grant recipients for fiscal year 2013-14 and has taken corrective action to address this issue. KPMG began the fiscal year 2012-13 Audit of the MHBG in October 2013. In March 2014, KPMG released their report of audit findings stating that Mental Health did not obtain DUNS numbers from its Mental Health subrecipients prior to awarding federal funds. DHCS responded by stating that this policy would be implemented in its State Fiscal Year (SFY) 2014-15 Planning Estimate and Renewal Application for the MHBG. In January 2015, KPMG released its report, again citing the DUNS number finding for both fiscal year 2012-13 and FY 2013-14. This latter finding was the result of a slight time lag in the implementation of Department of Health Care Services (Health Care Services) DUNS number policy.

As of May 2014, Health Care Services implemented the policy to require counties to provide their DUNS number within their state fiscal year 2014-15 Planning Estimate and Renewal Application as stated in KPMG's audit report for fiscal year 2012-13 released March 2014. The application instructions require all participating Mental Health counties to provide their DUNS Number within their county application. On September 30, 2014, KPMG received the SFY 2014-15 Mental Health Application Cover Letter, as well as a scanned pdf document of a participating county's planning estimate worksheet with their DUNS number recorded as evidence that the DUNS finding was implemented from Health Care Services.

Contact

Kimberly Wimberly, Chief Grants Management Unit, Mental Health Services Division

Implementation Date

May 2014

Auditee's Section

Schedule Of Expenditures Of Federal Awards Fiscal Year Ended June 30, 2014

STATE OF CALIFORNIA
SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS FOR THE FISCAL YEAR ENDED JUNE 30, 2014

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		\$ 54,633,612	\$ 28,319,198
Market Protection and Promotion	10.163		2,814,751	-
Specialty Crop Block Grant Program – Farm Bill	10.170		10,721,021	12,816,628
Organic Certification Cost Share Programs	10.171		2,331	-
Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	10.475		185,325	-
Meat, Poultry, and Egg Products Inspection	10.477		71,088	25,124
Food Safety Cooperative Agreements	10.479		115,114	-
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557		1,087,117,477	268,321,635
Child and Adult Care Food Program	10.558		369,752,000	367,191,457
State Administrative Expenses for Child Nutrition	10.560		36,319,420	-
WIC Farmers' Market Nutrition Program (FMNP)	10.572		1,583,092	-
Senior Farmers Market Nutrition Program	10.576		772,966	693,074
Fresh Fruit and Vegetable Program	10.582		10,710,648	10,710,648
Technical Assistance for Speciality Crops Program	10.604		139,033	139,033
<i>Pass-Through from California Citrus Mutual</i>		95-313990	475,000	-
Cooperative Forestry Assistance	10.664		2,020,134	645,474
Urban and Community Forestry Program	10.675		768,928	-
Forest Legacy Program	10.676		336,578	3,889
Forest Stewardship Program	10.678		111,146	23,372
Forest Health Protection	10.680		386,726	281,230
ARRA – Recovery Act of 2009: Wildland Fire Management, Recovery Act Funded	10.688		18,666	-
Watershed Restoration and Enhancement Agreement Authority	10.693		148,651	-
Soil and Water Conservation	10.902		1,774	-
Long-Term Standing Agreements For Storage, Transportation, and Lease	10.999		14,132,063	-
Total Excluding Clusters			<u>1,593,337,544</u>	<u>689,170,762</u>
SNAP Cluster				
Supplemental Nutrition Assistance Program, Recovery Act Funded	10.551		7,476,937,642	-
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561		894,176,191	708,447,461
Total SNAP Cluster			<u>8,371,113,833</u>	<u>708,447,461</u>
Child Nutrition Cluster				
School Breakfast Program	10.553		458,634,420	458,634,420
National School Lunch Program	10.555		1,422,860,077*	1,422,860,077
Special Milk Program for Children	10.556		360,891	360,891
Summer Food Service Program for Children	10.559		22,470,565	21,657,739
Total Child Nutrition Cluster			<u>1,904,325,953</u>	<u>1,903,513,127</u>
Food Distribution Cluster				
Commodity Supplemental Food Program	10.565		6,402,726*	6,402,726
Emergency Food Assistance Program (Administrative Costs)	10.568		10,095,476	9,582,270
Total Food Distribution Cluster			<u>16,498,202</u>	<u>15,984,996</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
Forest Service Schools and Roads Cluster				
Schools and Roads – Grants to States	10.665		\$ 32,703,151	\$ –
Total Forest Service Schools and Roads Cluster			32,703,151	–
Research and Development Cluster				
Plant and Animal Disease, Pest Control, and Animal Care	10.025		200,885	–
Specialty Crop Block Grant Program - Farm Bill	10.170		7,925,146	–
Research and Development Cluster			8,126,031	–
Total U.S. Department of Agriculture			11,926,104,714	3,317,116,346
Department of Commerce				
Interjurisdictional Fisheries Act of 1986	11.407		81,049	–
Coastal Zone Management Administration Awards	11.419		2,344,117	409,797
Coastal Zone Management Estuarine Research Reserves	11.420		869,087	561,534
<i>Pass-Through from Pacific States Marine Fisheries</i>		Unknown	753,686	–
Pacific Coast Salmon Recovery-Pacific Salmon Treaty Program	11.438		12,681,885	–
Regional Fishery Management Councils	11.441			
<i>Pass-Through from Pacific Fisheries Management Council</i>		Unknown	156,941	–
Habitat Conservation	11.463		951,185	751,904
Meteorologic and Hydrologic Modernization Development	11.467		699,546	–
State and Local Implementation Grant Program	11.549		224,035	–
ARRA – State Broadband Data and Development Grant Program, Recovery Act Funded	11.558		1,387,347	–
Total Excluding Cluster			20,148,878	1,723,235
Research and Development Cluster				
Unallied Management Projects	11.454		824,097	–
Unallied Science Program	11.472		69,734	–
Research and Development Cluster			893,831	–
Total Department of Commerce			21,042,709	1,723,235
Department of Defense				
Planning Assistance to States	12.110		1,717,034	–
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113		16,633,602	–
Basic and Applied Scientific Research	12.300		100	–
National Guard Military Operations and Maintenance (O&M) Projects	12.401		78,523,556	–
National Guard Challenge Program	12.404		10,555,926	–
Community Economic Adjustment Assistance for Compatible Use and Joint Land Use Studies	12.610		107,453	–
Air Force Defense Research Sciences Program	12.800		8,827	–
Other - U.S. Department of Defense	12.999		1,396,771	–
Total Department of Defense			108,943,269	–

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 Housing and Urban Development				
Manufactured Home Dispute Resolution	14.171		\$ 235,971	\$ -
Emergency Solutions Grant Program	14.231		11,906,554	11,375,780
Home Investment Partnerships Program	14.239		44,140,029	39,891,926
Housing Opportunities for Persons with AIDS	14.241		3,296,741	-
Equal Opportunity in Housing	14.400		3,320,217	-
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900		804,884	688,734
Total Excluding Clusters			63,704,396	51,956,440
CDBG – State Administered CDBG Cluster				
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228		45,519,317	42,629,605
Total CDBG – State Administered CDBG Cluster			45,519,317	42,629,605
Housing Voucher Cluster				
Section 8 Housing Choice Vouchers	14.871		3	-
Total Housing Voucher Cluster			3	-
Total Department of Housing and Urban Development			109,223,716	94,586,045
Department of the Interior				
National Fire Plan – Wildland Urban Interface Community Fire Assistance	15.228		250,300	-
Fish, Wildlife and Plant Conservation Resource Management	15.231		554,460	491,864
Southern Nevada Public Land Management	15.235		23,756	-
Environmental Quality and Protection Resource Management, Recovery Act Funded	15.236		256,413	-
ARRA – Environmental Quality and Protection Resource Management, Recovery Act Funded	15.236		(9,391)	-
Federal Oil and Gas Royalty Management State and Tribal Coordination	15.427		897,876	-
Minerals Leasing Act	15.437		84,836,013	-
Providing Water to At-Risk Natural Desert Terminal Lakes	15.508		106,208	-
Central Valley Project Improvement Act, Title XXXIV	15.512		3,511,147	-
Fish and Wildlife Coordination Act, Recovery Act Funded	15.517		132,553	-
Recreation Resources Management	15.524		3,103,972	-
Central Valley Project, Trinity River Division, Trinity River Fish and Wildlife Management	15.532		(488)	-
California Water Security and Environmental Enhancement	15.533		388,365	-
Lake Tahoe Regional Wetlands Development Program	15.543		288,632	-
San Joaquin River Restoration Program	15.555		481,508	-
Fish and Wildlife Management Assistance	15.608		10,196	-
Coastal Wetlands Planning, Protection and Restoration Act	15.614		1,269,273	1,269,273
Cooperative Endangered Species Conservation Fund	15.615		1,841,090*	-
Clean Vessel Act	15.616		1,066,570	553,240
Sportfishing and Boating Safety Act	15.622		297,750	297,750

FEDERAL AGENCY/PROGRAM TITLE/ PASS-THROUGH ENTITY OR PROGRAM	FEDERAL CATALOG NUMBER	PASS- THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES	AMOUNTS PASSED THROUGH TO SUBRECIPIENTS
Enhanced Hunter Education and Safety Program	15.626		\$ 117,296	\$ -
Coastal Program	15.630		(32)	-
Landowner Incentive Program	15.633		83,511	-
State Wildlife Grants	15.634		734	-
Challenge Cost Share	15.642		(1,093)	-
Central Valley Project Improvement (CVPI) Anadromous Fish Restoration Program (AFRP)	15.648		286,491	-
Research Grants (Generic)	15.650		4,800	-
Endangered Species Conservation – Recovery Implementation Funds	15.657		316,857	-
Coastal Impact Assistance Program	15.668		3,222,479	3,129,171
National Wildlife Refuge Fund	15.669		1,233	-
Earthquake Hazards Reduction Program	15.807		87,089	-
U.S. Geological Survey – Research and Data Collection	15.808		17,848	-
National Spatial Data Infrastructure Cooperative Agreements Program	15.809		18,000	-
National Cooperative Geologic Mapping Program	15.810		181,251	-
National Geological and Geophysical Data Preservation Program	15.814		21,508	-
Historic Preservation Fund Grants-In-Aid	15.904		1,438,793	325,752
Outdoor Recreation – Acquisition, Development and Planning	15.916		1,626,623	1,220,700
ARRA – Abandoned Mine Hazard Mitigation, Recovery Act Funded	15.934		122,692	-
ARRA – Redwood National Park Cooperative Management with the State of California, Recovery Act Funded	15.937		23,417	-
Natural Resource Stewardship	15.944		41,011	-
Other – U.S. Department of the Interior	15.999		4,106,095	-
Total Excluding Clusters			111,022,806	7,287,750
Fish and Wildlife Cluster				
Sport Fish Restoration Program	15.605		3,911,637	-
Wildlife Restoration and Basic Hunter Education	15.611		9,189,420	-
Total Fish and Wildlife Cluster			13,101,057	-
Research and Development Cluster				
ARRA – Central Valley Project Improvement Act, Title XXXIV, Recovery Act Funded	15.512		2,102,004	-
San Luis Unit, Central Valley Project	15.527		39,861	-
California Water Security and Environmental Enhancement	15.533		202,756	-
San Joaquin River Restoration Program	15.555		53,501	-
Sport Fish Restoration Program	15.605		12,080,630	-
Fish and Wildlife Management Assistance	15.608		186,650	-
Wildlife Restoration and Basic Hunter Education	15.611		3,259,526	-
Cooperative Endangered Species Conservation Fund	15.615		3,004,322	-
State Wildlife Grants	15.634		1,982,619	-
Migratory Bird Conservation	15.647		11,812	-
Central Valley Project Improvement (CVPI) Anadromous Fish Restoration Program (AFRP)	15.648		59,286	-
Research Grants (Generic)	15.650		13,735	-
Technical Preservation Services	15.915		1,715	-

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 Research and Development Cluster			\$ 22,998,417	\$ –
Total Department of the Interior			147,122,280	7,287,750
Department of Justice				
Law Enforcement Assistance - Narcotics and Dangerous Drugs – Laboratory Analysis	16.001		97,625	–
Sexual Assault Services Formula Program	16.017		441,859	441,859
Juvenile Accountability Block Grants	16.523		2,491,361	2,331,831
Juvenile Justice and Delinquency Prevention – Allocation to States	16.540		4,491,115	3,146,592
Part E – Developing, Testing, and Demonstrating Promising New Programs	16.541		10,410	1,590
National Criminal History Improvement Program (NCHIP)	16.554		253,296	–
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560		190,740	–
Crime Victim Assistance	16.575		43,854,439	42,163,722
Crime Victim Compensation	16.576		30,632,551	–
Drug Court Discretionary Grant Program	16.585		65,599	–
Violence Against Women Formula Grants, Recovery Act Funded	16.588		11,473,625	10,620,942
ARRA - Violence Against Women Formula Grants, Recovery Act Funded	16.588		3	–
Total Violence Against Women Formula Grant			11,473,628	10,620,942
Residential Substance Abuse Treatment for State Prisoners	16.593		1,763,972	1,587,797
Corrections_Research and Evaluation and Policy Formulation	16.602			
<i>Pass-Through from State Justice Institute</i>		SJI-10-1-173	365,000	–
State Criminal Alien Assistance Program	16.606		52,407,861	–
Bulletproof Vest Partnership Program	16.607		392,618	392,618
Project Safe Neighborhoods	16.609		203,752	154,745
<i>Pass-Through from Western States Information Network, Inc.</i>		Unknown	1,955,423	–
ARRA – Public Safety Partnership and Community Policing Grants, Recovery Act Funded	16.710		448,251	–
Enforcing Underage Drinking Laws Program	16.727		64,834	–
Protecting Inmates and Safeguarding Communities Discretionary Grant Program	16.735		82,485	67,137
DNA Backlog Reduction Program	16.741		4,157,364	989,163
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742		813,291	702,515
Edward Byrne Memorial Competitive Grant Program	16.751		77,230	–
Economic High-Tech and Cyber Crime Prevention	16.752		48,895	–
Congressionally Recommended Awards	16.753		26,324	–
Harold Rogers Prescription Drug Monitoring Program	16.754		95,847	–
Second Chance Act Reentry Initiative	16.812		219,437	198,041
John R. Justice Prosecutors and Defenders Incentive Act	16.816		133,018	–
Equitable Sharing Program	16.922		1,477,746	–
Other - Department of Justice	16.999			
<i>Pass-Through from the State Justice Institute</i>		SJI-12-P082	36,638	–
Total Excluding Clusters			158,772,609	62,798,552

FEDERAL AGENCY/PROGRAM TITLE/ PASS-THROUGH ENTITY OR PROGRAM	FEDERAL CATALOG NUMBER	PASS- THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES	AMOUNTS PASSED THROUGH TO SUBRECIPIENTS
JAG Program Cluster				
Edward Byrne Memorial Justice Assistance Grant Program	16.738		\$ 13,680,600	\$ 12,204,588
ARRA – Recovery Act – Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories, Recovery Act Funded	16.803		261,424	–
Total JAG Program Cluster			13,942,024	12,204,588
Total Department of Justice			172,714,633	75,003,140
Department of Labor				
Labor Force Statistics	17.002		7,683,492	–
Compensation and Working Conditions	17.005		702,294	–
Unemployment Insurance, Recovery Act Funded	17.225		8,985,981,396	–
Senior Community Service Employment Program	17.235		7,219,167	6,803,499
Trade Adjustment Assistance	17.245		8,395,011	–
Workforce Investment Act (WIA) Dislocated Worker National Reserve Technical Assistance and Training	17.281		8,301	–
Work Opportunity Tax Credit Program (WOTC)	17.271		3,364,091	–
Temporary Labor Certification for Foreign Workers	17.273		1,942,981	–
ARRA – Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors, Recovery Act Funded	17.275		32,909	32,909
Workforce Investment Act (WIA) National Emergency Grants	17.277		3,025,055	2,785,456
Occupational Safety and Health – State Program	17.503		25,766,888	–
Consultation Agreements	17.504		4,592,921	–
Mine Health and Safety Grants	17.600		218,660	–
Total Excluding Clusters			9,048,933,166	9,621,864
Employment Service Cluster				
Employment Service/Wagner-Peyser Funded Activities	17.207		102,212,385	3,460,596
Disabled Veterans’ Outreach Program (DVOP)	17.801		12,638,370	–
Local Veterans’ Employment Representative Program	17.804		6,468,002	–
Total Employment Service Cluster			121,318,757	3,460,596
WIA Cluster				
WIA Adult Program	17.258		102,943,988	96,838,374
WIA Youth Activities	17.259		124,351,580	117,062,008
WIA Dislocated Worker Formula Grants	17.278		171,481,986	162,432,087
Total WIA Cluster			398,777,554	376,332,469
Total Department of Labor			9,569,029,477	389,414,929

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 Transportation				
Airport Improvement Program	20.106		\$ 598,486	\$ -
Highway Research and Development Program	20.200		19,406	-
Highway Training and Education	20.215		8,435	-
National Motor Carrier Safety	20.218		14,933,198	-
Performance and Registration Information Systems Management	20.231		37,514	-
Commercial Driver's License Program Improvement Grant	20.232		848,200	-
Fuel Tax Evasion – Intergovernmental Enforcement Effort	20.240		136,390	-
Railroad Safety	20.301		8,423,154	6,700,538
Capital Assistance to States – Intercity Passenger Rail Service	20.317		16,239,633	16,239,581
High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants, Recovery Act Funded	20.319		29,471,503	13,311,785
ARRA – High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants, Recovery Act Funded	20.319		<u>310,063,547</u>	<u>9,846,363</u>
Total High Speed Rail Corridors and Intercity Passenger Rail Service			<u>339,535,050</u>	<u>23,158,148</u>
Metropolitan Transportation Planning	20.505		63,050,131	63,050,131
Formula Grants for Rural Areas	20.509		27,977,094	26,710,724
ARRA – Formula Grants for Rural Areas, Recovery Act Funded	20.509		<u>1,040,753</u>	<u>231,453</u>
Total Formula Grants for Rural Areas			<u>29,017,847</u>	<u>26,942,177</u>
Public Transportation Research	20.514		14,510	-
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	20.515		963,431	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608		62,311,345	-
National Priority Safety Programs	20.616		7,279,119	-
Pipeline Safety Program State Base Grant	20.700		3,006,097	-
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703		<u>1,675,764</u>	<u>225,635</u>
Total Excluding Clusters			<u>548,097,710</u>	<u>136,316,210</u>
Highway Planning and Construction Cluster				
Highway Planning and Construction	20.205		3,538,134,064	1,425,191,125
ARRA – Highway Planning and Construction, Recovery Act Funded	20.205		46,460,546	9,174,839
Recreational Trails Program	20.219		<u>2,944,588</u>	<u>2,501,259</u>
Total Highway Planning and Construction Cluster			<u>3,587,539,198</u>	<u>1,436,867,223</u>
Transit Services Programs Cluster				
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513		18,395,246	17,778,642
Job Access And Reverse Commute Program	20.516		3,926,896	3,749,958
New Freedom Program	20.521		<u>2,492,563</u>	<u>2,331,819</u>
Total Transit Services Programs Cluster			<u>24,814,705</u>	<u>23,860,419</u>
Highway Safety Cluster				
State and Community Highway Safety	20.600		21,322,417	-

FEDERAL AGENCY/PROGRAM TITLE/ PASS-THROUGH ENTITY OR PROGRAM	FEDERAL CATALOG NUMBER	PASS- THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES	AMOUNTS PASSED THROUGH TO SUBRECIPIENTS
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601		\$ 3,990,136	\$ -
Occupant Protection Incentive Grants	20.602		923,062	-
Safety Belt Performance Grants	20.609		257,434	-
State Traffic Safety Information System Improvement Grants	20.610		2,861,816	-
Incentive Grant Program to Increase Motorcyclist Safety	20.612		994,293	-
Child Safety and Child Booster Seats Incentive Grants	20.613		551,493	-
Total Highway Safety Cluster			30,900,651	-
Research and Development Cluster				
Highway Planning and Construction	20.205		15,761,737	-
Formula Grants for Rural Areas	20.509		85,389	-
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601		5,706	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608		134,121	-
National Priority Safety Programs	20.616		51,766	-
Research and Development Cluster			16,038,719	-
Total Department of Transportation			4,207,390,983	1,597,043,852
Department of Treasury				
National Foreclosure Mitigation Counseling	21.000		1,436,074	-
Total Department of Treasury			1,436,074	-
Equal Opportunity Employment Commission				
Other – Equal Opportunity Employment Commission	30.999		2,090,217	-
Total Equal Opportunity Employment Commission			2,090,217	-
General Services Administration				
Election Reform Payments	39.011		265,457	-
Total General Services Administration			265,457	-
National Endowment for the Arts				
Promotion of the Arts – Partnership Agreements	45.025		1,035,978	522,212
Grants to States	45.310		16,229,551	8,513,446
Total National Endowment for the Arts			17,265,529	9,035,658
Small Business Administration				
State Trade and Export Promotion Pilot Grant Program	59.061		1,807,530	1,664,284
Total Small Business Administration			1,807,530	1,664,284
Department of Veterans Affairs				
Grants to States for Construction of State Home Facilities	64.005		5,267,626	-

FEDERAL AGENCY/PROGRAM TITLE/ PASS-THROUGH ENTITY OR PROGRAM	FEDERAL CATALOG NUMBER	PASS- THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES	AMOUNTS PASSED THROUGH TO SUBRECIPIENTS
Burial Expenses Allowance for Veterans	64.101		\$ 233,364	\$ -
All-Volunteer Force Educational Assistance	64.124		1,215,805	-
Total Department of Veterans Affairs			<u>6,716,795</u>	<u>-</u>
Environmental Protection Agency				
Air Pollution Control Program Support	66.001		5,384,164	-
State Indoor Radon Grants	66.032		129,191	-
Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	66.034		659,827	-
State Clean Diesel Grant Program, Recovery Act Funded	66.040		205,152	-
ARRA – State Diesel Clean Grant Program	66.040		454,899	-
The San Francisco Bay Water Quality Improvement Fund	66.126		114,051	81,986
State Environmental Justice Cooperative Agreement Program	66.312		46,531	-
Water Pollution Control State, Interstate, and Tribal Program Support	66.419		12,844,590	6,862,855
<i>Pass-Through from San Jose State University Foundation</i>		Unknown	525,390	-
State Public Water System Supervision	66.432		4,593,767	-
State Underground Water Source Protection	66.433		558,572	-
Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements – Section 104(b)(3) of the Clean Water Act	66.436		(1,575)	-
Urban Waters Small Grants	66.440		31,595	-
Water Quality Management Planning, Recovery Act Funded	66.454		837,339	246,574
ARRA – Water Quality Management Planning	66.454		47,243	-
Nonpoint Source Implementation Grants	66.460		10,373,915	5,280,759
Regional Wetland Program Development Grants	66.461		7,149	7,149
Beach Monitoring and Notification Program Implementation Grants	66.472		445,034	324,144
Performance Partnership Grants	66.605		1,273,047	-
Environmental Information Exchange Network Grant Program and Related Assistance	66.608		228,625	-
Consolidated Pesticide Enforcement Cooperative Agreements	66.700		(1,520)	-
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707		561,471	-
Hazardous Waste Management State Program Support	66.801		6,493,545	-
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements, Recovery Act Funded	66.802		1,018,880	-
Underground Storage Tank Prevention, Detection and Compliance Program	66.804		1,012,106	724,973
Leaking Underground Storage Tank Trust Fund Corrective Action Program, Recovery Act Funded	66.805		2,677,089	-
Superfund State and Indian Tribe Core Program Cooperative Agreements	66.809		29,478	-
Brownfields Training, Research, and Technical Assistance Grants and Cooperative Agreements	66.814		93,670	-
State and Tribal Response Program Grants	66.817		1,218,603	-
Brownfields Assessment and Cleanup Cooperative Agreements, Recovery Act Funded	66.818		436,141	393,445
Other - Environmental Protection Agency	66.999		85,000	-
Total Excluding Cluster			<u>52,382,969</u>	<u>13,921,885</u>

Research and Development Cluster

FEDERAL AGENCY/PROGRAM TITLE/ PASS-THROUGH ENTITY OR PROGRAM	FEDERAL CATALOG NUMBER	PASS- THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES	AMOUNTS PASSED THROUGH TO SUBRECIPIENTS
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements, Recovery Act Funded	66.802		\$ 44,552	\$ -
Research and Development Cluster			44,552	-
Total Environmental Protection Agency			52,427,521	13,921,885
Department of Energy				
State Energy Program	81.041		2,285,882	-
ARRA – State Energy Program, Recovery Act Funded	81.041		817,828	644,459
Total State Energy Program			3,103,710	644,459
Weatherization Assistance for Low-Income Persons	81.042		2,777,324	2,676,708
Nuclear Waste Disposal Siting	81.065		827,317	-
ARRA – Conservation Research and Development, Recovery Act Funded	81.086		225,180	-
Renewable Energy Research and Development	81.087		96,778	80,000
Fossil Energy Research and Development	81.089		(813,441)	(816,151)
Environmental Remediation and Waste Processing and Disposal	81.104		244,623	-
State Energy Program Special Projects	81.119		455,570	381,648
ARRA – Electricity Delivery and Energy Reliability, Research, Development and Analysis, Recovery Act Funded	81.122		1,593,318	1,209,320
ARRA – Energy Efficiency and Conservation Block Grant Program (EECBG), Recovery Act Funded	81.128		397,144	340,258
Long-Term Surveillance and Maintenance	81.136		25,047	-
Environmental Monitoring/Cleanup, Cultural and Resource Mgmt., Emergency Response Research, Outreach, Technical Analysis	81.214		66,567	-
Total Department of Energy			8,999,137	4,516,242
Department of Education				
Adult Education – Basic Grants to States	84.002		81,501,710	78,428,296
Migrant Education – State Grant Program	84.011		94,194,696	85,291,027
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013		1,375,743	1,361,327
Career and Technical Education – Basic Grants to States	84.048		119,222,532	109,435,956
Rehabilitation Services – Client Assistance Program	84.161		420,985	-
Independent Living – State Grants	84.169		2,372,264	950,779
Rehabilitation Services – Independent Living Services for Older Individuals Who are Blind	84.177		3,236,236	3,034,778
Safe and Drug-Free Schools and Communities – National Programs	84.184		13,431,064	11,956,592
Supported Employment Services for Individuals with the Most Significant Disabilities	84.187		2,880,772	-
Education for Homeless Children and Youth	84.196		8,069,830	7,701,012
Assistive Technology	84.224		918,317	-
Pass-Through from University of Florida			25,000	-

FEDERAL AGENCY/PROGRAM TITLE/ PASS-THROUGH ENTITY OR PROGRAM	FEDERAL CATALOG NUMBER	PASS- THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES	AMOUNTS PASSED THROUGH TO SUBRECIPIENTS
Rehabilitation Training – State Vocational Rehabilitation Unit In-Service Training	84.265		\$ 305,266	\$ –
Charter Schools	84.282		33,130,039	31,188,052
Twenty-First Century Community Learning Centers	84.287		123,963,991	120,980,101
Special Education – State Personnel Development	84.323		1,920,452	1,916,310
Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	84.330		10,146,049	10,146,049
Rural Education	84.358		1,244,913	1,204,098
English Language Acquisition State Grants	84.365		145,324,837	140,357,102
Mathematics and Science Partnerships	84.366		15,899,388	15,095,790
Improving Teacher Quality State Grants	84.367		283,054,185	277,020,295
Grants for State Assessments and Related Activities	84.369		34,558,929	25,460,792
Striving Readers	84.371		3,569	–
College Access Challenge Grant Program	84.378		14,019,718	13,843,598
Race to the Top – Early Learning Challenge	84.412		19,662,005	16,206,557
Promoting Readiness of Minors in Supplemental Security Income	84.418		603,094	–
Total Excluding Clusters			1,011,485,584	951,578,511
Title I, Part A Cluster				
Title I Grants to Local Educational Agencies	84.010		1,514,206,352	1,497,871,053
Total Title I, Part A Cluster			1,514,206,352	1,497,871,053
Special Education Cluster (IDEA)				
Special Education – Grants to States	84.027		1,421,587,438	1,388,408,672
Special Education – Preschool Grants	84.173		40,247,196	38,579,937
Total Special Education Cluster (IDEA)			1,461,834,634	1,426,988,609
Vocational Rehabilitation Cluster				
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126		291,989,934	–
Total Vocational Rehabilitation Cluster			291,989,934	–
Early Intervention Services (IDEA) Cluster				
Special Education-Grants for Infants and Families	84.181		60,290,702	60,290,702
Total Early Intervention Services (IDEA) Cluster			60,290,702	60,290,702
Educational Technology State Grants Cluster				
Educational Technology State Grants	84.318		(328)	–
Total Educational Technology State Grants Cluster			(328)	–
School Improvement Grants Cluster				
School Improvement Grants	84.377		49,166,636	48,748,856
ARRA – School Improvement Grants, Recovery Act Funded	84.388		53,870,272	53,870,272
Total School Improvement Grants Cluster			103,036,908	102,619,128
Total Department of Education			4,442,843,786	4,039,348,003

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. Election Assistance Commission				
Help America Vote Act Requirements Payments	90.401		\$ 16,405,897	\$ -
U.S. Election Assistance Commission Research Grants	90.403		13,765	-
Total U.S. Election Assistance Commission			16,419,662	-
Department of Health and Human Services				
State and Territorial and Technical Assistance Capacity Development Minority HIV/ AIDS Demonstration Program	93.006		341	-
Strengthening Public Health Services at the Outreach Offices of the U.S.-Mexico Border Health Commission	93.018		253,561	-
Special Programs for the Aging – Title VII, Chapter 3 – Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041		537,331	536,331
Special Programs for the Aging – Title VII, Chapter 2 – Long-Term Care Ombudsman Services for Older Individuals	93.042		1,408,970	1,330,958
Special Programs for the Aging – Title III, Part D – Disease Prevention and Health Promotion Services	93.043		1,992,224	1,992,224
Special Programs for the Aging – Title IV – and Title II – Discretionary Projects, Recovery Act Funded	93.048		98,778	28,580
Alzheimer’s Disease Demonstration Grants to States*	93.051		94,312	94,312
National Family Caregiver Support, Title III, Part E	93.052		14,009,188	13,414,301
Public Health Emergency Preparedness	93.069		822,042	-
Environmental Public Health and Emergency Response	93.070		134,545	-
Medicare Enrollment Assistance Program	93.071		124,204	124,204
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	93.074		68,306,130	-
Systems Interoperability – Health and Human Services	93.075		488,240	-
Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance	93.079		214,599	-
Emergency System for Advance Registration of Volunteer Health Professionals	93.089		343,437	-
ARRA – Guardianship Assistance, Recovery Act Funded	93.090		33,453,022	33,393,393
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092		6,184,972	-
Well-Integrated Screening and Evaluation for Women Across the Nation	93.094		403,297	-
Food and Drug Administration – Research	93.103		1,188,957	-
Maternal and Child Health Federal Consolidated Programs	93.110		212,324	-
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116		7,601,580*	-
Emergency Medical Services for Children	93.127		133,443	-
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	93.130		307,417	-
Centers for Research and Demonstration for Health Promotion and Disease Prevention	93.135		774,754	-
Injury Prevention and Control Research and State and Community Based Programs	93.136		4,127,280	-
Projects for Assistance in Transition from Homelessness (PATH)	93.150		8,548,483	-
Health Program for Toxic Substances and Disease Registry	93.161		801,283	-
Grants to States for Loan Repayment Program	93.165		1,129,871	1,129,871
Grants to States to Support Oral Health Workforce Activities	93.236		1,257,087	-

FEDERAL AGENCY/PROGRAM TITLE/ PASS-THROUGH ENTITY OR PROGRAM	FEDERAL CATALOG NUMBER	PASS- THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES	AMOUNTS PASSED THROUGH TO SUBRECIPIENTS
State Rural Hospital Flexibility Program	93.241		\$ 555,768	\$ -
Substance Abuse and Mental Health Services – Projects of Regional and National Significance	93.243		(1,587,675)	-
Universal Newborn Hearing Screening	93.251		202,504	58,119
Adult Viral Hepatitis Prevention and Control	93.270		168,274	-
Substance Abuse and Mental Health Services – Access to Recovery Centers for Disease Control and Prevention – Investigations and Technical Assistance	93.275		2,534,784	-
93.283			11,170,693	2,922,928
Small Rural Hospital Improvement Grant Program	93.301		363,449	-
State Health Insurance Assistance Program	93.324		486,709	340,634
ARRA – State Loan Repayment Program, Recovery Act Funded	93.402		1,394,947	1,394,947
ARRA – State Primary Care Offices, Recovery Act Funded	93.414		242,183	165,805
Food Safety and Security Monitoring Project	93.448		223,243	-
ARRA – Pregnancy Assistance Fund Program, Recovery Act Funded	93.500		1,252,019	-
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505		10,654,644	-
ACA Nationwide Program for National and State Background Checks for Direct Patient Access Employees of Long Term Care Facilities and Providers	93.506		875,599	-
PPHF 2012 National Public Health Improvement Initiative	93.507		989,591	-
Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	93.511		1,157,040	-
Affordable Care Act (ACA) Personal and Home Care Aide State Training Program (PHCAST)	93.512		356,467	354,123
Affordable Care Act – Aging and Disability Resource Center	93.517		62,416	-
Affordable Care Act (ACA) – Consumer Assistance Program Grants	93.519		2,690,457	-
Pre-existing Condition Insurance Program (PCIP)	93.529		6,664,561	-
<i>Pass-Through from Public Health Institute</i>		Unknown	2,025,687	-
<i>Pass-Through from Department of Health Benefit Exchange</i>		4800	622,000	-
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		750,821	-
The Patient Protection and Affordable Care Act of 2010 (Affordable Care Act) authorizes Coordinated Chronic Disease prevention and Health Promotion Program	93.544		820,430	-
PPHF2013: State Nutrition, Physical Activity, and Obesity Programs – financed in part by 2013 PPHF	93.548		82,739	-
Promoting Safe and Stable Families	93.556		32,063,036	28,928,180
Child Support Enforcement	93.563		640,494,152	496,175,527
Child Support Enforcement Research	93.564		46,602	46,602
Refugee and Entrant Assistance – State Administered Programs	93.566		36,438,948	14,993,652
Low-Income Home Energy Assistance	93.568		182,616,596	172,840,337
Refugee and Entrant Assistance – Discretionary Grants	93.576		1,876,775	1,580,367
U.S. Repatriation	93.579		3,479	-
Refugee and Entrant Assistance – Targeted Assistance Grants	93.584		5,093,255	4,983,729
State Court Improvement Program	93.586		2,300,526	-
Community-Based Child Abuse Prevention Grants	93.590		4,260,662	2,197,005
Grants to States for Access and Visitation Programs	93.597		250,881	-
Chafee Education and Training Vouchers Program (ETV)	93.599		5,628,041	-
Adoption Incentive Payments	93.603		-	-

FEDERAL AGENCY/PROGRAM TITLE/ PASS-THROUGH ENTITY OR PROGRAM	FEDERAL CATALOG NUMBER	PASS- THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES	AMOUNTS PASSED THROUGH TO SUBRECIPIENTS
The Affordable Care Act – Medicaid Adult Quality Grants	93.609		\$ 576,472	\$ –
Voting Access for Individuals with Disabilities – Grants to States	93.617		607,810	–
ACA – State Innovation Models: Funding for Model Design and Model Testing Assistance	93.624		1,317,352	–
Affordable Care Act State Health Insurance Assistance Program (SHIP) and Aging and Disability Resource Center (ADRC) Options Counseling for Medicare-Medicaid Individuals in States with Approved Financial Alignment Models	93.626		141,580	141,580
Affordable Care Act Implementation Support for State Demonstrations to Integrate Care for Medicare-Medicaid Enrollees	93.628		2,077,500	–
Developmental Disabilities Basic Support and Advocacy Grants	93.630		6,737,274	–
ACA Support for Demonstration Ombudsman Programs Serving Beneficiaries of State Demonstrations to Integrate Care for Medicare-Medicaid	93.634		130	–
Children’s Justice Grants to States	93.643		1,817,684	1,654,647
Stephanie Tubbs Jones Child Welfare Services Program	93.645		23,701,090	23,701,090
Child Welfare Research Training or Demonstration	93.648		1,821,854	1,455,040
Foster Care – Title IV-E, Recovery Act Funded	93.658		1,219,135,004	1,166,779,514
ARRA – Foster Care – Title IV-E	93.658		(3,753)	(3,753)
Total Foster Care – Title IV-E			1,219,131,251	1,166,775,761
Adoption Assistance, Recovery Act Funded	93.659		444,037,523	428,607,248
ARRA – Adoption Assistance	93.659		(5,743)	(5,743)
Total Adoption Assistance			444,031,780	428,601,505
Social Services Block Grant	93.667		593,547,289	316,150,809
Child Abuse and Neglect State Grants	93.669		2,399,845	81,607
Family Violence Prevention and Services/Grants for Battered Women’s Shelters – Grants to States and Indian Tribes	93.671		7,163,525	6,747,434
Chafee Foster Care Independence Program	93.674		20,884,896	19,640,957
ARRA – Prevention and Wellness – State, Territories and Pacific Islands	93.723		(1,149)	–
ARRA – Prevention and Wellness – Communities Putting Prevention to Work Funding Opportunities Announcement (FOA)	93.724		23,609	–
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		95,281	–
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		661,533	637,696
State Public Health Approaches for Ensuring Quitline Capacity – Funded in part by 2012 Prevention and Public Health Funds (PPHF-2012)	93.735		2,825,979	–
Breast and Cervical Cancer Screening Opportunities through the National Breast and Cervical Cancer Early Detection Program NBCCEDP-PPHF Funds	93.744		538,808	–
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		1,593	–
Children’s Health Insurance Program	93.767		1,507,300,547	–
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779		3,574,827	2,882,635
Money Follows the Person Rebalancing Demonstration	93.791		19,372,475	–

FEDERAL AGENCY/PROGRAM TITLE/ PASS-THROUGH ENTITY OR PROGRAM	FEDERAL CATALOG NUMBER	PASS- THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES	AMOUNTS PASSED THROUGH TO SUBRECIPIENTS
National Bioterrorism Hospital Preparedness Program	93.889		\$ 3,517,259	\$ -
Grants to States for Operation of Offices of Rural Health	93.913		174,197	-
HIV Care Formula Grants	93.917		137,354,570	23,766,884
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938		31,861	-
HIV Prevention Activities – Health Department Based	93.940		16,257,158	-
ARRA - Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	93.943		(2,047)	-
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944		2,268,478	-
Assistance Programs for Chronic Disease Prevention and Control	93.945		1,940,421	-
Tuberculosis Demonstration, Research, Public and Professional Education	93.947		42,767	-
Block Grants for Community Mental Health Services	93.958		52,038,271	-
Block Grants for Prevention and Treatment of Substance Abuse	93.959		274,293,262	258,553,959
Preventive Health Services – Sexually Transmitted Diseases Control Grants	93.977		4,839,223	-
Preventive Health and Health Services Block Grant	93.991		5,359,706	-
Maternal and Child Health Services Block Grant to the States	93.994		24,484,740	-
Other-Department of Health and Human Services	93.999		30,924,612	-
Total Excluding Clusters			5,524,659,288	3,029,817,733
Aging Cluster				
Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers	93.044		33,704,271	31,279,990
Special Programs for the Aging – Title III, Part C – Nutrition Services	93.045		52,698,731	50,678,155
Nutrition Services Incentive Program	93.053		9,897,591	9,897,591
Total Aging Cluster			96,300,593	91,855,736
Immunization Cluster				
Immunization Cooperative Agreements	93.268		20,648,380*	-
Total Immunization Cluster			20,648,380	-
TANF Cluster				
Temporary Assistance for Needy Families	93.558		3,139,192,944	2,521,535,009
ARRA – Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program, Recovery Act Funded	93.714		14,463,370	14,463,370
Total TANF Cluster			3,153,656,314	2,535,998,379
CSBG Cluster				
Community Services Block Grant	93.569		56,395,742	53,197,930
Total CSBG Cluster			56,395,742	53,197,930
CCDF Cluster				
Child Care and Development Block Grant	93.575		258,253,020	258,253,020
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		299,167,820	287,684,934
Total CCDF Cluster			557,420,840	545,937,954

FEDERAL AGENCY/PROGRAM TITLE/ PASS-THROUGH ENTITY OR PROGRAM	FEDERAL CATALOG NUMBER	PASS- THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES	AMOUNTS PASSED THROUGH TO SUBRECIPIENTS
Head Start Cluster				
Head Start	93.600		\$ 224,498	\$ -
ARRA – Head Start, Recovery Act Funded	93.708		5,373,202	5,376,248
Total Head Start Cluster			5,597,700	5,376,248
Medicaid Cluster				
State Medicaid Fraud Control Units	93.775		21,050,787	-
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	93.777		42,032,561	-
Medical Assistance Program	93.778		34,672,501,723	6,613,427,490
Total Medicaid Cluster			34,735,585,071	6,613,427,490
Total Department of Health and Human Services			44,150,263,928	12,875,611,470
Corporation for National and Community Service				
State Commissions	94.003		510,059	-
AmeriCorps, Recovery Act Funded	94.006		23,459,245	23,300,244
Program Development and Innovation Grants	94.007		11,418	-
Training and Technical Assistance	94.009		35,756	-
Volunteer Generation Fund	94.021		410,367	-
Total Excluding Clusters			24,426,845	23,300,244
Foster Grandparent/Senior Companion Cluster				
Foster Grandparent Program	94.011		1,221,934	991,328
Total Foster Grandparent/Senior Companion Cluster			1,221,934	991,328
Total Corporation for National and Community Service			25,648,779	24,291,572
Executive Office of the President				
High Intensity Drug Trafficking Areas Program	95.001			
<i>Pass-Through from INCH/LA Police Chief's Association/Riverside County</i>		Unknown	47,092	-
<i>Pass-Through from INCH/LA Police Chief's Association/Riverside County</i>		Unknown	41,899	-
<i>Pass-Through from LA Clear/LA Police Chief's Association/City of Monrovia</i>		Unknown	117,340	-
<i>Pass-Through from LA Clear/LA Police Chief's Association/City of Monrovia</i>		Unknown	1,055,633	-
<i>Pass-Through from CV HIDTA/LA Police Chief's Association/Sacramento County</i>		Unknown	2,293	-
<i>Pass-Through from CV HIDTA/LA Police Chief's Association/Sacramento County</i>		Unknown	45,522	-
<i>Pass-Through from CV HIDTA/LA Police Chief's Association/Sacramento County</i>		Unknown	11,603	-
<i>Pass-Through from CA Border Alliance Group/City of San Diego/San Diego Police Dept (BI)</i>		Unknown	119,560	-
<i>Pass-Through from CA Border Alliance Group/City of San Diego/San Diego Police Dept (BI)</i>		Unknown	831,142	-
<i>Pass-Through from CA Border Alliance Group/City of San Diego/San Diego Police Dept (BI)</i>		Unknown	259,780	-
Total Executive Office of the President			2,531,864	-

FEDERAL AGENCY/PROGRAM TITLE/ PASS-THROUGH ENTITY OR PROGRAM	FEDERAL CATALOG NUMBER	PASS- THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES	AMOUNTS PASSED THROUGH TO SUBRECIPIENTS
Social Security Administration				
Disability Insurance/SSI Cluster				
Social Security – Disability Insurance	96.001		\$ 215,434,303	\$ –
Total Social Security Administration			215,434,303	–
Department of Homeland Security				
Non-Profit Security Program	97.008		2,568,758	2,400,380
Boating Safety Financial Assistance	97.012		5,089,487	1,376,731
Community Assistance Program State Support Services Element (CAP-SSSE)	97.023		459,370	–
Flood Mitigation Assistance	97.029		889,270	774,571
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		74,054,031	69,706,777
Hazard Mitigation Grant	97.039		8,957,383	7,654,007
National Dam Safety Program	97.041		107,981	–
Emergency Management Performance Grants	97.042		30,697,503	16,740,912
State Fire Training Systems Grants	97.043		16,900	–
Cooperating Technical Partners	97.045		508,214	–
Fire Management Assistance Grant	97.046		12,981,451	12,677,548
Pre-Disaster Mitigation	97.047		2,393,358	1,991,826
Emergency Operations Center	97.052		1,835,214	1,835,214
Homeland Security Grant Program	97.067		280,674,682	259,657,072
<i>Pass-Through from San Diego Sheriff's Department</i>		Unknown	544,487	–
<i>Pass-Through from Imperial County</i>		Unknown	646,205	–
<i>Pass-Through from Sacramento County Sheriff's Department</i>		Unknown	160,161	–
<i>Pass-Through from Imperial County</i>		Unknown	55,821	–
<i>Pass-Through from San Diego County Sheriff's Department</i>		Unknown	54,750	–
<i>Pass-Through from San Diego County Sheriff's Department</i>		Unknown	46,347	–
Total Homeland Security Grant Program			282,182,453	259,657,072
Rail and Transit Security Grant Program	97.075		20,501,040	20,453,780
Buffer Zone Protection Program (BZPP)	97.078		(9)	–
Earthquake Consortium	97.082		227,618	138,916
Driver's License Security Grant Program	97.089		451,000	–
Severe Repetitive Loss Program	97.110		901,645	833,535
Regional Catastrophic Preparedness Grant Program (RCPGP)	97.111		5,120,614	5,120,614
Border Interoperability Demonstration Project	97.120		1,094,097	1,029,512
Other – Department of Homeland Security	97.999		50,000	–
Total Department of Homeland Security			451,087,378	402,391,395
Total Expenditures of Federal Awards			75,656,809,741	22,852,955,806

*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 3

Notes to the Schedule of Expenditures of Federal Awards

**STATE OF CALIFORNIA
NOTES TO THE SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS FISCAL YEAR ENDED JUNE 30, 2014**

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 for the fiscal year ended June 30, 2014, 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 Safe Drinking Water State Revolving Fund, and the California Housing Finance Agency, a component unit of the State of California, which received \$5.4 billion, \$2.4 billion, \$102.3 million, \$211.5 million, and \$59.7 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. 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, 2014 are as follows:

FEDERAL CATALOG NUMBER	PROGRAM	NONCASH AWARDS FOR THE YEAR ENDED JUNE 30, 2014
10.555	National School Lunch Program	\$ 156,652,842
10.565	Commodity Supplemental Food Program	18,111,883
10.569	Emergency Food Assistance Program (Food Commodities)	62,082,110
15.615	Cooperative Endangered Species Conservation Fund	393,750
39.003	Donation of Federal Surplus Personal Property	76,032,420
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	445,545
93.268	Immunization Cooperative Agreements	419,007,817
94.031	Volunteers in Service to America	84,700
None **	Upper Truckee River Sunset Stables Reach 5	493,077
Total		\$733,304,144

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

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

Loans, loan guarantees outstanding and insurance in effect at June 30, 2014 are summarized below:

FEDERAL CATALOG NUMBER	PROGRAM	LOANS/LOAN GUARANTEES OUTSTANDING AT JUNE 30, 2014	INSURANCE IN EFFECT AT JUNE 30, 2014
81.041	State Energy Program	\$ 1,750,521	
66.818	Brownfield Assessment and Cleanup Cooperative Agreements	961,698	
64.114	Veterans Housing-Guaranteed and Insured Loans		70,342,849
Total		\$ 2,712,219	\$ 70,342,849

5. PASS-THROUGH

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

6. SUBRECIPIENTS

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

7. 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

Reference Number: 2013-002

Federal Program: 10.551

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

Audit Finding: Subrecipient Monitoring; Special Tests and Provisions. Social Services did not formally communicate to county welfare system consortia and to county welfare departments that certain federal compliance requirements related to the State automated welfare systems and Electronic Benefit Transfers (EBT) cards were to be addressed in the county Office of Management and Budget (OMB) Circular A-133 audits. Social Services is to work with the U.S. Department of Agriculture (USDA) to determine how applicable Supplemental Nutrition Assistance Program (SNAP) compliance requirements are covered in county OMB Circular A-133 audits and obtain approval of its determination from USDA.

Status of Corrective Action: Fully 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 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. USDA sent Social Services a letter dated August 26, 2014 confirming acceptance of the June 28, 2013 All County Welfare Directors Letter.

Reference Number: 2013-003

Federal Program: 10.553
 10.555

State Administering Department: California Department of Education (Education)

Audit Finding: Procurement; Subrecipient Monitoring. Education did not implement appropriate internal controls and procedures to ensure that the approval process of food service management company (FSMC) contracts was documented prior to reimbursing subrecipients.

Status of Corrective Action: Fully Corrected. Education received and reviewed 74 FSMC contracts and contract extensions for the 2014-15 school year. Education required school food authorities that are operating under extensions of their original FSMC contract to correct problems identified in their original procurement process through amendments. Further, Education has created a tracking system to monitor, review new and existing contracts, and provide bid reminders when needed.

Reference Number: 2013-004

Federal Program: 10.553
10.555

State Administering Department: California Department of Education (Education)

Audit Finding: Reporting; Subrecipient Monitoring. Education failed to properly implement or design information technology controls over logical access on the Education Child Nutrition Information and Payment System (CNIPS). Control deficiencies identified include unauthorized system approval; active user access for individuals no longer employed by Education; inconsistent user access reviews; and segregation of duties conflicts. Failure to maintain adequate information technology controls over logical access could result in improper reimbursements from the federal government.

Status of Corrective Action: Fully Corrected.

Education implemented a process to address the control deficiencies identified by reviewing system user access to ensure access is granted only to authorized officials; reviewing logs and deleting obsolete accounts; conducting quarterly reviews of user access; and segregating employee duties.

Auditors' Comment: We do not believe the issue has been fully corrected and have issued finding number 2014-002.

Reference Number: 2013-005

Federal Program: 10.557

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

Audit Finding: Eligibility. Public Health failed to ensure local agencies 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 Woman, Infants, and Children (WIC) program using the Integrated Statewide Information Systems (ISIS). In three cases, eligibility information was not obtained or evidenced in the ISIS. As a result, it could not be determined whether the participants were eligible to receive benefits. Lack of policies and procedures may cause payments to be made to ineligible participants.

Status of Corrective Action: Partially Corrected.

The WIC program has procedures in place to monitor and evaluate the local agencies' (LAs) compliance with eligibility requirements and documentation policies. Public Health 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. The WIC program monitors the LA to ensure the finding is resolved. Further, the WIC program has contacted the LAs to provide additional technical assistance in the areas identified in the audit findings.

In two of the three cases of ineligibility, the WIC program was able to verify with the LA that it made the corrections during the certification period. In the other case, the WIC program allows for exemptions in certain circumstances. However, WIC program staff continue to provide ongoing technical assistance to ensure the LAs successfully resolve findings in order to ensure compliance with the eligibility requirements.

Auditors' Comment: We reported a similar finding in the 2014 audit. Please refer to finding 2014-003.

Reference Number: 2013-006

Federal Program: 10.557

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

Audit Finding: Eligibility; Special Tests and Provisions. Information technology (IT) controls for Public Health's ISIS were not properly designed. Certain IT controls over logical access were not properly designed and implemented. Public Health uses the system to determine eligibility for the WIC program.

Control deficiencies identified include the following: active user access for individuals terminated by Public Health; lack of user access reviews; and improper restricted access. Additionally, it was identified the cost reports generated from ISIS appear to double count certain food instruments.

Status of Corrective Action: Partially Corrected.

Public Health is in the process of revising the existing intake forms for the creation of ISIS IDs. Updates and revisions to the instructions for the handling of ISIS logon IDs have been completed. Completion of the screening process and distribution of the refreshed instructions to the LAs remains to be completed. The cost report problems were resolved and ISIS is no longer double counting food instruments.

Auditors' Comment: We reported a similar finding in the 2014 audit. Please refer to finding 2014-004.

Reference Number: 2013-007

Federal Program: 10.557

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

Audit Finding: Subrecipient Monitoring. Public Health did not ensure that subrecipients have a financial management review performed during the last two years required by the State Plan. Subrecipients determine eligibility and 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 a financial management review. Of the management reviews performed in 2012-13, nine had findings which required issuance of notice of the findings to the subrecipient. Failure to conduct required financial management reviews and issue audit finding letters increases the risk subrecipients are using federal funds for unallowable costs or activities.

Status of Corrective Action: Partially Corrected.

Audit work assignments and WIC staff have been reorganized to more effectively meet the program requirements. Additional staff positions were transferred to oversee the local agency financial management reviews. As of March 31, 2014, all notices of audit findings are current and are being issued within the required 90 days.

Auditors' Comment: We reported a similar finding in the 2014 audit. Please refer to finding 2014-005.

Reference Number: 2013-008

10.557

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

Audit Finding: Subrecipient Monitoring. Public Health did not properly monitor its contract with the State Controller's Office (SCO). Public Health contracts with SCO to review subrecipient OMB Circular A-133 reports and issue management decisions on audit findings for the WIC program. Findings were identified for the WIC program; however, SCO did not issue a management decision letter timely. Failure to properly follow up on audit findings increases the risk that subrecipients may inappropriately use federal funds or grant benefits to ineligible participants.

Status of Corrective Action: Partially Corrected.

The identified management decision letters were issued by March 31, 2014 and the letters continue to be issued timely. In addition, discussions will occur between Public Health and SCO to provide clarifying contract language. Completion of negotiations and implementation of an amendment to the Public Health and SCO contract remains to be completed. However, Public Health's audit work assignments, as well as WIC staff, have been reorganized to more effectively meet the program's requirements. Workload associated with subrecipient audit reports, along with additional staff positions, were transferred to oversee the subrecipient financial review process

Auditors' Comment: The finding was not repeated in the 2014 audit as Public Health has taken sufficient action to address the finding.

Reference Number: 2013-009

Federal Program: 10.557

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

Audit Finding: Special Tests and Provisions. Public Health lacked adequate controls and policies and procedures to ensure it took appropriate action on findings identified during vendor inventory audits. Further, Public Health failed to issue notices of audit findings within the required 90 day issuance period. This increases the risk that vendors may inappropriately redeem food instruments and the state will not reclaim monies owed.

Status of Corrective Action: Partially Corrected.

All notices of audit findings are current and issued in the required 90 days. The WIC program has developed policies and procedures to ensure audit findings are issued within 90 days of completion.

Auditors' Comment: We reported a similar finding in the 2014 audit. Please refer to finding 2014-007.

Reference Number: 2013-010

Federal Program: 10.565
 10.568
 10.569

State Administering Department: Department of Social Services (Social Services), California Department of Education (Education)

Audit Finding: Subrecipient Monitoring. Social Services and Education lack adequate policies and procedures to monitor subrecipients in accordance with federal requirements. Both departments administer the Food Distribution Cluster through Eligible Recipient Agencies (ERA) and local agencies.

- Education did not obtain Data Universal Numbering System (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.

Status of Corrective Action:

Education: Fully Corrected.

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 of the CSFP participating agencies.

Social Services: Partially Corrected.

Social Services plans to complete revisions to existing policies and procedures to monitor and follow-up on the OMB Circular A-133 audits by June 30, 2015. Social Services will request ERA to submit their latest A-133 operating year audit by September 30, 2014. If there are audit findings regarding Emergency Food Assistance Program, a "Management Decision Letter" will be completed within six months from receipt of the audit.

Auditors' Comment:

The finding was not repeated in the 2014 audit as Social Services has taken sufficient action to address the finding.

Reference Number:

2013-011

Federal Program:

10.565

State Administering Department:

California Department of Education (Education)

Audit Finding:

Reporting. Education lacks adequate controls to ensure accuracy of Food and Nutrition Service (FNS-153) reports submitted for the Food Distribution Cluster, including reconciliation to supporting documents. Education did not accurately report outlays or unliquidated obligations. Failure to reconcile reports to supporting documents increases the risk of errors in information reported to the federal government.

Status of Corrective Action:

Fully Corrected.

To ensure the accuracy of FNS-153 reports, Education's internal controls include the following data review and validation procedures:

- Local Agency reports are combined into a single state report by two CSFP staff members: one staff reviews the inventory information and 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 (EVR) which identifies key data errors and warnings of possible reporting data errors. The errors are corrected, the warnings considered, and the EVR is run again to ensure the correction of all errors.
- Copies of the FNS-153 reports and all backup documentation are submitted to the 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 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."

Auditors' Comment:

We reported a similar finding in the 2014 audit. Please refer to finding 2014-008

Reference Number:

2013-012

Federal Program:

14.239

State Administering Department:

California Department of Housing and Community Development (HCD)

Audit Finding: Subrecipient Monitoring. . 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 Investments Partnership Program (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.

Status of Corrective Action: Fully Corrected.

HCD has updated its application, documents, and procedures for collection of awardee DUNS numbers and entry of awards in the Federal Funding Accountability Transparency Act (FFATA) Subaward Reporting System.

Reference Number: 2013-013

Federal Program: 14.239

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

Audit Finding: Reporting. Housing failed to timely report subawards greater than \$25,000 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.

Status of Corrective Action: Fully Corrected.

Procedures and processes have been fully implemented to increase controls thereby timely reporting subawards.

Reference Number: 2013-014

Federal Program: 16.738
16.803

State Administering Department: California Office of Emergency Services (CalOES)

Audit Finding: Subrecipient Monitoring. CalOES does not have adequate controls to issue management decisions on findings reported in subrecipient OMB Circular A-133 audit reports within six months after receipt of the audit report. Failure to issue management decisions in a timely manner may result in delays in recovery of questioned costs and corrective actions.

Status of Corrective Action: Fully Corrected.

CalOES has provided additional training to the monitoring staff on use of the database "alert" system to track Management Decision Letter due dates in order to ensure timely corrective action for noncompliance issues. CalOES has also implemented an additional query of the Federal Audit Clearinghouse 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.

Reference Number: 2013-015

Federal Program: 16.738

State Administering Department: California Board of State and Community Corrections (BSCC)

Audit Finding: Subrecipient Monitoring. . BSCC does not have adequate policies and procedures to monitor its Justice Assistance Grant (JAG) program recipients in accordance with federal requirements. 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.

Status of Corrective Action: Partially Corrected.

BSCC is currently drafting a more comprehensive Policies and Procedures Manual for monitoring program recipients funded with state and federal funds. This includes developing and implementing a risk assessment mechanism for prioritizing monitoring when 100 percent on-site visits are unattainable or cost prohibitive. In addition, scheduled monitorings for the federal JAG projects have begun and are partially completed. A scheduled list of JAG projects being monitored by BSCC staff are included in a letter previously sent to KPMG, LLP. BSCC is also developing a fiscal desk review (remote) that will be implemented for those programs deemed financially low-risk and when an annual on-site visit is not calendarized.

Auditors Comment: The finding was not repeated in the 2014 audit as BSCC has taken sufficient action to address the finding.

Reference Number: 2013-016

Federal Program: 17.258
 17.259
 17.278

State Administering Department: California Employment Development Department (EDD)

Audit Finding:	<u>Subrecipient Monitoring</u> . EDD 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. Failure to issue management decisions in a timely manner may result in delays in recovery of questioned costs and proper corrective action.
Status of Corrective Action:	Fully Corrected.
	EDD continues to utilize on-line automated tools to track the status of the management decision and send automated alerts to keep the decision process on schedule. EDD has shortened the process timeline followed to review findings and make management decisions to comply with the six month requirement. Additionally, the status of each single audit requiring a management decision is a standing agenda item.
<hr/>	
Reference Number:	2013-017
State Administering Department:	California Employment Development Department (EDD)
Federal Program:	17.258 17.259 17.278
Audit Finding:	<u>Subrecipient Monitoring</u> . EDD did not properly obtain DUNS numbers from its subrecipients prior to awarding Workforce Investment Act (WIA) Cluster funds. Failure to obtain DUNS numbers prior to awarding funds increases the risk that EDD may not properly report subaward information to the federal government.
Status of Corrective Action:	Fully Corrected.
	EDD has resolved this finding by adding the request for DUNS number to the "Subgrantee EIN" form (Enclosure A) that the Workforce Services Branch sends out with the Workforce Investment Act Title 1 - Youth Subgrant Award packages. EDD requires subgrantees to return this form prior to funding.
<hr/>	
Reference Number:	2013-018
Federal Program:	17.258 17.259 17.278
State Administering Department:	California Employment Development Department (EDD)
Audit Finding:	<u>Reporting</u> . EDD should strengthen its policies and procedures over the FFATA reporting to ensure subaward information is reported in accordance with federal requirements.

Status of Corrective Action: Fully Corrected.

EDD published the FFATA Directive WSD 12-11 on January 18, 2013 (Enclosure B) which provided guidance to federally funded subawardees and subcontractors on FFATA reporting requirements. Entry of information has been kept current in FFATA to date.

Reference Number: 2013-019

Federal Program: 17.225

State Administering Department: California Employment Development Department (EDD)

Audit Finding: Reporting, Special Tests and Provisions. EDD's information technology controls over logical access and change management for the Accounting and Compliance Enterprise System (ACES) were not properly designed or operating effectively. 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.

Status of Corrective Action: Fully Corrected.

EDD modified the Appointment/Separation Checklist (DE 7411) to include notifying proper group for user terminations. ACES was changed to automatically deactivate users upon 90 days of inactivity. EDD updated policy and procedures, as well as streamlined automated processing, to inactivate and remove Active Directory accounts for employees leaving the department. EDD also updated procedures and created a report that captures all code changes that are set to be migrated ensuring that these changes are brought to the ACES Change Control Board for approval prior to implementation. EDD requested the Solution Request Manager to prevent the ability for any employee to approve and migrate their own solution into production.

Reference Number: 2013-020

Federal Program: 20.205 (ARRA)

State Administering Department: California Department of Transportation (Caltrans)

Audit Finding: Special Tests and Provisions. Caltrans lacked adequate controls to ensure required materials certifications were prepared. The material 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.

Status of Corrective Action:	Partially Corrected.
	Caltrans developed and issued a new Construction Policy Directive on October 24, 2013, which was sent to all districts. In addition, the Caltrans Construction Manual was revised to include a detailed list of documents that are to be maintained indefinitely in a project history file. Caltrans will be updating the Construction Manual procedures that will be implemented on a uniform basis throughout the State. Caltrans anticipates full implementation by June 30, 2015.
Auditors' Comment:	We reported a similar finding in the 2014 audit. Please refer to finding 2014-013.
<hr/>	
Reference Number:	2013-021
Federal Program:	20.205 (ARRA)
State Administering Department:	California Department of Transportation (Caltrans)
Audit Finding:	<u>Activities Allowed/Allowable Costs, Cash Management, Matching, and Reporting.</u> Information technology controls over logical access and change management within the Caltrans Advantage Financial ERP system (Advantage) were not properly designed and operating effectively. 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.
Status of Corrective Action:	Fully Corrected.
	Caltrans agreed with KPMG's recommendation and immediately implemented the corrective actions.
<hr/>	
Reference Number:	2013-022
Federal Program:	20.319 (ARRA)
State Administering Department:	California Department of Transportation (Caltrans)
Audit Finding:	<u>Davis-Bacon Act.</u> 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 the 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 non-compliance with Davis Bacon Act requirements.

Status of Corrective Action: Partially Corrected.

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. 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 requests, which will be followed by invoice payment approval by the supervisor. Caltrans is working with the Legal Division to revise the language to include Davis Bacon requirements where applicable. This language revision is on task to be completed by September 30, 2014.

Auditors' Comment: We reported a similar finding in the 2014 audit. Please refer to finding 2014-015.

Reference Number: 2013-023

Federal Program: 20.319 (ARRA)

State Administering Department: California Department of Transportation (Caltrans)

Audit Finding: Suspension & Debarment, Special Tests and Provisions. 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 Excluded Parties List System (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 Schedule of Expenditures of Federal Awards (SEFA) and Data Collection Form (SF-SAC) presentation as required for American Recovery and Reinvestment Act of 2009 (ARRA)-funded awards. Failure to communicate SEFA and SF-SAC presentation increases the risk that ARRA requirements may not be followed by the subrecipients.

Status of Corrective Action: Fully Corrected.

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

Reference Number: 2013-024

Federal Program: 20.319 (ARRA)

State Administering Department: California Department of Transportation (Caltrans)

Audit Finding: Reporting. Caltrans does not have adequate controls in place to ensure accuracy of Federal Financial Reports (SF-425) submitted for the High Speed Rail program. Further, Caltrans did not accurately report the federal share of expenditures for three of nine SF-425 reports tested, resulting in an understatement of federal expenditures. Failure to reconcile reports to supporting documents increases the risk of error in information reported to the federal government.

Status of Corrective Action: Partially Corrected.

Caltrans' Division of Rail has developed a tracking tool for grant managers that calculates the amounts to be reported on the SF-425, with validation and approval being performed by the grant manager's supervisor and the federal grants coordinator prior to submitting the reports to the Federal Railroad Administration, and has developed training to be provided to all employees on the use of this tool for SF-425 reporting. Additionally, the Federal Railroad Administration has provided further guidance on how to complete the SF-425 accurately.

Auditors' Comment: We reported a similar finding in the 2014 audit. Please refer to finding 2014-018.

Reference Number: 2013-025

Federal Program: 20.319 (ARRA)

State Administering Department: California Department of Transportation (Caltrans)

Audit Finding: Reporting. 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 Section 1512 reports resulting in an understatement of federal expenditures. Failure to reconcile reports to supporting documents increases the risk of errors in information reported to the federal government.

Status of Corrective Action: Fully Corrected

The Section 1512 reports are a quarterly requirement and the understatements identified have been corrected as of the January 30, 2014, reporting deadline. Congress repealed the recipient reporting for Recovery Act awards as of February 1, 2014.

Reference Number: 2013-026

Federal Program: 20.509

State Administering Department: California Department of Transportation (Caltrans)

Audit Finding: Subrecipient Monitoring. 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. 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.

Status of Corrective Action: Fully Corrected.

Caltrans has implemented a process to ensure it obtains and reviews single audit reports, as necessary, for all special districts for which it passes through federal funds. Caltrans has a process in place to follow-up with non-profits and universities subrecipients who expend more than \$500,000 in federal funds to ensure single audit reports are received and reviewed. In addition, Caltrans is including a follow-up of special districts.

Auditors' Comment: We reported a similar finding in the 2014 audit due to the fact that Caltrans was not in compliance during the full year. Please refer to finding 2014-022.

Reference Number: 2013-027

Federal Program: 20.509

State Administering Department: California Department of Transportation (Caltrans)

Audit Finding: Reporting. Caltrans does not have proper controls in place to evidence its review of the SF-425 prior to submissions. In addition, Caltrans could not provide supporting amounts reported for some of the SF-425 reports. 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.

Status of Corrective Action: Partially Corrected.

Caltrans agreed 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 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 key staff to ensure that supporting documentation is retained.

Auditors' Comment: We reported a similar finding in the 2014 audit. Please refer to finding 2014-021.

Reference Number: 2013-028

Federal Program: 20.509

State Administering Department: California Department of Transportation (Caltrans)

Audit Finding: Cash Management. Caltrans does not have proper controls in place to evidence its review of cash draws prior to submission to the federal government. Failure to maintain adequate controls increases the risk that Caltrans may draw down inaccurate amounts of federal funds.

Status of Corrective Action: Fully Corrected.

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 has reviewed procedures with involved staff and will ensure that the procedures are followed to retain supporting documentation in the future.

Reference Number: 2013-029

Federal Program: 10.553
10.555
10.556
10.559
10.565
84.010
84.011
84.027
84.173(ARRA)
84.282
84.377
84.410
93.575
93.596

State Administering Department: California Department of Education (Education)

Audit Finding: Reporting. Education does not have an adequate process or control in place to ensure information required by the FFATA is properly reported for each of its federally funded programs. Education reported subaward information for the Career and Technical Education—Basic Grants to States program 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.

Status of Corrective Action: Fully Corrected.

Education implemented a reporting schedule and processes that would ensure compliance with the requirements of the FFATA Subaward Reporting System.

Reference Number: 2013-030

Federal Program: 84.011

State Administering Department:	California Department of Education (Education)
Audit Finding:	<u>Reporting; Special Tests and Provisions.</u> 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 non-profit organization on behalf of Education. Education relies on the nonprofit organization to establish the system of quality controls required by federal regulations and ensure an accurate count of migrant students. As a result, Education may not report accurate information to the federal government.
Status of Corrective Action:	Partially Corrected. In 2013-14, Education began implementation of the 2013-14 Migrant Education Office Plan for obtaining and verifying Statewide Student Identifiers (SSID). In January 2014, Education initiated the projected data match between California Longitudinal Pupil Achievement Data System (CALPADS) and MSIN. The data match was completed in June 2014. This match determined that 88 percent of students in kindergarten through twelfth grade had a valid SSID. The subsequent tasks, related to local SSID verification and non-match student reconciliation, have yet to be implemented as Education did not have staff resources to conduct the file match. In May 2014, the California Legislature approved migrant funding for an additional staff person to focus solely on the data quality items in the Migrant Education Program. Education plans to hire within 90 days.
Auditors' Comment:	The finding was not repeated in the 2014 audit as Education has taken sufficient action to address the finding.
<hr/>	
Reference Number:	2013-031
Federal Program:	84.048
State Administering Department:	California Community Colleges Chancellor's Office (CCCCO)
Audit Finding:	<u>Subrecipient Monitoring.</u> CCCCCO failed to perform site visits, desk reviews, or other monitoring procedures as specified in their risk-based monitoring plan. In addition, 6 of the 72 subrecipients of funds had Career and Technical Education (CTE) program findings included in their OMB Circular A-133 audit reports. CCCCCO did not issue management decisions within the required 6 months for these findings. Failure to properly monitor subrecipients increases the risk that federal funds may be spent for unallowable purposes.

Status of Corrective Action:

Fully Corrected.

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. CCCCCO established and implemented a process to review the OMB Circular A-133 audits of community college districts as well as procedures to follow up with those districts to ensure that Carl D. Perkins related findings have been corrected.

Reference Number:

2013-032

Federal Program:

84.027

State Administering Department:

California Department of Education (Education)

Audit Finding:

Level of Effort-Maintenance of Effort. Education lacked adequate controls to ensure it met maintenance of effort (MOE) requirements and did not request a waiver from the U.S. 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.

Status of Corrective Action:

Fully Corrected.

The condition reported by the auditors is based on preliminary apportionment figures. Education recalculated its state financial support (State MOE) for FY 2010-11 based on the final special education principal apportionment; the result was a State MOE failure of \$79,749,000. Education submitted an April Letter to address the shortfall; subsequently, the Legislature appropriated \$79,749,000 in general fund dollars to meet the special education MOE shortfall. This finding is now fully corrected.

Auditors' Comment:

We do not believe the issue has been fully corrected and have issued finding number 2014-025.

Reference Number:

2013-033

Federal Program:

84.126

State Administering Department:

California Department of Rehabilitation (Rehabilitation)

Audit Finding:

Eligibility. As noted during the 2011-12 audit, Rehabilitation lacked adequate controls to determine applicant eligibility for services with the 60-day time period and to develop an Individualized Plan for Employment (IPE) within 90 days of eligibility determination. Rehabilitation continued to lack adequate controls and was not compliant with federal regulations.

Status of Corrective Action:

Partially Corrected.

The Vocational Rehabilitation Employment Division's Customer Service Unit (CSU) continues to monitor 60-day eligibility and 90-day IPE timelines. Recent monitoring reports reflect effective case monitoring practices complying with regulatory time frames.

The team manager (TM) trainings on how to generate Activity Reporting Environment (AWARE) reports to identify consumers who have eligibility determinations and IPEs due in the next 30-days is scheduled. The repeated training is scheduled mid to late 2015.

The district administrators (DA) and TMs review regulations and requisite form signatures with applicable staff during monthly management team meetings, and will continue this ongoing practice.

Rehabilitation strengthened controls for the periodic review of casework for rehabilitation counselors. TMs are required to conduct annual reviews of at least ten percent of the cases of a rehabilitation counselor with post-approval authority to ensure compliance with all applicable regulations. The TMs will document the review findings, and take appropriate action for non-compliance. A memorandum was issued to DAs outlining the new policy on July 31, 2014. The first annual District Record of Services Review summary reports are due to the CSU by June 30, 2015.

Rehabilitation developed draft policy guidance to be released in the Rehabilitation Administration Manual, Chapter 30 (RAM 30) on requisite documentation by Rehabilitation for cases where the application date on the DR 222 (Vocational Rehabilitation Services Application) does not match the application date in AWARE. Final review for release is expected no later than September 30, 2014. When RAM 30 is approved and issued, appropriate policy guidance will be provided to all field staff to provide consistency clarification.

Regulations and policies regarding requisite forms and necessary signatures are reviewed with the DAs and TMs with applicable staff during monthly management team meetings. Rehabilitation will continue this on-going practice.

Rehabilitation revised the AWARE Reference Guide to include instructions on requisite documentation for cases where the application date on the DR 222 does not match the application date in AWARE.

Auditors' Comment:

The finding was not repeated in the 2014 audit as Rehabilitation has taken sufficient action to address the finding.

Reference Number:

2013-034

Federal Program:

84.126

State Administering Department:

Department of Rehabilitation (Rehabilitation)

Audit Finding: Procurement. There was one incident where two Rehabilitation 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 Rehabilitation's policies and procedures and directly contracted with the vendor.

Status of Corrective Action: Fully Corrected.

This was an isolated incident in a field office identified by Rehabilitation in December 2012. Due to noncompliance with department policies and procedures, one of the two employees was terminated in July 2013.

Rehabilitation reviewed existing procedures and issued a Contracts and Procurement Bulletin regarding use of administrative service orders (2013-01) in June 2013. The Bulletin clarified the process. This requires all service orders, regardless of dollar amount, be pre-approved by the Central Office, Contracts and Procurement Section prior to funds being encumbered by the Accounting Section. This bulletin sufficiently clarifies the process.

Rehabilitation field office procurement staff attended the Department of General Services acquisition training in November 2013 and May 2014.

An overview on the use of service orders was provided at the statewide Central and Field Office Forum held in March 2013.

Reference Number: 2013-035

Federal Program: 84.126

State Administering Department: Department of Rehabilitation (Rehabilitation)

Audit Finding: Activities Allowed/Allowable Costs. Rehabilitation does not have adequate controls in place to approve expenditures charged to the federal grant. Rehabilitation was unable to provide evidence of review of 6 of 25 central/internal service items tested and 1 of 25 indirect costs tested. Failure to review supporting documentation for expenditures increases the risk of federal funds spent on unallowed activities or costs.

Status of Corrective Action: Fully Corrected.

Rehabilitation reviewed internal procedures for approval of central/internal service and indirect cost items and strengthened its process by requiring evidence of approval be included on these invoices.

Reference Number: 2013-036

Federal Program: 84.126

State Administering Department: Department of Rehabilitation (Rehabilitation)

Audit Finding: Level of Effort-Maintenance of Effort. Rehabilitation 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, Rehabilitation could be subject to a reduction of federal funding.

Status of Corrective Action: Remains Uncorrected.

Rehabilitation and the U.S. Department of Education's Rehabilitation Services Administration (USDoE/RSA) are engaged in discussions regarding the MOE waiver for federal fiscal year 2011. Final instruction from USDoE/RSA is pending.

Auditors' Comment: The finding was not repeated in the 2014 audit as we did not identify any noncompliance in the MOE calculation in the current year.

Reference Number: 2013-037

Federal Program: 84.282

State Administering Department: California Department of Education (Education)

Audit Finding: Period of Availability. Education obligated federal funds totaling \$517,500 to one charter school outside 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.

Status of Corrective Action: Fully Corrected.

Education has contacted the U.S. Department of Education to confirm whether the finding is accurate or if a waiver is necessary. However, to strengthen internal controls over program funding, Education has revised the Request for Applications timelines to prevent funding from being obligated and disbursed outside the period of availability.

Reference Number: 2013-038

Federal Program: 84.282

State Administering Department: California Department of Education (Education)

Audit Finding: Subrecipient Monitoring. 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. In one instance, a subrecipient report was not reviewed prior to disbursing its next apportionment. Failure to review the expenditure reports increases the risk that a subrecipient may spend federal funds on unallowed activities or costs.

Status of Corrective Action: Fully Corrected.

Education has implemented the Budget/Expenditure Approval Process and Budget/Expenditure Reporting Process as outlined in the Corrective Action Plan. Staff continues to integrate current and prospective subgrantees into these processes.

Reference Number: 2013-039

Federal Program: 84.388 (ARRA)
84.410

State Administering Department: California Department of Education (Education)

Reporting. Education did not have adequate processes or controls in place to ensure accuracy of the quarterly Section 1512 reports prior to submission for the School Improvement Grant Cluster. These reports are maintained by program personnel but is not reconciled to the accounting records. The amount reported as disbursed to one local education 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.

Status of Corrective Action: Fully Corrected.

ARRA 1512 reporting requirement ended on January 31, 2014; however, the ARRA School Improvement Grant (SIG) program has a waiver that extends the use of ARRA SIG funds through September 30, 2014. Education submitted the final report to the federal government, which reconciles to Education's accounting records.

Reference Number: 2013-040

Federal Program: 93.558
93.658
93.659

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

Reporting. During 2011-12, Social Services did not comply with reporting requirements of the FFATA for its federally funded programs. Social Services is in the process of implementing its FFATA reporting process, but failed to submit the 2012-13 FFATA reports.

Status of Corrective Action: Fully Corrected.

The corrective action plan has been fully implemented. Social Services has established an updated work plan and checklist tools to ensure timely updates and accurate reporting.

Reference Number: 2013-041

Federal Program: 93.772
 93.775
 93.777
 93.778

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

Audit Finding: Subrecipient Monitoring. 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 federal Patient Protection and Affordable Care Act (PPACA). Through Covered California, the California Healthcare Eligibility, Enrollment, and Retention System (CalHEERS) was deployed 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. Even with the changes to eligibility under the PPACA, the OMB Circular 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.

Status of Corrective Action: Partially Corrected.

The quality control pilot programs referenced in the CAP are underway. Round 1 reviews have been performed, and Health Care Services will begin Round 2 reviews in September. In terms of the county budget methodology development, Health Care Services is currently in the process of procuring a contractor to assist with development of the methodology as required by Senate Bill 28.

Auditors' Comment: We reported a similar finding in the 2014 audit. Please refer to finding 2014-028.

Reference Number: 2013-042

Federal Program: 93.767
 93.772
 93.775
 93.777
 93.778

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

Audit Finding: Activities Allowed/Allowable Costs. Health Care Services obtained a Service Organization Control (SOC1) report over logical security, change management, backup and restoration, and production job processing functions of California Medicaid Management Information System (CA-MMIS) for the period of 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.

Status of Corrective Action: Partially Corrected.

Timely and accurate documentation is essential to the security and confidentiality of CA-MMIS. Evidence that documentation creation, reviews, and updates are not taking place, and the lack of adequate procedures to ensure required documentation is created, reviewed, and updated at least annually are of the greatest concern to Health Care Services.

At least annually, the contract between Health Care Services and its contractor requires reviews and/or updates for all CA-MMIS documentation listed in the Contract, Exhibit A, Attachment II, Sections HH-QQ including, but not limited to, Manuals, Deliverables, Plans, Policies, and Procedures.

As a result of this finding, Health Care Services has instructed its contractor, Xerox, to:

- Create documentation listed in the Master Manual List (MML) and the Configurable Items List.
- Create and maintain policy documentation to assure proper processing of jobs.
- Create documented instructions for handling processing deviations such as abnormal jobs.
- Prioritize and bring current all reviews or updates for all CA-MMIS documentation listed in Exhibit A, Attachment II, Sections HH-QQ including but not limited to Manuals, Deliverables, Plans, Policies, and Procedures.
- Document the plan and procedures for keeping contractual documents updated as required.
- Add all CA-MMIS documentation to the Configurable Items List.

Health Care Services is following up with Xerox to confirm the delivery date of expected items. Health Care Services will reaffirm the need for a formal extension of time should Xerox not meet the established deadlines.

Auditors' Comment: We reported a similar finding in the 2014 audit. Please refer to finding 2014-030.

Reference Number: 2013-043

Federal Program: 93.767
93.772
93.775
93.777
93.778

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

Audit Finding: Activities Allowed/Allowable Costs. Health Care Services utilizes the Medi-Cal Managed Care Monthly Capitation (CAPMAN) system to adjudicate managed care provider monthly payments based on the number of beneficiaries enrolled during the period. Certain program access controls were not operating effectively during 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.

Status of Corrective Action: Fully Corrected.

Health Care Services created and followed a new process titled "Annual review of system access to CAPMAN". 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. Health Care Services documented the process in a document titled "820/834 Production Support, Roles and Responsibilities". The next review will be in October 2014.

Health Care Services created a new form for managers to formally request access additions, removals, and changes. The form documents the requested level/type of access and is stored for future retrieval and documentation purposes.

This new process was completed in September 2013 and is still currently being used.

Reference Number: 2013-044

Federal Program: 93.772
 93.775
 93.777
 93.778

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

Audit Finding: Eligibility; Subrecipient Monitoring. Counties do not have adequate controls to ensure eligibility determinations and redeterminations were appropriate and timely.

Status of Corrective Action: Remains Uncorrected.

Health Care Services is expecting to reissue guidance to counties in September 2014 as stated in the corrective action plan.

Auditors' Comment: The finding was not repeated in the 2014 audit as Health Care Services has taken sufficient action to address the finding.

Reference Number: 2013-045

Federal Program: 93.772
 93.775
 93.777
 93.778

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

Audit Finding: Subrecipient Monitoring. Health Care Services continues to lack adequate policies and procedures to monitor subrecipients. Health Care Services does not have policies and procedures in place to ensure that DUNS numbers are obtained from its subrecipients prior to awarding federal funds. Health Care Services also does not perform planned site visits but rather performs desk reviews due to travel restrictions; however, it was identified that 9 of 28 local agencies or local education consortiums did not have a site visit or desk review performed within the past three years. Further, 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.

Status of Corrective Action: Partially Corrected.

Health Care Services was able to perform seven of the nine county site visits and/or desk reviews for Sonoma, Orange, Fresno, Riverside, San Diego, San Luis Obispo, and City of Pasadena. Health Care Services will complete the remaining site visits and/or desk reviews for Santa Cruz and Solano by June 30, 2015.

Health Care Services added contract language in Exhibit B, Budget Detail and Payment Provision Section, to require Local Governmental Agencies (LGAs) and Local Educational Consortiums to submit the appropriate documentation to Health Care Services indicating their DUNS number prior to final execution of the contract agreement. Health Care Services issued a Policy and Procedure Letter 13-014 dated December 10, 2013 notifying LGAs of the OMB Circular A-133 Single Audit Report requirement for all subrecipients reporting federal funds of more than \$500,000.

Auditors' Comment: We reported a similar finding in the 2014 audit. Please refer to finding 2014-032.

Reference Number: 2013-046

Federal Program: 93.917

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

Audit Finding: Cash Management. Public Health does not have proper controls in place to ensure that rebate income is disbursed prior to requesting reimbursement from the federal government. Failure to utilize rebate income may result in inaccurate or untimely drawdowns of federal funds.

Status of Corrective Action Fully Corrected.

Public Health agrees it 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 Public Health'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, the 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 AIDS Drug Assistance Program (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, the 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 to \$3 million, OA uses federal ADAP funds. On January 23, 2014, OA issued a memo to the AIDS Drug Assistance Program Branch's fiscal staff documenting the new procedure.

Reference Number:	2013-047
Federal Program:	93.917
State Administering Department:	Department of Public Health (Public Health)
Audit Finding:	<u>Subrecipient Monitoring</u> . 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.
Status of Corrective Action:	Partially Corrected.
Auditors' Comment:	This audit recommendation has not been fully implemented because no contracts were amended for 2014-15. However, Public Health's Office of AIDS (OOA) does identify the CFDA number in Exhibit A, "Scope of Work", as specified in the Public Health Contract Management Unit's CFDA bulletin. Because no contracts will be amended for 2014-15, OOA will send out a Management Memorandum to all contractors by March 31, 2015 to provide them with the CFDA and title number. We reported a similar finding in the 2014 audit. Please refer to finding 2014-033.

Reference Number: 2013-048

Federal Program: 93.958

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

Audit Finding: Subrecipient Monitoring; Special Tests and Provisions. 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. Specifically, Health Care Services failed to obtain DUNS numbers from subrecipients prior to awarding federal funds, and also failed to properly monitor subrecipients through site visits, limited scope audits or other means. Lack of peer reviews and subrecipient monitoring increases the risk that federal monies will be paid for unallowable costs and that programs may not meet quality, appropriateness, and efficacy for treatment services standards of the state.

Status of Corrective Action: Fully Corrected

Health Care Services has updated its policies and procedures for subrecipient monitoring of its Mental Health program. Health Care Services conducts three site reviews per fiscal year. Peer reviews have been integrated with site reviews..

Three Mental Health site reviews were performed in 2013-14. Sacramento County's site review was conducted on April 29, 2014. On May 30, 2014, a site review of Placer County was performed and a site review of San Joaquin County convened on June 30, 2014.

Reference Number: 2013-049

Federal Program: 93.959

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

Audit Finding: Allowable Costs. 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).

Status of Corrective Action: Fully Corrected.

Since July 1, 2013, Health Care Services has had a full fiscal year to assimilate the former ADP processes into Health Care Services' processes. During this time, Health Care Services has implemented policies and procedures in compliance with the State Administrative Manual, generally accepted accounting principles, and Code of Federal Regulations, Title 41 over record retention as it relates to former ADP transactions.

Reference Number: 2013-050
Federal Program: 93.959
State Administering Department: Department of Health Care Services (Health Care Services)
Audit Finding: Cash Management. ADP did not have adequate policies and procedures to ensure federal draw requests are reconciled to amounts recorded by SCO.
Status of Corrective Action: Fully Corrected.

Since July 1, 2013, Health Care Services has had a full fiscal year to assimilate the former ADP processes into Health Care Services' processes. During this time, Health Care Services has implemented policies and procedures in compliance with State Administrative Manual, generally accepted accounting principles, and Code of Federal Regulations, Title 41 for Federal Draw requests and reconciliation to SCO records of the former ADP transactions.

Response to the Audit - Department of Finance



EDMUND G. BROWN JR. ■ GOVERNOR
STATE CAPITOL ■ ROOM 1145 ■ SACRAMENTO CA ■ 95814-4998 ■ WWW.DOF.CA.GOV

March 20, 2015

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, 2014. This report was the result of your examination of the state's administration of federal programs for the fiscal year ended June 30, 2014, 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 6 qualified opinions for the 26 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 more complex and vast than most economic entities in the world. Moreover, these 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 state is committed to sound and effective fiscal oversight.

Individual departments have separately responded to the Single Audit Report findings and recommendations. Accordingly, their viewpoints and corrective action plans are included in the report. The combined results of the fiscal year 2013-14 Single Audit will be disseminated to all departments and Finance will remind departments of their responsibility for implementing corrective action plans. Further, we will monitor the findings and reported corrective actions to identify potential changes in statewide fiscal procedures.

The Financial Integrity and State Manager's Accountability Act (FISMA) specifies 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.

KPMG LLP
March 20, 2015
Page 2

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. 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.

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 Richard Sierra, Chief, Office of State Audits and Evaluations, at (916) 322-2985.

Sincerely,



MICHAEL COHEN
Director