

# California State Auditor

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

## **State of California:**

*Internal Control and State and  
Federal Compliance Audit Report  
for the Fiscal Year Ended June 30, 2002*



May 2003  
2002-002

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# CALIFORNIA STATE AUDITOR

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ELAINE M. HOWLE  
STATE AUDITOR

STEVEN M. HENDRICKSON  
CHIEF DEPUTY STATE AUDITOR

May 19, 2003

2002-002

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 the California Government Code, Section 8542 et seq., the Bureau of State Audits presents its audit report concerning our review of the State of California's internal controls and compliance with state and federal laws and regulations for the year ended June 30, 2002.

This report concludes that the State continues to experience certain problems in accounting and administrative practices that affect its internal controls over financial reporting and over compliance with federal requirements. As a result, the State has not always complied with some state and federal regulations. Although none of the problems we identified is significant to the State's financial statements and only one is significant to the federal programs it administers, weaknesses in the State's internal control system could adversely affect its ability to provide accurate financial information and to administer federal programs in compliance with applicable requirements.

Respectfully submitted,

ELAINE M. HOWLE  
State Auditor

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# **AUDITOR'S SECTION**



## **Independent Auditor's Reports on Compliance and Internal Control**





# CALIFORNIA STATE AUDITOR

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ELAINE M. HOWLE  
STATE AUDITOR

STEVEN M. HENDRICKSON  
CHIEF DEPUTY STATE AUDITOR

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

The Governor and the Legislature of  
the State of California

We have audited the basic financial statements of the State of California as of and for the year ended June 30, 2002, and have issued our report thereon dated January 24, 2003. We did not audit the following significant amounts in the financial statements of:

### Government-wide Financial Statements

- Certain enterprise funds that, in the aggregate, represent 71 percent of the assets and 56 percent of the revenues of the business-type activities.
- The University of California, State Compensation Insurance Fund, California Housing Finance Agency, and certain other funds that, in the aggregate, represent 99 percent of the assets and 99 percent of the revenues of the discretely presented component units.

### Fund Financial Statements

- Certain funds that represent 99 percent of the assets and 98 percent of the revenues of the Housing Loan fund, a major enterprise fund.
- The following major enterprise funds: Electric Power fund, Water Resources fund, Public Building Construction fund, and State Lottery fund.
- Certain nonmajor enterprise funds that represent 42 percent of the assets and 81 percent of the revenues of the nonmajor enterprise funds.
- The funds of the Public Employees' Retirement System and the State Teachers' Retirement System and the University of California Retirement System that, in the aggregate, represent 90 percent of the assets of the fiduciary funds.
- The discretely presented component units noted above.

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

## COMPLIANCE

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

## INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the State of California's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State of California's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2002-19-1 through 2002-19-6.

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

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

BUREAU OF STATE AUDITS



PHILIP J. JELICICH, CPA  
Deputy State Auditor

January 24, 2003



# CALIFORNIA STATE AUDITOR

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ELAINE M. HOWLE  
STATE AUDITOR

STEVEN M. HENDRICKSON  
CHIEF DEPUTY STATE AUDITOR

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

The Governor and the Legislature of  
the State of California

### **COMPLIANCE**

We have audited the compliance of the State of California with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. The State of California's major federal programs are identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State of California's management. Our responsibility is to express an opinion on the State of California's compliance based on our audit. We did not audit the State of California's compliance with the requirements of the U.S. Environmental Protection Agency's Capitalization Grants for Drinking Water State Revolving Fund (CFDA Number 66.468). This program, which accounts for less than one percent of the total of federal assistance received by the State of California, is included in the accompanying schedule of findings and questioned costs and schedule of federal assistance. Other auditors have audited the State of California's compliance with this program's requirements and their report thereon has been furnished to us. Our opinion, insofar as it relates to this program, is based solely on the report of the other auditors.

The State of California's basic financial statements include the operations of the University of California and the California State University systems, as well as the California Housing Finance Agency, a component unit authority of the State. However, these entities are not included in the accompanying schedule of findings and questioned costs or schedule of federal assistance for the year ended June 30, 2002. The University of California and the California State University systems, and the California Housing Finance Agency, which reported expenditures of federal awards totaling \$2.4 billion and \$1 billion, and \$68.9 million, respectively, engaged other auditors to perform an audit in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133).

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. Those standards and OMB Circular A-133

require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State of California's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion. Our audit does not provide a legal determination of the State of California's compliance with those requirements.

As described in item 2002-13-6 in the accompanying schedule of findings and questioned costs, the State of California did not comply with requirements regarding subrecipient monitoring that are applicable to its Community Development Block Grant/State's Program (CFDA Number 14.228). Compliance with such requirements is necessary, in our opinion, for the State of California to comply with requirements applicable to that program.

In our opinion, because of the effects of the noncompliance described in the preceding paragraph, the State of California did not comply in all material respects, with the requirements referred to above that are applicable to the Community Development Block Grant/State's Program (CFDA Number 14.228). Also, in our opinion, based on our audit and the report of the other auditors, the State of California complied, in all material respects, with the requirements referred to above that are applicable to each of its other major federal programs for the year ended June 30, 2002. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs. See the attachment for a list of these issues.

## **INTERNAL CONTROL OVER COMPLIANCE**

The management of the State of California is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the State of California's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the State of California's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs. The attachment also contains a list of these issues.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions listed in the attachment is a material weakness.

## **SCHEDULE OF FEDERAL ASSISTANCE**

We have audited the basic financial statements of the State of California as of and for the year ended June 30, 2002, and have issued our report thereon dated January 24, 2003. We did not audit the following significant amounts in the financial statements of:

### Government-wide Financial Statements

- Certain enterprise funds that, in the aggregate, represent 71 percent of the assets and 56 percent of the revenues of the business-type activities.
- The University of California, State Compensation Insurance Fund, California Housing Finance Agency, and certain other funds that, in the aggregate, represent 99 percent of the assets and 99 percent of the revenues of the discretely presented component units.

### Fund Financial Statements

- Certain funds that represent 99 percent of the assets and 98 percent of the revenues of the Housing Loan fund, a major enterprise fund.
- The following major enterprise funds: Electric Power fund, Water Resources fund, Public Building Construction fund, and State Lottery fund.
- Certain nonmajor enterprise funds that represent 42 percent of the assets and 81 percent of the revenues of the nonmajor enterprise funds.
- The funds of the Public Employees' Retirement System and the State Teachers' Retirement System and the University of California Retirement System that, in the aggregate, represent 90 percent of the assets of the fiduciary funds.
- The discretely presented component units noted above.

Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those funds and entities, is based solely on the reports of the other auditors.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of federal assistance is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. OMB Circular A-133 requires the schedule of federal assistance to present total expenditures for each federal assistance

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

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

BUREAU OF STATE AUDITS



PHILIP J. JELICICH, CPA  
Deputy State Auditor

January 24, 2003

Attachment

## ATTACHMENT

The compliance issues are:

2002-1-1	2002-7-1
2002-1-2	2002-7-2
2002-1-3	2002-8-1
2002-2-1	2002-9-1
2002-2-2	2002-9-2
2002-2-3	2002-12-1
2002-2-4	2002-12-4
2002-2-5	2002-12-5
2002-3-1	2002-12-7
2002-3-2	2002-12-8
2002-3-3	2002-13-1
2002-3-5	2002-13-2
2002-3-7	2002-13-3
2002-3-8	2002-13-4
2002-3-10	2002-13-5
2002-3-11	2002-13-6
2002-3-12	2002-13-7
2002-3-13	2002-13-8
2002-3-14	2002-14-2
2002-3-15	2002-14-3
2002-3-16	2002-14-5
2002-5-1	

The internal control over compliance issues are:

2002-3-1	2002-9-6
2002-3-4	2002-9-7
2002-3-6	2002-12-2
2002-3-9	2002-12-3
2002-3-10	2002-12-6
2002-7-2	2002-13-3
2002-9-3	2002-13-8
2002-9-4	2002-14-1
2002-9-5	2002-14-4

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## **Schedule of Findings and Questioned Costs**

**STATE OF CALIFORNIA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**Summary of Auditor's Results**

**Financial Statements**

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

**Federal Awards**

Internal control over major programs:	
Material weaknesses identified?	No
Reportable conditions identified that are not considered to be material weaknesses?	Yes
Type of report the auditor issued on compliance for major programs	Unqualified opinion on all major programs except for Community Development Block Grant/State's Program (CFDA Number 14.228), which was qualified
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	\$64.2 million
Auditee qualified as low-risk auditee?	No

*Identification of major programs:*

<b>CFDA Number</b>	<b>Name of Federal Program or Cluster of Programs</b>
	Aging Cluster
	Child Nutrition Cluster
	Disability Insurance/SSI Cluster
	Emergency Food Assistance Cluster
	Employment Services Cluster
	Food Stamp Cluster
	Highway Planning and Construction Cluster
	Medicaid Cluster
	Special Education Cluster
	Student Financial Aid Cluster
	Workforce Investment Act Cluster
10.550	Food Distribution
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
10.558	Child and Adult Care Food Program
14.228	Community Development Block Grant/State's Program
14.239	HOME Investment Partnerships Program
16.606	State Criminal Alien Assistance Program
17.225	Unemployment Insurance
17.253	Welfare-to-Work Grants to States and Localities
17.255	Workforce Investment Act
64.114	Veterans Housing—Guaranteed and Insured Loans
66.458	Capitalization Grants for State Revolving Funds
66.468	Capitalization Grants for Drinking Water State Revolving Fund
83.544	Public Assistance Grants
83.548	Hazard Mitigation Grant
84.010	Title I Grants to Local Educational Agencies
84.011	Migrant Education—Basic State Grant Program
84.048	Vocational Education—Basic Grants to States
84.126	Rehabilitation Services—Vocational Rehabilitation Grants to States
84.298	Innovative Education Program Strategies
84.340	Class Size Reduction
93.268	Immunization Grants
93.558	Temporary Assistance for Needy Families
93.568	Low-Income Home Energy Assistance
93.569	Community Services Block Grant
93.658	Foster Care—Title IV-E
93.659	Adoption Assistance
93.667	Social Services Block Grant
93.917	HIV Care Formula Grants
93.959	Block Grant for Prevention and Treatment of Substance Abuse

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

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## SECRETARY OF STATE

Reference Number:

2002-19-1

### CONDITION

For the fiscal year ending June 30, 2001, we reported that the Secretary of State's Office did not exercise adequate control over its cash account during fiscal year 1999-2000. Specifically, it did not promptly remit cash receipts to the State Treasurer's Office (Treasurer's Office), prepare required monthly bank reconciliations, or take action to cancel or send stop payment requests to the Treasurer's Office for stale-dated checks that its records indicated were outstanding. In addition, the Secretary of State's Office did not adequately segregate duties in its accounting unit according to the State Administrative Manual (SAM) directions. In its corrective action plan, the Secretary of State's Office stated that it believed that the accounting problems were related to its new accounting system. Further, it stated that it had addressed the conditions described above by improving its reporting system, remitting cash receipts to the Treasurer's Office every other day, and reconciling its bank account monthly. Also, it reported that it was in the process of clearing or canceling stale-dated checks. Finally, it indicated that the accounting unit had reorganized the job duties to ensure that no one person performed more than one of the duties outlined in the SAM.

At the time of our follow-up review in December 2002, we determined that the accounting unit improved its operations by remitting cash to the Treasurer's Office on time, reconciling its bank account monthly from June 2002 through October 2002, and canceling 251 stale-dated checks that had been outstanding at the time of our previous review. However, the accounting unit has not continued to cancel or send stop payment requests to the Treasurer's Office, and still recorded approximately 1,100 checks, totaling \$31,000 dated on and after June 1, 2001, and over one year old as of December 19, 2002. After we discussed this problem with the accounting unit, it subsequently canceled all stale-dated checks issued from June 2001 through December 2001.

Furthermore, the Secretary of State's Office continues to lack adequate separation of duties in its accounting unit. Specifically, one employee signed claim schedules, printed and issued checks, and controlled blank check forms. Another employee prepared claim schedules from supporting documentation, printed and issued checks, and controlled blank check forms. Finally, an employee prepared invoices, signed claim schedules, and controlled blank check forms. Lack of adequate segregation of duties may allow errors and irregularities to go undetected.

## **CRITERIA**

Section 8042 of the SAM states that office revolving fund and agency checks issued on or after January 1998 have a one-year period of negotiability. Office revolving fund checks outstanding for more than one year should be canceled and the amount of such checks should either be credited back to the revolving fund or remitted to a separate account in the fund from which they were drawn. Furthermore, Section 8045 requires state agencies to send stop payment requests to the Treasurer's Office one week before the stale date of all uncashed agency checks.

The California Government Code, Section 13401, requires state agencies to effectively maintain internal accounting and administrative controls. Section 13403 indicates that such controls include segregation of duties appropriate for proper safeguarding of state agency assets. Specifically, the SAM, Section 8080.1, provides that the same person will not perform more than one of the following types of duties:

- Initiating disbursement documents (preparing claim schedules from supporting documentation)
- Approving disbursements (signing claim schedules)
- Inputting disbursement information to prepare checks (issuing checks)
- Controlling blank check forms
- Initiating or preparing invoices

In addition, persons comparing checks to supporting documentation should not have access to or control blank check stock.

## **RECOMMENDATIONS**

We recommend that the Secretary of State's Office take the following action:

- Appropriately monitor and cancel all stale-dated checks.
- Appropriately segregate duties in its accounting unit to safeguard assets and ensure accurate record-keeping.

## **OFFICE'S VIEW AND CORRECTIVE ACTION PLAN**

The Secretary of State's Office concurs with our findings and indicates that the accounting unit has established a policy to cancel stale-dated checks on a monthly basis. Further, it stated that due to the hiring freeze and recent elimination of vacant positions, it has been unable to secure additional employees to allow for appropriate segregation of accounting duties. However, it indicates that it is working to ensure the most important duties are appropriately segregated.

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## **VARIOUS STATE DEPARTMENTS**

Reference Number: 2002-19-2

### **CONDITION**

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

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

Despite these requirements, some departments do not consistently ensure that all employees' taxable benefits or taxable business expense reimbursements are being reported to the Controller's Office. In addition to following up on issues reported for fiscal year 2000-01, we reviewed the reporting of employee taxable benefits and reimbursements at ten state departments for fiscal year 2001-02, including from 73 to 152 travel expense claims at each entity to verify that employee taxable reimbursements were properly reported. However, not all of the travel expense claims we reviewed had taxable fringe benefits claimed.

Of the departments that we reviewed, the Department of Transportation (headquarters and District 3), the Department of Corrections, the California Substance Abuse Treatment Facility—Corcoran, the El Paso de Robles Youth Correctional Facility, and the California School for the Deaf—Riverside did not always ensure that they met the reporting requirements the Controller's Office described. The table on page 23 shows the total number of travel expense claims with reportable items that we reviewed and the number of items the departments did not report to the Controller's Office.

We also determined if those departments that issued vehicle home storage permits reported the personal use of state vehicles to the Controller's Office. Of the departments that we reviewed, the Department of Corrections, the California Substance Abuse Treatment Facility—Corcoran, and the California School for the Deaf—Riverside did not always ensure that they reported the personal use of state vehicles to the Controller's Office. The table also shows the total number of instances of personal use of state vehicles that we reviewed that were not reported to the Controller's Office.

In February 2003, the Department of Corrections informed us that its agents are exempt from reporting personal use of state vehicles based on its view of IRS regulations that exempt unmarked law enforcement vehicles if the employee uses the vehicle for law-enforcement functions. However, to qualify as exempt, specific conditions must be satisfied and documented by actual facts and circumstances. For unmarked law enforcement vehicles to qualify, any personal use must be both authorized and incident to law enforcement functions such as reporting directly from home to a stakeout or surveillance site, or to an emergency situation. In February 2003, we requested the regularly prepared documentation such as comparisons of travel logs and vehicle logs from the managers and supervisors of eight individuals that established that the vehicles met the exemption criteria. The Department of Corrections has a system in place to demonstrate that it met the exemption criteria for the two employees in the transportation unit that we reviewed. However, it does not have support that it met the criteria for six employees in the Office of Investigative Services we reviewed.

Further, the Department of Corrections, the California Substance Abuse Treatment Facility—Corcoran, the El Paso de Robles Youth Correctional Facility, and the California School for the Deaf—Riverside have not developed written procedures to help ensure that they consistently and correctly report taxable fringe benefits.

We reported similar concerns for fiscal year 2000-2001 at five other departments. Three of these departments have established and implemented internal procedures for reporting taxable benefits to the Controller's Office. However, as we reported the last three fiscal years, the State Water Resources Control Board (board) has not implemented any internal procedures for reporting personal use of state vehicles to the Controller's Office. Further, it has not accurately reported taxable benefits to the Controller's Office. Although the Department of Health Services (Health Services) has developed internal procedures for reporting taxable benefits, it has not accurately reported taxable benefits to the Controller's Office. Health Services sometimes identified taxable meal reimbursements on travel expense claims, but it did not always forward the information to the appropriate staff to report the taxable items to the Controller's Office. The total number of travel expense claims with reportable items that we reviewed and the number of items not reported to the Controller's Office for these two departments are shown in the table on the following page.

**Table**

***Reportable Items Reviewed That Were Not Reported to the Controller's Office in Fiscal Year 2001-02***

State Agency	Total Number of Travel Expense Claims With Reportable Items Reviewed	Items Not Reported		
		Overtime/ Callback Mileage	Meals for Less Than 24-Hour Travel/Overtime Meals	Personal Use of State Vehicle*
Department of Transportation	44	2	6	0
Department of Corrections	19	1	10	6
California Substance Abuse Treatment Facility—Corcoran	10	3	0	1
El Paso de Robles Youth Correctional Facility	10	N/A	3	0
California School for the Deaf—Riverside	9	N/A	7	1
Department of Health Services	16	0	10	N/A
State Water Resources Control Board	14	2	10	N/A
<b>TOTALS</b>	122	8	46	8

N/A: None included in travel expense claims reviewed or no vehicle home storage permits issued.

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

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

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

**CRITERIA**

The Controller's Office Payroll Procedures Manual, sections 120 through 170, provides procedures for reporting to the Controller's Office taxable fringe benefits and business expense reimbursements provided to state employees. These procedures

are based on federal and state tax laws. The following benefits and payments included in this manual relate to our testing of agency compliance:

- Section 129.1 states that the use of state-owned or leased vehicles for personal commutes between home and office is reportable taxable income.
- Section 129.1.3 describes an IRS exemption for unmarked law-enforcement vehicles if the use of the vehicle is authorized and incident to law-enforcement functions and the actual facts and circumstances are documented.
- Section 130.1.2 states that reimbursements to employees for commuting expenses, such as for expenses from commuting or personal travel between home and office, is considered taxable income. This would include callback and overtime mileage.
- Section 143.3 states that overtime meal compensation is reportable and taxable income.
- Section 145.1.2 states that meal reimbursement for less than 24-hour travel without lodging is taxable income. Simply stated, if an employee receives reimbursement for meals during travel in which there was no overnight stay, this reimbursement is taxable income.

## **RECOMMENDATION**

To ensure proper reporting, all state departments should ensure that they have procedures established and implemented to properly report taxable fringe benefits and taxable employee business expense reimbursements.

## **DEPARTMENTS' VIEWS AND CORRECTIVE ACTION PLANS**

The Department of Transportation agrees with the finding. It indicates that department staff have been reminded to follow established reporting procedures and it has added a secondary review to ensure that taxable fringe benefits are reported to the Controller's Office.

The Department of Corrections agrees with the finding. It indicates that it has established written procedures and provided training to ensure that taxable fringe benefits are properly reported to the Controller's Office.

The Substance Abuse Treatment Facility—Corcoran agrees with the finding. It has corrected the errors for call back mileage and reported them to the State Controller's Office. In addition, it indicates that it is developing procedures for the reporting of personal use of state vehicles and has conducted training to ensure future reporting of taxable fringe benefits to the State Controller's Office is completed on time and accurately.

El Paso de Robles Youth Correctional Facility agrees with the finding. It has corrected the errors found during the testing and reported them to the Controller's Office. In addition, it indicates it now has procedures in place for reporting of taxable benefits and has conducted training to ensure future reporting to the Controller's Office is systematic and complete.

The California School for the Deaf—Riverside agrees with the finding. It indicates that it is in the process of correcting the errors found during the testing and reporting them to the Controller's Office. In addition, it indicates that it is currently developing procedures to ensure that taxable amounts for meals and personal use of state vehicles are reported to the Controller's Office.

The Department of Health Services agrees that the items identified in the review were not reported as taxable. It indicates it has corrected these errors, and reported them to the Controller's Office. The Department of Health Services has procedures implemented to properly report fringe benefits and taxable employee business expense reimbursements. Accounting staff will be reminded again of these procedures to ensure future reporting to the Controller's Office.

The State Water Resources Control Board agrees with the finding. It believes that the items not reported to the State Controller's Office in fiscal year 2001-02 were due to inexperienced staff and indicated it has provided additional training in these areas. On the issue of procedures for reporting the personal use of state vehicles, it recently received approval of a freeze exemption to hire an additional accounting officer who will be responsible for reporting taxable fringe benefits. It therefore anticipates that it will have internal procedures in place by October 1, 2003.

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## **DEPARTMENT OF DEVELOPMENTAL SERVICES**

Reference Number: 2002-19-3

### **CONDITION**

Annually, state departments must report to both the Department of General Services (General Services) and the State Controller's Office (Controller's Office) information in their real property holdings. For fiscal year 2001-02, the Department of Developmental Services (Developmental Services) reconciled the list of structures and square footage for all developmental centers in the State to the General Services' Real Estate Services Division Statewide Real Property Inventory. However, it has not reconciled the centers' valuation amounts reported to the Controller's Office on the Statement of Changes in General Fixed Assets with the Statewide Real Property Inventory.

For fiscal year 2000-01, we reported this same condition for Developmental Services' Sonoma Developmental Center (center). Developmental Services had reconciled the center's list of structures and improvements, but the valuation amount it reported to General Services was \$27 million less than it reported to the Controller's Office. In its corrective action plan, Developmental Services indicated that it would determine the correct balance to be reflected on the center's Statement of Changes in General Fixed Assets it submits to the Controller's Office. Further, Developmental Services indicated that, once this process was complete and appropriate adjustments had been made, it would implement procedures to ensure that the annual Statewide Real Property Inventory prepared by the center would be forwarded to Developmental Services' Developmental Center Division for review and approval of any necessary adjustments. Finally, Developmental Services stated that the procedures implemented at the center would be followed at the other developmental centers in the State for the year ending June 30, 2002.

Unless Developmental Services reports complete and accurate information to the Controller's Office and/or General Services, the State's financial statements will be misstated and the Statewide Real Property Inventory will be incomplete or inaccurate.

## **CRITERIA**

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

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

Further, the Department of Finance (Finance) issued directives in August 1999 and July 2000 requiring agencies to evaluate the risk of an incomplete inventory and to reconcile the amounts reported in the Statewide Real Property Inventory with the Statement of Changes in General Fixed Assets. Finance also required agencies to periodically reconcile their real property inventories to ensure the inventories are complete and accurate.

## **RECOMMENDATION**

Developmental Services should annually reconcile amounts it reports in the Statewide Real Property Inventory to its Statement of Changes in General Fixed Assets.

## **DEPARTMENT'S VIEWS AND CORRECTIVE ACTION PLANS**

Developmental Services concurs with our finding. It indicates that it will determine the proper valuation amounts for the buildings at each of the developmental centers in the State. Further, it states that this process will be completed by June 2003 and any necessary adjustments will be submitted to the Controller's Office to be included in the financial statements for fiscal year 2002-03.

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## **DEPARTMENT OF PARKS AND RECREATION**

Reference Number: 2002-19-4

### **CONDITION**

The Department of Parks and Recreation (Parks and Recreation) has inadequate procedures to account for and report its real property. Its acquisition unit reports real property information to the Department of General Services (General Services) for inclusion in the Statewide Real Property Inventory. Its accounting unit reports real property information to the State Controller's Office (Controller's Office) for inclusion in the State's financial statements. However, for fiscal year 2001-02, the two units did not reconcile their data, and they both reported incorrect information. Specifically, we determined the following:

- Through October 2002, Parks and Recreation's acquisition office reported only two of 42 land additions acquired between July 2001 and June 2002 to General Services' Real Estate Services Division. According to the chief of the acquisition office, it does not plan to complete its review process and report the remaining 40 additions, valued at \$185.7 million, to the Real Estate Services Division until June 30, 2003. In addition, it did not report \$3.4 million in ancillary costs for the assets because the department's accounting unit did not inform the acquisitions unit of the costs.
- Its accounting unit did not report the gift value of land additions totaling approximately \$64 million to the Controller's Office for inclusion in the state's financial statements because the acquisition office did not report the gift value of additions to the accounting unit.

Unless Parks and Recreation reports complete and accurate information to the Controller's Office and General Services' Real Estate Services Division, the State's financial statements will be misstated and/or the Statewide Real Property Inventory will be incomplete and inaccurate.

## **CRITERIA**

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

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

Further, the Department of Finance (Finance) issued directives in August 1999 and July 2000 requiring agencies to evaluate the risk of an incomplete inventory and to reconcile the amounts reported in the Statewide Real Property Inventory with the Statement of Changes in General Fixed Assets. Finance also required agencies to periodically reconcile their real property inventories to ensure the inventories are complete and accurate.

## **RECOMMENDATIONS**

To ensure proper reporting of property additions in the Statewide Real Property Inventory, the acquisition office should submit a record, annually, of each parcel purchased to General Services' Real Estate Services Division.

The acquisition office should report to the accounting unit the gift value of acquisitions at the time the land is purchased and the accounting unit should report ancillary costs to the acquisition office. By sharing the cost information, each office can ensure that General Services and the Controller's Office receive the same information for the Statewide Real Property Inventory and the state's financial statements.

Parks and Recreation should reconcile the amounts reported in the Statewide Real Property Inventory with its Statement of Changes in General Fixed Assets.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Parks and Recreation concurs with our finding and indicates that it will train staff on reporting requirements for General Services' Statewide Real Property Inventory, as well as monitor the reporting of additions for the Statewide Real Property Inventory. In addition, it indicates that it has taken steps necessary to ensure that gift values are reported to the accounting unit and that it includes ancillary costs of purchasing land in its reporting to General Services.

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## **CALIFORNIA STUDENT AID COMMISSION**

Reference Number: 2002-19-5

### **CONDITION**

The California Student Aid Commission (Student Aid) has established a nonprofit auxiliary organization to provide operational and administrative services for Student Aid's participation in the Federal Family Education Loans Program (loan program). We found Student Aid's auxiliary organization did not use best business practices when it hired consultants and certified public accountants from the same firm to provide key services.

Based on its work auditing the auxiliary's financial statements for fiscal year 2000-01, the auxiliary's accounting firm recommended in a management letter that the auxiliary continue its efforts to improve its business continuity capabilities. On February 4, 2002, the auxiliary awarded a contract to provide business continuity planning consulting services to the same firm that had identified the need to further improve the business continuity capabilities of the auxiliary organization. Because the auxiliary organization has also hired the same accounting firm to conduct its financial audit for fiscal year 2001-02, there is the possibility that the accounting firm will audit work done by consultants from the same firm.

Furthermore, public entities are precluded from awarding consulting contracts to firms that recommended or identified work in a previous engagement. However, Student Aid has not required its auxiliary organization to follow this practice. Each year Student Aid enters into an operating agreement with its auxiliary organization. However, we found that Student Aid, through its operating agreement, does not provide direction to its auxiliary organization with regard to contracting.

### **CRITERIA**

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

The Public Contracting Code, Section 10365.5, states no person, firm, or subsidiary thereof who has been awarded a consulting services contract may submit a bid for, nor be awarded a contract for, the provision of services, procurement of goods or supplies, or any other related action, which is required, suggested, or otherwise deemed appropriate in the end product of the consulting services contract.

## **RECOMMENDATION**

We recommend that Student Aid, through the operating agreement with its auxiliary organization, require that the auxiliary organization use best business practices and follow state contracting laws as applicable, such as not awarding consulting contracts to firms that recommended or identified work in a previous engagement.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Student Aid fully expects that the auxiliary organization perform its responsibilities with the highest level of integrity and with a sharp focus on best business practices.

The auxiliary organization took the following steps in entering into its contract for business continuity planning:

- After determining the business need for the services, a competitive bid process was used to evaluate and select the ultimate vendor.
- Seven proposals were received and an internal committee reviewed and rated each proposal.
- The committee conducted interviews with the top two rated firms, PricewaterhouseCoopers (PwC) and SunGard.
- PwC was selected based on its ability to meet the auxiliary organization's timelines and its superior knowledge and industry experience evidenced through the interviews.

The entire review and decision-making process is fully documented and available for the Bureau of State Audits to review. The above process is fully consistent and in accord with the auxiliary organization's internal policy on Procurements and Contracts.

Additionally, PwC in its role as independent auditor of the company's financial statements was not engaged to review or express an opinion of the adequacy of the company business continuity plans. Rather, as is standard practice in such engagements, PwC did complete a checklist intended to insure that the auxiliary organization follows standard business practices in a wide variety of areas. The PwC management comment in the audit of the 2000-01 financial statements suggesting that the auxiliary organization update its business continuity planning was simply an outcome of the completion of that check-list.

Student Aid established the auxiliary organization for the purpose of providing operational and administrative services to participate in the loan program.

The implementation and effectuation of the auxiliary organization shall be carried out to enhance the administration and delivery of student aid programs and services. The auxiliary structure allows for flexibility in areas of business such as hiring, purchasing, and technology enhancements/requirements to meet current standard business requirements within the loan program.

Student Aid will examine the state contracting rules and if any are applicable as models for best practices, will discuss these with its auxiliary organization.

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## **DEPARTMENT OF HEALTH SERVICES**

Reference Number: 2002-19-6

### **CONDITION**

The Fund does not have, but needs an employee or contractor who can convert the various special revenue funds of the program which are reported on a budgetary (encumbrance) basis of accounting to a proprietary fund type presentation on an accrual basis of accounting for external financial reporting of the program.

### **CRITERIA**

Review of the Capitalization Grants for Drinking Water State Revolving Fund (Fund) identified the following requirement relating to reporting:

One of the primary objectives of the EPA is to provide a permanent financing institution in each state, much like a bank or loan company. The accounting and the financial statements should be similar to those of a financial institution. As such, the preferred method of accounting for the activities of the Fund is as a proprietary (enterprise) fund as outlined in the the Environmental Protection Agency's *Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs*, revised September 2002.

### **RECOMMENDATION**

The Fund should contact the Bureau of State Audits or other experienced consultants in this area for assistance in training current staff.

### **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

The Fund will review the recommendation and follow up with the Bureau of State Audits to discuss the conversion issues and determine the appropriate course of action.

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## **Compliance Issue Related to All Federal Grants**

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## **IDENTIFYING PROGRAM EXPENDITURES**

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Reference Number: 2002-12-1  
Federal Program: All Programs  
Category of Finding: Reporting

### **CRITERIA**

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

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

### **CONDITION**

Because of limitations in its automated accounting systems, the State has not complied with the provision of OMB Circular A-133 requiring a schedule showing total expenditures for each federal program. As a result, the schedule (beginning on page 157) shows total receipts, rather than expenditures, by program. Expenditure information is necessary to identify Type A programs. To ensure that we identified and audited all high-risk Type A programs, we reviewed accrual basis expenditures, which are identified manually, for all programs that we did not already plan to audit and that had cash receipts within 10 percent of the Type A program threshold. We identified three such programs. Our review of the expenditures of these programs showed that none of them exceeded the Type A threshold.

### **RECOMMENDATION**

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

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Finance has responded that although the State, on a statewide basis, reports federal receipt totals, each individual state entity reports expenditures by grant to its federal cognizant agency. Finance states that the State's accounting system will require substantial modification to compile expenditure information to meet all federal and state requirements. Because the State has limited resources, Finance has no plans at this time to enhance the State's accounting system or to implement a new system.

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

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## **U.S. DEPARTMENT OF AGRICULTURE**

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Reference Number:	2002-2-2
Federal Catalog Number:	10.557
Federal Program Title:	Special Supplemental Nutrition Program for Women, Infants, and Children
Federal Award Numbers and Calendar Years Awarded:	7CA700CA7; 2000 7CA700CA7; 2001
Category of Finding:	Allowable Costs
State Administering Department:	Department of Health Services

### **CRITERIA**

Our review of the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC Program) identified the following compliance requirements related to allowable costs:

The Code of Federal Regulations, Title 7, Section 246.14(d), requires prior approval from the United States Department of Agriculture's Food and Nutrition Service (FNS) for costs for automated data processing (ADP) hardware or software. Under the FNS Handbook 901, Section 5010, the FNS has authorized state agencies administering the WIC program to make data-processing acquisitions with a total project cost of up to \$24,999 without prior approval. For ADP acquisitions exceeding \$24,999 in total project costs, the WIC Program must obtain prior approval from the FNS before the expense is incurred.

### **CONDITION**

Although it has procedures in place to ensure that it obtains prior approval from FNS for ADP project costs exceeding \$24,999, the Department of Health Services (Health Services) does not always adhere to them. For two projects with total ADP equipment costs exceeding \$24,999, Health Services did not obtain prior approval from FNS. In the first instance, a local agency split a single purchase of \$48,700 worth of ADP equipment into two separate purchases in order to circumvent the \$24,999 threshold for prior approval. The analyst who reviewed these purchases told us that she received very little formal training and did not recall receiving any training documents to guide her. In the second instance, a request for at least \$82,400 worth of ADP equipment was mislabeled as Modular Office Furniture and was therefore not

submitted for prior approval from FNS. By not following FNS procurement procedures, Health Services increases the risk that WIC Program funds may be used for unallowable costs.

## **RECOMMENDATIONS**

DHS should be more diligent in its review of requests for ADP equipment in order to ensure that it follows FNS procurement procedures and obtains approval before incurring ADP project costs exceeding \$24,999. Health Services should also ensure that it properly trains its contract analysts and provides them with sufficient guidance to properly perform their duties.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Health Services states that it is very diligent in its efforts to request U.S. Department of Agriculture (USDA) approval of all ADP orders over \$25,000. As a part of this effort, it is continually developing new procedures to improve its procurement process. In August 2002, Health Services distributed new Contract Management Binders (CMB) to the local agencies. The CMB includes a Procurement Decision Table that guides them through the approval process. By May 2003, Health Services will complete a desk procedure manual and provide additional training for WIC Branch analysts that review local agency procurements. The manual will include:

- A procurement process decision guide matrix;
- A subsection on recognizing and addressing circumvention of the procurement process;
- Procedures to implement the USDA 60 day notification rule for ADP procurements above \$5,000 base cost, but less than \$25,000; and
- Updates to the tracking and internal routing process.

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Reference Number:	2002-3-3
Federal Catalog Number:	10.557
Federal Program Title:	Special Supplemental Nutrition Program for Women, Infants, and Children
Federal Award Numbers and Calendar Years Awarded:	7CA700CA7; 2000 7CA700CA7; 2001
Category of Finding:	Cash Management
State Administering Department:	Department of Health Services

## **CRITERIA**

Our review of the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC Program) identified the following compliance requirements related to cash management:

The Code of Federal Regulations, Title 31, Section 205.9, authorizes states to enter into a Treasury-State Agreement (agreement) with the federal Department of the Treasury to establish rules and procedures for the transfer of funds between the federal government and the State. For those programs receiving more than \$87 million in federal grant awards, California's agreement for fiscal year 2001-02 specifies which of the 11 available methods state departments must use to transfer funds from the federal government.

The agreement identifies the "modified zero balance accounting" method as the one to be used by the WIC program to transfer federal funds to pay for state-issued food vouchers redeemed to the State by grocery and other stores. Under this transfer method, the Department of Health Services (Health Services) must estimate the amount of federal funds it needs daily to redeem food vouchers. Two days in arrears, Health Services must also account for the difference between the estimated and actual amounts by adjusting that day's transfer. The agreement states that neither the federal government nor the State will incur an interest liability for minor adjustment amounts.

## **CONDITION**

Health Services did not use the agreed-upon method for transferring federal funds to pay for redeemed food vouchers for the WIC Program. Rather than using the "modified zero balance accounting" method as the agreement required, Health Services used the "reimbursement" method. For the 14 claims we sampled, Health Services first used state funds to make payments and subsequently transferred federal funds to reimburse the State. Although the transfer method Health Services used incurs no interest liability to be paid to the federal government, the State incurs a financial loss because the money used to pay for the redeemed vouchers is not in the State's accounts earning interest. Every dollar earned from interest reduces the need for taxes or other revenue by an equal amount. Our review of a sample of 14 WIC Program claim schedules totaling nearly \$44 million showed that the State lost an estimated \$23,000 in interest from the time Health Services used state funds to pay the claims until it transferred the corresponding federal funds. With a range of one to 14 days, Health Services took an average of six days to obtain federal reimbursing funds for these claims. During fiscal year 2001-02, Health Services spent \$577 million to redeem food vouchers for the WIC Program. Health Services believes that its deviation from the agreement results in no lost interest; however, as explained above, the State does indeed lose interest earnings.

## **RECOMMENDATION**

Health Services should comply with the provisions of the agreement.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Health Services agrees it has deviated from the State Treasury Agreement. Effective July 1, 2003, the modified zero balance accounting method will be used for CMIA purposes.

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Reference Number:	2002-9-7
Category of Finding:	Suspension and Debarment
State Administering Department:	Department of Social Services

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

## **CRITERIA**

Our review of the Emergency Food Assistance Program identified the following requirements related to suspension and debarment:

The Code of Federal Regulations, Title 7, Section 3017.225, prohibits the State from contracting with any party that is suspended or debarred or otherwise ineligible to participate in federal assistance programs. In addition, Section 3017.510 requires the State to obtain certifications from participating organizations indicating that they are not suspended, debarred, ineligible, or voluntarily excluded from transactions by any federal agency.

## **CONDITION**

The Department of Social Services (Social Services) did not require 46 of its 51 subrecipients of the Emergency Food Assistance Program to submit suspension and debarment certifications. These 46 subrecipients were nonprofit organizations; the other five subrecipients were county-run organizations. When Social Services does not obtain the required certifications, it risks unknowingly allowing suspended or debarred parties to participate in the federal program. For these 46 subrecipients, we used an alternative test to determine that they were not suspended or debarred.

## RECOMMENDATION

Social Services should ensure that it obtains the necessary suspension and debarment certifications from all subrecipients before approving their participation in the Emergency Food Assistance Program.

## DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Social Services concurs. Social Services will obtain the required suspension and debarment certifications from its subrecipients by making the certifications part of the Memoranda of Understanding (MOU) between Social Services and these subrecipients. Existing MOUs with these subrecipients expire on September 30, 2004. Social Services will have suspension and debarment certifications included in the agreements that take effect on October 1, 2004.

### U.S. DEPARTMENT OF AGRICULTURE

Federal Catalog Number:	10.568
Federal Program Title:	Emergency Food Assistance Program (Administrative Costs)
Federal Award Numbers and Calendar Years Awarded:	7CA810CA8; 2000 7CA810CA8; 2001

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Federal Catalog Number:	10.569
Federal Program Title:	Emergency Food Assistance Program (Food Commodities)
Federal Award Numbers and Calendar Years Awarded:	TEFAP-2000-01, FD-5-6, 2001 TEFAP-2001-02, FD-5-06-3, 2002

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Reference Number:	2002-13-4
Federal Catalog Number:	10.558
Federal Program Title:	Child and Adult Care Food Program
Federal Award Numbers and Calendar Years Awarded:	7CA300CA3; 2000 7CA300CA3; 2001

Category of Finding: Subrecipient Monitoring

State Administering Department: Department of Education

## **CRITERIA**

Our review of the Child and Adult Care Food Program (food program) determined that the following federal requirements relate to subrecipient monitoring:

The Code of Federal Regulations, Title 7, Section 226.6(l)(3), requires states to ensure that newly participating sponsors with five or more child care facilities or adult day care facilities are reviewed within the first 90 days of operation.

## **CONDITION**

The Department of Education (Education) did not adequately fulfill its subrecipient monitoring responsibilities for the food program. Specifically, we reviewed seven new sponsors that Education approved between July 1, 2001, and April 1, 2002, to participate in the food program. We found that Education had not conducted an administrative review for four sponsors within the first 90 days of operation. The reviews were from one to seven months overdue. When Education does not conduct timely reviews of its new sponsors, it reduces assurance that sponsors are aware of and have the procedures in place to comply with federal food program regulations and administrative requirements.

In an August 2002 report, the United States Department of Agriculture (USDA) noted a similar finding. Education stated it is implementing corrective action in response to the USDA's finding. The corrective action includes determining whether applicants have five or more sites and, after assigning staff to conduct the 90-day reviews, tracking the status of the reviews. In addition, Education is pursuing enhancement of its food program databases to capture the 90-day review process data.

## **RECOMMENDATIONS**

Education should ensure implementation of its corrective action and should continue to pursue enhancement of its food program databases to ensure it reviews all new participating sponsors with five or more sites within the first 90 days of operation.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Education has taken the following steps to ensure that it reviews new sponsors with five or more sites within the first 90 days of operation:

- Upon receipt of a new Child and Adult Care Food Program application, Nutrition Services Division's (NSD) Resources and Information Management Unit (RIM) records the number of applicant sites on an application tracking sheet.
- RIM forwards the application and application tracking sheet to the Field Services Unit (FSU) for processing.
- An FSU supervisor evaluates the number of sites listed on the application tracking sheet, determines the review requirements, and enters the application data in the new/pending application log.
- When NSD approves the application, if the sponsor has five or more sites, the FSU supervisor assigns staff to conduct the administrative review within 90 days of the application effective date.
- FSU maintains a spreadsheet on the status of 90-day reviews. At each monthly staff meeting, FSU supervisors review the status of assignments with staff. When appropriate, FSU supervisors assign additional staff to ensure timely completion of the review.
- When the 90-day review is completed, FSU sends a review transmittal form to RIM for input of the sponsor's name, effective date, number of sites, and date of the 90-day review into the FSU workload tracking database.

In addition, Education has requested that the Management Systems Division, within the Child, Youth and Family Services Branch, enhance the Child and Adult Care Food Program sponsor database and the FSU workload tracking database to capture the 90-day review information. These actions will allow FSU supervisors and NSD management to review monthly status reports, and take prompt action to ensure compliance with federal regulations.

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Reference Number:	2002-13-8
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Social Services

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

## **CRITERIA**

Our review of the Emergency Food Assistance Program identified the following compliance requirements related to subrecipient monitoring:

The U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133), describes the requirements the State must follow when it passes federal funds through to

subrecipients. Section 400(d) requires the State to ensure that subrecipients expending \$300,000 or more in federal assistance meet applicable audit requirements, including the submission of an audit report to the State within nine months following the end of the audit period. Also, the State is required to issue management decisions on audit findings within six months of receiving audit reports. Further, Section 400(d) requires the State to provide its subrecipients with information such as the federal grant title and number, award year, and the name of the federal agency.

## **CONDITION**

The Department of Social Services (Social Services) did not have an adequate system to ensure it met the OMB Circular A-133 requirements it must follow when it passes federal funds through to subrecipients. Specifically, Social Services did not have procedures for determining whether all of its 46 nonprofit subrecipients were required to submit audit reports. Such steps may include requiring each subrecipient to either inform Social Services that it did not expend \$300,000 or more in total assistance from all federal programs or to submit an appropriate audit report, and identifying those nonprofit subrecipients to which it provided \$300,000 or more in federal assistance. Based on information available at Social Services, we determined that Social Services provided \$300,000 or more in federal assistance during fiscal year 2000-01 from the Emergency Food Assistance Program alone to at least 13 of the 46 nonprofit subrecipients. Further, Social Services did not have adequate procedures for ensuring that it obtained audit reports from all subrecipients required to submit them. Of the 13 subrecipients receiving at least \$300,000, Social Services obtained audit reports from only six. Moreover, Social Services did not have procedures for ensuring that it issued management decisions when audit reports disclosed findings. One of the six audit reports that Social Services received contained findings related to the Emergency Food Assistance Program. However, as of April 2003, Social Services had not issued the required management decision, which was due by June 2002. Finally, Social Services did not provide any of its nonprofit subrecipients with the required grant-related information, such as the federal grant title and number, the award year, and the name of the federal agency.

Without an effective system to identify nonprofit subrecipients required to have audits and to track the prompt receipt of these required audit reports, Social Services has reduced assurance that its nonprofit subrecipients are spending federal assistance according to applicable laws and regulations. Furthermore, when it does not issue management decisions on audit findings, Social Services cannot ensure that its subrecipients are taking prompt and appropriate action to address audit findings. Lastly, when Social Services does not provide subrecipients with information related to the federal grant, Social Services cannot assure that subrecipients will identify for their independent auditors all their federal awards for audits conducted under OMB Circular A-133.

## **RECOMMENDATIONS**

Social Services should develop a system to ensure it identifies those nonprofit subrecipients required to submit audit reports and that it obtains audit reports from those subrecipients required to submit them. Additionally, it should promptly issue the required management decisions on audit findings affecting the Emergency Food Assistance Program. Finally, Social Services should ensure that it informs its subrecipients of the required federal grant information.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Social Services concurs. Social Services requested A-133 audit reports from the seven subrecipient agencies identified by the auditors and by now Social Services has received and reviewed five of these delinquent reports. In response to this finding, Social Services is developing written procedures to ensure that all Emergency Food Assistance Program subrecipient agencies are notified of the requirements for procuring annual A-133 audits, for submitting resultant audit reports timely to Social Services, and for taking timely corrective action to resolve any audit findings reported. These procedures will also ensure that Social Services staff review all audit reports, and follow up and issue timely management decisions regarding any Emergency Food Assistance Program findings reported. Finally, these procedures will ensure that all subrecipients receive annual, written notification of the required grant information.

### **U.S. DEPARTMENT OF AGRICULTURE**

Federal Catalog Number:	10.568
Federal Program Title:	Emergency Food Assistance Program (Administrative Costs)
Federal Award Numbers Calendar Years Awarded:	7CA810CA8, 2000 7CA810CA8, 2001
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Federal Catalog Number:	10.569
Federal Program Title:	Emergency Food Assistance Program (Commodities)
Federal Award Number and Calendar Year Awarded:	TEFAP-2000-01, FD-5-6, 2001

**U.S. DEPARTMENT OF AGRICULTURE  
U.S. DEPARTMENT OF LABOR  
U.S. DEPARTMENT OF EDUCATION  
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES  
U.S. SOCIAL SECURITY ADMINISTRATION**

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Reference Number: 2002-3-7  
Category of Finding: Cash Management  
State Administering Department: Department of Finance

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

**CRITERIA**

We determined that the following requirements relate to compliance with the Cash Management Improvement Act:

The Code of Federal Regulations, Title 31, Section 205.15(a), requires the State to submit an annual report to the U.S. Department of the Treasury that accounts for the interest liabilities of the State's most recently completed fiscal year. This report must include the total federal and state interest liability for each program subject to the Cash Management Improvement Act Agreement (CMIA agreement) between the U.S. Department of the Treasury and the State, as well as the net total interest owed by the State or the federal government. Section 205.15(d) requires an authorized state official to certify the accuracy of the State's annual report.

Additionally, the CMIA agreement, Section 9.7.13, requires the State to calculate both state and federal interest liabilities on all administrative costs, including payroll and state operating costs, and to incorporate these calculations into the total interest liability information contained in the annual report. Finally, the State and the federal Financial Management Service have agreed that the State should record payroll expenditures on the warrant issue date.

**CONDITION**

The Department of Finance (Finance) requires state departments to report information related to the receipt and disbursement of federal funds of selected federal programs so that it can calculate interest liabilities under the CMIA agreement. Finance uses a daily balance method to calculate interest liabilities on administrative costs. However, we found that Finance did not ensure that it recorded all expenditures to the appropriate dates for 18 programs, 15 of which we audited this year, in its

interest-liability calculations. For 12 of these 18 programs, the error pertained to one month's payroll expenditures that Finance recorded as paid one day later than the actual issue date of the warrants. Although the effect of the errors on all but one of the 18 programs is less than \$10,000, in the aggregate, Finance calculates that it overstated the State's net interest liability in the fiscal year 2001-02 annual report by more than \$22,700.

## **RECOMMENDATIONS**

Finance should correct the errors contained in the State's fiscal year 2001-02 annual report by adjusting the interest liabilities of the affected programs in the fiscal year 2002-03 report. Finance should also ensure that interest liabilities contained in future annual reports are calculated using the agreed upon methodology.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Finance agrees with the finding. It states that the overstated state interest liability will be reported and adjusted as a prior year adjustment in the fiscal year 2002-03 CMIA Annual Report that will be submitted in December 2003.

Finance also states that it has implemented procedures that will provide greater accuracy, reducing the possibility of errors. Finance will continue its ongoing efforts to reduce errors by improving internal procedures and analyzing the information reported by state departments.

### **U.S. DEPARTMENT OF AGRICULTURE**

Federal Catalog Number:	10.558
Federal Program Title:	Child and Adult Care Food Program
Federal Award Numbers and Calendar Years Awarded:	7CA300CA3; 2000 7CA300CA3; 2001

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Federal Catalog Number:	10.561
Federal Program Title:	State Administrative Matching Grants for Food Stamp Program
Federal Award Numbers and Calendar Years Awarded:	7CA4004CA; 2001 7CA4004CA; 2002 7CA400CA4; 2001 7CA400CA4; 2002 7CA420CAX; 2002

**U.S. DEPARTMENT OF LABOR**

Federal Catalog Number: 17.207  
Federal Program Title: Employment Service  
Federal Award Number and  
Calendar Year Awarded: ES-11518-01-55; 2001

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Federal Catalog Number: 17.225  
Federal Program Title: Unemployment Insurance  
Federal Award Numbers and  
Calendar Years Awarded: UI10924FM0; 2001  
UI10924FM0; 2002  
UI109240055; 2001  
UI109240055; 2002

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Federal Catalog Number: 17.259  
Federal Program Title: Workforce Investment Act Youth Activities  
(Workforce Investment Act Formula Youth)  
Federal Award Number and  
Calendar Year Awarded: AA-112240-00-50; 2001

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Federal Catalog Number: 17.260  
Federal Program Title: Workforce Investment Act Dislocated Workers  
Federal Award Number and  
Calendar Year Awarded: AA-112240-00-50; 2001

**U.S. DEPARTMENT OF EDUCATION**

Federal Catalog Number: 84.010  
Federal Program Title: Title I Grants to Local Educational Agencies  
Federal Award Number and  
Calendar Year Awarded: S010A010005; 2001

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Federal Catalog Number: 84.011  
Federal Program Title: Migrant Education—Basic State Grant Program  
Federal Award Number and  
Calendar Year Awarded: S011A010005; 2001

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Federal Catalog Number: 84.027  
Federal Program Title: Special Education—Grants to States  
Federal Award Number and  
Calendar Year Awarded: H027A010116; 2001

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Federal Catalog Number: 84.048  
Federal Program Title: Vocational Education—Basic Grants to States  
Federal Award Number and  
Calendar Year Awarded: V048A010005; 2001

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

Federal Catalog Number: 93.558  
Federal Program Title: Temporary Assistance for Needy Families  
Federal Award Numbers and  
Calendar Years Awarded: G-0101CATANF; 2001  
G-0201CATANF; 2002

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Federal Catalog Number: 93.658  
Federal Program Title: Foster Care—Title IV-E  
Federal Award Numbers and  
Calendar Years Awarded: 0101CA1401; 2001  
0201CA1401; 2002

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Federal Catalog Number: 93.659  
Federal Program Title: Adoption Assistance  
Federal Award Numbers and  
Calendar Years Awarded: 0101CA1407; 2001  
0201CA1407; 2002

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Federal Catalog Number: 93.959  
Federal Program Title: Block Grants for Prevention and Treatment  
of Substance Abuse  
Federal Award Numbers and  
Calendar Years Awarded: 01B1CASAPT-04; 2000  
02B1CASAPT-04; 2001

#### **U.S. SOCIAL SECURITY ADMINISTRATION**

Federal Catalog Number: 96.001  
Federal Program Title: Social Security—Disability Insurance  
Federal Award Numbers and  
Calendar Years Awarded: 04-0104CADI00; 2000  
04-0204CADI00; 2001

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

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Reference Number: 2002-3-8

Category of Finding: Cash Management

State Administering Departments: Department of Finance  
State Controller's Office

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

**CRITERIA**

Our review of federal programs identified the following compliance requirements related to cash management:

The Code of Federal Regulations, Title 31, Part 205, provides the cash management requirements for federal grant programs. Subpart B of Part 205 pertains to those federal grant programs not covered by the Cash Management Improvement Act agreement (CMIA agreement) between the State and the U.S. Department of the Treasury. This subpart requires the State to limit its cash advances from the U.S. Department of the Treasury to the minimum amounts necessary to meet immediate cash needs. It also requires that the timing of transfers be as close as administratively feasible to the State's actual cash outlay. Because Part 205 does not define the specific number of days between the transfer of federal funds and their subsequent disbursement that constitute "immediate cash needs," we used as a benchmark the three business days the U.S. Department of Health and Human Services uses.

**CONDITION**

The State does not always limit transfers of federal funds to the immediate cash needs for those federal grants not covered by the CMIA agreement. Our audit work at four departments revealed that the State averaged nearly six days from the date that a department transferred federal funds into its accounts until the date the State Controller's Office (Controller's Office) issued warrants related to those funds. For instance, for one grant we reviewed at the Department of Education, the State averaged nine days while for another grant it averaged five. The State averaged seven days for a federal grant we reviewed at the Department of Developmental Services and seven days for two federal grants we reviewed at the Department of Aging. The State also averaged four days for a federal grant we reviewed at the Department of Community Services and Development. When calculating our

averages, we included the first three business days and all remaining calendar days that elapsed between the transfer and the disbursement of federal funds. For all six grants, the average number of days from transfer to disbursement of federal funds was six; the number of days between the two actions ranged from 0 to 44.

Our review also disclosed that three of the four departments on average delayed transferring their federal funds until after the Controller's Office had received their claim schedules. The Department of Education delayed transferring its federal funds an average of 2.4 days for one of its grants and an average of .4 days for the other. Both the Department of Aging and the Department of Community Services and Development delayed the transfer of federal funds for their grants by an average of about 1.25 days. Only the Department of Developmental Services transferred the federal funds for its grant before the Controller's Office had received its claim schedules; it did so on average about 1.6 days beforehand. Overall, for the six grants we reviewed, the Controller's Office averaged eight days to process claim schedules after it received them, with averages per grant ranging from seven to 10 days.

When the State does not minimize the number of days between the transfer and disbursement of federal funds for grant programs not covered by the CMIA agreement, it will earn interest on those federal funds that it otherwise would not have earned had it complied with federal regulations. In our sample of 174 claims for the six federal grants cited above, we estimate that the State earned nearly \$40,000 in interest during fiscal year 2001-02 while it held those federal funds in state accounts. Although the federal government may not seek to recoup these interest earnings, the State could face other administrative consequences. The Code of Federal Regulations states that neither the federal government nor the State will incur an interest liability for transfers of funds for grants that are not covered by the CMIA agreement. However, the Code of Federal Regulations also states that if the State demonstrates an unwillingness or inability to limit the transfers for these types of federal grants to its immediate cash needs, the federal government can require the State to include additional programs under the CMIA agreement, which could increase the State's record-keeping requirements and would increase the number of programs subject to the state's interest liability calculations.

## **RECOMMENDATION**

For grants that are not covered by the CMIA agreement, the Department of Finance and the State Controller's Office should develop and implement a cost-effective, administratively feasible method to more effectively reduce the number of days between the transfer of federal funds and issuance of the related warrants.

## **DEPARTMENTS' VIEWS AND CORRECTIVE ACTION PLANS**

The Department of Finance (Finance) does not agree with the finding. Finance believes State departments do limit the drawdown of federal funds to the actual, immediate cash requirements of the State. The payment of claims requires the timely coordination of transactions involving at least three State departments. State

departments initiate the payment process, the State Treasurer's Office receives the federal funds, and the State Controller's Office audits and pays the claims. State departments must estimate when the State Controller's Office will process the claim for payment and draw the federal funds as close as possible to the actual disbursement date. Given the State accounting processes and restraints, in addition to the State Constitutional requirement that federal funds be on hand by the time the disbursement is made, we believe the average six day processing time by the State Controller's Office is reasonable and within the administratively feasible parameters established for Subpart B programs covered under 31 CFR Part 205.

Finance does agree with the recommendation to meet with the State Controller's Office to determine how further improvements can be made in the timely receipt and disbursement of federal funds.

The State Controller's Office states that, as the Bureau of State Audits noted, the Code of Federal Regulations, Title 31, Part 205, does not define a specific number of days between the transfer of funds and their subsequent disbursement that constitutes "immediate cash needs." Nevertheless, the State Controller's Office is aware that the federal regulations also provide that if a state demonstrates an unwillingness or inability to limit transfers of funds for those federal grants covered by Part B of the regulations to immediate cash needs, the federal government may require that state to include additional programs under the CMIA agreement.

The State Controller's Office states that it plans to meet with the Department of Finance to develop a cost-effective and administratively feasible method to reduce the number of days between the transfer of federal funds and the issuance of related warrants for those federal grants covered by Part B of the federal regulations.

### **U.S. DEPARTMENT OF AGRICULTURE**

Federal Catalog Number:	10.559
Federal Program Title:	Summer Food Service Program for Children
Federal Award Number and Calendar Year Awarded:	7CA300CA3; 2001

### **U.S. DEPARTMENT OF EDUCATION**

Federal Catalog Number:	84.173
Federal Program Title:	Special Education—Preschool Grants
Federal Award Number and Calendar Year Awarded:	H173A010120; 2001

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Federal Catalog Number: 84.181  
Federal Program Title: Special Education—Grants for Infants  
and Families with Disabilities  
Federal Award Number and  
Calendar Year Awarded: H181A010037; 2001

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

Federal Catalog Number: 93.044  
Federal Program Title: Special Programs for the Aging—Title III, Part B  
Grants for Supportive Services  
and Senior Centers  
Federal Award Numbers and  
Calendar Years Awarded: 02-01-AA-CA-1320; 2000  
02-02-AA-CA-1320; 2001

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Federal Catalog Number: 93.045  
Federal Program Title: Special Programs for the Aging—Title III, Part C  
Nutrition Services  
Federal Award Numbers and  
Calendar Years Awarded: 02-01-AA-CA-1712; 2000  
02-02-AA-CA-1713; 2000  
02-02-AA-CA-1712; 2001  
02-02-AA-CA-1713; 2001

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Federal Catalog Number: 93.569  
Federal Program Title: Community Services Block Grant  
Federal Award Number and  
Calendar Year Awarded: G-01B1CACOSR; 2000

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

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Reference Number: 2002-3-16

Category of Finding: Cash Management

State Administering Department: Department of Social Services

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

**CRITERIA**

Our review of federal programs identified the following compliance requirements relating to cash management:

The Code of Federal Regulations, Title 31, Part 205, Subpart B, provides the cash management requirements for federal programs not covered in the Cash Management Improvement Act agreement between the U.S. Department of the Treasury and the State. Section 205.20 requires the State to limit the cash advances from the U.S. Department of the Treasury to the minimum amounts needed.

**CONDITION**

The Department of Social Services (Social Services) did not always limit cash advances of federal funds to the minimum amounts needed. Specifically, for the Emergency Food Assistance Program, Social Services had excess monthly balances of federal funds on hand in the State's accounts for April through June 2002 that ranged from \$329,000 to \$976,000 more than necessary to cover monthly expenditures. In April 2002, Social Services transferred in an advance of \$1.2 million in federal funds for the program. It based the size of this advance on the maximum amount it believed would be necessary to cover monthly expenditures incurred from April through June 2002. During this three-month period, however, monthly expenditures ranged from only \$224,000 to \$846,000. The excess balances of federal funds occurred because Social Services did not charge all or a portion of the expenditures it incurred against the advance; instead it transferred in additional federal funds each month to reimburse itself for the prior month's expenditures. Social Services eventually liquidated the \$1.2 million advance between August and October 2002, four to six months after receiving it.

Social Services also had similarly high monthly balances that ranged from \$84,000 to \$476,000 during April through June 2002 for the federal Chafee Foster Care Independent Living program. In April 2002, Social Services transferred in an advance of \$500,000 in federal funds for this program. Monthly expenditures for this program during April through June 2002, however, ranged from only \$24,000 to \$336,000.

Social Services liquidated this \$500,000 advance by August 2002. We calculate that the State earned about \$7,300 in interest on the excess federal funds Social Services held for these two programs from April through September 2002.

## **RECOMMENDATION**

Social Services should limit advances of federal funds to the minimum amounts needed for the Emergency Food Assistance and the Chafee Foster Care Independent Living programs. To accomplish this objective, Social Services should reassess the level of federal funds it needs in light of actual expenditure activity.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Social Services concurs with the recommendation that advances of federal funds should be limited to the amounts needed for the Emergency Food Assistance Program and the Independent Living Program. Social Services believes its cash management practices do minimize the amounts of federal funds advanced to meet the program costs. However, Social Services does not believe this finding accurately represents the cash management practice for the entire State fiscal year.

Social Services uses a General Fund Clearing Account to initially pay all of its operational costs. For the first 8 to 9 months of the year, the State General Fund initially pays the operational costs of the Emergency Food Assistance Program and is subsequently reimbursed with federal funds on a monthly basis. However, at the end of the State fiscal year the federal funds need to be advanced due to insufficient General Funds available to cover the Federal share of the monthly operational costs. Based on the aforementioned practice, if these grants were covered under the CMIA State/Treasury agreement, the Federal government would have incurred an interest liability for the first 9 months of approximately \$27,778.

The monthly advance is estimated on actual expenditure trends during the year, outstanding obligations, and past year history. Historical trends indicate that expenditures are usually highest during the last quarter of the state fiscal year and that for the Emergency Food Assistance Program the entire grant will be utilized. Our advance is reflective of such considerations. In addition, A-87 (Attachment C, Part G-2) allows for a working capital reserve, up to 60 days, in addition to the full recovery of costs. The General Fund Clearing Account functions much like an internal service fund since state funds are not intentionally appropriated to "float" expenditures applicable to federal funds. Specifically for state fiscal year 2001/02 State Operations, the General Fund appropriation was \$95,932,000 with the Federal Trust Fund appropriation at \$308,902,500. The amount of State funds available clearly dictates the frequency and amount of federal funds drawn. This disparity of appropriated federal funds to general funds makes it impossible for federal claims to be paid up front with General Fund's for the entire state fiscal year.

Based on the aforementioned conditions, Social Services believes its cash management practices relative to these end of year federal estimates are reasonable and equitable.

### **AUDITOR'S COMMENTS ON THE DEPARTMENT'S VIEW**

Although Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* (OMB Circular A-87), Attachment C, allows working capital reserves for internal service funds, it pertains to a state's central service cost allocation plan. Social Services' rationale ignores the critical fact that its General Fund clearing account is not an internal service fund. Because the payments Social Services makes through the General Fund clearing account for these two federal programs are not related to an internal service activity, the provisions of OMB Circular A-87, Attachment C, do not apply to its use of the advance of federal funds.

### **U.S. DEPARTMENT OF AGRICULTURE**

Federal Catalog Number:	10.568
Federal Program Title:	Emergency Food Assistance Program (Administrative Costs)
Federal Award Numbers and Calendar Years Awarded:	7CA810CA8, 2000 7CA810CA8, 2001

### **U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES**

Federal Catalog Number:	93.674
Federal Program Title:	Chafee Foster Care Independent Living
Federal Award Numbers and Calendar Years Awarded:	G-0001CA1420; 1999 G-0101CA1420; 2000 G-0201CA1420; 2001

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Reference Number:	2002-13-5
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Health Services

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

## **CRITERIA**

Our review of federal programs identified the following compliance requirements related to subrecipient monitoring:

The U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133), describes the audit requirements for recipients of federal funds. Sections 200 and 320 require subrecipients spending \$300,000 or more annually in federal awards to submit audit reports to the State when the reports address findings related to the federal awards that the State administers. Audit reports are due within nine months of the end of the audit period. Further, Section 400(d) requires the State to ensure the subrecipients meet the audit requirements, to issue management decisions on audit findings within six months of receiving audit reports, and to make sure subrecipients take appropriate and timely corrective action.

## **CONDITION**

The Department of Health Services (Health Services) did not always promptly receive all audit reports from its nonprofit subrecipients. Specifically, Health Services received audit reports that were 43 to 442 days late from four of the 20 nonprofit subrecipients that we reviewed who participated in the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC Program). Similarly, it received audit reports that were 44 to 215 days late from five of the 19 nonprofit subrecipients that we reviewed who participated in the HIV Care Formula Grants program; it received audit reports from four other nonprofit subrecipients up to 11 days late. Finally, Health Services received audit reports that were 131 and 220 days late from two of the nine nonprofit subrecipients that we reviewed who participated in the Maternal and Child Health Services Block Grant to the States program.

Health Services did not always receive the required audit reports on time because it did not always adhere to its process for obtaining these reports. For the WIC Program, Health Services did not send the third of its four reminder and late notices to one nonprofit subrecipient, nor did it send the fourth reminder and late notice to three of the four nonprofit subrecipients who submitted their reports late. After initially receiving from the fourth subrecipient a report in 2001 that did not meet the requirements of OMB Circular A-133, Health Services finally received this subrecipient's A-133 audit report in January 2003. For the HIV Care Formula Grants program, Health Services did not send the first of two reminder letters to subrecipients with late audit reports, and it issued the second letter to one subrecipient six months after its audit report was due. For the Maternal and Child Health Services Block Grant to the States program, Health Services sent its series of four reminder and late notices on the same date to one nonprofit subrecipient with a late audit report rather than send each notice on its designated date. For the other nonprofit subrecipient with a late report, Health Services sent a single late notice eight months after the audit report was due.

We also observed a number of other weaknesses in Health Services' process for ensuring that nonprofit subrecipients receiving federal funds comply with the audit requirements of OMB Circular A-133. Specifically, the tracking log that Health Services used to monitor subrecipient compliance with audit requirements did not identify 13 of the WIC program's 42 subrecipients. Further, although one unit within Health Services received an audit report by July 2002 from a nonprofit subrecipient, the unit that actually tracks the receipt of the audit reports showed that it had never received this nonprofit subrecipient's report. Also, Health Services received inadequate audit reports from two subrecipients that expended more than \$300,000 in federal funds. One subrecipient submitted a financial audit report rather than an OMB Circular A-133 audit report while the other omitted the required schedule of findings and questioned costs from its audit report. Finally, Health Services had not issued, as of December 2002, the management decision for a WIC program finding contained in an audit report that it had received from a subrecipient more than 17 months earlier.

Without an effective system to appropriately follow up on delinquent audit reports, Health Services cannot ensure that its nonprofit subrecipients are meeting audit requirements that are designed to ensure that federal funds are properly spent. Further, when it does not issue management decisions on audit findings that affect its programs, Health Services cannot ensure that its nonprofit subrecipients are taking prompt and appropriate action to address audit findings.

## **RECOMMENDATIONS**

Health Services should ensure that its staff members follow its system for following up on delinquent audit reports from nonprofit subrecipients and that the information contained in this system is accurate and complete. These steps should include ensuring that it sends reminder and late notices when required, properly identifies all subrecipients in its tracking system, ensures that all audit reports meet applicable requirements, and issues the required management decisions within six months of receiving an audit report.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Health Services concurs with the finding. Specifically, the Maternal and Child Health (MCH) Branch, which coordinates the single agency tracking function for the Primary Care and Family Health Division, has taken measures to improve upon the system. MCH convenes regular meetings with members from each Branch, including Women, Infant and Children, which are required to comply with the federal requirements. The purpose of these meetings is to share information, discuss processes, and implement changes such as those identified by the Bureau of State Audits. And as the single point for coordinating this activity, MCH has recently implemented an automated reminder system to track the status of all subrecipient files. This will help facilitate issuing management decisions within the six-month timeframe.

The Office of AIDS (OA) also concurs with the finding. OA has developed and will continue to develop procedures to identify, track, and monitor contractors. Additionally, the OA recently convened a division-wide workgroup to improve OA's responsibilities of OMB Circular A-133 audit requirements. The OA will make an extra effort to ensure OA acts timely and will follow-up on late A-133 audit contractors.

### **U.S. DEPARTMENT OF AGRICULTURE**

Federal Catalog Number:	10.557
Federal Program Title:	Special Supplemental Nutrition Program for Women, Infants, and Children
Federal Award Numbers and Calendar Years Awarded:	7CA700CA7; 2000 7CA700CA7; 2001

### **U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES**

Federal Catalog Number:	93.917
Federal Program Title:	HIV Care Formula Grants
Federal Award Number and Calendar Year Awarded:	2X07 HA 00041-11; 2001

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Federal Catalog Number:	93.994
Federal Program Title:	Maternal and Child Health Services Block Grant to the States
Federal Award Numbers and Calendar Years Awarded:	6 B04 MC 00336-05; 2000 6 B04 MC 00336-06; 2001

## **U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

Reference Number:	2002-9-4
Federal Catalog Number:	14.228
Federal Program Title:	Community Development Block Grant/State's Program
Federal Award Numbers and Calendar Years Awarded:	B-00-DC-06-0001; 2000 B-01-DC-06-0001; 2001
Category of Finding:	Suspension and Debarment
State Administering Department:	Department of Housing and Community Development

### **CRITERIA**

Our review of the Community Development Block Grant/State's Program (CDBG) identified the following compliance requirements related to suspension and debarment:

The Code of Federal Regulations, Title 24, Section 24.225, prohibits the State from knowingly doing business with any party that is suspended, debarred, or otherwise ineligible to participate in federal assistance programs. Further, Section 24.510 requires the State to obtain signed certifications from participating organizations regarding debarment, suspension, ineligibility, and involuntary exclusion.

### **CONDITION**

The Department of Housing and Community Development (Housing) does not require subrecipients of CDBG program funds to submit suspension and debarment certifications. When Housing does not obtain the required certifications, it risks unknowingly allowing suspended or debarred parties to participate in the federal program. For the 40 transactions we reviewed, we used an alternative test to determine that the subrecipients were not suspended or debarred.

### **RECOMMENDATION**

Housing should establish procedures to ensure that subrecipients submit suspension and debarment certifications before it approves their participation in the CDBG program.

## DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Housing agrees with the finding. Housing says it revised the Statement of Assurances to include a certification that the city or county applying for funding is not suspended or debarred from receiving a federally funded contract. This revision was included in the 2002-03 CDBG Planning/Technical Assistance Allocation application. Inadvertently, the updated version of the Statement of Assurances was not used for the General/Native American/Colonias and Economic Development Allocation applications.

Housing says it will develop a separate certification to be used by current year applicants to verify that the city or county applying for funds is not currently debarred or suspended. No award of funds will be made without receipt of the certification. In the future, all CDBG applications will include the updated Statement of Assurances.

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Reference Number:	2002-12-5
Federal Catalog Number:	14.228
Federal Program Title:	Community Development Block Grant/State's Program
Federal Award Number and Calendar Year Awarded:	B-00-DC-06-0001; 2000
Category of Finding:	Reporting
State Administering Department:	Department of Housing and Community Development

### CRITERIA

Our review of the Community Development Block Grant/State's Program (CDBG) identified the following compliance requirement:

The United States Code, Title 42, Section 5304(e), states that each grantee shall submit a performance and evaluation report concerning the use of funds made available under Section 5306 of this title.

The Code of Federal Regulations, Title 24, Section 91.520(a), states that the performance report must include a description of available resources. Section 91.520(c) states that for CDBG program recipients, the report shall include a description of the use of CDBG program funds.

## CONDITION

We discovered numerous errors in the financial data that the Department of Housing and Community Development (Housing) included in its Consolidated Annual Performance and Evaluation Report (report) for fiscal year 2000-01. Specifically, the table showing the breakdown of the CDBG program grant into its subgrant components misreported nine of the 10 figures. For example, Housing reported that the amount it allocated to the Economic Development Allocation—Over-the-Counter component was \$44,179,074 and the amount it allocated to the Colonias component was \$884,460, when the correct amounts were \$4,184,460 and \$2,214,000, respectively.

According to the chief of Housing's Community Development Section, it used incorrect data to create the table. Despite the existence of a quality control process, Housing did not correct the errors before the report was published. Inaccurate financial data may lead report readers to incorrectly evaluate the cost of the CDBG program.

## RECOMMENDATION

Housing should update its quality control processes to ensure that the financial data it reports are accurate.

## DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Housing agrees with the finding. It says that it will strengthen its internal review process to better ensure the accuracy of all financial data included in the report. In addition, Housing states that it is developing an integrated financial and program information system for its federal programs. When implemented, this system will facilitate accurate, timely, and consistent reporting by providing a single source for financial information.

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Reference Number:	2002-13-2
Federal Catalog Number:	14.239
Federal Program Title:	HOME Investment Partnerships Program
Federal Award Numbers and Calendar Years Awarded:	M97-SG 060100; 1997 M98-SG 060100; 1998 M99-SG 060100; 1999 M00-SG 060100; 2000 M01-SG 060100; 2001
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Housing and Community Development

## **CRITERIA**

Our review of the HOME Investment Partnerships program (HOME) identified the following compliance requirements related to subrecipient monitoring:

The Code of Federal Regulations, Title 24, Section 92.201(b), requires that the State review and audit its subrecipients as necessary or appropriate to determine whether the subrecipient has met program requirements. Section 85.12 specifies criteria for assigning a high-risk status to subrecipients and special restrictions the State may apply to future awards as a result of this status. Finally, Section 85.43 allows the State, among other actions, to withhold future awards from subrecipients who materially fail to comply with the terms of their agreement with the State.

## **CONDITION**

Our review of Department of Housing and Community Development (Housing) subrecipient monitoring for fiscal year 2001-02 found that Housing does not adequately assess the need for monitoring and does not always report the results of its reviews.

Specifically, Housing has not completed assessments of many subrecipients that met its basic criteria for monitoring. In fiscal year 2001-02, Housing requested risk-assessment information from the 94 subrecipients who met its criteria for long-term monitoring of rental projects. Housing reviews this information to determine whether it needs to perform onsite-monitoring visits. As of November 2002, Housing had completed 30, or 32 percent, of the assessments. According to Housing, many subrecipients submit their assessments late or do not submit them at all. For example, Housing requested information from one subrecipient to assess whether a long-term monitoring visit was warranted. Despite repeated requests, the subrecipient failed to submit the information. After the last request, the subrecipient incorrectly stated that it was exempt from Housing's monitoring. Housing accepted the claim of exemption at the time without further research. Because of the low rate of compliance with its request for information, Housing has not completed its risk assessment for most of the subrecipients it identified as needing long-term monitoring and has consequently performed no monitoring of them.

Housing also did not report the final results of its monitoring visits to four additional subrecipients. Although Housing conducted the visits, it did not send the monitoring letters to formally notify the subrecipients of the results of the monitoring. Receipt of the monitoring letter represents the start of the 30-day period Housing allows its subrecipients to respond to any findings. As a result, these subrecipients did not know whether they should provide a written response to address any problems that Housing may have discovered during its visits.

## RECOMMENDATIONS

Housing should clarify the steps it will take if subrecipients do not submit requested information. Specifically, subrecipients who fail to provide timely and adequate information could be categorized as high-risk and scheduled for monitoring visits. To encourage timely submission of requested information, Housing should also inform subrecipients of the enforcement actions it may take when subrecipients fail to comply. Finally, Housing should emphasize to its staff the importance of promptly reporting its monitoring results to subrecipients.

## DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Housing agrees with the finding. Housing says that understaffing in the HOME program combined with increased federal HOME grant levels prevented it from completing its monitoring plans as scheduled during 2001-2002. It also says that it increased staffing in the HOME program by four positions in 2002-2003, directed staff to perform monitoring, and established a risk assessment tool to streamline the review process. However, due to further increases in federal grant and award levels (roughly 50 percent in the past two years) and a growing long-term management portfolio of rental projects, Housing was unable to meet its monitoring targets or conduct follow-up.

Housing says it will continue its efforts with existing staff and has proposed additional positions to create a monitoring team. In addition, Housing will strengthen its monitoring procedures and notify applicants found out of compliance with federal monitoring and reporting requirements that they will be subject to performance penalties in their next application for funding.

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Reference Number:	2002-13-3
Federal Catalog Number:	14.239
Federal Program Title:	HOME Investment Partnerships Program
Federal Award Numbers and Calendar Years Awarded:	M97-SG 060100; 1997 M98-SG 060100; 1998 M99-SG 060100; 1999 M00-SG 060100; 2000 M01-SG 060100; 2001
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Housing and Community Development

## **CRITERIA**

Our review of federal programs identified the following requirements related to subrecipient monitoring:

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133), requires that nonfederal entities spending more than \$300,000 in federal awards in a fiscal year have an annual audit conducted for that year and submit it within 30 days after receipt of the auditor's report or nine months after the end of the audit period, whichever is earlier. OMB Circular A-133 further stipulates that "pass-through" entities, such as the Department of Housing and Community Development (Housing), shall ensure that subrecipients spending \$300,000 or more in federal awards during the subrecipient's fiscal year have met the audit requirements for that fiscal year. In addition, it requires pass-through entities to issue a management decision on audit findings within six months after receipt of a subrecipient's audit report and to ensure that a subrecipient takes appropriate and timely corrective action.

## **CONDITION**

Housing does not have effective procedures to ensure that its nonprofit subrecipients meet audit requirements. Specifically, Housing did not pursue an audit or certification that the subrecipient was exempt because it did not meet the \$300,000 threshold for six of 15 nonprofit subrecipients that had grant expenditures in fiscal year 2000-01. It failed to do so because it used grant award data for fiscal year 2000-01 rather than grant expenditure data to identify those subrecipients requiring audits. Because there is often a substantial lag between the time a grant is awarded and expended, the department's method can result in its requesting audits for the wrong time period. In addition, Housing did not receive audit reports or certificates of exemption for six of the nine remaining subrecipients from which it requested them. Housing sent request letters to the nonprofit subrecipients in February 2002. However, as of December 2002, Housing had made no further attempts to obtain documents from these six subrecipients nor had it imposed any sanctions on them. When Housing does not ensure that subrecipients meet audit requirements, it cannot ensure that they have complied with federal requirements and cannot follow up to assure that they have taken corrective action related to audit findings.

## **RECOMMENDATION**

Housing should implement an effective system to ensure that all of its nonprofit subrecipients meet audit requirements.

## DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Housing agrees with the finding. Housing says that the HOME and CDBG Annual Performance Reports will be modified to capture information related to compliance with OMB Circular A-133 before they are sent to subrecipients in June 2003. All current and prior HOME subrecipients will also be required to report if they have spent \$300,000 or more in federal funds during the subrecipient's fiscal year and to certify that they have met the audit requirements for that fiscal year. Local governments that have spent \$300,000 or more in federal funds will be directed to send their audits to the State Controller's Office. Nonprofit subrecipients that have spent more than \$300,000 in federal funding will be directed to send their audits to Housing for review. Local governments and nonprofit organizations that have spent less than \$300,000 in federal funds will be required to submit a certification to that effect.

Beginning with applications to be offered in April 2003, HOME and CDBG applications will also be modified to include a certification that the applicant is in compliance with OMB Circular A-133 at the time of application. Applicants found not to be in compliance with program requirements and who cannot resolve compliance issues will receive performance penalties.

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Reference Number:	2002-13-6
Federal Catalog Number:	14.228
Federal Program Title:	Community Development Block Grant/State's Program
Federal Award Numbers and Calendar Years Awarded:	B-97-DC-06-0001; 1997 B-98-DC-06-0001; 1998 B-99-DC-06-0001; 1999 B-00-DC-06-0001; 2000
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Housing and Community Development

## CRITERIA

Our review of the Community Development Block Grant/State's Program (CDBG) identified the following compliance requirements:

The Code of Federal Regulations, Title 24, Section 570.492, requires the State to conduct reviews and audits of its subrecipients as may be necessary or appropriate to determine whether the subrecipient met program requirements.

## **CONDITION**

The Department of Housing and Community Development (Housing) disclosed to us that in fiscal year 2001-02, it investigated one employee and disciplined another employee whom it says misinformed subrecipients of program requirements and, in some cases, falsified subrecipient monitoring documents. According to Housing, these staff carried about 60 percent of the caseload for the Economic Development sub-program. This sub-program amounted to 30 percent, or \$13.3 million, of the program's total 2000-01 grant. Within days of the investigation and disciplining of these employees, they left Housing. Subsequently, Housing divided their caseload among other program staff. Housing said that it put emphasis on reviewing open grants to ensure that future expenditures were appropriate and met program requirements, but that it continued normal monitoring of other grants.

As of mid-February 2003, Housing has identified 22 noncompliant projects that were managed by its two former employees. For 12 of these projects, it has received about \$544,000 in repayments from subrecipients and has issued demand letters requesting additional repayments totaling over \$1.4 million. In addition, for eight of the projects, it has disencumbered about \$1.5 million in awards that it never disbursed. Further for nine projects, Housing is considering issuing demand letters totaling up to \$2.2 million if it cannot satisfy itself that the subrecipients have met program requirements. In order to understand the full extent of the problem, we asked Housing to detail the total number of projects that its two former employees had managed and the number of these that it subsequently monitored. Housing was not, however, able to provide us with a full accounting of the number or status of these projects.

## **RECOMMENDATIONS**

Given the severity of the problems that Housing has identified in the projects overseen by its two former employees, it should fully account for the number and monitoring status of these projects, accelerate its review of projects that it has not yet monitored, and remonitor closed projects that have not yet passed their record retention date.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Housing agrees with this finding. It says it has identified the projects overseen by the two former employees. They consist of 156 grants, of which 78 are planning/technical assistance grants that do not require on-site monitoring. Housing states that the program is currently gathering information regarding the monitoring status of each grant. It anticipates having a complete report by mid-March 2003. Once the information is complete, the program will expedite the monitoring of grants that have

been closed out and that Housing's investigation revealed were not monitored, or were monitored by the former employees. Program staff will complete all required monitoring by June 2004.

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Reference Number:	2002-14-2
Federal Catalog Number:	14.228
Federal Program Title:	Community Development Block Grant/State's Program
Federal Award Number and Calendar Year Awarded:	B-00-DC-06-0001; 2000
Category of Finding:	Special Tests and Provisions
State Administering Department:	Department of Housing and Community Development

## **CRITERIA**

Our review of the Community Development Block Grant/State's Program (CDBG) identified the following compliance requirements related to special tests and provisions:

The Code of Federal Regulations, Title 24, Section 58.22, prohibits a CDBG program recipient from committing funds on an activity or project until the State has approved the recipient's environmental certification. In addition, Section 58.18 says that states that elect to administer a U.S. Department of Housing and Urban Development program shall ensure that the program complies with the provisions for environmental review and must receive environmental certifications from recipients, accept objections from the public and other agencies, and perform other related responsibilities regarding releases of funds. The State CDBG Program Manual says that the Department of Housing and Community Development (Housing) will approve an environmental certification before releasing funds.

## **CONDITION**

Housing is not ensuring that all its subrecipients submit environmental certifications before the subrecipients commit funds. When Housing does not ensure that environmental certifications are submitted before paying funds to subrecipients, it risks funding activities that are not eligible under the environmental review guidelines.

Two of the 40 subrecipients we tested, the cities of Corcoran and Mendota, requested and received funds from Housing in fiscal year 2001-02 without evidence that Housing had received the required environmental documents. Through December 31, 2002, Housing paid \$109,000 and \$482,000 to Corcoran and Mendota, respectively, without evidence of its having received these documents. Our testing of subrecipient monitoring also found that Housing released funds to another subrecipient without the subrecipient submitting the required environmental documentation. In this case, the city of Del Rey Oaks requested and received funds from Housing beginning in fiscal year 1998-99. As of December 31, 2002, Housing had paid \$500,000 to this city, without having received the required environmental documents. As a follow-up to its monitoring of this subrecipient, Housing has requested that the city provide the required environmental documentation or return the funds it received.

## **RECOMMENDATION**

Housing should ensure that it receives and approves environmental certifications before authorizing payments to subrecipients.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Housing agrees with the finding. It says that although its procedures and Cash Request Check Sheet clearly require that environmental review documentation be received and approved before funds are disbursed, in three instances copies of this documentation were not contained in the files. In two of the cases (Corcoran and Mendota), approved environmental documentation has now been received and placed in the file. In the third case (Del Rey Oaks), Housing had discovered the absence of environmental documentation during recent monitoring and is working with the city to determine the eligibility of the project.

Housing notes that these projects were among a number of projects assigned to a Housing employee who was found to have willfully failed to comply with departmental procedures and federal requirements. Housing states that it promptly initiated adverse action against the employee who then resigned. Housing also says that it began a thorough review of other grants assigned to the employee and has taken action to correct deficiencies in its records, evaluate project eligibility and where necessary, recover funds. Management has reminded staff of the importance of following procedures for reviewing environmental documentation and other special conditions before the release of funds. In addition, Housing says it has strengthened monitoring practices to deter future issues of this type and, should they occur, identify them more quickly.

## U.S. DEPARTMENT OF JUSTICE

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Reference Number:	2002-2-4
Federal Catalog Number:	16.606
Federal Program Title:	State Criminal Alien Assistance Program
Federal Award Number and Calendar Year Awarded:	2002-AP-BX-0074; 2002
Category of Finding:	Allowable Costs
State Administering Department:	Department of Corrections

### CRITERIA

Our review of the State Criminal Alien Assistance Program (program) identified the following requirements related to allowable costs:

The application for program assistance requires the State to provide information for a prescribed reporting period. This period includes specific inmate population data and salary information for all full- and part-time permanent and contracted correctional officers. A program official with the U.S. Department of Justice clarified that correctional officers include facility staff whose primary function is the custody, control, and supervision of persons detained or incarcerated and may not include staff whose primary function is to provide generalized or specialized services to detainees or inmates. He also stated that the salaries of staff who function independently or outside of the facility, including parole and probation agents and hearing officers, may not be included in the salaries reported on the application for assistance.

### CONDITION

The Department of Corrections (Corrections) did not include only allowable salary costs in its federal fiscal year 2002 application for assistance. Specifically, of the total 28,064 correctional officers reported, Corrections included 75 revocation parole agents (parole agents) and one community correctional executive staff member with salaries totaling \$5.2 million. However, these parole agents' primary job duties include specialized services to inmates, and they do not have the custody and supervision of inmates as a primary function. According to Corrections, rather than having an assigned caseload, these parole agents are assigned to the revocation function and assist in returning parolees to prison. For example, these parole agents may serve as district-hearing agents and testify in administrative hearings and judicial proceedings. These parole agents also work outside the prison facility either in a field office, regional, or headquarters setting. In addition, Corrections reported the salary of

one executive staff member of a community correctional facility. However, the executive staff member works outside of the facility and does not supervise inmates. According to Corrections' job description for this position, this executive staff member provides expertise in the administrative, custodial development, and planning for the expansion of community correctional facilities. For 75 percent of the time, for instance, this executive staff member performs administrative oversight functions; plans for the expansion of the community correctional facility program; and develops, recommends, and oversees the implementation of statewide policies for the program's administration.

The federal government uses the information in the State's application for assistance to calculate the State's percentage of available funds. Thus, when the State includes costs that are not allowable in its application, it causes the resulting percentage to be overstated. The submission of inaccurate data could jeopardize current and future program funding. The U.S. Department of Justice estimates that as a result of including these salaries, the federal government overpaid the State \$478,795.

## **RECOMMENDATION**

Corrections should ensure that it includes only allowable salaries in its application for assistance under the program.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Corrections included revocation parole agents' salary costs in the State Criminal Alien Assistance Program (SCAAP) application for several reasons: (1) These parole agents are peace officers that have direct and frequent interaction with the inmate population. Indeed, many of these agents are assigned full-time to various jails and receptions centers; (2) These parole agents provide custody and control of parolees/inmates for hearing purposes, including the placement of restraints on the parolee and; (3) The submission of salary costs for these positions was telephonically approved by Bureau of Justice (BJA) staff and noted by Corrections for inclusion in the State's federal fiscal year 2000 SCAAP salary costs. The federal fiscal year 2000 SCAAP guidelines define allowable "correctional officer" salary costs as:

*A correctional officer is full- and part-time permanent and contractual custody staff, deputies, and any dispatchers who spend significant time with inmates. This may not include clerical, educational, administrative, or other such facility staff. Salary information SHOULD NOT include benefits.*

In addition, for the purpose of the federal fiscal year 2002 SCAAP application the BJA provided the following as the definition of a "correctional officer":

*A correctional officer is considered any full or part-time permanent and contractual custody staff, deputies and any dispatchers who have direct interaction with the inmate population. Administrative support and program staff must not be included.*

*Correctional officers may include, but are not limited to, the following:*

- *First-line correctional officers*
- *First-line supervisors (Correctional Sergeants)*
- *First-line managers (Correctional Lieutenants)*
- *Wardens (Chief Executive Officers)*

For the purposes of SCAAP, correctional officers do not include clerical, educational, commissary, administrative, medical, or other such facility staff.

Corrections' inclusion of the Career Executive Assignment position for the Community Correctional Facilities Administration (CCFA) was based on the peace officer status of the position and that the position has the full scope and responsibilities as a Warden (Chief Executive Officer), allowable according to BJA guidelines. Similar duties and responsibilities between the two positions include the supervision of inmates and correctional officer staff, administration of the inmate classification, investigation and disciplinary processes, and a leadership role in the CCFA budgetary process. This Career Executive position functions at headquarters because it oversees 16 separate facilities throughout the State.

For future SCAAP applications Corrections will closely review the allowable salary cost definitions and attempt to reconfirm with BJA staff that these positions continue to meet SCAAP eligibility guidelines.

## U.S. DEPARTMENT OF LABOR

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Reference Number: 2002-2-3

Category of Finding: Allowable Costs

State Administering Department: Employment Development Department

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

### CRITERIA

Our review of federal programs at the Employment Development Department (EDD) determined that the following are among the compliance requirements for allowable costs and cost principles:

The U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* (OMB Circular A-87), Attachment A, Section C(1)(b), states for costs to be allowable under federal awards, they must be allocable to federal awards under the provisions of the circular. Also, Attachment A, Section C(3)(a), states that a cost is allocable to a particular cost objective (that is, a grant) if the goods or services involved are chargeable or can be assigned to said cost objective in accordance with the relative benefits achieved. In addition, Attachment B, Section 11.h(5)(e), states that budget estimates or other distribution percentages determined before the services are performed do not qualify as support for personal service charges to a federal grant but may be used in the interim if the system for establishing the estimates produces reasonable approximations of the activity actually performed.

Furthermore, these estimated costs should be compared with actual costs reflecting actual activity at least quarterly, and be adjusted if necessary. Finally, Attachment B, Section 11 (h)(1), states that charges to federal awards for salaries and wages will be based on payrolls documented according to generally accepted practice of the governmental unit and approved by a responsible official of the governmental unit. EDD's employee time reports include a signature block for the person approving an employee's time.

### CONDITION

Although EDD has made improvements in its system for allocating expenditures, we found that it did not adjust allocations to reflect actual activity. Specifically, EDD allocated three of the 30 payroll expenditures we reviewed. For two of the allocated costs, EDD was unable to document that it later compared the allocated costs to actual costs based on actual activity and subsequently made necessary adjustments. For the third allocated cost, EDD explained that it adjusted the original allocation to

reflect the percentage of the work unit's budget provided by various programs. Because this adjustment was not based on the actual activity related to these programs, it did not meet the requirements of OMB Circular A-87.

Because EDD did not compare allocated payroll costs to actual costs, we could not determine whether EDD appropriately charged programs for costs associated with the three payroll transactions totaling \$11,500. In addition, we were unable to determine the full impact of this issue because EDD did not provide us with the total amount of costs it allocated during fiscal year 2001-02.

We reported a similar finding in our audits for fiscal years 1998-99 through 2000-01. We note, however, that in fiscal year 2001-02 EDD established a system to document the basis for the allocation codes it uses to distribute some costs. In addition, EDD asserts that it has significantly reduced the number of allocation codes it uses. Our fiscal year 2001-02 testing indicates that EDD does in fact depend less on this method of cost distribution than in fiscal year 2000-01.

In addition, for four of 30 payroll expenditures we reviewed, the signature block for approval of the related employee time sheet was blank. When a time sheet is not reviewed and approved there is less assurance that reported time accurately reflects the work of employees.

## **RECOMMENDATIONS**

When EDD allocates costs, it should ensure that it later adjusts cost allocations to reflect actual activity. EDD should also reiterate to its staff that employee time sheets must be signed by those reviewing and approving the time sheets.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

EDD considers the costs charged to allocation codes to be direct charges and therefore are actual. All costs are reviewed and if the costs charged do not reflect actual, an adjustment is made. The allocation code percentages are reviewed and revised when a business process change necessitates it.

EDD will reiterate its policy that all employee time sheets be reviewed and signed by those reviewing the time sheet.

## **AUDITOR'S COMMENTS ON THE DEPARTMENT'S VIEW**

We agree that EDD treats these costs as direct costs. However, because EDD's cost allocations are based on predetermined percentages, they do not necessarily reflect actual costs chargeable to the individual federal programs.

**U.S. DEPARTMENT OF LABOR**

Federal Catalog Number: 17.207  
Federal Program Title: Employment Service  
Federal Award Number and  
Calendar Year Awarded: ES-11518-01-55; 2001

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Federal Catalog Number: 17.801  
Federal Program Title: Disabled Veterans' Outreach Program  
Federal Award Number and  
Calendar Year Awarded: E-9-5-2-5085; 2001

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Federal Catalog Number: 17.804  
Federal Program Title: Local Veterans' Employment  
Representative Program  
Federal Award Number and  
Calendar Year Awarded: E-9-5-2-5085; 2001

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Federal Catalog Number: 17.225  
Federal Program Title: Unemployment Insurance  
Federal Award Number and  
Calendar Year Awarded: UI109240055; 2000

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Federal Catalog Number: 17.258  
Federal Program Title: Workforce Investment Act (WIA) Adult Programs  
Federal Award Number and  
Calendar Year Awarded: AA-11240-00-50; 2001

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Federal Catalog Number: 17.259  
Federal Program Title: WIA Youth Activities  
Federal Award Number and  
Calendar Year Awarded: AA-11240-00-50; 2001

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Federal Catalog Number: 17.260  
Federal Program Title: WIA Dislocated Workers  
Federal Award Number and  
Calendar Year Awarded: AA-11240-00-50; 2001

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Reference Number: 2002-3-11  
Federal Catalog Number: 17.207  
Federal Program Title: Employment Service  
Federal Award Number and  
Calendar Year Awarded: ES-11518-01-55; 2001  
Category of Finding: Cash Management  
State Administering Department: Employment Development Department

## **CRITERIA**

We determined that the following requirements relate to compliance with the Cash Management Improvement Act Agreement (CMIA agreement) between the U.S. Department of the Treasury and the State:

The CMIA agreement, Section 9.6, establishes requirements for calculating the State's interest liability. Section 9.6.2 provides the method for calculating this interest liability.

## **CONDITION**

The Department of Finance (Finance) requires state departments to submit quarterly worksheets of federal cash receipts and disbursements. Finance uses the information on these worksheets to calculate the State's interest liability under the CMIA agreement. However, during fiscal year 2001-02 the Employment Development Department (EDD) submitted incomplete quarterly worksheets for the Employment Service grant. This happened because EDD reported only the transactions related to the employment services allotment—one of several allotments—making up the grant. For the entire fiscal year, the department reported only \$76.8 million of the \$83.8 million it actually received under the grant. The department stated that its quarterly worksheets included expenditures only for the employment-services allotment. The completeness of the cash receipt and expenditure data in the quarterly CMIA reports is critical to Finance's accurate calculation of federal and state interest liabilities for the required annual report. Because of the high volume of transactions, it was not feasible to determine the effect of EDD's incomplete reporting on the State's interest liability.

## **RECOMMENDATION**

EDD should ensure that the quarterly worksheets it submits to Finance reflect complete information about the cash draws and expenditures for all allotments under the Employment Service grant.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

The specific recommendation is moot; allotments under the Employment Service grant are no longer reportable due to an increase in the reporting threshold for CMIA, and were not included in the 2002-2003 Treasury-State Agreement. The department has, however, closely examined its reporting practices under the grants (Unemployment Insurance and Workforce Investment Act) which are still reportable to ensure that all relevant expenditures and drawdowns are included.

## **U.S. DEPARTMENT OF TRANSPORTATION**

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Reference Number:	2002-9-2
Federal Catalog Number:	20.205
Federal Program Title:	Highway Planning and Construction
Federal Award Number and Calendar Year Awarded:	N4520.162; 2001
Category of Finding:	Suspension and Debarment, Special Tests and Provisions
State Administering Department:	Department of Transportation

### **CRITERIA**

Our review of the Highway Planning and Construction program identified the following compliance requirement:

The Code of Federal Regulations, Title 49, Section 18.42, in part, requires the State to retain all financial and program records, supporting documents, statistical records, and other records and documents considered pertinent to program regulations or the grant agreement for a three-year period. This period starts on the day the grantee, which is the State, submits its final expenditure report to the U.S. Department of Transportation, Federal Highway Administration (FHWA).

### **CONDITION**

The California Department of Transportation (Caltrans) could not always locate its contract files or other documents to show that it complied with certain federal requirements for its highway construction projects. Specifically, of the 40 construction contracts that we tested that were active during fiscal year 2001-02, Caltrans could not locate the proposal and contract for one. As a result, we could not test whether Caltrans obtained the required suspension and debarment certification from this contractor. Although we identified similar records-retention errors during our audit for fiscal year 2000-01, we noted a marked decrease in exceptions in the sample in fiscal year 2001-02. In addition, we could not ensure that two of Caltrans' district offices performed quality-assurance testing on materials and workmanship it used for two of 12 construction projects we tested, because the offices could not locate the supporting documents or had prematurely purged the project files. As a result, we cannot conclude that Caltrans fulfilled its responsibilities related to these compliance

requirements. Furthermore, when Caltrans does not properly maintain documents that demonstrate its compliance with federal requirements for highway construction projects, it risks incurring costs that FHWA may not reimburse.

## **RECOMMENDATIONS**

Caltrans should remind its staff to ensure the accuracy of its system of tracking contract files and other documents for its highway construction projects as well as ensuring that the contract files are retained for the length of time required by federal regulations. To ensure that the records retention-period is started from the correct date, Caltrans should provide records-retention staff with the date on which it submitted final expenditure reports for individual projects.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Caltrans says that it will remind staff of the importance of accuracy in tracking contract files and in providing proper retention time. In addition, Caltrans states that it will ensure that the final voucher date is provided to the filing staff to establish the beginning of the retention period.

## **U.S. ENVIRONMENTAL PROTECTION AGENCY**

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Reference Number:	2002-2-5
Federal Catalog Number:	66.468
Federal Program Title:	Capitalization Grants for Drinking Water State Revolving Fund
Federal Award Numbers and Calendar Years Awarded:	FS989124-01-0; 1997 FS989349-99-0; 1998
Category of Finding:	Allowable Costs/Cost Principles
State Administering Department:	Department of Health Services

### **CRITERIA**

Review of the Capitalization Grants for Drinking Water State Revolving Fund (Fund) identified the following requirement relating to cost principles:

OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, establishes principles that are designed to provide that federal awards bear their fair share of the cost of administering federal programs. The Circular allows for direct costs for employee compensation, including fringe benefits, to be charged to the federal award if the time spent by the employee is specifically identified.

### **CONDITION**

The Fund has approximately 140 employees on average that work on projects related to the capitalization grants. As many of these employees divide their time between Fund activities and activities of funds outside of the Fund, there is a need to allocate employees time among the appropriate funds. In order to accomplish this task, the Fund utilizes a time management system called Time Accounting System (TAS). Employee's allocated time is entered into TAS from time sheets maintained. The information accumulated in TAS is downloaded into the State of California's State Controller's Office for payroll processing and posting to CALSTARS. CALSTARS is the State of California's accounting and financial software. In order for proper posting to CALSTARS, each employee's position code in TAS must agree to the position number in the State Controller's Office database. Testing revealed instances of disagreement between the position codes in CALSTARS and TAS. As a result, the time that these particular employees spent during the month working on various funds may not be recorded appropriately in CALSTARS. Environmental Protection Agency

reimbursements from the capitalization grants received are based on the salary allocations posted to CALSTARS. A sample revealed that inappropriate recording resulted in a project undercharge to the federal program of approximately \$28,000.

## **RECOMMENDATION**

The differences in position numbers are attributable to changes made in an employee's position number not being communicated to the appropriate parties involved with processing payroll. The Fund should implement a policy regarding notification of differences in position numbers between the State Controller's Office and TAS in order to reduce the errors made in posting to CALSTARS.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

The Fund has made steps in mitigating these position number discrepancies as follows: 1) they are working with the Division Personnel unit to more closely track position numbers and changes; 2) the timing of the reports submitted to the Financial Management Branch will be changed to allow feed-back from the Financial Management Branch regarding any position number discrepancies; 3) any discrepancies noted in the position numbers will be researched and, if necessary, changes will be made to reflect agreement with the State Controller's Office position numbers; and 4) when the CALSTARS reports are posted to the web site, the information will be downloaded and compared with TAS and adjustments will be made accordingly.

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Reference Number:	2002-3-14
Federal Catalog Number:	66.468
Federal Program Title:	Capitalization Grants for Drinking Water State Revolving Fund
Federal Award Numbers and Calendar Years Awarded:	FS989124-01-0; 1997 FS989349-99-0; 1998
Category of Finding:	Cash Management
State Administering Department:	Department of Health Services

## **CRITERIA**

Review of the Capitalization Grants for Drinking Water State Revolving Fund (Fund) identified the following requirements relating to cash management:

The Code of Federal Regulations, Title 31, Part 205, provides the cash management requirements for federal grant programs. Subpart B of Part 205 pertains to those federal grant programs not covered by the Cash Management Improvement Act agreement between the State and the U.S. Department of the Treasury. This subpart requires the State to limit its cash advances from the U.S. Department of the Treasury to the minimum amounts necessary to meet immediate cash needs. It also requires that the timing of transfers be as close as administratively feasible to the State's actual cash outlay.

## **CONDITION**

The Fund's accounting transactions are managed by the Department of Health Services, Financial Management Branch and the State of California's State Controller's Office. The Department of Health Services, Financial Management Branch submits a payment request to the State Controller's Office for invoices due. The State Controller's Office then processes the request and issues the warrants. The Financial Management Branch is also responsible for submitting a draw request to the Environmental Protection Agency (EPA) to draw down on the capitalization grants. Testing revealed that from the date that the draws were received from the EPA on the capitalization grants to the date the warrants were released from the State Controller's Office was excessive.

## **RECOMMENDATIONS**

The Financial Management Branch should continue to reduce the timing between the submission of EPA draw requests and the disbursement request submitted to the State Controller's Office. Because the timing issue attributable to the State Controller's Office is not under the control of the Fund, the Fund should discuss this issue with the State Controller's Office and discuss possible resolutions within their office.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

The Fund agrees with the finding and will work with the Financial Management Branch and the State Controller's Office to reduce the time between EPA draw dates and warrant issue dates.

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Reference Number:	2002-3-15
Federal Catalog Number:	66.468
Federal Program Title:	Capitalization Grants for Drinking Water State Revolving Fund
Federal Award Numbers and Calendar Years Awarded:	FS989124-01-0; 1997 FS989349-99-0; 1998
Category of Finding:	Cash Management
State Administering Department:	Department of Health Services

## **CRITERIA**

Review of the Capitalization Grants for Drinking Water State Revolving Fund (Fund) identified the following requirement relating to cash management:

The Environmental Protection Agency's *Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs*, revised September 2002, outlines the timing of disbursements to subrecipients for loans. The Fund is to reimburse loan recipients after a request has been received for costs incurred, including pre-construction and construction related costs.

## **CONDITION**

For many construction projects, an entity will contract with a construction company to perform work. To insure the entity's satisfaction with the work performed by the construction company, they often withhold 5% to 10% of each invoice (retainage) submitted by the construction company until the project is complete. At the end of the construction project, once all parties are satisfied as to the completion and quality of the work performed, the retainage is released and paid to the construction company. The Fund is currently reimbursing costs associated with retainage to local entities which have not yet paid out the retainage on the project, i.e., the local entity has not paid the contractor the retainage. When reviewing the requests for reimbursement, it was noted that the local governments submitted requests for reimbursement for construction work completed including retainages. The Fund has paid these retainages to the local government, which resulted in paying expenses before payment was due, although the work had been performed. This is a timing issue related to cash management of the program and therefore no questioned costs are associated with the finding.

## **RECOMMENDATION**

The Fund should not disburse the retainage to the local entities until after final inspection and the final payment of retainage is made by the entity.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

The Fund agrees with the finding and recommendation and will train personnel processing the loan disbursements to local entities regarding this matter.

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Reference Number:	2002-9-3
Federal Catalog Number:	66.458
Federal Program Title:	Capitalization Grants for State Revolving Funds
Federal Award Numbers and Calendar Years Awarded:	CS060001-98-0; 1998 CS060001-99-0; 1999 CS-06000100-0; 2000
Category of Finding:	Suspension and Debarment
State Administering Department:	State Water Resources Control Board

## **CRITERIA**

Our review of the Capitalization Grants for State Revolving Funds (State Revolving Fund) program identified the following compliance requirements related to suspension and debarment:

The Code of Federal Regulations, Title 40, Section 32.225, prohibits the State from knowingly doing business with any party that is suspended, debarred, or otherwise ineligible to participate in federal assistance programs. Further, Section 32.510 requires the State to obtain certifications from participating organizations regarding suspension and debarment.

## **CONDITION**

The State Water Resources Control Board (Water Resources Board) did not obtain the required suspension and debarment certifications from its subrecipients during fiscal year 2001-02. Specifically, it did not obtain certifications from any of the

subrecipients that received federal funds from the State Revolving Fund program. The Water Resources Board provided subrecipients nearly \$100 million in federal funding during fiscal year 2001-02. When the Water Resources Board does not obtain the required certifications, it risks allowing suspended or debarred parties to participate in the federal program. For the transactions we reviewed, we used an alternative test to determine that these program participants were not suspended or debarred.

## **RECOMMENDATION**

The Water Resources Board should ensure that it obtains suspension and debarment certifications from all subrecipients of federal program funds.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

The Water Resources Board is aware of the requirement to secure suspension and debarment certificates from subrecipients receiving federal funds under the State Revolving Fund program. While it typically requires subrecipients to indicate they comply with federal law pertaining to suspensions and disbarments, it acknowledges that it does not have signed certifications with the language noted in the Code of Federal Regulations, Title 40, Part 32, Appendix A (Appendix A).

To assure compliance with this requirement, the Water Resources Board will obtain a signed certification with the specific language stated in Appendix A from all future subrecipients. This certification will be maintained in its files for future audit purposes. Alternatively, the Water Resources Board may include the specific language referenced in Appendix A in all future contracts with subrecipients and will require them to certify to those requirements. Further, the Water Resources Board will make all reasonable efforts to assure that existing subrecipients have supplied the required certifications.

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Reference Number:	2002-12-4
Federal Catalog Number:	66.458
Federal Program Title:	Capitalization Grants for State Revolving Funds
Federal Award Number and Calendar Year Awarded:	CS-06000100-0; 2000
Category of Finding:	Reporting
State Administering Department:	State Water Resources Control Board

## **CRITERIA**

Our review of the Capitalization Grants for State Revolving Funds (State Revolving Fund) program identified the following compliance requirements related to reporting:

The Code of Federal Regulations, Title 40, Section 31.20, requires the State to maintain accounting records to properly track and accurately report financial activities related to federal grants. Title 40, Section 35.3165, also requires the State to submit an annual report to the U.S. Environmental Protection Agency. This report contains a variety of financial data, including expenditure and loan repayment amounts.

## **CONDITION**

In its annual report for fiscal year 2000-01, the State Water Resources Control Board (Water Resources Board) included expenditure information that was not supported by its accounting records and misstated other amounts. The Water Resources Board stated in its annual report that it spent a total of \$308.5 million for the State Revolving Fund program: \$97.5 million in federal money, \$16.1 million in state money, and \$194.8 million in State Revolving Fund money. However, the Water Resources Board's accounting records show that it actually spent a total of \$312.5 million: \$133.1 million in federal money, \$24.1 million in state money, and \$155.3 million in State Revolving Fund money. Rather than relying on its accounting records as the source of the financial information, the Water Resources Board relied on a database maintained by program staff. Further, the Water Resources Board did not reconcile the information from the database to its accounting records. The U.S. Environmental Protection Agency reported a similar issue to the Water Resources Board in an audit report it issued in 2002. In addition, for activity related to fiscal year 2000-01, the Water Resources Board overstated the amount available for loans by \$521.3 million and overstated total loan payments and encumbrances by \$405,000 because it did not correctly add together other figures it reported.

## **RECOMMENDATION**

The Water Resources Board should ensure that it submits information in its annual reports that is accurate, complete, and supported by the accounting records.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

As noted in the finding, the U.S. Environmental Protection Agency audit of the State Revolving Fund found that the fiscal year 2000-01 annual report prepared by the Water Resources Board did not reconcile to its accounting records. As a result of this audit finding, staff members of the Water Resources Board have been working very hard to correct this reconciliation concern. The Water Resources Board expects the

reconciliation for fiscal year 2001-02 will be complete in the near future. It is confident that the fiscal year 2001-02 report and all future annual reports will reconcile with its accounting records.

# **FEDERAL EMERGENCY MANAGEMENT AGENCY**

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Reference Number: 2002-12-2  
Category of Finding: Reporting  
State Administering Department: Office of Emergency Services

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

## **CRITERIA**

Our review of the Public Assistance Grants and Hazard Mitigation Grant programs determined that the following compliance requirement relates to reporting:

The Code of Federal Regulations, Title 44, Section 13.20, requires the State to maintain accounting records to properly track and accurately report financial activities related to federal grants.

## **CONDITION**

In fiscal year 2001-02, the Office of Emergency Services (Emergency Services) did not reconcile the receipts and disbursements reported in its federal cash transaction reports to its official accounting records. As a result, we could not determine whether the receipts and disbursements reported in the quarterly federal cash transaction reports agreed with Emergency Services' accounting records.

## **RECOMMENDATION**

Emergency Services should reconcile the receipts and disbursements reported in its federal cash transaction reports to the receipts and disbursements recorded in its accounting records.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Given the current budget situation and ongoing workloads, Emergency Services will be unable to request additional positions to augment the existing accounting office staff. However, Emergency Services will initiate a review of the skills needed to accomplish the reconciliation task and seek to redirect existing staff within the agency to assist the accounting office in resolving this finding.

## FEDERAL EMERGENCY MANAGEMENT AGENCY

Federal Catalog Number: 83.544  
Federal Program Title: Public Assistance Grants  
Year Awarded: State fiscal year 2001-02

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Federal Catalog Number: 83.548  
Federal Program Title: Hazard Mitigation Grant  
Year Awarded: State fiscal year 2001-02

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Reference Number: 2002-12-3  
Category of Finding: Reporting  
State Administering Department: Office of Emergency Services

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

### CRITERIA

Our review of the Public Assistance Grants and Hazard Mitigation Grant programs determined that the following compliance requirements relate to reporting:

The Code of Federal Regulations, Title 44, Section 13.20, requires the State to maintain accounting records to properly track and accurately report financial activities related to federal grants. Additionally, Section 13.41(b) requires the State to use the financial status report form to report the status of funds for all nonconstruction grants. To meet this requirement, the Federal Emergency Management Agency (FEMA) requires the Office of Emergency Services (Emergency Services) to submit quarterly financial status reports for each disaster. FEMA mandates that the status reports are to include total recipient and subrecipient non-federal expenditures, and administrative expenses.

### CONDITION

Emergency Services' financial status reports do not contain complete and accurate expenditure information. For each of the five financial status reports for fiscal year 2001-02 that we tested, Emergency Services did not report recipient share of outlays

for the Hazard Mitigation Grant program because it does not have a process in place to compile the expenditure information it receives from subrecipients. In addition, Emergency Services did not provide separate disclosure of its and the subrecipients' administrative costs in the financial status reports for the Public Assistance and Hazard Mitigation grant programs. FEMA requires separate reporting of administrative expenditures so that it can accurately compute and analyze the shared costs of a disaster.

## **RECOMMENDATIONS**

Emergency Services should establish a process to compile the recipient share of outlays it receives and accurately report these expenditures. It should also separately account for and report its and the subrecipients' administrative costs.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Emergency Services has made several attempts over the years to discuss with FEMA how best to report California disaster activity (which currently involve more than 23,000 individual projects) into a single, generic federal report format. Given the repeat nature of this finding, however, Emergency Services will initiate a formal request to FEMA management this year to reach a consensus on how to report on-going disaster assistance activity without creating a burdensome workload for the State.

### **FEDERAL EMERGENCY MANAGEMENT AGENCY**

Federal Catalog Number:	83.544
Federal Program Title:	Public Assistance Grants
Year Awarded:	State fiscal year 2001-02

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Federal Catalog Number:	83.548
Federal Program Title:	Hazard Mitigation Grant
Year Awarded:	State fiscal year 2001-02

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Reference Number: 2002-13-1  
Category of Finding: Subrecipient Monitoring  
State Administering Department: Office of Emergency Services

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

## **CRITERIA**

Our review of the Public Assistance Grants and Hazard Mitigation Grant programs determined that the following compliance requirements relate to subrecipient monitoring:

The U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133), requires subrecipients spending more than \$300,000 in federal assistance to submit audit reports to the State within nine months of the end of their fiscal year. If an audit finds that a subrecipient has failed to comply with federal program requirements, OMB Circular A-133 also requires the State to issue a management decision regarding the resolution of the audit finding within six months of receiving the audit report and ensure that the subrecipient proceeds with corrective action as rapidly as possible.

## **CONDITION**

During fiscal year 2001-02, for the audit reports of its local government subrecipients, the Office of Emergency Services (Emergency Services) did not ensure that a management decision regarding the resolution of audit findings was made within six months after it received an audit report. During fiscal year 2001-02, the State Controller's Office reviewed the annual audit reports of local governmental agencies receiving more than \$300,000 and forwarded two reports to Emergency Services, one of which contained three unresolved findings. Emergency Services received a corrective action plan for this report. However, it did not issue a written management decision that clearly states whether the audit findings were sustained, the reasons for its decisions, and actions it expected the auditee to take to resolve the audit findings.

## **RECOMMENDATIONS**

Emergency Services should promptly follow up on all reported audit findings concerning subrecipients, and ensure that written management decisions regarding the resolution of audit findings are issued within six months of its receipt of the subrecipients' audit report.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

While the Bureau of State Audits is correct in noting that Emergency Services did not issue a written management decision on one of the single audit reports within six months of its receipt, Emergency Services did receive and process 240 single and program audit reports during fiscal year 2001-02. In light of the Bureau of State Audits' finding, however, Emergency Services will revisit its current review procedures to ensure that all management decisions are issued in a timely manner.

### **FEDERAL EMERGENCY MANAGEMENT AGENCY**

Federal Catalog Number:	83.544
Federal Program Title:	Public Assistance Grants
Year Awarded:	State fiscal year 2001-02
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Federal Catalog Number:	83.548
Federal Program Title:	Hazard Mitigation Grant
Year Awarded:	State fiscal year 2001-02

## **U.S. DEPARTMENT OF EDUCATION**

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Reference Number: 2002-1-1

Category of Finding: Activities Allowed

State Administering Department: Department of Education

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

### **CRITERIA**

Our review of the Special Education—Grants to States program (Special Education) and Special Education—Preschool Grants program identified the following requirements relating to activities allowed:

The United States Code, Title 20, Section 1413(a)(1), requires that each local educational agency (LEA) have policies, procedures, and programs that are consistent with state policies and procedures. In addition, California Education Code, Section 56205, requires that each special education local plan area include these policies, procedures, and programs in its local plan. Further, Section 56131 requires that funds be apportioned according to an approved local plan.

### **CONDITION**

The Department of Education (Education) did not ensure that it disbursed Special Education and Special Education—Preschool Grants funds for allowable purposes. Of the 40 subrecipient files we reviewed, Education paid two subrecipients \$1.3 million during fiscal year 2001-02 even though the subrecipients did not have an approved local plan for the period. Although we found no evidence that Education paid the subrecipients for unallowable activities, Education risks doing so if it disburses funds to subrecipients without an approved local plan and without a copy of the local plan in Education's files for verification of allowable activities.

### **RECOMMENDATION**

Before it disburses funds, Education should ensure that each subrecipient of its Special Education and Preschool Grants programs has an approved local plan in Education's files for verification of allowable activities and costs.

## DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Education has implemented a process that ensures the local plan is approved before funds are disbursed.

### U.S. DEPARTMENT OF EDUCATION

Federal Catalog Number: 84.027  
Federal Program Title: Special Education—Grants to States  
Federal Award Numbers and  
Calendar Years Awarded: H027A000116; 2000  
H027A010116; 2001

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Federal Catalog Number: 84.173  
Federal Program Title: Special Education—Preschool Grants  
Federal Award Number and  
Calendar Year Awarded: H173A010120; 2001

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Reference Number: 2002-2-1  
Federal Catalog Number: 84.011  
Federal Program Title: Migrant Education—Basic State Grant Program  
Federal Award Number and  
Calendar Year Awarded: S011A000005; 2001  
Category of Finding: Allowable Costs and Cost Principles  
State Administering Department: Department of Education

### CRITERIA

Our review of Migrant Education—Basic State Grant Program (Migrant Education) identified the following requirements related to allowable costs and cost principles:

The U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* (OMB Circular A-87), Attachment A, Section C,

states that for costs to be allowable under a federal award, costs must be necessary and reasonable for the proper and efficient performance and administration of federal awards.

## **CONDITION**

The Department of Education (Education) did not always determine the cost-effectiveness of the State's use of Migrant Education funds. Education authorized one subrecipient to enter into and administer a contract that Education should more appropriately administer. Specifically, Education allocates Migrant Education funds to 22 migrant education regional offices statewide. In addition, because the U.S. Department of Education requires Education to report the number of migrant children in California eligible for the program, the 22 regional offices enter data regarding eligible migrant children into a computer system.

The data are transmitted to a vendor that combines the data from all the regional offices, ensures that migrant children are not counted more than once, and calculates the number of eligible migrant children in California. Although Education administers the contract with this vendor, Education authorized one regional office to administer a contract with another vendor that provides software and technical assistance to the statewide regional offices for the development and entry of their count data. The vendor services appear to be an appropriate use of Migrant Education funds. However, Education should more appropriately administer this contract because it is for assisting the regional offices statewide, and not just for the one regional office. Consequently, the contract authorized almost \$34,000 in overhead costs to the one region for its administration of the contract, which may not be necessary for the proper and efficient performance and administration of the program. During 2002, Education entered into a contract with the second vendor. The contract's initial period of performance was from January 1, 2002, through December 31, 2002. However, the Department of General Services approved the contract on August 29, 2002. Education has proposed to extend the contract through June 30, 2003.

## **RECOMMENDATIONS**

Education should continue to take on the contract-administration responsibilities for the software and technical assistance contract. In addition, Education should ensure that it approves only allowable costs that are reasonable and necessary to perform the program.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Education is awaiting the Department of General Services' approval to extend the contract with the vendor for software and technical assistance through June 30, 2003. Beginning with fiscal year 2003-04, Education will continue the contract administration responsibilities with this vendor on a state fiscal year contract period.

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Reference Number:	2002-3-1
Federal Catalog Number:	84.126
Federal Program Title:	Rehabilitation Services—Vocational Rehabilitation Grants to States
Federal Award Numbers and Calendar Years Awarded:	H126A010005; 2000 H126A020005; 2001
Category of Finding:	Cash Management
State Administering Department:	Department of Rehabilitation

## **CRITERIA**

Our review of the Rehabilitation Services—Vocational Rehabilitation Grants to States program (Vocational Rehabilitation) identified the following compliance requirements related to cash management:

The Code of Federal Regulations, Title 31, Section 205.7(b), requires the State to minimize the time between the transfer of funds from the U.S. Treasury (Treasury) and the disbursement of these funds for program purposes. Additionally, Section 205.9 allows the State to enter into a Treasury-State agreement for implementing this requirement. This agreement states that when the Department of Rehabilitation (Rehabilitation) issues payments to vendors for the Vocational Rehabilitation program, it will use the “pre-issuance” funding technique. When using the pre-issuance technique, state agencies will make every effort to request federal funds so they are deposited in a state account no more than two business days before the day the State makes a disbursement. The agreement also recognizes that because of variances in processing time, the two-day deposit requirement will be met for the majority, but not all, of the fund requests.

In addition, the agreement states that for its payroll and operating expenses, Rehabilitation may use either the pre-issuance technique described above or the “after-cost allocation” technique. When using the after-cost allocation technique, state agencies will make payments for program purposes with state funds and request federal funds after the actual costs are allocated to the programs or funding sources.

Finally, the Code of Federal Regulations, Title 31, Section 205.17, states that the federal government may deny payment or credit for any federal interest liability resulting from the State’s failure to request funds according to the funding technique set forth in the agreement.

## **CONDITION**

Rehabilitation does not have an adequate control process for cash management of the Vocational Rehabilitation program. As a result, it did not consistently use the appropriate funding techniques.

During fiscal year 2001-02 Rehabilitation did not always use the pre-issuance funding technique for paying vendors and did not always correctly use this technique for other vendor payments and certain payroll disbursements. Specifically, for 2,741 (50 percent) of the 5,468 warrants issued for vendor payments under the Vocational Rehabilitation program, Rehabilitation did not use the pre-issuance technique, but rather, requested federal funds after the State Controller's Office issued the warrants. In addition, when Rehabilitation used the pre-issuance technique, it did not always follow the procedure described in the Treasury-State Agreement. Specifically, Rehabilitation held the federal funds for more than two calendar days for 972 (18 percent) of the 5,468 warrants issued for vendor payments and for three of the 12 payroll disbursements for the year. Rehabilitation correctly used the pre-issuance technique for only 1,755 (32 percent) of the warrants issued for vendor payments under the Vocational Rehabilitation program. The longer the State holds federal funds, the greater the State's interest liability to the federal government.

For the remaining nine payroll disbursements for the year, Rehabilitation used the after-cost allocation technique. Although the Treasury-State Agreement does not require that federal funds be drawn within a specific number of days from the date of disbursement, the Treasury-State Agreement exists to help ensure that neither the federal government nor the State benefits or suffers financially because of any transfer of funds. Therefore, the State should still be minimizing the time between the disbursement for a federal program and the draw of federal funds. We found, however, that Rehabilitation did not always request federal funds to reimburse the State within a reasonable time. Specifically, for these nine payroll disbursements Rehabilitation took longer than six days to request federal funds, and for three of these disbursements, Rehabilitation took from 22 to 24 days to request the federal funds. For the vendor payments we tested and all of its payroll draws, Rehabilitation has correctly reported the days from when federal funds are deposited in the State account and the funds are disbursed. The Department of Finance has used the data provided by Rehabilitation in its calculation of interest liability. However, when Rehabilitation does not consistently use the appropriate agreed-upon funding techniques, the federal government may not pay its resulting liability.

## **RECOMMENDATIONS**

Rehabilitation needs to implement procedures for the Vocational Rehabilitation program to ensure it uses the appropriate funding techniques and uses them correctly. Also, Rehabilitation should seek to minimize the time between the expenditures made and the draw of federal funds. If Rehabilitation determines that the agreed-upon funding techniques are no longer appropriate, it should request a change to the Treasury-State Agreement.

## DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Rehabilitation agrees with this recommendation and implemented new procedures in October 2002 to ensure that the appropriate funding techniques are used. Rehabilitation started using a special cash management-handling request to the State Controller's Office, thereby minimizing the time between the warrant issue date and the draw of federal funds.

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Reference Number:	2002-3-2
Category of Finding:	Cash Management
State Administering Department:	California Community Colleges, Chancellor's Office

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

### CRITERIA

Our review of federal programs identified the following requirements relating to cash management:

The Code of Federal Regulations, Title 34, Section 80.21, allows subrecipients to receive advance payments provided they demonstrate the ability to minimize the time elapsing between the receipt and disbursement of federal funds. Otherwise, reimbursement is the preferred method of payment. Further, if subrecipients receive advance payments, Section 80.20(b)(7) requires them to follow procedures for minimizing the time between the receipt and disbursement of federal funds.

### CONDITION

The California Community Colleges, Chancellor's Office (Chancellor's Office) does not have adequate procedures to ensure that subrecipients of the Vocational Education—Basic Grants to States program (Vocational Education) and the Tech-Prep Education program (Tech-Prep) minimize the time elapsing between their receipt and use of federal program funds. Under its payment procedures, the Chancellor's Office approves program advances for each subrecipient and disburses these advances each month based on predetermined percentages. However, because the Chancellor's Office approves advances that exceed some subrecipients' immediate cash needs, some subrecipients carry excessive cash balances during the fiscal year.

The Chancellor's Office approves subrecipient applications, calculates advances, and pays these advances in monthly installments. To determine if a

subrecipient's spending approximates the advances, the Chancellor's Office uses the subrecipients' quarterly year-to-date expenditure reports to compare the reported expenditures to the amounts it advanced to each subrecipient. If it determines that a subrecipient's spending approximates the advances, the Chancellor's Office authorizes further advance payments in full; otherwise, it reduces the subrecipient's monthly advance payments. Further, when the Chancellor's Office determines that a reduction in the monthly advance payment amount is warranted, generally it begins making these adjustments in the third quarter of the fiscal year. For fiscal year 2001-02, the Chancellor's Office adjusted its advance calculations for the Vocational Education and Tech-Prep programs. For the Vocational Education program's initial advance, the Chancellor's Office based the calculation on prior-year spending and certified subrecipients to receive specific percentages of their tentative grant award. The Chancellor's Office made adjustments to its other advance calculations for the Vocational Education and Tech-Prep programs. In both instances, the Chancellor's Office certified subrecipients to receive specific percentages of their grant award based on their rate of spending through the first and third quarters, respectively.

Although the Chancellor's Office made adjustments to its advance calculations, our review still found that a significant number of subrecipients of the Vocational Education and Tech-Prep programs maintained high cash balances during the first and second quarters of fiscal year 2001-02. For example, 25 of the 30 subrecipients we reviewed for the Vocational Education program maintained high cash balances ranging from \$7,837 to \$193,715 during the first quarter. By the third quarter, four of the 30 subrecipients maintained high cash balances ranging from \$15,317 to \$116,293. We considered balances high when they exceeded 10 percent of the amounts advanced by the Chancellor's Office. Similarly, for the Tech-Prep program, during the second quarter 15 of the 20 subrecipients we reviewed maintained high cash balances ranging from \$9,315 to \$75,820. During the third quarter, two of the 20 subrecipients we reviewed maintained high cash balances of \$14,161 and \$22,098. Because the Tech-Prep program subgrants are small, we considered balances high when they exceeded \$7,000 and 10 percent of the amounts advanced for this program.

The Chancellor's Office is responsible for ensuring that subrecipients minimize the time between the subrecipients' receipt and use of federal funds. When the Chancellor's Office does not adequately assess its subrecipients' immediate cash needs before approving monthly advances, it cannot assure that subrecipients minimize the time elapsing between the receipt and use of federal funds.

## **RECOMMENDATION**

To minimize the time elapsing between the receipt and use of federal program funds, the Chancellor's Office should reassess the amount disbursed through the advance process and approve initial advances that more closely reflect each subrecipient's immediate cash needs.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Apportionment is the primary method the Chancellor's Office uses to transfer Vocational and Technical Education (VTEA) funds to colleges. Apportionment is formula driven. Once the allocation is approved, it is released in monthly installments at a rate intended to approximate spending. The first opportunity to adjust monthly installments occurs in January. The second is late spring. Cash on hand occurs when a subrecipient's monthly installments outpace their expenditures.

Cash on hand has been an ongoing audit concern. In the 1999-2000 program year, subrecipients' monthly payments were based on their total allocation. Subrecipients were slow to implement program plans. Payments in the first and second quarters exceeded expenditures. In 2000-2001 monthly payments were based on 70 percent to 80 percent of the annual allocation. Payments in the first and second quarters exceeded expenditures. Once again subrecipients did not spend as fast as they had expected they would. In 2001-2002 the monthly installments were based on 66 percent to 83 percent of the annual allocation to more closely approximate expenditures. Cash on hand was again identified as a problem. Aggressive measures have since been taken to correct the situation. For 2002-2003, each subrecipient's previous year's spending patterns were closely evaluated. Allocations and monthly installments were set at an amount that matched the previous year's expenditure reports. First and second quarter expenditures have been closely reviewed. A new analysis tool developed by VTEA staff helps provide quick assessment of spending patterns so automatic adjustments can be made at first and second apportionment.

Three other factors have contributed to the cash on hand situation including 1) slow approval of annual spending plans, 2) confusion about the apportionment process, and 3) State budget cuts. The Chancellor's Office has taken steps to address each of these situations:

1. Plan approval—It has been reported that local business offices will not allow spending until an approved signed plan has been signed and returned. The Chancellor's Office has taken steps to insure that plans are processed quickly, and that subrecipients are notified of approval so program implementation and spending may begin as soon as possible after July 1.
2. Apportionment process—The apportionment process is complex. Limited understanding of the certified versus allocated amount has slowed spending. Vocational Education Services Team (VEST) Memo 02-048, dated June 24, 2002, provided an overview of the process and explained the monthly installments process.
3. State budget cuts—The State's uncertain budget situation has undermined subrecipients' spending confidence. Proposed funding cuts to categoricals have been generalized to include VTEA. Some subrecipients have not differentiated between federal, state, restricted and categorical funds. The lack of understanding has resulted in restrictions on spending. VEST Memo 03-02, dated January 29, 2003, addressed the issue.

As with VTEA, the Chancellor's Office continues to refine its Tech-Prep allocation procedures to address cash on hand. Aggressive steps have been taken during the 2002-2003 program year. Quarterly reports are more closely monitored, and apportionments are adjusted at the first and second period as needed. In this fiscal year, carry over augmentations have been delayed until subrecipients have demonstrated timely expenditure reporting. Augmented funds being placed into the apportionment process include small hold back amounts to assist the system's overall cash management. The Chancellor's Office released an advisory memo that outlined the allocation and expenditure process to assist subrecipients with timely program implementation and reporting of expenditures.

### **U.S. DEPARTMENT OF EDUCATION**

Federal Catalog Number:	84.048
Federal Program Title:	Vocational Education—Basic Grants to States
Federal Award Number and Calendar Year Awarded:	V048A010005; 2001

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Federal Catalog Number:	84.243
Federal Program Title:	Tech-Prep Education
Federal Award Number and Calendar Year Awarded:	V243A010005; 2001

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Reference Number:	2002-3-4
Federal Catalog Number:	84.186
Federal Program Title:	Safe and Drug-Free Schools and Communities—State Grants
Federal Award Number and Calendar Year Awarded:	S186B010005; 2001
Category of Finding:	Cash Management
State Administering Department:	Department of Alcohol and Drug Programs

## **CRITERIA**

Our review of the Safe and Drug-Free Schools and Communities—State Grants (Safe and Drug-Free Schools) program identified the following compliance requirements relating to cash management:

The Code of Federal Regulations, Title 34, Section 80.21, allows a State's subrecipients to receive advance payments provided they demonstrate the ability to minimize the time elapsing between the receipt and disbursement of federal funds. Otherwise, reimbursement is the preferred method of payment. Further, this section requires a State's subrecipients to promptly pay to the federal agency any interest greater than \$100 per year that they earned on the advances. Additionally, if a State's subrecipients receive advance payments, Section 80.20(b)(7) requires them to follow procedures for minimizing the time between the receipt and disbursement of federal funds.

## **CONDITION**

The Department of Alcohol and Drug Programs (DADP) lacks adequate procedures to ensure that subrecipients of the Safe and Drug-Free Schools program minimize the time elapsing between receipt and use of program funds.

DADP awards subgrants to counties to carry out the program's activities. In accordance with state law, DADP makes monthly subgrant payments to counties regardless of their actual expenditures. DADP also does not require the counties to submit invoices to support the monthly payments. Although DADP is instituting procedures to track county expenditures quarterly to better assess each county's cash needs, it had not yet fully implemented these procedures during fiscal year 2001-02. As a result, DADP cannot be sure that counties minimize the time between the counties' receipt and use of federal funds throughout the year.

Additionally, although DADP's agreements with the counties require them to remit interest in excess of \$100 earned on federal program advances, DADP continues to not require counties to report that interest. As a result, DADP does not know if any counties earned interest greater than \$100 on federal program advances and whether counties should be remitting interest earnings to it.

According to DADP, effective July 1, 2002, it implemented new cash management procedures for the Safe and Drug-Free Schools program due to the implementation of the No Child Left Behind Act of 2001. Under the new cash management procedures, DADP plans to use a competitive grant process and reimburse subrecipients quarterly.

## **RECOMMENDATIONS**

DADP should ensure that the counties participating in the program minimize the time elapsing between their receipt and use of federal program funds. DADP should also require the counties to report and pay DADP any interest earnings greater than \$100 on these advances so it can repay these earnings to the federal award agency.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

As noted supra, on July 1, 2002, DADP implemented new cash management procedures. Under the new cash management procedures, competitive grants will be awarded and subrecipients will be reimbursed quarterly.

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Reference Number:	2002-3-6
Category of Finding:	Cash Management
State Administering Department:	Department of Education

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

## **CRITERIA**

Our review of the Special Education—Grants to States program (Special Education) and Special Education—Preschool Grants program identified the following requirements relating to cash management:

The Code of Federal Regulations, Title 34, Section 80.21, allows subrecipients to receive advance payments provided they demonstrate the ability to minimize the time elapsing between the receipt and disbursement of federal funds. Otherwise, reimbursement is the preferred method of payment. Further, this section requires subrecipients to promptly pay to the federal agency any interest greater than \$100 per year that they earned on the advances. Additionally, if subrecipients receive advance payments, Section 80.20(b)(7) requires them to follow procedures for minimizing the time between the receipt and disbursement of federal funds.

## **CONDITION**

The Department of Education (Education) does not have adequate procedures to ensure that program subrecipients demonstrate the ability to minimize the elapsed time between their receipt and use of federal program funds. Under its payment procedures, Education disburses predetermined percentages of program funds to

subrecipients rather than assess each subrecipient's immediate cash needs and disburse funds accordingly. For example, for the grant period from August 2001 through September 2002, Education disbursed to Special Education subrecipients 25 percent of their grant awards in January 2002, March 2002, and June 2002, respectively. After it receives the subrecipients' final expenditure reports, which are due 60 days after the end of the grant period, Education disburses any remaining amounts owed. Although the timing of the disbursements appears reasonable, Education does not require subrecipients to report their expenditures before disbursing the second and third payments. Thus, it has no assurance that subrecipients minimize the time between their receipt and disbursement of federal program funds.

Of the 40 transactions we reviewed for the Special Education and Special Education—Preschool Grants programs, 29 were advance payments for the 2000 and 2001 grant awards. The cumulative grant award total for the subrecipients represented in the 29 transactions was \$58.8 million. Because 75 percent of the Special Education and Special Education—Preschool Grants program funds were disbursed to subrecipients before Education received information on the subrecipients' use of funds, \$44.1 million was disbursed with no assurance that these subrecipients minimized the time between the receipt and use of federal funds.

Additionally, Education did not require subrecipients to report and remit interest in excess of \$100 earned on these federal program advances. As a result, these subrecipients may use the interest earned on federal program advances for activities that may not be allowable.

## **RECOMMENDATIONS**

To minimize the elapsed time between the receipt and use of federal program funds, Education should implement procedures to assess each subrecipient's cash needs and adjust its advance payments accordingly. Additionally, Education should ensure its subrecipients report their program expenditures in time to allow Education to assess their cash needs before making additional advance payments. Education should also establish controls for reporting earnings greater than \$100 on these advances so it can repay these interest earnings to the federal awarding agency. Finally, if Education determines it cannot implement procedures to ensure the subrecipients report program expenditures in time for it to assess cash needs and make additional payments, it should consider procedures to pay its subrecipients on a reimbursement basis rather than paying them in advance.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Education does not agree with the wording that payments are made in "advance." In actuality, the first payment made to the subrecipients occurs at least three months after the program year has begun. Of our 17 grant award programs covered under Special Education and Special Education—Preschool Grants, we have less than a

one percent billing at the end of the program year to recoup excess payments. To include an interim report between the first and second payment would necessitate an additional workload that is not warranted.

For fiscal year 2002-03, Special Education and Special Education—Preschool Grants program added to all expenditure reports specific language indicating that interest earned over \$100 should be promptly remitted to the federal agency.

### **AUDITOR'S COMMENTS ON THE DEPARTMENT'S VIEW**

Education asserts that it does not make advance payments in this program because it sends the first payment at least three months after the beginning of the program year. However, without obtaining interim expenditure information, it cannot be certain that the amounts sent do not exceed its subrecipients' immediate cash needs for the program. In addition, Education's assertion that it has few excess payments to recoup at the end of the program year does not address its responsibility under the cash management requirement to insure that its subrecipients minimize the time between their receipt and use of federal funds throughout the year.

### **U.S. DEPARTMENT OF EDUCATION**

Federal Catalog Number:	84.027
Federal Program Title:	Special Education—Grants to States
Federal Award Numbers and Calendar Years Awarded:	H027A000116; 2000 H027A010116; 2001

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Federal Catalog Number:	84.173
Federal Program Title:	Special Education—Preschool Grants
Federal Award Number and Calendar Year Awarded:	H173A010120; 2001

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Reference Number:	2002-3-9
Category of Finding:	Cash Management
State Administering Department:	Department of Education

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

## **CRITERIA**

Our review of federal programs identified the following requirements relating to cash management:

The Code of Federal Regulations, Title 34, Section 80.21, allows a state's subrecipients to receive advance payments provided they demonstrate the ability to minimize the time elapsing between the receipt and disbursement of federal funds. Otherwise, reimbursement is the preferred method of payment. Further, this section requires a state's subrecipients to promptly pay to the federal agency any interest greater than \$100 per year that they earned on the advances. Additionally, if a state's subrecipients receive advance payments, Section 80.20(b)(7) requires them to follow procedures for minimizing the time between the receipt and disbursement of federal funds. Moreover, sections 299.1 and 299.2 state that the regulations in Section 80 apply, with some exceptions, to titles I through XIII of the Elementary and Secondary Education Act.

## **CONDITION**

The Department of Education (Education) does not have adequate procedures to ensure that program subrecipients demonstrate the ability to minimize the time elapsing between their receipt and use of federal program funds. Under its payment procedures, Education disburses predetermined percentages of program funds to subrecipients rather than assessing and disbursing funds based on each subrecipient's immediate cash needs. Further, Education does not require its subrecipients to report on their use of program advances before making additional payments to them. Combining Education's lack of procedures to assess each subrecipient's cash needs with its predetermined advance-payment process does not ensure that subrecipients minimize the time elapsing between their receipt and disbursement of federal program funds.

Of the 60 expenditure transactions we reviewed for 40 Title I Grants to Local Educational Agencies (Title I, Part A) subgrant awards, 39 were payments to 25 participating school districts and 21 were payments to 15 participating schools. We divided our sample equally among the first, second, and third apportionments. Because Education disbursed all of these Title I, Part A funds before it received information on the subrecipients' use of funds, at least \$107 million was disbursed with no assurance that subrecipients minimize the time elapsing between the receipt and use of federal funds.

Additionally, for 34 of the 35 subrecipients we reviewed for the Title VI—Innovative Education Program Strategies (Title VI) program, Education disbursed 100 percent of the funds without receiving information on the subrecipients' use of funds. As a result, Education disbursed at least \$709,000 with no assurance that subrecipients minimize the time elapsing between the receipt and use of federal funds. Moreover, our review found that Education awarded and disbursed to the same subrecipients \$671,000 for fiscal year 2000-01. However, 23 of the 34 subrecipients carried over \$364,000

(54 percent) from fiscal year 2000-01 to fiscal year 2001-02. The amounts that these 23 subrecipients carried over ranged from \$122 to \$115,584. The percentages of amounts the 23 subrecipients carried over ranged from 3 percent to 183 percent of the amounts Education disbursed in previous fiscal years.

Finally, Education did not require subrecipients to report and remit interest in excess of \$100 per year earned on these federal program advances. As a result, these subrecipients may use the interest earned on federal program advances for activities that may not be allowable.

## **RECOMMENDATIONS**

To minimize the time elapsing between the receipt and use of federal program funds, Education should implement procedures to assess each subrecipient's cash needs and, if necessary, adjust its advance payments to more closely reflect each of its subrecipients' immediate cash needs. Additionally, Education should ensure its subrecipients report their program expenditures in time to allow Education to assess their cash needs before making additional advance payments. Education should also establish controls for reporting earnings greater than \$100 on these advances so it can repay these interest earnings to the federal awarding agency. Finally, if Education determines it cannot implement procedures to ensure the subrecipients report program expenditures before it assesses cash needs and makes additional payments, it should consider implementing procedures to pay its subrecipients on a reimbursement basis rather than paying them in advance.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Effective with the 2003-04 fiscal year, Education will obtain documentation from each local educational agency (LEA) to ensure minimal time elapses between disbursement of funds and use of funds. When determining the type of documentation, consideration will be given to local and state resources. Documentation may include a summary or detailed expenditure report, or LEA certification of expenditures prior to subsequent apportionments. If Education cannot fully implement this process by the 2003-04 fiscal year end, Education will explore other payment options.

## **U.S. DEPARTMENT OF EDUCATION**

Federal Catalog Number:	84.010
Federal Program Title:	Title I Grants to Local Educational Agencies
Federal Award Number and Calendar Year Awarded:	S010A010005; 2001

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Federal Catalog Number:	84.298
Federal Program Title:	Title VI—Innovative Education Program Strategies
Federal Award Number and Calendar Year Awarded:	S298A010005; 2001

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Reference Number:	2002-3-10
Federal Catalog Number:	84.011
Federal Program Title:	Migrant Education—Basic State Grant Program
Federal Award Numbers and Calendar Years Awarded:	S011A000005; 2000 S011A010005; 2001
Category of Finding:	Cash Management
State Administering Department:	Department of Education

## **CRITERIA**

Our review of the Migrant Education—Basic State Grant Program (Migrant Education) identified the following requirements relating to cash management:

The Code of Federal Regulations, Title 34, Section 80.21, allows a state's subrecipients to receive advance payments provided they demonstrate the ability to minimize the time elapsing between the receipt and disbursement of federal funds. Otherwise, reimbursement is the preferred method of payment. Further, this section requires a state's subrecipients to promptly pay to the federal agency any interest greater than \$100 per year that they earned on the advances. Additionally, if a state's subrecipients receive advance payments, Section 80.20(b)(7) requires them to follow procedures for minimizing the time between the receipt and disbursement of federal funds.

## **CONDITION**

The Department of Education (Education) does not have adequate procedures to ensure that Migrant Education subrecipients demonstrate the ability to minimize the time elapsing between their receipt and use of federal program funds. Under its

payment procedures, Education disburses program funds to subrecipients based on predetermined limits rather than assessing and disbursing funds based on each subrecipient's immediate cash needs. Further, Education does not always require its subrecipients to report on their use of current-year program advances before making additional payments to them. Combining Education's inadequate procedures to assess each subrecipient's cash needs with its predetermined advance-payment process does not ensure that subrecipients minimize the time elapsing between their receipt and disbursement of federal program funds.

Of the 40 expenditure transactions we reviewed for the Migrant Education program, 34 were payments to 18 of Migrant Education's 22 regional offices. For the fiscal year 2001-02 grant award, we compared Education's first advance payment to these regional offices against their mid-year expenditure reports, and found that eight had high-ending balances ranging from \$2,381 to \$1,120,436. We considered any positive balance high because Education disbursed the first advance payment, approximately 40 percent of the sub-award, by November 2001. This was at least three months before the end of the six-month period for which the regional offices reported expenditures. In addition, for the fiscal year 2000-01 grant award, we compared other advance payments to seven of the regional offices against the regions' most recent expenditure reports. We found that for one of the regional offices, its expenditures did not approximate its advances.

When Education does not assess its subrecipients' immediate cash needs before making federal program advances, it cannot assure that subrecipients minimize the time elapsing between the receipt and use of federal funds.

Finally, Education did not require subrecipients to report and remit interest in excess of \$100 earned on these federal program advances. As a result, these subrecipients may use the interest earned on federal program advances for activities that may not be allowable. However, beginning in fiscal year 2002-03, Education is requiring subrecipients of the Migrant Education program to report interest earned in excess of \$100 as part of the expenditure report process.

## **RECOMMENDATIONS**

To minimize the time elapsing between the receipt and use of federal program funds, Education should implement procedures to assess each subrecipient's cash needs and adjust its advance payments to more closely reflect each of its subrecipients' immediate cash needs. Additionally, Education should ensure its subrecipients report their program expenditures in time to allow Education to assess their cash needs before making additional advance payments. Education should also ensure the implementation of controls for reporting earnings greater than \$100 on these advances so it can repay these interest earnings to the federal awarding agency. Finally, if Education cannot demonstrate its ability to ensure subrecipients minimize the time elapsing between the receipt and disbursement of federal program advances, it should implement procedures to pay its subrecipients on a reimbursement basis rather than paying them in advance.

## DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Effective with the 2003-04 fiscal year, Education will reduce the cash advance payment to Migrant Education regions to 30 percent. Before the subsequent payment is issued, Migrant Education will review the region's expenditure report to assess the expenditures made with the cash advance. If there is a significant discrepancy between the advance and the documented expenditures, Migrant Education will contact the region to discuss the discrepancy. Based on the information received from the region, Migrant Education will take the appropriate action, with the possibility of reducing the subsequent payment.

Migrant Education added an additional reporting field to the expenditure report requesting the subrecipient report the amount of interest earned over \$100. Migrant Education also included verbage from the Code of Federal Regulations, Title 34, Section 80.21, regarding submission of interest earned over \$100, in its Migrant Education Fiscal Requirements handbook.

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Reference Number:	2002-5-1
Federal Catalog Number:	84.126
Federal Program Title:	Rehabilitation Services—Vocational Rehabilitation Grants to States
Federal Award Numbers and Calendar Years Awarded:	H126A010005; 2000 H126A020005; 2001
Category of Finding:	Eligibility
State Administering Department:	Department of Rehabilitation

### CRITERIA

Our review of the Rehabilitation Services—Vocational Rehabilitation Grants to States program (Vocational Rehabilitation) determined that the following are among the compliance requirements for eligibility:

The Code of Federal Regulations, Title 34, Section 361.42, requires the State to conduct an assessment of an applicant's eligibility and priority for program services. This section further requires the State to base the applicant's eligibility only on a determination that:

- The individual has a physical or mental impairment.
- The impairment substantially impedes employment.

- A presumption that the individual can benefit from program services.
- The individual requires program services to prepare for, secure, retain, or regain employment.

Additionally, Section 361.41 requires the State to determine an individual's eligibility for program services within 60 days of receiving his or her application, with certain exceptions.

## **CONDITION**

The Department of Rehabilitation (Rehabilitation) does not always determine applicant eligibility for the Vocational Rehabilitation program within the required time period. Of the 35,345 applications received by the department between July 1, 2001, and April 30, 2002, Rehabilitation did not determine eligibility, obtain an extension, or close cases within the 60-day deadline for 7,342 cases (21 percent). In 4,796 of the 35,345 applications (14 percent), Rehabilitation determined an applicant's eligibility after 60 days or obtained an agreed-upon extension after the deadline.

Of the cases for which Rehabilitation determined eligibility, Rehabilitation was fewer than 10 days late in 47 percent of the cases, between 11 and 30 days late in another 29 percent of the cases, and between 31 and 60 days late in an additional 15 percent of the cases. Rehabilitation took more than 60 additional days after the required 60 days to determine eligibility in 9 percent of the cases. Rehabilitation had not determined eligibility status in 800 cases as of July 31, 2002, and 1,746 cases had other resolutions after the 60-day deadline. When Rehabilitation does not determine applicants' eligibility within the required time period, it reduces the assurance that clients receive the required rehabilitative services promptly.

## **RECOMMENDATIONS**

To make sure applicants receive program services promptly, Rehabilitation should determine eligibility within the required time period. Rehabilitation should emphasize to district coordinators, supervisors, and counselors that they should identify and prioritize cases that are close to exceeding the 60-day deadline. Currently available reports, such as the "Reminder/Approval List," are valuable tools in determining eligibility or the need for an extension within the 60-day deadline.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Rehabilitation agrees with this finding and has implemented the following corrective action plan.

Rehabilitation states that it will continue to take proactive steps through a collaborative effort with district administrators, rehabilitation supervisors, and counselors to ensure timely and appropriate eligibility determinations. Below is Rehabilitation's summary of

its previous and ongoing actions related to improving timely eligibility determinations. According to Rehabilitation, these actions will be ongoing until satisfactory compliance is achieved.

#### **Action #1—Share information with district administrators**

Through regional district administrators' meetings, best practices for timely eligibility determinations are being identified and shared. The district administrators are now receiving reports that track the number of overdue eligibility determinations for each counselor on a monthly basis. These reports are distributed to rehabilitation supervisors and counselors for prompt and immediate follow-up.

#### **Action #2—Inform and educate rehabilitation staff**

The importance of timely eligibility determination continues to be stressed in all department-sponsored training courses and during staff meetings. The Case Recording Handbook, Chapter 2, also provides a full description of the presumptive eligibility provisions in the Code of Federal Regulations. Counselors and rehabilitation supervisors continue to receive automated reminder notices on the Field Computer System before the expiration of the 60 days allowed for eligibility determination.

#### **Action #3—Local level monitoring of eligibility determinations**

The rehabilitation supervisors continue to conduct reviews of eligibility determinations and extensions to ensure appropriateness and compliance with federal regulations. Rehabilitation supervisors work with the counselors to utilize existing information to the maximum extent possible and the presumptive eligibility criteria to ensure more timely eligibility determinations. Counselors and rehabilitation supervisors continue to receive automated reminder notices on the "Reminder/Approval Lists" before the expiration of the 60 days allowed for eligibility determination. In addition to the automated reminder notices, reports are generated monthly to track the number of overdue eligibility determinations in each district. These reports are shared with the district administrators and rehabilitation supervisors for review and follow-up. These reports have been modified to include information as to whether the consumer receives Supplemental Security Income or Social Security Disability Income to ensure that presumptive eligibility criteria is being applied in a manner consistent with the Rehabilitation Act to expedite the eligibility determination process for consumers.

#### **Action #4—Executive level monitoring of eligibility determinations**

On a monthly basis, Employment Preparation Services regional administrators prepare regional and district summary reports for each deputy director. The deputy directors review these overdue eligibility reports and the Consumer Satisfaction Surveys to identify trends of overdue eligibility determinations and then work with the district administrators to resolve the issues preventing the timely determination of eligibility. The district administrators are asked to review these reports and report back to the deputy directors with corrective plans to address any overdue eligibility determination issues.

## **Action #5—Provide guidance and monitoring to cooperative program partners**

Rehabilitation contract administrators continue to collaborate with their cooperative program partners to ensure the timely processing and eligibility determination of program applicants. Annual cooperative contract renewal training has occurred over the past three years. The most recent training was held in October/November of 2002 and was provided to each of the districts with the participation of their partner agency contract administrators. This training supports the requirement that the referral and application process for all cooperative programs be delineated in each contract. Additionally, an Interagency Agreement between Rehabilitation and the California Department of Education specifically addressing the legal parameters and procedures in making student referrals to Rehabilitation was developed and signed on November 7, 2000. Rehabilitation developed five regional trainings in spring 2001 that provided district administrators and local education administrators statewide the operational procedures used to identify qualified students for referral, guidelines in securing parental written consent, sharing and use of evaluations and assessments, and application and eligibility criterion. Similar training has been provided to select counselors and supervisors at the request of district administrators. Rehabilitation contract administrators and education contract administrators are also provided with a list of consumers, on a monthly basis, who are in application status and coded to each cooperative program. Both agencies use this list as an additional tool to ensure that program applicants referred to Rehabilitation have had their applications processed in a timely manner.

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Reference Number:	2002-7-1
Federal Catalog Number:	84.298
Federal Program Title:	Title VI—Innovative Education Program Strategies
Federal Award Number and Calendar Year Awarded:	S298A990005; 1999
Category of Finding:	Earmarking
State Administering Department:	Department of Education

### **CRITERIA**

Our review of the Title VI—Innovative Education Program Strategies (Title VI) program identified the following requirements relating to earmarking:

The United States Code, Title 20, Section 7331(b), requires that no more than 25 percent of funds available for state programs be used for administration. Additionally, Section 8821 allows the State to consolidate administrative funds of several programs, including the Title VI program.

## **CONDITION**

The Department of Education (Education) does not have adequate procedures to ensure that it meets the Title VI program earmarking requirements. Thus, it cannot assure that it spent federal funds in compliance with federal regulations. Education consolidates its state administration funds for Title VI and several other federal programs. Using the funds from each program, it determines the proportionate share for each program and applies those proportions to the costs it incurs. For the Title VI program, Education consolidated the entire \$6.1 million available for state use and spent these funds for administration and other state-level activities, such as technical assistance and statewide education reform. However, it should have consolidated only \$1.5 million (25 percent) of the funds set aside for state use and should have restricted administrative expenditures to this consolidated pool. It should have tracked separately the remaining \$4.6 million for other state-level activities. As a result, the Title VI program may have borne a disproportionate share of the state administration costs incurred.

Education has asserted that the U.S. Department of Education (USDE) should have been aware it consolidated as administrative funds most of the allocation for state operations in the Title VI program. In 1996, Education applied for and received a waiver from the USDE to consolidate administrative funds for several programs. In the information Education provided to USDE, it reflected that it intended to consolidate as administrative funds for the Title VI program most of its allocation set aside for state use. In the same document, Education indicated that it would spend the consolidated funds not just on administration but on other activities including technical assistance and statewide education reform. Nevertheless, the USDE determined in February 2003 that Education should have consolidated as administrative funds no more than 25 percent of the amount allocated for state use.

## **RECOMMENDATION**

Education should ensure that it consolidates for state administration only 25 percent of the funds set aside for its use to meet the Title VI earmarking requirement.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Education agrees that it did consolidate the entire amount available for state use under the Title VI program and used these funds for administration and other state level activities, such as technical assistance and statewide education reform.

Education addressed the consolidation of administration costs, not only in the waiver, but also in the Consolidated State Plan. With the approval of these documents, Education believes it had the authority to consolidate the entire amount; and therefore, operated in good faith.

Education is unable to impose additional expenditure controls several years after the expenditures have occurred. However, it will review its files and records of expenditures to determine if there is any documentation reflecting the amount spent on Title VI administration versus other activities. With the passage of the No Child Left Behind Act, the opportunity for consolidation of costs has been eliminated. Consequently, Education is no longer consolidating administrative funds, and this should not be an issue in the future.

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Reference Number:	2002-7-2
Federal Catalog Number:	84.048
Federal Program Title:	Vocational Education—Basic Grants to States
Federal Award Number and Calendar Year Awarded:	V048A010005; 2001
Category of Finding:	Level of Effort
State Administering Department:	Department of Education

## **CRITERIA**

Our review of the Vocational Education—Basic Grants to States program (Vocational Education) identified the following requirements related to level of effort:

The United States Code, Title 20, Section 2413(a), requires the State to provide from nonfederal sources for state administration of Vocational Education programs an amount that is not less than the amount provided by the State from nonfederal sources for state administrative costs for the preceding fiscal year.

## **CONDITION**

The Department of Education (Education) did not ensure that it met its level of effort requirement for administration of the Vocational Education program for fiscal year 2001-02. Specifically, Education does not have a sufficient process to ensure that it identifies all administrative expenditures from nonfederal sources for the Vocational Education program. Beginning with fiscal year 2000-01, Education revised its process

to exclusively use regional occupational center program (regional occupational center) administration expenditures to determine compliance with the level of effort requirement. However, the process excludes other Vocational Education administration expenditures from both Education and the California Community Colleges, Chancellor's Office (Chancellor's Office), which are provided by the State from nonfederal sources. In May 2002, the U.S. Department of Education issued a report questioning Education's inclusion of the regional occupational center administrative expenditures as well as its exclusion of Chancellor's Office administrative expenditures.

In addition, Education did not follow its own process for determining whether it met the level of effort requirement. Although Education identified approximately \$16 million in regional occupational center administration expenditures for fiscal year 2000-01, it did not include all of these expenditures in its level of effort calculation. Instead, Education included just \$3 million for fiscal year 2000-01 and estimated expenditures of \$2.1 million for fiscal year 2001-02, indicating that it has a \$900,000 shortfall in its administrative level of effort. Because fiscal year 2001-02 data for the regional occupational centers was not available when our fieldwork ended, we could not compare this data to the \$16 million in expenditures to ensure that Education met the level of effort requirements. When Education does not meet its administrative level of effort, it may receive a reduced grant award in future years.

## **RECOMMENDATION**

Education should implement a process to ensure that it properly calculates its administrative level of effort. In doing so, Education should include amounts provided by the State from all nonfederal sources for administration expenditures, including those provided by Education and the Chancellor's Office.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Education will immediately begin implementing a process to properly calculate the Vocational Education match level of effort. The Vocational Education match will include all amounts recorded by Education, the Chancellor's Office, and the regional occupational centers as Vocational Education administration match expenditures.

The 2001-02 Vocational Education administration match expenditures will be accurately reported to the U.S. Department of Education on the final Financial Status Report.

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Reference Number:	2002-9-1
Federal Catalog Number:	84.126
Federal Program Title:	Rehabilitation Services—Vocational Rehabilitation Grants to States
Federal Award Numbers and Calendar Years Awarded:	H126A010005; 2000 H126A020005; 2001
Category of Finding:	Suspension and Debarment
State Administering Department:	Department of Rehabilitation

## **CRITERIA**

Our review of the Rehabilitation Services—Vocational Rehabilitation Grants to States program (Vocational Rehabilitation) determined that the following are among the compliance requirements for suspension and debarment:

The Code of Federal Regulations, Title 34, Section 80.35, prohibits the State from knowingly doing business with any party that is suspended, debarred, or otherwise ineligible to participate in federal assistance programs. In addition, Title 34, Section 85.510, mandates the State to require certifications from participating organizations affirming they are not suspended, debarred, ineligible, or voluntarily excluded from transactions by any federal agency. Further, Section 85.110 makes procurement contracts for goods or services expected to equal or exceed \$100,000 subject to the suspension and debarment certification requirements.

## **CONDITION**

The Department of Rehabilitation (Rehabilitation) did not obtain the required suspension and debarment certifications from any of the five contractors we reviewed. Rehabilitation awarded these participants of the Vocational Rehabilitation program procurement contracts of \$100,000 or more. The five contracts we reviewed totaled more than \$1.5 million. Without obtaining the required certifications, Rehabilitation risks unknowingly allowing suspended or debarred parties to participate in the Vocational Rehabilitation program. For the transactions we reviewed, we used an alternative test to determine that these participants were not suspended or debarred.

## **RECOMMENDATION**

Rehabilitation should ensure that Vocational Rehabilitation participants receiving procurement contracts of \$100,000 or more submit the required suspension and debarment certification before Rehabilitation approves their participation in the Vocational Rehabilitation program.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Rehabilitation agrees with the finding and is in the process of reviewing the federal regulations to determine the contracts that are impacted and to develop the procedures to implement the recommendation to ensure suspension and debarment certifications are received prior to the awarding of procurement contracts in the Vocational Rehabilitation program.

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Reference Number:	2002-9-6
Category of Finding:	Suspension and Debarment
State Administering Department:	Department of Education

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

## **CRITERIA**

Our review of federal programs identified the following requirements relating to suspension and debarment:

The Code of Federal Regulations, Title 34, Section 85.225, prohibits the State from knowingly doing business with any party that is suspended, debarred, or otherwise ineligible to participate in federal assistance programs. Further, Section 85.510 mandates the State to require a certification from organizations submitting proposals certifying that neither the organization nor its principals are presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from participation in federal assistance programs by a federal agency.

## **CONDITION**

In fiscal year 2001-02, the Department of Education (Education) did not require local educational agencies (LEAs) applying to participate in the Title I Grants to Local Educational Agencies (Title I, Part A), Title VI—Innovative Education Program Strategies (Title VI), and Class Size Reduction programs to submit the required

suspension and debarment certifications. Instead, Education required LEAs to assure that they had complied with the certification requirement. Thus, although it requires LEAs to apply for program funding annually, Education cannot demonstrate that LEAs made the required certification before it approved their participation in the program.

When Education does not require participants in the Title I, Part A, Title VI, and the Class Size Reduction programs to submit the required certification when they apply for program funding, it risks unknowingly allowing suspended or debarred parties to participate in the federal programs. For the transactions we reviewed, we used an alternative test to determine that these program participants were not on the federal suspended or debarred list.

Beginning with the 2002-03 funding year application, Education revised the legal assurances to include the following, "The LEA assures that neither it, nor its principals is presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from participation by any Federal department or agency." Certification, by signature, of adherence to the legal assurances will meet the requirements of suspension and debarment.

## **RECOMMENDATION**

Education should ensure use of the revised legal assurances as part of the annual consolidated application.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Education is using the 2002-03 Consolidated Application which contains the revised legal assurances regarding suspension and debarment. The Superintendent or authorized representative for each LEA certifies to these assurances when the LEA submits Part I of the Consolidated Application.

### **U.S. DEPARTMENT OF EDUCATION**

Federal Catalog Number:	84.010
Federal Program Title:	Title I Grants to Local Educational Agencies
Federal Award Number and Calendar Year Awarded:	S010A010005; 2001

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Federal Catalog Number:	84.298
Federal Program Title:	Title VI—Innovative Education Program Strategies
Federal Award Number and Calendar Year Awarded:	S298A010005; 2001

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Federal Catalog Number:	84.340
Federal Program Title:	Class Size Reduction
Federal Award Number and Calendar Year Awarded:	S340A010005; 2001

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Reference Number:	2002-12-6
Federal Catalog Number:	84.048
Federal Program Title:	Vocational Education—Basic Grants to States
Federal Award Number and Calendar Year Awarded:	V048A010005; 2001
Category of Finding:	Reporting
State Administering Department:	Department of Education

## **CRITERIA**

Our review of the Vocational Education—Basic Grants to States (Vocational Education) identified the following requirements related to performance reports:

The United States Code, Title 20, Section 2323(c), requires the State to prepare and submit an annual report containing data as to whether it met its adjusted performance levels for each of four core indicators of performance and other indicators.

## **CONDITION**

The Department of Education (Education) did not report accurate, complete, and supported data in its Vocational Education performance accountability report. Specifically, at the time of our testing, because Education could not provide adequate support for the information in the report it submitted to the U.S. Department of Education (USDE) in December 2001, we were unable to verify the accuracy and completeness of the data for three of the four core indicators. Additionally, for the remaining core indicator, it used the same data as it used in its prior-year report. During our audit of fiscal year 2000-01, we found this data was either inaccurate or incomplete. Consequently, Education again reported unreliable information. Education disclosed that it used prior-year data in its report to the USDE. Nevertheless, when Education does not compile and report accurate and complete data, the USDE cannot accurately assess the State's performance in the Vocational Education program.

## **RECOMMENDATION**

Education should implement procedures to ensure that the information in its Vocational Education performance report is supported, accurate, and complete.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Education does not concur with the statement, "Education did not report accurate, complete, and supported data in its Vocational Education performance accountability report." For three of the four indicators on the December 2001 report, the Career Technical Education accountability data (accountability data) was accurate and complete, although difficult to verify. Education received the accountability data through three sources: directly from the districts electronically; directly from the districts via mail; and from a vendor who aggregated each school's accountability data and summarized it by district then forwarded the district information. These three sources accurately support the information provided in the December 2001 report.

Education was unable to provide the placement data on program completers required for Core Indicator #3 because it was not due from the local educational agencies (LEAs) until a month after the revised report deadline. Therefore, based on USDE's advice, Education reported the same placement data submitted on the 1999-2000 report. Both USDE and Education were aware that the placement data was inaccurate and incomplete.

The collection and reporting of all accountability data used for the report has been corrected. Beginning with the 2001-02 program year, Education implemented a single data system for importing and aggregating the accountability data provided in the LEAs' report.

## **AUDITOR'S COMMENTS ON THE DEPARTMENT'S VIEW**

Although Education asserts that the accountability data for three of the four core indicators was accurate and complete, it could not provide us with adequate support to ensure that the aggregated accountability data was correctly summarized by its vendor. Thus, we were unable to verify the accuracy and completeness of the data.

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Reference Number:	2002-14-1
Federal Catalog Number:	84.032
Federal Program Title:	Federal Family Education Loans
Year Awarded:	State fiscal year 2001-02
Category of Finding:	Special Tests and Provisions
State Administering Department:	California Student Aid Commission

### **CRITERIA**

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

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

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

### **CONDITION**

Student Aid's auxiliary organization administers the loan program. However, the auxiliary organization has not developed adequate internal controls over its information systems to provide reasonable assurance that it keeps current, complete,

and accurate records of each loan. Specifically, we found weaknesses in the auxiliary organization's controls over entitywide security planning and management, and restriction of access to sensitive locations and to computer software and data files. We also found weaknesses in the operating agreement between Student Aid and its auxiliary organization. These weaknesses hamper Student Aid's ability to ensure that the auxiliary maintains strong controls over its information systems.

The auxiliary organization management has not provided sufficient entitywide security planning and management. We found that the auxiliary organization has neither performed a comprehensive security risk assessment nor developed an entitywide security program plan. This plan should clearly describe the auxiliary's security program and the policies and procedures that support it. In addition, the security program plan should cover all major facilities and systems and outline the duties of the security management function. The auxiliary organization has addressed the areas the security management function is responsible for, however, it has lessened its importance by not dedicating an individual to this function. Currently, this function is shared by two individuals whose primary responsibilities are to manage the auxiliary organization's computer operations support and the systems and network architecture. The lack of planning and management has led to insufficient protection of sensitive or critical computer resources.

The auxiliary organization does not have adequate physical security controls, which are the controls that limit access to sensitive areas and protect them from loss or impairment. We found that the auxiliary organization did not limit access to the computer operations facility to those employees who have a legitimate need for access to perform their job duties. Specifically, we identified 56 individuals who were allowed access to the computer operations facility although their job duties were not related to the maintenance or operation of the information system. Moreover, the layout of the computer operations facility can be strengthened. We noted that certain equipment and the tape library are centrally located within the computer operations facility instead of being in a separate secure area with limited access. Compounding these weaknesses is the fact that the auxiliary organization's computer operations staff run the computer operations facility from a remote location separate from the computer operations facility, which may allow individuals with access to the facility to have unmonitored access.

The auxiliary organization also needs to strengthen its logical security controls. Logical security controls are the policies and electronic access controls designed to restrict access to computer software and data files. The auxiliary organization has the following weaknesses in controls over its software and data files:

- It does not promptly remove employees' electronic access when they transfer or leave the employ of the auxiliary. We found that one employee retained his access privileges from one division for 12 months after he had transferred to another division. Two other former employees still had electronic access to critical data even though they had not been in the employ of the auxiliary for up to 31 months.

- It has given five employees from one division the ability to add, change, or delete information from student loan data and the information system's master files. This level of access can allow for inappropriate modification of sensitive loan data and system files.
- It has not developed preventive controls that would prohibit the 59 employees with a total of 172 guaranteed student loans from modifying or deleting their own borrower information. In addition, the auxiliary organization has not performed reviews that could promptly identify whether student loan data had been modified inappropriately.
- It allows a limited number of employees to make changes to sensitive data in an environment that is not subject to the normal edits of its information system. In addition, the auxiliary does not maintain a complete history or audit trail of data changes made for a sufficient period of time to allow for the audit of these changes. The logical access controls do not limit access on a "need-to-know" basis, which allows these employees to access data that is not related to their business function.

Finally, Student Aid's operating agreement with the auxiliary organization does not include provisions to ensure that the auxiliary organization maintains strong controls over its information systems. Currently, the operating agreement does not detail Student Aid's expectations for the operation of the information technology system that maintains the records for the loan program. Such expectations could include requirements for information security, the performance of a security risk assessment, and development of an information security program plan. Moreover, the operating agreement does not include a requirement for the auxiliary organization to have an audit in conformity with the provisions of Statement on Auditing Standards Number 70 (SAS 70), "Service Organizations," which would report on controls placed in operation and results of tests of operating effectiveness. Such an audit would disclose whether the auditor believes the auxiliary organization's controls are suitably designed to achieve specified control objectives, whether they had been placed in operation as of a specific date, and whether the controls that were tested were operating with sufficient effectiveness to provide reasonable assurance that the related control objectives were achieved during the period specified.

## **RECOMMENDATIONS**

Student Aid's auxiliary organization should implement an entitywide program for security planning and management that addresses the security management function and provides for strong physical and logical security controls over its information systems. This will ensure that it maintains current, complete, and accurate records for each loan that it holds. In addition, Student Aid should amend its operating agreement with its auxiliary organization to specify its expectations related to the control structure over the information system. Further, Student Aid should strongly consider adding the requirement that its auxiliary organization periodically have a SAS 70 review of its information systems.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Student Aid agrees with the recommendation above. With the advent of the Internet, the rapid increase of external system user interfaces, and the prospect of potential sabotage or fraud, security and risk management has become both more complicated and more crucial than ever before. Student Aid and its auxiliary organization have managed the operation of the core student loan management system, FAPS, for more than ten years. Security and risk management practices are continuously reviewed and upgraded.

The auxiliary organization has provided the following information that demonstrates its commitment to operating a secure system in order to maintain data integrity.

- The auxiliary organization examined and upgraded many of its system management policies and procedures when FAPS was moved from an outside data center to an internal data center in July 2001. The auxiliary organization continuously monitors and deters attempts by external parties seeking unauthorized access to the auxiliary organization's systems via the Internet. Additional work was completed last year to ensure business continuity following a project to upgrade system redundancy and remote restart capability in the event of a major disaster.
- For the most part, technology security and risk management has been the exclusive responsibility of the auxiliary organization's Technology and System Solutions Division. As the auxiliary organization strives to achieve an even greater level of integration both with external customers and within the company's special purpose systems, it will be necessary to expand the scope and character of risk management and information security to all of the auxiliary organization's divisions that are also responsible for the integrity of data and of systems. In addition, Student Aid will discuss with the auxiliary organization the need for an independent Information Security Officer.

Student Aid is pleased to observe that no actual breaches in security or violations of data integrity were noted in this report. While a system of the size and complexity of FAPS will always require an adequate workforce to manage and maintain it, it is appropriate to monitor who has access and for what purposes.

With that in mind, the auxiliary organization will take the following actions:

- update the security access of personnel who no longer require that access to perform their jobs.
- re-examine the most recent uses of data maintenance to determine if there is appropriate business justification for continuing special user access.
- evaluate the feasibility of designing new on-line screens that can replace data maintenance.

- revise policy safeguards to reduce risk to data integrity with respect to concerns about the auxiliary organization's staff that have student loans and access to FAPS.

Also, Student Aid will ensure that procedures are in place and followed.

Student Aid and its auxiliary organization will examine the provisions of Statement on Auditing Standards Number 70 (SAS 70) and determine whether they would be appropriate and warranted. Both Student Aid and the auxiliary organization are dedicated to ensuring the highest level of security and risk mitigation for technology programs. It makes good business sense to invest time and resources to ensure that the internal controls exist in order to keep Student Aid's records and program safe and secure. Student Aid, if appropriate, will consider requiring periodic SAS 70 reviews.

In addition to the general recommendation for an entity wide security program, the draft findings note several specific areas of concern. The auxiliary organization has provided the following information in response to those specific concerns:

- **Security management functions.** In performing a risk assessment and documenting the entity wide security plan, the management function will be considered and addressed.
- **Access to computer operations facility.** The auxiliary organization has reduced the number of staff that has card access to the computer room. Access will be examined periodically to ensure risk is mitigated by allowing access only to staff with business need, including building security, maintenance, and operations of information system.
- **Tape Library.** While the tape library is secure, it is not separately secured from the computer operations room. Because of the limited access to the computer room, this has not created any undue risk. However, the auxiliary organization will examine the feasibility of restricting access to the computer operations room.
- **Removal of electronic access.** This process has been reviewed and strengthened and will be more closely monitored in the future.
- **Divisional employees with system access.** The number of staff with this data maintenance capability has been examined and will be reduced if possible. This function is required to provide customer service to our lenders. To ensure proper controls, the keying function is separate from the decision-making function and appropriate documentation is maintained.
- **Employees with loans.** The auxiliary organization is revising its policy with respect to applicants or employees with student loans to mitigate the risk of inappropriate changes to FAPS. The revised policy will prohibit any employee from processing any changes to their own accounts. The auxiliary organization will institute a review process to audit employee accounts and review for any inappropriate account changes.

- **Table maintenance changes with insufficient audit trail.** The auxiliary organization’s procedure for table maintenance is being modified and will require a before and after report to document the changes made that will be verified by the operational staff requesting the change.

Student Aid’s Loan Program Oversight Division has the responsibility of ensuring the auxiliary organization is in compliance with the provisions of the Operating Agreement and will monitor the implementation of the activities mentioned above.

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Reference Number: 2002-14-4  
Category of Finding: Special Tests  
State Administering Department: Department of Education

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

## **CRITERIA**

Our review of the Migrant Education—Basic State Grant Program (Migrant Education) and the Title I Grants to Local Educational Agencies program (Title I, Part A) determined that the following compliance requirements relate to the comparability of school services:

The United States Code, Title 20, sections 6322(c) and 6394(c), require local educational agencies (LEAs) that receive Migrant Education and Title I, Part A funds to use state and local funds to provide school services that are at least comparable to services provided by schools not receiving these federal funds, unless otherwise excluded. Furthermore, these sections state that an LEA will have met the requirement of comparability if the LEA has filed with the state education agency a written assurance that the LEA has established and implemented an LEA-wide salary schedule; a policy to ensure equivalence among schools in teachers, administrators, and other staff; and a policy to ensure equivalence among schools in the provision of curriculum materials and instructional supplies.

## **CONDITION**

The Department of Education (Education) did not require LEAs receiving Migrant Education and Title I, Part A funds to file with Education a specific written assurance stating that the LEAs have established and implemented an LEA-wide salary schedule; a policy to ensure equivalence among schools in teachers, administrators, and other staff; and a policy to ensure equivalence among schools in the provision of curriculum materials and instructional supplies. Instead, Education required each LEA

to agree to follow standard legal assurances for the respective programs. However, these assurances fall short of the written assurance specified by federal law.

The Migrant Education legal assurance specified for LEAs the comparability requirements, but did not require LEAs to submit a written assurance. The Title I, Part A legal assurance stated, “the LEA has developed and implemented procedures for compliance with the comparability requirements and the compliance documents are updated biannually.” However, this assurance does not state that the LEA has actually established and implemented the specific policies and procedures that federal law requires to ensure comparable school services. In addition, although Education reviews local policies and procedures during its LEA site visits, it only reviews each LEA on a four-year cycle, and the review instrument it uses does not specify reviewing the policies and procedures to ensure comparable school services. Therefore, Education cannot be sure that LEAs have established and implemented the policies and procedures federal law requires to ensure comparable school services.

When Education does not require LEAs to assure to it in writing that they have implemented specific policies and procedures for using state and local funds to provide school services that are at least comparable to the services provided by schools not receiving Migrant Education and Title I, Part A funds, it cannot be sure that LEAs are using these federal program funds to provide educationally disadvantaged students the additional assistance they need to achieve academic success.

We reported similar findings in our audits of fiscal years 1998-99, 1999-2000, and 2000-01 for these programs. At the time, Education stated it would continue to work with the U.S. Department of Education (USDE) to determine the expectation for monitoring the comparability of school services. The USDE identified a similar finding for the Title I, Part A program in a 1998 Integrated Review report. Although Education previously stated that once the comparability issue was satisfactorily resolved for Title I, Part A, it would also be resolved for all Title I programs, including Migrant Education; it has not yet resolved this issue with the USDE. Nevertheless, beginning with the 2002-03 funding year application, Education revised the Title I, Part A legal assurances to include the following, “The LEA has established and implemented a district-wide salary schedule; has a policy to ensure equivalence among schools in teachers, administrators, and other staff; and has a policy to ensure equivalence among schools in the provision of curriculum materials and instructional supplies.” Certification, by signature, of adherence to the legal assurances should meet the requirements of comparability.

## **RECOMMENDATIONS**

Education should ensure use of the revised legal assurances for the Title I, Part A program and alter the legal assurances for the Migrant Education program accordingly. Additionally, Education should continue to work with the USDE about how Education should revise its monitoring process to ensure that LEAs comply with the comparability requirement.

## DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

For the 2002-03 funding cycle, Education used the Consolidated Application that contains the revised legal assurances for the Title I, Part A program. Beginning with the 2003-04 program year, Education will revise the Migrant Education legal assurance language for comparability to:

*An LEA has determined comparability on a district wide basis or on a grade span basis if the LEA files with the SEA a written assurance that it has established and implemented:*

- 1. an LEA-wide salary schedule;*
- 2. a policy to ensure equivalence among schools in teachers, administrators, and other staff; and*
- 3. a policy to ensure equivalence among schools in the provision of curriculum materials and instructional supplies.*

Education has contacted USDE regarding their expectation for monitoring the Title I, Part A comparability of school services, and received sample comparability determination documentation. Education will share this documentation with the State Controller's Office and work with them to incorporate an additional procedure specific to comparability into the state audit guide, which is used for the annual audit of the LEAs in California. This additional check will include an analysis of the pupil/teacher ratio among all schools operated by an LEA, as illustrated in the USDE's example.

Beginning with fiscal year 2001-02, Migrant Education incorporated in its fiscal review the examination of compliance with the comparability requirement by the school districts and schools in the region. Each region will be reviewed at least once every two years.

### U.S. DEPARTMENT OF EDUCATION

Federal Catalog Number:	84.010
Federal Program Title:	Title I Grants to Local Educational Agencies
Federal Award Number and Calendar Year Awarded:	S010A010005; 2001

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Federal Catalog Number:	84.011
Federal Program Title:	Migrant Education—Basic State Grant Program
Federal Award Number and Calendar Year Awarded:	S011A010005; 2001

**U.S. DEPARTMENT OF EDUCATION**  
**U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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Reference Number: 2002-8-1

Category of Finding: Period of Availability

State Administering Department: Department of Alcohol and Drug Programs

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

**CRITERIA**

Our review of federal programs identified the following compliance requirements relating to period of availability:

The United States Code, Title 42, Section 300x-62, requires the State to obligate any Substance Abuse Prevention and Treatment Block Grant amounts by the end of the fiscal year in which the amounts are awarded; and if obligated, spend these amounts by the end of the next fiscal year.

Additionally, the Code of Federal Regulations, Title 34, Section 76.709(a), mandates that if the State does not obligate all of its Safe and Drug-Free Schools and Communities—State Grants (Safe and Drug-Free Schools) program funds by the end of the 15-month funding period for which they were appropriated, the State may obligate the remaining funds for one additional year. In addition, Section 80.23(b) requires the State to liquidate all obligations incurred under an award no later than 90 days after the end of the funding period, which means the State has two years and six months to liquidate its obligations.

**CONDITION**

The Department of Alcohol and Drug Programs (DADP) lacks adequate procedures to ensure that federal grant awards are obligated and spent within their applicable periods of availability for the Substance Abuse Prevention and Treatment Block Grant. In addition, it has not completed its corrective action on period of availability findings we reported in prior years related to the Safe and Drug-Free Schools program.

For the Substance Abuse Prevention and Treatment Block Grant program, DADP made payments to its subrecipients during fiscal year 2001-02 that it applied to grants awarded to it in 1998 and 1999. We found that DADP charged at least \$145,491 to the grant awards for services that were provided after each award's period of availability had expired. Additionally, DADP charged \$3,493 to a grant award although it drew down the funds from another grant award. Further, the services were

provided before the second grant award was available for obligation and expenditure. DADP implemented procedures in October 2001 to reconcile its Substance Abuse Prevention and Treatment Block Grant award expenditures with the federal awarding agency's Payment Management System. In addition, it refunded to the federal awarding agency the funds it drew down after the funding authority for several grant awards had expired. Thus, when DADP does not ensure that it charges expenditures within the appropriate period of availability, DADP risks having to refund the funds to the federal awarding agency.

Finally, DADP has not completed its corrective action related to findings we reported for the Safe and Drug-Free Schools program in fiscal years 1999-2000 and 2000-01. Specifically, for fiscal year 2000-01, we reported that DADP charged expenditures totaling \$235,357 to the 1997 and 1999 grant awards outside their periods of availability. As of January 2003, DADP has yet to return these funds because it asserts that when it returned funds in 2001 related to the period of availability finding for fiscal year 1999-2000, it overpaid the federal government. DADP is working to resolve its overpayment before it repays any additional funds to the U. S. Department of Education for expenditures incurred outside the period of availability. Our review of expenditures during fiscal year 2001-02 found no reportable issues related to the period of availability for the Safe and Drug-Free Schools program.

## **RECOMMENDATIONS**

DADP should strengthen its procedures to ensure it obligates and expends funds only during each grant award's period of availability. In addition, DADP should strengthen its procedures to determine appropriate adjustments to its accounting records, make the appropriate adjustments, and refund to the federal awarding agencies any Safe and Drug-Free Schools program funds and Substance Abuse Prevention and Treatment Block Grant program funds that it inappropriately spent outside the applicable periods of availability.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

The U.S. Department of Health and Human Services publishes a Manual for Recipients Financed under the Payment Management System. Per the manual, block grant statutes govern the period in which states may obligate and expend funds. These statutes do not establish a time limit for drawing funds for legitimate expenditures. While block grants may be closed informally, the informal closing procedures do not affect a recipient's right to claim reimbursement for grant expenditures. Thus, the department will make the necessary adjustments on its accounting records to align obligations and expenditures with the period of availability.

With respect to the Safe and Drug Free Schools and Communities Act grant, DADP believes that approximately \$500,000 is due it from the U.S. Department of Education. Thus, it will not return any funds until it completes the audit resolution process with the U.S. Department of Education.

**U.S. DEPARTMENT OF EDUCATION**

Federal Catalog Number: 84.186

Federal Program Title: Safe and Drug-Free Schools and  
Communities—State Grants

Federal Award Numbers and  
Calendar Years Awarded: S186B70005; 1997  
S186B990005; 1999

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

Federal Catalog Number: 93.959

Federal Program Title: Substance Abuse Prevention and  
Treatment Block Grant

Federal Award Numbers and  
Calendar Years Awarded: 99B1CASAPT; 1998  
00B1CASAPT; 1999

## **U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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Reference Number: 2002-1-2

Federal Catalog Number: 93.778

Federal Program Title: Medical Assistance Program

Federal Award Numbers and  
Calendar Years Awarded: 05-0105CA5028; 2000  
05-0205CA5028; 2001

Category of Finding: Activities Allowed

State Administering Department: Department of Health Services

### **CRITERIA**

Our review of the Medical Assistance Program (Medicaid) identified the following compliance requirements related to activities allowed:

The Code of Federal Regulations, Title 42, Part 438, Subpart A, allows states to contract with managed care health plans (health plans) to provide health care to Medicaid beneficiaries. Under the terms of these contracts, the Department of Health Services (Health Services) pays the health plans a monthly enrollment fee for the Medicaid beneficiary. The contracts also allow Health Services to recover overpayments of any enrollment fees it pays the health plans after the beneficiary is no longer eligible.

### **CONDITION**

During fiscal year 2001-02, Health Services did not always recover overpayments of Medicaid funds paid to health plans as enrollment fees for beneficiaries who were no longer eligible for Medicaid. As a result, Health Services allowed the health plans to retain Medicaid funds that they did not properly earn. We found that despite paying health plans almost \$11,600 in monthly enrollment fees for 15 of the 21 deceased beneficiaries that we reviewed, Health Services had not recovered the funds as of August 2002. In these 15 instances, Health Services paid enrollment fees to the health plans for one to 12 months after the beneficiary had died. The section within Health Services responsible for this task told us that it had no staff assigned to recover these overpayments because it was waiting for management's approval to assign staff to do this.

## RECOMMENDATION

Health Services should assign sufficient staff to recover any overpayments made to health plan.

## DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Although Health Services recognizes that plans have been paid incorrectly on a number of deceased Medicaid beneficiaries, the current data systems do not easily compile the information for recovery purposes. Payment staff members within the Medi-Cal Managed Care Division (division) have always been assigned to calculate overpayments and pursue recoveries, but the problem has been with the system rather than with oversight. Currently, the division has identified the problem in the payment process and is working with Health Services' Information Systems Technology Division to generate reports that provide necessary and supplemental information to capture overpayment information by managed care plans.

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Reference Number:	2002-1-3
Federal Catalog Number:	93.778
Federal Program Title:	Medical Assistance Program
Federal Award Numbers and Calendar Years Awarded:	05-0105CA5028; 2000 05-0205CA5028; 2001
Category of Finding:	Activities Allowed
State Administering Department:	Department of Health Services

## CRITERIA

Our review of the Medical Assistance Program (Medicaid) identified the following compliance requirements related to activities allowed:

The United States Code, Title 42, Section 1396, enables states to provide medical assistance to Medicaid beneficiaries. Additionally, the Code of Federal Regulations, Title 42, Part 456, requires states to provide methods and procedures to safeguard against the unnecessary utilization of care and services, which include conducting post-payment reviews, for the necessity, quality, and timeliness of these services.

## **CONDITION**

The Department of Health Services (Health Services) did not always ensure that all services approved for Medicaid beneficiaries are supported by sufficient documentation. Because Health Services is required to conduct post-payment reviews, we requested that it conduct field reviews of client records and other pertinent documents to substantiate the medical necessity of the services billed to the Medicaid program for 31 claims that we reviewed. Health Services' review revealed that two of 31 claims did not have adequate support to substantiate a need for the provided services that the Medicaid program paid for. In the first instance, an out-of-state pharmacy provided medications for which the Medicaid program paid nearly \$1,100. However, Health Services did not contact this pharmacy to request the documentation necessary to support the claim. Health Services' review of the second claim revealed differing opinions about whether adequate support existed to substantiate a beneficiary's need for a powered wheelchair that cost the Medicaid program about \$5,500. Although Health Services' Medi-Cal Operations Division approved the beneficiary's request for the powered wheelchair, the Management Review Branch concluded after its examination that, although sufficient documentation existed to support the beneficiary's need for a wheelchair, it did not justify the need for a powered wheelchair.

## **RECOMMENDATIONS**

Health Services should request all relevant supporting documentation when conducting post-payment reviews to ensure that services paid for by the Medicaid program are medically necessary. Further, Health Services should resolve the question of whether sufficient documentation exists to support the need for a powered wheelchair. If Health Services concludes that sufficient documentation does not in fact exist, it should take steps to recover the cost difference between the powered wheelchair and a non-powered wheelchair.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Health Services agrees that all relevant documentation should be collected when conducting post-payment reviews. Health Services states that it will determine whether sufficient documentation exists to support the need for the powered wheelchair noted in the finding. Health Services will recover the cost difference between powered wheelchairs and non-powered wheelchairs, if documentation is deemed insufficient. Policies have been in place since 1998 regarding criteria for adjudicating treatment authorization requests for custom wheelchairs. Health Services will ensure the criteria are followed.

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Reference Number:	2002-3-5
Federal Catalog Number:	93.959
Federal Program Title:	Substance Abuse Prevention and Treatment Block Grant
Federal Award Numbers and Calendar Years Awarded:	00B1CASAPT-04; 1999 01B1CASAPT-04; 2000 02B1CASAPT-04; 2001
Category of Finding:	Cash Management
State Administering Department:	Department of Alcohol and Drug Programs

## **CRITERIA**

Our review of the Substance Abuse Prevention and Treatment Block Grant program identified the following compliance requirements related to cash management:

The Code of Federal Regulations, Title 31, Part 205.7(b), requires the State to minimize the time between the transfer of funds from the U.S. Treasury and the disbursement of these funds for program purposes. Section 205.9 allows the State to enter into a Treasury-State agreement to set forth the terms and conditions for implementing this requirement. This agreement states that when the Department of Alcohol and Drug Programs (DADP) issues payments to local agencies for the Substance Abuse Prevention and Treatment Block Grant program, it will use the “pre-issuance” funding technique. When using the pre-issuance technique, state agencies must make every effort to request federal funds so they are deposited into a State account no more than two business days before the day the State makes a disbursement. The agreement also recognizes that due to variances in processing time, the two-day deposit requirement will be met for the majority, but not all, of the fund requests. Further, the Code of Federal Regulations, Section 205.17(I), states that the federal government may deny payment or credit for any federal interest liability resulting from the State’s repeated or deliberate failure to request funds in accordance with the established funding technique set forth in the agreement.

## **CONDITION**

DADP does not consistently use the appropriate funding technique to ensure that federal funds are deposited into its account no more than two business days before disbursement. Specifically, based on our testing, DADP exceeded the two-day deposit requirement for 48 (53 percent) of the 91 disbursements it made during the second quarter of fiscal year 2001-02. In addition, DADP exceeded the two-business-

day limit by one to 18 business days. Most of the disbursements exceeded the time limit by one or two business days. Further, we found that for all of fiscal year 2001-02 the Department of Finance calculated for the Substance Abuse Prevention and Treatment Block Grant program a weighted average of 7.02 days from when federal funds were deposited in a State account to when the funds were disbursed. For the disbursements we reviewed, DADP correctly reported the number of days from the deposit to the disbursement. However, because DADP did not consistently use the appropriate funding technique, the State incurred a \$103,000 interest liability to the federal government.

## **RECOMMENDATIONS**

DADP should implement procedures to ensure it uses the appropriate funding technique correctly. In addition, DADP should seek to minimize the time between the receipt and disbursement of federal funds. If DADP determines that the funding technique is no longer appropriate, it should request a change to the Treasury-State agreement.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

DADP will review its funding technique procedures and implement any necessary procedures, which, depending on the outcome of its review, may include a request to change the Treasury-State agreement.

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Reference Number:	2002-3-13
Federal Catalog Number:	93.667
Federal Program Title:	Social Services Block Grant
Federal Award Numbers and Calendar Years Awarded:	G-0101CASOSR; 2000 G-0201CASOSR; 2001
Category of Finding:	Cash Management
State Administering Department:	Department of Social Services

## **CRITERIA**

Our review of the Social Services Block Grant program identified the following compliance requirements related to cash management:

The Code of Federal Regulations, Title 31, Part 205.7(b), requires the State to minimize the time between the transfer of funds from the U.S. Treasury and the disbursement of these funds for program purposes. Section 205.9 allows the State to enter into a Treasury-State agreement to set forth the terms and conditions for implementing this requirement. This agreement states that when the Department of Social Services (Social Services) issues payments to service providers and to state and local agencies for the Social Services Block Grant program it will use the “pre-issuance” funding technique. When using the pre-issuance technique, state agencies must make every effort to request federal funds so that they are deposited in a state account no more than two business days before the day the State makes a disbursement. The agreement also recognizes that because of variances in processing time, the two-day deposit requirement will be met for the majority, but not all, of the fund requests. Further, Section 205.17 states that the federal government may deny payment or credit for any federal interest liability resulting from the State’s repeated failure to request funds according to the funding technique set forth in the agreement.

## **CONDITION**

Social Services repeatedly failed to meet the two-day deposit requirement described in the agreement. Specifically, Social Services met the two-day deposit requirement for only seven (19 percent) of the 36 expenditures we tested. For the remaining 29 expenditures, the time elapsing from the deposit of federal funds to their disbursement ranged from six to 21 days; in one instance, the disbursement occurred 80 days after the deposit.

This situation occurred primarily for payments for the Social Services Block Grant’s in-home support services component. Specifically, Social Services deposited \$35.6 million in two separate transactions. The \$35.6 million represents 97 percent of the Social Services Block Grant funds budgeted for this component. These deposits occurred during the third and fourth quarters of the fiscal year. However, this component operates continuously throughout the fiscal year. The first deposit totaling \$18 million occurred on February 5, 2002, and the second totaling \$17.6 million on April 26, 2002. Social Services then processed claim schedules daily until it had completely used the deposit balances. For example, the last payment for the second deposit occurred on May 17, 2002, 21 days after the initial deposit date. Further, Social Services did not implement an adequate system to ensure it met the two-day deposit requirement even though it has systems in place for other programs it administers that are also subject to the two-day deposit requirement. Specifically, Social Services did not attach a yellow cover sheet to Social Services Block Grant claim schedules for the 36 transactions we reviewed, including the in-home support services component, as requested by the Department of Finance (Finance). The yellow cover sheet was developed by the State Controller’s Office to ensure disbursements within two days of the deposit of federal funds. For all of these payments, Finance has used the correct deposit and disbursement data in its calculation of interest liability. However, when Social Services does not consistently use the agreed-upon technique, the federal government may not pay its resulting interest liability.

## RECOMMENDATIONS

To ensure that it meets the two-day deposit requirement for the Social Services Block Grant, Social Services should implement the agreed-upon funding technique. If Social Services determines that the agreed-upon funding technique is no longer appropriate, it should request a change to the Treasury-State agreement.

## DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Social Services concurs with the recommendation and will adhere to the Treasury-State Agreement established new reporting requirements for the Social Services Block Grant (SSBG) under the Cash Management Improvement Act (CMIA) effective July 1, 2001. Previous Treasury-State agreements restricted the State to only 1/13<sup>th</sup> of the SSBG quarterly grant award per week, but held both the State and Federal governments as interest neutral. Social Services found the limited funds access created significant cash management difficulties and requested the agreement be revised. In implementing the new reporting requirements, however, Social Services found the traditional CMIA funding technique does not accurately represent the true funding aspects of each SSBG program, such as is the case of the in-home support services program. Basically, the in-home support services program is funded primarily by the state general fund in the first instance, thus negating any interest liability to the federal government. Traditional CMIA reporting did not lend itself to capturing the true funding for this program without creating additional administrative burden for both Social Services staff and the State Controller's Office staff. Social Services has discussed this matter with Finance and Finance recommended that prior to the approval of the next Treasury-State Agreement, Social Services should meet with Finance to review other funding techniques that may be more appropriate for these types of payments and to look at implementing different funding techniques for each program funded by SSBG.

In addition, the Social Services Fund Accounting and Reporting Bureau (FARB) is now including the yellow cover sheet for SSBG payments when they are transferred to the State Controller's Office. Procedures for the cover sheet are also included in the FARB's CMIA Procedures Manual.

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Reference Number:	2002-9-5
Category of Finding:	Suspension and Debarment
State Administering Department:	Department of Aging

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

## **CRITERIA**

Our review of the Special Programs for the Aging—Title III, Part B, Grants for Supportive Services and Senior Centers, and Special Programs for the Aging—Title III, Part C, Nutrition Services (aging programs) identified the following compliance requirements related to suspension and debarment:

The Code of Federal Regulations, Title 45, Section 76.225(a), prohibits the State from knowingly doing business with any party that is suspended, debarred, or otherwise ineligible to participate in federal assistance programs. Further, Section 76.510(b) requires the State to obtain signed certifications from participating organizations regarding suspension, debarment, ineligibility, and voluntary exclusion.

## **CONDITION**

The Department of Aging (Aging) does not have a process to determine whether its subrecipients are suspended or debarred from participating in federal programs. Specifically, Aging did not verify whether any of its 33 subrecipients that participated in the aging programs were suspended or debarred during fiscal year 2001-02. Aging provided these subrecipients approximately \$60 million in federal funding during fiscal year 2001-02. When Aging does not verify a subrecipient's suspension and debarment status, it risks unknowingly allowing suspended or debarred parties to inappropriately participate in federal programs. For the 10 subrecipients we reviewed, we used an alternative test to determine that they were not suspended or debarred.

## **RECOMMENDATION**

Aging should implement procedures to ensure that it obtains the necessary suspension and debarment certificates from subrecipients before it approves their participation in federal programs.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Aging agrees with the finding and will implement procedures to ensure that subrecipients are not suspended or debarred.

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

Federal Catalog Number: 93.044  
Federal Program Title: Special Programs for the Aging—Title III, Part B  
Grants for Supportive Services  
and Senior Centers  
Federal Award Numbers and  
Calendar Years Awarded: 02-01-AA-CA-1320; 2000  
02-02-AA-CA-1320; 2001

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Federal Catalog Number: 93.045  
Federal Program Title: Special Programs for the Aging—Title III, Part C  
Nutrition Services  
Federal Award Numbers and  
Calendar Years Awarded: 02-01-AA-CA-1712; 2000  
02-01-AA-CA-1713; 2000  
02-02-AA-CA-1712; 2001  
02-02-AA-CA-1713; 2001

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Reference Number: 2002-12-7  
Federal Catalog Number: 93.994  
Federal Program Title: Maternal and Child Health Services Block  
Grant to the States  
Federal Award Numbers and  
Calendar Years Awarded: 6B04MC00336-04; 2000  
6B04MC00336-05; 2001  
Category of Finding: Reporting  
State Administering Department: Department of Health Services

### CRITERIA

Our review of the Maternal and Child Health Services Block Grant to the States (program) determined that the following compliance requirements apply to reporting:

The United States Code, Title 42, Section 706(a), requires the State to prepare and submit an annual report concerning its program activities. This annual report must contain accurate information pertaining to the description of such activities, a complete record of the purposes for which the funds were spent, and a description of the extent

to which the State has met certain program goals. Additionally, federal guidelines for completing the report allow the use of estimates if actual numbers are unavailable, but require the State to explain all estimates in a footnote.

## **CONDITION**

The Department of Health Services (Health Services) does not always use complete data in its annual program report to the U.S. Department of Health and Human Services nor does it always disclose its use of estimates. Specifically, the expenditure data included in the program report relies, in part, on information from an annual report from the Child Health and Disability Prevention (CHDP) program. The CHDP program report discloses that the expenditures for the nearly 2.2 million children it serves are understated because the CHDP program does not collect expenditure data for approximately 735,000 children that are served by Medicaid managed care providers. Further, in reporting the primary sources of health coverage for children with special health care needs, Health Services did not disclose that it used average caseloads from county administrative claims to estimate the number of children served.

When Health Services does not report complete data and does not identify and explain all estimates that it uses in its annual report to the federal government, the U.S. Department of Health and Human Services may be unable to make a sound assessment of the program's success in enhancing the well-being of mothers and children.

## **RECOMMENDATIONS**

In its annual report to the U.S. Department of Health and Human Services, Health Services should either provide complete numbers or use estimates if actual numbers are unavailable. Additionally, Health Services should identify and explain all estimates that it uses.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Health Services concurs with the findings and recommendation. In future reports to the U.S. Department of Health and Human Services made pursuant to Section 706(a) of Title 42 of the United States Code that utilize information from the annual report of the Child Health and Disability Prevention Program, actual caseload and expenditure data will be utilized when available. When caseload or expenditure numbers that are estimates are utilized, these numbers will be footnoted to characterize them as estimates and an explanation of the reason and basis for the estimate will be provided.

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Reference Number:	2002-12-8
Federal Catalog Number:	93.568
Federal Program Title:	Low-Income Home Energy Assistance
Federal Award Numbers and Calendar Years Awarded:	G-00B1CALIEA; 2000 G-0101CALIE3; 2000 G-01B2CALIEA; 2000
Category of Finding:	Reporting
State Administering Department:	Department of Community Services and Development

## **CRITERIA**

Our review of the Low-Income Home Energy Assistance program determined that the following compliance requirements relate to reporting:

The Code of Federal Regulations, Title 45, Section 96.82, requires the State to submit annually to the U.S. Department of Health and Human Services the data required by the United States Code, Title 42, Section 8624(c)(1)(G). These data are for the 12-month period corresponding to the federal fiscal year preceding the fiscal year for which funds are requested. Under the requirements of Section 8624(c)(1)(G), the State must prepare and submit a plan that reports the number and income levels of households that apply for assistance and the number that are assisted with federal funds. Further, the State must report the number of households assisted that have one or more members who are at least 60 years old, have one or more members who are disabled, and have one or more young children.

## **CONDITION**

In its Low-Income Home Energy Assistance Program Household report (report) for federal fiscal year 2001, the Department of Community Services and Development (Community Services) did not accurately report the number of the households it served and the demographics of these households.

Specifically, Community Services did not require its subrecipients to report the demographic information for the number of households served under the home-energy assistance and winter/year-around-crisis components of the program in one large service area from October 2000 through January 2001. Although Community Services disclosed the total number of households served in this area as a footnote in the report, the amounts were incorrect. For example, it reported that it

assisted 4,729 households under the home-energy assistance component and 790 households under the winter/year-around-crisis component, when it actually assisted 5,466 households and 53 households, respectively.

Further, Community Services reported that it assisted 7,707 households with at least one member who is 60 years or older under the winter/year-around-crisis component when it actually assisted 10,286 households.

When Community Services does not report the correct information, the federal government does not have accurate data on households receiving assistance under the Low-Income Home Energy Assistance program.

## **RECOMMENDATIONS**

Community Services should require its subrecipients to report demographic data, and it should ensure it accurately reports the number of households receiving assistance and the correct demographic data under each program component in its annual report.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

As required by the United States Code, Title 42, Section 8624(c)(1)(G), Community Services mandates that all Low Income Home Energy Assistance Program (LIHEAP) Service Providers report LIHEAP demographic data for the number of households receiving assistance. During California's energy crisis, the federal government released a series of LIHEAP Emergency Contingency Funds (ECF) in response to a sudden rise in fuel prices. In particular, Southern California was impacted severely and Community Services contracted with three LIHEAP Service Providers to provide immediate cash assistance benefits. To immediately execute the intended use of these emergency funds, and to meet the immediate energy crisis-related needs of the low-income population in Southern California, Community Services considered two possible options: (1) Utilize the California LIHEAP Automated Service System (CLASS) extranet database (that networks Community Services and LIHEAP Service Providers) to collect data and issue cash assistance benefits. Implementation of this option would require Community Services to reprogram the CLASS system and delay the disbursement of ECF-LIHEAP funds an additional two to three months. (2) Allow the Southern California LIHEAP Service Providers to administer the cash assistance program directly with utility companies without utilizing the CLASS system. Because of the emergency nature of these funds, and the need to disburse funds as quickly as possible to service clients in crisis, Community Services selected option two. As a result, the LIHEAP Service Providers captured the demographic data at the local level, but were not required to report this data to Community Services for this particular ECF-LIHEAP funding release. While the specific demographic data was not reported, Community Services did report the overall additional households served to the U. S. Department of Health and Human Services as a footnote on the 2001 Household Report.

Subsequently, for the third, fourth, and fifth releases of ECF-LIHEAP funds, Community Services reprogrammed CLASS to allow the LIHEAP Services Providers to utilize CLASS to capture and report household and demographic data.

In addition, Community Services will ensure that all demographic data accurately reflects the number of households receiving assistance, and that the correct demographic data is collected and reported under each program component in its annual report.

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Reference Number:	2002-13-7
Federal Catalog Number:	93.569
Federal Program Title:	Community Services Block Grant
Federal Award Numbers and Calendar Years Awarded:	G-99B1CACOSR; 1998 G-00B1CACOSR; 1999 G-01B1CACOSR; 2000
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Community Services and Development

## **CRITERIA**

Our review of the Community Services Block Grant (program) identified the following compliance requirements related to subrecipient monitoring:

The United States Code, Title 42, Section 9914 (a)(1), requires the State to conduct at least once every three years a full on-site review of each subrecipient that receives program funds to ensure they meet the performance goals and administrative and financial requirements of the program.

To implement this requirement, the Department of Community Services and Development (Community Services) has developed a monitoring policy that requires it to inform subrecipients of deficiencies identified during on-site reviews and requires the subrecipients to respond with a corrective action plan within 30 days or other agreed-upon time of receiving the monitoring report detailing the deficiencies. The policy also requires Community Services to send letters to its subrecipients at 30 days and 60 days after the due date when it does not receive corrective action plans and to maintain a tracking status report to document its communications with the subrecipient. Should the subrecipient not respond within 90 days after the due date,

the policy requires Community Services to send a letter signed by its deputy director and requires the subrecipient to respond to the letter within 10 days. If the subrecipient does not respond within the 10-day period, the monitoring report with the related reminder letters are referred to Community Services' chief deputy director for disposition.

## **CONDITION**

Community Services did not always require its subrecipients to develop and implement corrective action plans within 30 days or other agreed-upon times when it identified deficiencies during on-site reviews. Specifically, 15 of the 20 reports of on-site visits we reviewed contained deficiencies that required corrective action plans. However, Community Services received only seven within the agreed-upon time and received the remaining eight corrective action plans from five to 359 days late. Although we noted that Community Services sends letters to its subrecipients at 30 days and 60 days after the due date when it does not receive corrective action plans, it could only provide evidence of its contacting five of the subrecipients for which it had not received corrective action plans within the agreed-upon time.

The majority of the deficiencies noted in the on-site reviews include board member vacancies, late reporting, and inadequate appeal procedures. However, these deficiencies do not appear to require a complex corrective action plan that would take an extended amount of time to prepare. For example, a corrective action plan for a board member vacancy could include a recruitment and selection process plan with timelines for filling vacant positions, which could be prepared within the agreed-upon time. However, Community Services received only six of the 13 corrective action plans addressing board member vacancy deficiencies within the agreed-upon time.

When Community Services does not receive corrective action plans promptly, it cannot ensure that its subrecipients administer their programs in compliance with the performance goals and administrative and fiscal requirements of the grant.

## **RECOMMENDATION**

To ensure that its subrecipients meet the performance goals and administrative and financial requirements of the program, Community Services should more closely follow its monitoring policy to ensure its subrecipients submit corrective action plans within the agreed-upon time.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

During the 1999, 2000, and 2001 program years, the Community Services Field Operations Unit encountered a high turnover in staff, specifically in the area in which the Bureau of State Audits identified the audit finding. Community Services recognizes that during these program years, follow-up to responses of corrective actions and approval was not always done in a timely manner by field representatives.

Since 2002, the Unit has maintained almost full staffing of field representatives, and has been able to monitor its contractors in accordance with the established Monitoring Process and Procedures, to ensure that they meet appropriate standards, goals, and administrative and financial requirements of the Community Services Block Grant program. In the future, Field Operations Unit will adhere to its internal Monitoring Policies and Procedures and ensure that responses to corrective actions are submitted by contractors within the timeframe agreed upon.

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Reference Number:	2002-14-3
Federal Catalog Number:	93.778
Federal Program Title:	Medical Assistance Program
Federal Award Numbers and Calendar Years Awarded:	05-0105CA5028; 2001 05-0205CA5028; 2002
Category of Finding:	Special Tests and Provisions
State Administering Department:	Department of Health Services

## **CRITERIA**

Our review of the Medical Assistance Program (Medicaid) identified the following compliance requirements related to special tests and provisions:

The Code of Federal Regulations, Title 45, Section 95.621, requires the State to conduct a biennial security review of automatic data processing systems used in the administration of Health and Human Services programs.

## **CONDITION**

The Department of Health Services (Health Services) did not review the security of its automatic data processing systems biennially as required. Each year, independent auditors review different components of the automated system used to process claims submitted by Medicaid service providers so that a complete review of system security is done every three years, rather than every two years as required by federal regulations. With less frequent system security reviews, Health Services has reduced assurance that its automatic data processing systems are adequately protected, since potential exceptions may go unnoticed or unresolved for longer periods of time.

## **RECOMMENDATION**

Health Services should revise the approach it uses to conduct the review of its automated system in order to achieve a biennial, rather than a triennial, security review.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Health Services agrees with the recommendation and will conduct biennial security reviews as required by the Code of Federal Regulations, Title 45, Section 95.621. Health Services is in the process of changing the scope of an annual review to include security reviews every two years, instead of every three years.

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Reference Number:	2002-14-5
Federal Catalog Number:	93.778
Federal Program Title:	Medical Assistance Program
Federal Award Numbers and Calendar Years Awarded:	05-0105CA5028; 2001 05-0205CA5028; 2002
Category of Finding:	Special Tests and Provisions
State Administering Department:	Department of Health Services

## **CRITERIA**

Our review of the Medical Assistance Program (Medicaid) identified the following compliance requirements related to medical service providers:

The Code of Federal Regulations, Title 42, Section 431.107, requires the State to provide for an agreement between each provider and the state agency administering the Medicaid program. The provider must agree to disclose certain information, including any ownership or controlling interest in any other entity that is paid Medicaid funds, as outlined in sections 455.104 through 455.106. Further, Section 455.104 requires providers to submit their disclosures when their facilities are surveyed or before they enter into agreements to participate in Medicaid.

## **CONDITION**

The Department of Health Services (Health Services) does not have adequate controls over provider agreements. Specifically, our review revealed that Health Services could not provide agreements for six of 31 providers we reviewed. Further, Health Services could not provide any disclosure information for six providers. Other testing we performed identified an additional provider for which Health Services could not provide disclosure information. When Health Services cannot demonstrate that it obtained the required provider agreements and disclosures, it cannot ensure that it made Medicaid claim payments only to authorized providers.

Health Services said it has developed an expanded provider agreement and is continuing the process of re-enrolling existing providers. Because approximately 135,000 providers exist, Health Services prioritized its re-enrollment process and started to re-enroll higher-risk providers in June 1999. Health Services estimates that it has re-enrolled about 770 providers and placed another 820 on inactive status.

## **RECOMMENDATION**

Health Services should continue with its re-enrollment process of renewing provider files so that provider agreements, disclosure of significant beneficial interest, and other pertinent provider information is reasonably current.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Health Services agrees with the recommendation. With the passage of the Governor's Budget for fiscal year 2002-03, and the approval of 20 new positions, Health Services established a new Re-Enrollment Section within Payment Systems Provider Enrollment Branch to fully expand the anti-fraud activities and incorporate the re-enrolling of all provider types on a rotating basis with a focus on pharmacy providers.

Additionally, new business entity emergency regulations were enacted on February 4, 2003, that expand business disclosure and insurance information requirements for all providers and the Provider Enrollment Branch began the first phase of the re-enrollment process and mail-outs to 328 pharmacies and 300 physicians. The second phase will focus on re-enrolling all provider types on a rotating basis.

## U.S. SOCIAL SECURITY ADMINISTRATION

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Reference Number:	2002-3-12
Federal Catalog Number:	96.001
Federal Program Title:	Social Security—Disability Insurance
Federal Award Numbers and Calendar Years Awarded:	0104CADI00; 2000 0204CADI00; 2001
Category of Finding:	Cash Management
State Administering Department:	Department of Social Services

### CRITERIA

We determined that the following requirements relate to compliance with the Cash Management Improvement Act Agreement (CMIA agreement) between the U.S. Department of the Treasury and the State:

The CMIA agreement, sections 9.4.1 and 9.6.1, establishes requirements for calculating the State's interest liability. Sections 9.4.3 and 9.6.2 provide the methods for calculating this interest liability.

### CONDITION

The Department of Finance (Finance) requires state departments to report information related to the receipt and disbursement of federal funds so that Finance can calculate the State's interest liability under the CMIA agreement. However, our review of the worksheet that the Department of Social Services (Social Services) submitted to Finance for the Social Security—Disability Insurance program found that Social Services did not always accurately report its draw amounts or dates for three of the five draw downs on one quarterly worksheet.

Specifically, Social Services reported that it drew down \$16 million on May 24, 2002, when it actually drew down \$16.5 million. For another draw down occurring two weeks later, Social Services reported that it drew down \$14 million when it actually drew down \$13.5 million. Social Services also incorrectly reported the date of the draw down as June 25, 2002, instead of June 7, 2002. In another instance, Social Services reported that it drew \$993,715 on May 25, 2002, instead of May 28, 2002. When Social Services does not accurately report the dates and the amount of funds drawn, it causes Finance to incorrectly calculate the amount of the State's interest liability. If Finance had left these errors uncorrected, it would have understated the State's interest liability by \$15,501.

## **RECOMMENDATION**

Social Services should ensure that the quarterly worksheets it submits to Finance accurately report draw amounts and dates.

## **DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Social Services concurs with the recommendation. Recent changes and expansion of reporting of CMIA costs for state operation activities had created confusion and inconsistency in how staff was to report draws and offsets. Since the time of this finding, staff has attended CMIA training on August 29, 2002, and has held a separate discussion with the Department of Finance Fiscal Systems and Consulting unit staff responsible for CMIA in October 2002 to clarify reporting policies. The Social Services Fund Accounting and Reporting Bureau has also developed a more detailed CMIA procedure manual to further assist staff in the reporting of various situations encountered. The manual specifically states that the "draw" amount on the Administrative Cost Worksheet should equal the amount drawn per the "Plan of Financial Adjustment" process. Instructions for the "date" specify that this should be the date posted by the State Controller's Office. Our compliance with these instructions will eliminate this finding in the future, however, it is to be noted that reporting of CMIA amounts and dates represent a manual posting of a quarter's federal draws and unfortunately are subject to key data errors, especially in the case of transaction dates.

## **AUDITEE'S SECTION**

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## **Schedule of Federal Assistance**

**Prepared by  
Department of Finance**

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**STATE OF CALIFORNIA  
SCHEDULE OF FEDERAL ASSISTANCE  
FISCAL YEAR ENDED JUNE 30, 2002**

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
<b>Department of Agriculture</b>		
Market Protection and Promotion	10.163	\$ 435,075
Farm Labor Housing Loans and Grants	10.405	1,060,890
Food Distribution	10.550	98,762,199 *
Special Supplemental Food Program for Women, Infants, and Children	10.557	761,503,870
Child and Adult Care Food Program	10.558	216,505,105
State Administrative Expenses for Child Nutrition	10.560	17,043,376
Commodity Supplemental Food Program	10.565	2,322,921
Nutrition Program for the Elderly	10.570	12,113,287
WIC Farmers' Market Nutrition Program (FMNP)	10.572	1,803,110
Team Nutrition Grants	10.574	155,122
Cooperative Forestry Assistance	10.664	1,180,979
National Forest-Dependent Rural Communities	10.670	593,027
Rural Business Enterprise Grants	10.769	98,653
Wildlife Habitat Incentive Program	10.914	563
Specialty Crops	10.999	63,820,000
Other - U.S. Department of Agriculture	10.999	<u>16,516,499</u>
<b>Total Excluding Clusters</b>		1,193,914,676
<b>Food Stamp Cluster</b>		
Food Stamps	10.551	1,619,714,000 *
State Administrative Matching Grants for Food Stamp Program	10.561	<u>287,377,404</u>
<b>Total Food Stamp Cluster</b>		1,907,091,404
<b>Child Nutrition Cluster</b>		
School Breakfast Program	10.553	202,426,134
National School Lunch Program	10.555	806,599,240
Special Milk Program for Children	10.556	825,378
Summer Food Service Program for Children	10.559	<u>20,290,008</u>
<b>Total Child Nutrition Cluster</b>		1,030,140,760

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
<b>Emergency Food Assistance Cluster</b>		
Emergency Food Assistance Program	10.568	7,979,023
Emergency Food Assistance (commodities)	10.569	<u>66,921,000</u> *
<b>Total Emergency Food Assistance Cluster</b>		74,900,023
<b>Research &amp; Development Cluster</b>		
USDA/Agricultural Research Service	10.001	10,423 **
<b>Schools and Roads Cluster</b>		
Schools and Roads Cluster - Grants to States	10.665	<u>61,908,622</u>
<b>Total U.S. Department of Agriculture</b>		<u><u>4,267,965,908</u></u>
<b>Department of Commerce</b>		
Economic Development-Support for Planning Organizations	11.302	100,000
Sudden and Severe Economic Dislocation	11.311	15,016,422 ***
Anadromous Fish Conservation Act Program	11.405	399,996
Interjurisdictional Fisheries Act of 1986	11.407	120,354
Coastal Zone Management Administration Awards	11.419	3,466,130
Coastal Zone Management Estuarine Research Reserves	11.420	289,254
Marine Sanctuary Program	11.429	28,245
Pacific Coast Salmon Recovery-Pacific Salmon Treaty Program	11.438	1,488,007
Habitat Conservation	11.463	88,058
Office of Administration Special Programs	11.470	2,360
Technology Opportunities	11.552	52,115
Other - U.S. Department of Commerce	11.999	<u>92,576</u>
<b>Total Excluding Clusters</b>		21,143,517
<b>Research &amp; Development Cluster</b>		
Office of Administration Special Programs	11.470	<u>3,152</u>
<b>Total U.S. Department of Commerce</b>		<u><u>21,146,669</u></u>

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
<b>Department of Defense</b>		
Planning Assistance to States	12.110	750,000
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113	7,434,589
National Guard Military Operations and Maintenance - (O&M) Projects	12.401	<u>56,129,243</u>
<b>Total Excluding Clusters</b>		64,313,832
<b>Research &amp; Development Cluster</b>		
Aquatic Plant Control	12.100	<u>149,580</u>
<b>Total U.S. Department of Defense</b>		<u><u>64,463,412</u></u>
<b>Department of Housing and Urban Development</b>		
Manufactured Home Construction and Safety Standards	14.171	179,660
Community Development Block Grants/State's Program	14.228	48,554,516
Emergency Shelter Grants Program	14.231	5,038,105
Supportive Housing Program	14.235	5,450,460 ***
HOME Investment Partnerships Program	14.239	69,136,187 ***
Housing Opportunities for Persons with AIDS	14.241	2,143,767
Equal Opportunity in Housing	14.400	2,591,193
Lead-Based Paint Hazard Control Priority Housing	14.900	<u>357,111</u>
<b>Total Excluding Clusters</b>		133,450,999
<b>Section 8 Project-Based Cluster</b>		
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	71,348
<b>Section 8 Tenant-Based Cluster</b>		
Section 8 Rental Voucher Program	14.855	<u>2,871,887</u>
<b>Total U.S. Department of Housing and Urban Development</b>		<u><u>136,394,234</u></u>

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
<b>Department of the Interior</b>		
Small Reclamation Projects	15.503	288,101
Anadromous Fish Conservation	15.600	21,924
Environmental Contaminants	15.607	30,834
Fish and Wildlife Management Assistance	15.608	593,098
Endangered Species Conservation	15.612	217,279
Coastal Wetlands Planning, Protection and Restoration Act	15.614	1,539,146
Cooperative Endangered Species Conservation Fund	15.615	2,983,307
Clean Vessel Act	15.616	590,000
Wildlife Conservation and Appreciation	15.617	32,000
Geological Survey-Research and Data Acquisition	15.808	152,074
Historic Preservation Fund Grants-In-Aid	15.904	1,193,013
Outdoor Recreation-Acquisition, Development and Planning	15.916	2,653,130
Native American Graves Protection and Repatriation	15.922	4,497
Research Information	15.975	190,028
Other - U.S. Department of the Interior	15.999	<u>27,611,406</u>
<b>Total Excluding Clusters</b>		38,099,837
<b>Fish and Wildlife Cluster</b>		
Sport Fish Restoration	15.605	10,442,403
Wildlife Restoration	15.611	<u>5,499,511</u>
<b>Total Fish and Wildlife Cluster</b>		15,941,914
<b>Research and Development Cluster</b>		
Anadromous Fish Conservation	15.600	13,313
Fish and Wildlife Management Assistance	15.608	173,686
Coastal Wetlands Planning, Protection and Restoration Act	15.614	3,414
Cooperative Endangered Species Conservation Fund	15.615	<u>11,620</u>
<b>Total Research and Development Cluster</b>		<u>202,033</u>
<b>Total U.S. Department of the Interior</b>		<u>54,243,784</u>
<b>Department of Justice</b>		
State Domestic Preparedness Equipment Support Program	16.007	1,835,140
Juvenile Accountability Incentive Block Grants	16.523	28,429,816
Juvenile Justice and Delinquency Prevention-Allocation to States	16.540	12,010,195

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
Juvenile Justice and Delinquency Prevention - Special Emphasis	16.541	6,012,241
Part E-State Challenge Activities	16.549	1,641,309
National Criminal History Improvement Program	16.554	6,195,908
National Sex Offender Registry Assistance	16.555	716,181
Crime Laboratory Improvement-Combined Offender DNA Index System Backlog Reduction	16.564	389,463
Crime Victim Assistance	16.575	50,063,105
Crime Victim Compensation	16.576	32,819,000
Byrne Formula Grant Program	16.579	54,138,523
Drug Court Discretionary Grant Program	16.585	244,996
Violent Offender Incarceration and Truth in Sentencing Incentive Grants	16.586	43,997,820
Violence Against Women Formula Grants	16.588	16,771,470
Rural Domestic Violence and Child Victimization Enforcement Grant Program	16.589	2,842,046
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	16.590	100,824
Local Law Enforcement Block Grants Program	16.592	1,189,623
Residential Substance Abuse Treatment for State Prisoners	16.593	5,405,076
Corrections-Research and Evaluation and Policy Formulation	16.602	492,077
State Criminal Alien Assistance Program	16.606	301,327,998
Bulletproof Vest Partnership Program	16.607	1,275,000
Regional Information Sharing Systems	16.610	3,934,137
Public Safety Partnership and Community Policing Grants ("COPS" Grants)	16.710	9,184,802
Other - U.S. Department of Justice	16.999	<u>1,215,549</u>
<b>Total Excluding Clusters</b>		<b>582,232,299</b>
 <b>Research and Development Cluster</b>		
Violence Against Women Formula Grants	16.588	<u>10,487</u>
 <b>Total U.S. Department of Justice</b>		 <u><b>582,242,786</b></u>

**Department of Labor**

Labor Force Statistics	17.002	7,342,932
Compensation and Working Conditions Data	17.005	939,438
Labor Certification for Alien Workers	17.203	6,420,827
Unemployment Insurance	17.225	5,225,800,893
Senior Community Service Employment Program	17.235	7,380,422

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
Trade Adjustment Assistance-Workers	17.245	11,077,264
Employment Services and Job Training - Pilot and Demonstration Programs	17.249	4,176,668
Welfare-to-Work Grants to States and Localities	17.253	89,193,838
Workforce Investment Act	17.255	300,682,731
Occupational Safety and Health-State Program	17.503	22,712,427
Consultation Agreements	17.504	4,948,221
Mine Health and Safety Grants	17.600	143,373
Veterans' Employment Program	17.802	939,474
Other-U.S. Department of Labor	17.999	<u>91,106</u>
<b>Total Excluding Clusters</b>		5,681,849,614
<b>Employment Services Cluster</b>		
Employment Service	17.207	83,750,175
Disabled Veterans' Outreach Program	17.801	11,343,673
Local Veterans' Employment Representative Program	17.804	<u>6,924,996</u>
<b>Total Employment Services Cluster</b>		102,018,844
<b>WIA CLUSTER</b>		
WIA Adult Program	17.258	93,071,837
WIA Youth Activities	17.259	99,162,513
WIA Dislocated Workers	17.260	<u>105,605,752</u>
<b>Total WIA Cluster</b>		297,840,102
<b>JTPA Cluster</b>		
Employment and Training Assist - Dislocated Workers	17.246	5,307,380
Job Training Partnership Act	17.250	<u>4,432,320</u>
<b>Total JTPA Cluster</b>		<u>9,739,700</u>
<b>Total U.S. Department of Labor</b>		<u>6,091,448,260</u>
<b>Department of Transportation</b>		
Boating Safety Financial Assistance	20.005	3,855,067
Airport Improvement Program	20.106	373,003
Motor Carrier Safety	20.217	9,744,133
Local Rail Freight Assistance	20.308	969,212
Federal Transit - Metropolitan Planning Grants	20.505	45,101,563
Formula Grants for Other Than Urbanized Areas	20.509	10,596,656

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
Pipeline Safety	20.700	886,684
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	<u>922,971</u>
<b>Total Excluding Clusters</b>		72,449,289
<b>Highway Planning and Construction Cluster</b>		
Highway Planning and Construction	20.205	2,466,593,452 ***
<b>Federal Transit Cluster</b>		
Federal Transit Capital Improvement Grants	20.500	8,729,686
<b>Highway Safety Cluster</b>		
State and Community Highway Safety	20.600	43,867,594
<b>Research and Development Cluster</b>		
Highway Planning and Construction	20.205	19,429,590
Formula Grants for Other Than Urbanized Areas	20.509	154,289
State Planning and Research	20.515	<u>1,772,769</u>
<b>Total Research &amp; Development Cluster</b>		<u>21,356,648</u>
<b>Total U.S. Department of Transportation</b>		<u>2,612,996,669</u>
<b>Department of Treasury</b>		
Other - U.S. Department of Treasury	21.999	115,821
<b>Equal Employment Opportunity Commission</b>		
Employment Discrimination-State and Local Fair Employment Practices Agency Contracts	30.002	3,035,500
<b>General Services Administration</b>		
Donation of Federal Surplus Personal Property	39.003	9,757,744 **
<b>National Aeronautics and Space Administration</b>		
Technology Transfer	43.002	321,337

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
<b>National Foundation on the Arts and the Humanities</b>		
Promotion of the Arts-State and Regional Program	45.007	700,800
State Library Program	45.310	<u>15,060,007</u>
<b>Total National Foundation on the Arts and Humanities</b>		<u><u>15,760,807</u></u>
<b>Small Business Administration</b>		
Small Business Development Center	59.037	8,377,592
<b>Department of Veterans Affairs</b>		
Veterans State Domiciliary Care	64.014	9,302,620
Veterans State Nursing Home Care	64.015	7,152,299
Veterans State Hospital Care	64.016	116,420
Veterans Housing-Guaranteed and Insured Loans	64.114	411,555,951 ***
All Volunteer Force Educational Assistance	64.124	51,806
Other-U.S. Department of Veterans Affairs	64.999	<u>1,385,010</u>
<b>Total U.S. Department of Veteran's Affairs</b>		<u><u>429,564,106</u></u>
<b>Environmental Protection Agency</b>		
Air Pollution Control Program Support	66.001	202,337
State Indoor Radon Grants	66.032	229,343
Water Pollution Control-State and Interstate Program Support	66.419	6,500,276
State Underground Water Source Protection	66.433	337,892
Water Quality Management Planning	66.454	1,267,370
National Estuary Program	66.456	259,590
Capitalization Grants for State Revolving Funds	66.458	466,608,726 ***
Non-point Source Implementation Grants	66.460	9,133,759
Wetlands Grants	66.461	354,828
Water Quality-Cooperative Agreements	66.463	766,963
Capitalization Grants for Drinking Water State Revolving Fund	66.468	45,020,089 ***
Environmental Protection Consolidated Research	66.500	1,128
Safe Drinking Water Research and Demonstration	66.506	5,044,356

<b>Federal Agency/Program Title</b>	<b>Federal Catalog Number</b>	<b>Grant Amount Received</b>
Toxic Substances Research	66.507	109,844
Surveys, Studies, Investigations and Special Purpose Grants	66.606	629,083
Consolidated Pesticide Compliance Monitoring and Program Cooperative Agreements	66.700	1,448,860
Toxic Substances Compliance Monitoring Cooperative Agreements	66.701	88,339
TSCA Title IV State Lead Grants-Certification of Lead-Based Paint Professionals	66.707	799,155
Pollution Prevention Grants Program	66.708	237,316
Hazardous Waste Management State Program Support	66.801	8,887,960
Superfund State Site-Specific Cooperative Agreements	66.802	3,241,530
State and Tribal Underground Storage Tanks Program	66.804	139,255
Leaking Underground Storage Tank Trust Fund Program	66.805	3,737,818
Solid Waste Management Assistance	66.808	<u>37,715</u>
<b>Total Excluding Clusters</b>		<b>555,083,532</b>
<b>Research and Development Cluster</b>		
Wetlands Grants	66.461	75,291
Surveys, Studies, Investigations and Special Purpose Grants	66.606	17,825
Consolidated Pesticide Compliance Monitoring and Program Cooperative Agreements	66.700	475,637
Pollution Prevention Grants Program	66.708	124,080
Illness Data Enhancement	66.999	<u>65,956</u>
<b>Total Research and Development Cluster</b>		<b><u>758,789</u></b>
<b>Total U.S. Environmental Protection Agency</b>		<b><u>555,842,321</u></b>
<b>Department of Energy</b>		
State Energy Conservation	81.041	6,055,479
Weatherization Assistance for Low-Income Persons	81.042	4,750,068
Renewable Energy Research and Development	81.087	544,972
Environmental Restoration	81.092	382,406
National Industrial Competitiveness Through Energy, Environment, and Economics	81.105	613,754
Other-U.S. Department of Energy	81.999	<u>256,268</u>
<b>Total Department of Energy</b>		<b><u>12,602,947</u></b>

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
<b>Federal Emergency Management Agency</b>		
State Disaster Preparedness Grants	83.505	421,036
Earthquake Hazards Reduction Grants	83.521	76,948
Emergency Management-State and Local Assistance	83.534	119,135
Flood Mitigation Assistance	83.536	682,920
Public Assistance Grants	83.544	409,467,970
Hazard Mitigation Grant	83.548	134,341,813
Project Impact: Building Disaster Resistant Communities	83.551	45,130
Emergency Management Performance Grants	83.552	10,557,055
Pre-Disaster Mitigation	83.557	30,000
Other-Federal Emergency Management Agency	83.999	<u>853,692</u>
<b>Total Federal Emergency Management Agency</b>		<u><b>556,595,699</b></u>

**Department of Education**

Adult Education-State Grant Program	84.002	59,266,472
Title I Grants to Local Educational Agencies	84.010	1,152,384,512
Migrant Education-Basic State Grant Program	84.011	98,254,128
Title I Program for Neglected and Delinquent Children	84.013	4,134,212
Vocational Education-Basic Grants to States	84.048	112,125,377
Vocational Education-State Councils	84.053	325,498
Leveraging Educational Assistance Program	84.069	9,480,438
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	237,780,316
Rehabilitation Services-Service Projects	84.128	1,307,786
Public Library Construction and Technology Enhancement	84.154	689,648
Immigrant Education	84.162	31,535,653
Independent Living-State Grants	84.169	2,024,273
Rehabilitation Services-Independent Living Services for Older Individuals Who are Blind	84.177	1,934,493
Special Education-Grants for Infants and Families with Disabilities	84.181	42,116,701
Byrd Honors Scholarships	84.185	2,783,755
Safe and Drug-Free Schools-State Grants	84.186	52,800,511
Supported Employment Services for Individuals with Severe Disabilities	84.187	4,386,015
Bilingual Education Support Services	84.194	1,229,435
Bilingual Education-Professional Development	84.195	95,000
Education for Homeless Children and Youth	84.196	4,927,924

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
Even Start-State Educational Agencies	84.213	24,635,342
Capital Expenses	84.216	2,808,702
Assistive Technology	84.224	1,295,718
Tech-Prep Education	84.243	8,844,098
Rehabilitation Training-State Vocational Rehabilitation Unit In-Service Training	84.265	564,853
Goals 2000-State and Local Education Systematic Improvement Grants	84.276	42,066,675
School to Work Opportunities	84.278	26,490,349
Eisenhower Professional Development State Grants	84.281	43,577,680
Charter Schools	84.282	8,899,861
Foreign Language Assistance	84.293	38,536
Innovative Education Program Strategies	84.298	45,097,216
Even Start-Statewide Family Literacy Program	84.314	548,923
Technology Literacy Challenge Fund Grants	84.318	40,891,636
Special Education-State Program Improvement Grants for Children with Disabilities	84.323	1,784,244
Advanced Placement Incentive Program	84.330	150,681
Grants to States for Incarcerated Youth Offenders	84.331	1,718,401
Comprehensive School Reform Demonstration	84.332	23,162,925
Teacher Quality Enhancement Grants	84.336	2,159,975
Reading Excellence	84.338	24,937,846
Class Size Reduction	84.340	84,603,692
Preparing Tomorrow's Teachers to Use Technology	84.342	<u>733,968</u>
<b>Total Excluding Clusters</b>		2,204,593,468
<b>Student Financial Aid Cluster</b>		
Federal Family Education Loans	84.032	22,324,502,953 ***
<b>Special Education Cluster</b>		
Special Education - Grants to States	84.027	637,663,323
Special Education - Preschool Grants	84.173	<u>57,626,472</u>
<b>Total Special Education Cluster</b>		<u>695,289,795</u>
<b>Total U.S. Department of Education</b>		<u>25,224,386,216</u>
<b>Consumer Product Safety Commission</b>		
Other-Consumer Product Safety Commission	87.999	51,725

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
<b>Department of Health and Human Services</b>		
Special Programs for the Aging-Title VII, Chapter 3-Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041	460,295
Special Programs for the Aging-Title VII, Chapter 2-Longterm Care Ombudsman Services for Older Individuals	93.042	889,200
Special Programs for the Aging-Title III, Part F-Disease Prevention and Health Promotion Services	93.043	1,791,928
Special Programs for the Aging-Title IV, Training, Research and Discretionary Projects and Programs	93.048	543,016
National Family Caregiver Support	93.052	5,175,742
Food and Drug Administration-Research	93.103	1,350,199
Maternal and Child Health Federal Consolidated Programs	93.110	94,842
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	7,810,464
Grants for Technical Assistance Activities Related to the Block Grant for Community Mental Health Services-Technical Assistance Centers for Evaluation	93.119	61,387
Emergency Medical Services for Children	93.127	99,537
Primary Care Services-Resource Coordination and Development Primary Care Offices	93.130	211,135
Injury Prevention and Control Research and State and Community Based Programs	93.136	144,608
Projects for Assistance in Transition from Homelessness	93.150	4,990,421
Health Program for Toxic Substances and Disease Registry	93.161	841,214
Grants for State Loan Repayment	93.165	911,847
Demonstration Cooperative Agreements for Development and Implementation of Criminal Justice Treatment Networks	93.229	813,350
Consolidated Knowledge Development and Application Program	93.230	23
Traumatic Brain Injury-State Demonstration Grant Program	93.234	27,884
Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	93.238	425,557
Innovative Food Safety Projects	93.245	10,000
Community Access Program	93.252	630,450
Childhood Immunization Grants	93.268	263,533,328 *
Centers for Disease Control and Prevention-Investigations and Technical Assistance	93.283	3,263,270
Promoting Safe and Stable Families	93.556	43,942,711
Temporary Assistance for Needy Families	93.558	3,201,375,339
Child Support Enforcement	93.563	297,005,475
Refugee and Entrant Assistance-State Administered Programs	93.566	28,168,663
Low-Income Home Energy Assistance	93.568	67,034,045

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
Community Services Block Grant	93.569	52,744,816
Community Services Block Grant Discretionary Awards-Community Food and Nutrition	93.571	415,161
Child Care for Families At-Risk of Welfare Dependency	93.574	634,667
Refugee and Entrant Assistance-Discretionary Grants	93.576	6,170,532
U.S. Repatriation	93.579	21,522
Refugee and Entrant Assistance-Targeted Assistance	93.584	7,479,787
Empowerment Zones Program	93.585	138,909
State Court Improvement Program	93.586	913,837
Community-Based Family Resource Centers and Support Grants	93.590	2,394,346
Welfare Reform Research, Evaluations and National Studies	93.595	161,005
Grants to States for Access and Visitation Programs	93.597	1,215,365
Head Start	93.600	221,508
Adoption Incentive Payments	93.603	7,251,678
Developmental Disabilities Basic Support and Advocacy Grants	93.630	5,299,177
Children's Justice Grants to States	93.643	1,119,716
Child Welfare Services-State Grants	93.645	31,020,535
Social Services Research and Demonstration	93.647	173,907
Adoption Opportunities	93.652	302,787
Foster Care-Title IV-E	93.658	1,020,409,929
Adoption Assistance	93.659	212,709,249
Social Services Block Grant	93.667	178,125,103
Child Abuse and Neglect State Grants	93.669	1,703,728
Family Violence Prevention and Services Grants for Battered Women's Shelters-Grants to States and Indian Tribes	93.671	7,376,309
Chafee Foster Care Independent Living	93.674	34,486,945
State Children's Insurance Program	93.767	401,044,515
Medicare-Supplementary Medical Insurance	93.774	5,225,789
Centers for Medicare and Medicaid Services Research, Demonstrations and Evaluations	93.779	859,605
Grants to States for Operation of Offices of Rural Health	93.913	468,292
HIV Care Formula Grants	93.917	108,886,577
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Program	93.919	7,439,403
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	954,643
HIV Prevention Activities: Health Department Based	93.940	14,478,509
HIV Demonstration, Research, Public and Professional Education Projects	93.941	617,794

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
Epidemiological Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	93.943	589,077
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944	2,156,655
Assistance Program for Chronic Disease Prevention and Control	93.945	450,982
Demonstration Grants to States with Respect to Alzheimer's Disease	93.951	37
Block Grants for Community Mental Health Services	93.958	43,703,270
Block Grants for Prevention and Treatment of Substance Abuse	93.959	259,406,870
Preventive Health Services-Sexually Transmitted Disease Control Grants	93.977	4,745,095
Preventive Health Services- Sexually Transmitted Diseases Research, Demonstrations, and Public Information and Education Grants	93.978	1,118,748
Health Program for Refugees	93.987	571,696
Cooperative Agreements for State-Based Diabetes Control Program and Evaluation of Surveillance Systems	93.988	693,496
Preventive Health and Health Services Block Grant	93.991	15,392,236
Maternal and Child Health Services Block Grant to the States	93.994	42,877,882
Other-Department of Health and Human Services	93.999	<u>19,238,542</u>
<b>Total Excluding Clusters</b>		6,435,016,161
<b>Aging Cluster</b>		
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services & Senior Centers	93.044	33,804,639
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045	<u>49,615,438</u>
<b>Total Aging Cluster</b>		83,420,077
<b>Child Care Cluster</b>		
Child Care and Development Block Grant	93.575	622,725,060
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	<u>326,093,931</u>
<b>Total Child Care Cluster</b>		948,818,991
<b>Medicaid Cluster</b>		
State Medicaid Fraud Control Units	93.775	14,322,247
State Survey and Certification of Health Care Providers and Suppliers	93.777	31,212,646
Medical Assistance Program	93.778	<u>14,869,813,234</u>
<b>Total Medicaid Cluster</b>		14,915,348,127

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
<b>Research &amp; Development Cluster</b>		
Centers for Medicare and Medicaid Services Research, Demonstrations and Evaluations	93.779	320,000
HIV Prevention Activities-Health Department Based	93.940	<u>124,874</u>
<b>Total Research &amp; Development Cluster</b>		<u>444,874</u>
<b>Total U.S. Department of Health and Human Services</b>		<u>22,383,048,230</u>
 <b>Corporation for National and Community Service</b>		
State Commissions	94.003	1,918,439
Learn and Serve America-School and Community Based Programs	94.004	2,319,638
AmeriCorps	94.006	<u>28,946,869</u>
<b>Total Excluding Clusters</b>		33,184,946
 <b>Foster Grandparent/Senior Companion Cluster</b>		
Foster Grandparent Program	94.011	<u>1,126,357</u>
<b>Total U.S. Corporation for National and Community Service</b>		<u>34,311,303</u>
 <b>Social Security Administration</b>		
<b>Disability Insurance/SSI Cluster</b>		
Social Security-Disability Insurance	96.001	177,083,516
 <b>Office of National Drug Control Policy</b>		
High Intensity Drug Trafficking Area	See Note 4	3,108,521
 <b>Miscellaneous Grants and Contracts</b>		
Shared Revenue-Flood Control Lands	98.002	193,583
Shared Revenue-Grazing Land	98.004	115,671
Capital Outlay-Reed Act	98.012	21,224,307

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
U.S. Department of the Interior-Fire Prevention/Suppression Agreement	98.014	134,000
U.S. Department of the Interior-Fire Prevention/Suppression Agreement	98.015	125,781
U.S. Department of Agriculture and Various Other U.S. Department-Fire Prevention/Suppression	98.016	9,011,507
Miscellaneous Federal Receipts	98.099	176,342
Miscellaneous Federal Receipts	98.999	<u>1,919,832</u>
<b>Total Miscellaneous</b>		<u>32,901,023</u>
<b>Total Federal Awards Received</b>		<b><u>\$63,277,766,130</u></b>

\* Amount includes value of commodities or food stamps.

\*\* Amount includes donated property.

\*\*\* Amount includes loans and insurance in effect as of June 30, 2002.

**NOTES TO THE SCHEDULE OF FEDERAL ASSISTANCE  
FISCAL YEAR ENDED JUNE 30, 2002**

**1. GENERAL**

The accompanying State of California Schedule of Federal Assistance presents the total amount of federal financial assistance programs received by the State of California for the fiscal year ended June 30, 2002. This schedule does not include expenditures of federal grants received by the University of California, the California State University, and the California Housing Finance Agency. The expenditures of the University of California, California State University, and California Housing Finance Agency are audited by other independent auditors in accordance with the U.S. Office of Management and Budget, Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133).

The \$63,277,766,130 in total federal assistance consists of the following:

Cash assistance received	\$38,032,285,207
Noncash federal awards	2,042,966,989
Loans and/or loan guarantees outstanding	20,192,319,976
Insurance in-force	<u>3,010,193,958</u>
<b>Total</b>	<b><u>\$63,277,766,130</u></b>

**2. BASIS OF ACCOUNTING**

OMB Circular A-133 and the Single Audit Act of 1984 (Amended 1996) require the Schedule of Federal Assistance to present total expenditures for each federal assistance program. However, although the state accounting system separately identifies revenues for each federal assistance program, it does not separately identify expenditures for each program. As a result, the State prepares its Schedule of Federal Assistance on a cash receipts basis. The schedule shows the amount of cash and noncash federal assistance received, loans and loan guarantees outstanding, and insurance in force for the year ended June 30, 2002.

**3. UNEMPLOYMENT INSURANCE**

Of the \$5,225,800,893 in total unemployment insurance funds (federal catalog number 17.225) received by the Employment Development Department during fiscal year 2001-02, \$4,840,000,000 was State Unemployment Insurance funds that were drawn down from the Unemployment Trust Fund in the U.S. Treasury.

#### 4. OTHER

The California Department of Justice (DOJ) receives cash reimbursements from local law enforcement agencies under the Office of National Drug Control Policy's High Intensity Drug Trafficking Area program. During the period July 1, 2001 through June 30, 2002, the DOJ received the following cash reimbursements from pass-through entities:

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Federal Agency/Program	Pass-through Entity	Grant Number	Amount
Office of National Drug Control Policy/ High Intensity Drug Trafficking Area	City of San Diego	2002 I2PSCP575	\$ 30,817
		1999 I9PSCP575	29,650
		2000 I0PSCP575	281,906
		2001 I1PSCP575	970,898
	City of Hawthorne	2000 I0PLAP534	270,278
		2001 I1PLAP534	1,158,398
	Washington State Patrol	2001 I1PNWP505	34,875
	County of Stanislaus	2001 I1PCVP501	139,033
	County of San Mateo	2001 11PSFP502	<u>192,666</u>
		Total	<u>\$3,108,521</u>

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The State was also loaned Federal Excess Personal Property (FEPP) from the U.S. Forest Service during the period July 1, 2001 to June 30, 2002. According to the California Department of Forestry and Fire Protection, the amount loaned from July 1, 2001 to June 30, 2002, was \$1,922,514. The U.S. Forest Service and the State maintain the FEPP program at federal acquisition costs of the property.

## **Summary Schedule of Prior Audit Findings**

**Prepared by  
Department of Finance**

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## **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Reference Number:	<b>2001-12-7</b>
Federal Program:	All Programs
State Administering Department:	Department of Finance
Fiscal Year Initially Reported:	1995-96
Audit Finding:	<u>Reporting</u> . Because of limitations in its automated accounting systems, the State has not complied with the provision of OMB Circular A-133 requiring a schedule showing total expenditures for each federal program.
Status of Corrective Action:	Uncorrected. The State's accounting system will require substantial modification to comply with federal and state requirements. Given the State's current limited resources, the Department of Finance has no plans at this time to enhance the State's accounting system or to implement a new system. <sup>1</sup>
Reference Number:	<b>2001-1-1</b>
Federal Catalog Number:	10.557
State Administering Department:	Department of Health Services
Fiscal Year Finding Initially Reported:	2000-01
Audit Finding:	<u>Allowable Activities</u> . Although it has procedures in place to ensure that it obtains prior approval from the U.S. Department of Agriculture's Food and Nutrition Service for data-processing project costs exceeding \$24,999, the California Department of Health Services does not always adhere to them.
Status of Corrective Action:	Fully corrected. <sup>2</sup>
Reference Number:	<b>2001-2-2</b>
Federal Catalog Number:	10.558
State Administering Department:	Department of Education
Fiscal Year Finding Initially Reported:	2000-01
Audit Finding:	<u>Allowable Costs and Cost Principles</u> . The Department of Education (Education) overpaid a food program sponsor \$14,350 because it entered an incomplete claim adjustment into its claim payment system. Additionally, this overpayment increased the sponsor's average monthly

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reimbursement, which Education uses when calculating the allowable cash advance. As a result, Education overpaid the cash advance to the sponsor by more than \$9,550. When we brought these overpayments totaling \$23,900 to Education's attention, it recovered the claim and advance overpayments from the sponsor.

Status of Corrective Action: Fully corrected.

Reference Number: **2001-5-1**

Federal Catalog Number: 10.556; 10.559

State Administering Department: Department of Education

Fiscal Year Finding Initially Reported: 2000-01

Audit Finding: Eligibility. The Department of Education could not demonstrate the eligibility for all participants the Bureau of State Audits reviewed in the Special Milk Program for Children and Summer Food Service Program for Children.

Status of Corrective Action: Fully corrected.

Reference Number: **2001-13-2**

Federal Catalog Number: 10.558

State Administering Department: Department of Education

Fiscal Year Finding Initially Reported: 2000-01

Audit Finding: Subrecipient Monitoring. The Department of Education (Education) did not adequately fulfill its subrecipient monitoring responsibilities for the food program.

Status of Corrective Action: Partially corrected. Education has implemented procedures for pre and post approval review activities to ensure the reviews are conducted within the regulatory requirements. Education requested changes to the database to better monitor the required reviews. This should be completed by December 31, 2002. In the interim, a spreadsheet is used to track large Child and Adult Care Food Program applicants. Education's new file room protocols have effectively eliminated the problem of missing master files. The file maintenance drastically reduced the number of filing errors that existed.<sup>3</sup>

Reference Number: **2001-14-1**  
Federal Catalog Number: 10.557  
State Administering Department: Department of Health Services  
Fiscal Year Finding Initially Reported: 2000-01  
Audit Finding: Special Tests and Provisions. The Department of Health Services did not ensure that the financial management systems of all local agencies were examined during monitoring reviews for fiscal years 1999-2000 and 2000-01. Nor did it always promptly notify local agencies of the deficiencies found during these reviews.  
Status of Corrective Action: Fully corrected.

Reference Number: **2001-14-2**  
Federal Catalog Number: 10.550  
State Administering Department: Department of Education  
Fiscal Year Finding Initially Reported: 2000-01  
Audit Finding: Special Tests and Provisions. The Department of Education (Education) did not fulfill its review responsibilities relating to its in-state food processors. During fiscal years 1999-2000 and 2000-01, Education failed to conduct on-site reviews of 9 of its 25 active in-state processors within the required two-year period. In addition, it reviewed only 24 percent of its active in-state processors during fiscal year 2000-01, rather than the required 50 percent.  
Status of Corrective Action: Fully corrected.

Reference Number: **2001-14-6**  
Federal Catalog Number: 10.561  
State Administering Department: Department of Social Services  
Fiscal Year Finding Initially Reported: 2000-01  
Audit Finding: Special Tests and Provisions. The California Department of Social Services (Social Services) failed to ensure that all of the counties participating in the Food Stamps program obtained independent reviews. Of the 58 counties, 7 had the physical inventory review performed by their own welfare department, the same department that administers the Food Stamps program. Additionally, Social Services did not require any of the counties to submit review reports for it to analyze; instead, Social Services depended on counties to

self-report review findings, the date of the review, and who performed the review.

Status of Corrective Action:

Disagree with finding. Following additional research and review, Social Services does not concur with the finding recommendations. Effective internal audits were conducted by the seven counties cited in the report. The oversight by Social Services in this area includes an annual survey of all counties to determine areas of noncompliance and corresponding audit resolution plans. Additionally, Social Services management evaluation reviews will be conducted onsite in each of the 58 counties at a minimum of every three years.

Regarding the recommendation for Social Services to require all counties to obtain "independent reviews," Social Services staff thoroughly researched the applicable Federal and State regulations and we were unable to find an "independent review" requirement. The Social Service's interpretation of both federal and state regulations is that entities within the county welfare departments (CWD), that have expertise in auditing and accounting and are organized separate and apart from CWD divisions responsible for Food Stamp issuance or Food Stamp storage are permitted to conduct the annual food stamp bulk storage inventory reviews. This separation of function provides an effective internal control to safeguard the accuracy of reviews conducted by the CWD's internal audits unit.

Regarding the recommendation that Social Services require all counties to submit completed annual reports for review, the Social Services has also modified its initial plan. Instead of obtaining seven randomly selected county reports to review each year, the Social Services will conduct an annual survey of all CWDs to determine their compliance with federal and state regulations governing Food Stamp Program bulk storage inventory audits. Additionally, Social Services will conduct onsite reviews of all 58 counties to ensure compliance with these audit requirements within a three-year cycle.<sup>4</sup>

Reference Number:

**2001-3-9**

Federal Catalog Number:

10.557; 17.207; 17.225; 17.246; 17.250; 84.126; 93.558; 93.658; 93.659; 93.778

State Administering Department:

Department of Finance

Fiscal Year Finding Initially Reported:

2000-01

Audit Finding:

Cash Management. The Department of Finance (Finance) requires state departments to report information related to the receipt and disbursement of federal funds of selected federal programs so that it can calculate interest liabilities under the CMIA agreement. However, we found that several

departments submitted administrative cost worksheets for fiscal year 1999-2000 that included receipts or disbursements of federal funds that actually related to fiscal year 2000-01. Although Finance correctly omitted these transactions when calculating interest liabilities associated with administrative costs for fiscal year 1999-2000, it neglected to include these transactions in its fiscal year 2000-01 calculation. As a result of these omissions, Finance calculates that it overstated the State's net interest liability in the fiscal year 2000-01 annual report by nearly \$1.1 million.

Status of Corrective Action:

Partially corrected. The finding will be fully corrected December 31, 2002. The overpaid \$1.1 million in 2000-01 State interest liability will be reported as a prior year adjustment in the fiscal year 2001-02 annual report that will be submitted to the U.S. Department of Treasury in December 2002. This adjustment will reduce the State interest liability that will be paid for fiscal year 2001-02.

Finance will also continue its ongoing efforts to reduce errors by improving internal procedures, analyzing the information reported by state departments, providing ongoing consultation and training, and annually reminding departments of their responsibilities.<sup>5</sup>

Reference Number:

**2001-9-6**

Federal Catalog Number:

10.551; 10.561; 93.558; 93.658; 93.659; 93.667

State Administering Department:

Department of Social Services

Fiscal Year Finding Initially Reported:

2000-01

Audit Finding:

Suspension and Debarment. The Department of Social Services (Social Services) failed to require any of the counties receiving federal funds under the six federal programs reviewed by the Bureau of State Audits (BSA) to submit the required suspension and debarment certifications. Additionally, for the Adoption Assistance program, Social Services did not obtain certifications from two of the three contractors reviewed by the BSA from which Social Services contracted services totaling \$100,000 or more.

Status of Corrective Action:

Fully corrected.

Reference Number: **2001-13-1**

Federal Catalog Number: 10.557; 93.917; 93.994

State Administering Department: Department of Health Services

Fiscal Year Finding Initially Reported: 1998-99

Audit Finding: Subrecipient Monitoring. The Department of Health Services lacks an adequate system to ensure that it promptly receives all audit reports from nonprofit subrecipients required to submit them. It also lacks an adequate system to ensure that it issues management decisions on reported findings.

Status of Corrective Action: Fully corrected (10.557).

Partially corrected (93.917). The Department of Health Services, Office of AIDS (OA) contracts now include language requiring subrecipients to submit OMB A-133 audit reports when required, and certifications when an OMB A-133 audit is not required. The OA formed a division wide workgroup to identify OMB A-133 audit procedures for all federally funded OA contracts. OA's HIV Care Branch programs have implemented and included these procedures in their desk reference manuals. In addition to procedures, audit reminder form letters have been developed to send to subrecipients according to a tracking schedule. The HIV Care Branch staff log and monitor audit reminder letters and any follow-up and/or corrective action(s) in an audit-tracking database. A small portion of HIV CARE Formula Grant funds is included in contracts monitored by other OA division branches. Division-wide implementation of OMB A-133 audit procedures, to include all OA federally funded contracts, is scheduled to begin by 12/31/02. OA and DHS, Audits and Investigations Section have discussed appropriate procedures and responsibilities for receipt and review of OMB A-133 audit reports.

Fully corrected (93.994).<sup>6</sup>

Reference Number: **2001-9-7**

Federal Catalog Number: 14.239

State Administering Department: Department of Housing and Community Development

Fiscal Year Finding Initially Reported: 2000-01

Audit Finding: Suspension and Debarment. The Department of Housing and Community Development does not require subrecipients of HOME Investment Partnerships Program funds to submit suspension and debarment certifications.

Status of Corrective Action: Fully corrected.

Reference Number: **2001-2-1**

Federal Catalog Number: 17.207; 17.225; 17.255; 17.801; 17.804; 17.253; 84.278

State Administering Department: Employment Development Department

Fiscal Year Finding Initially Reported: 1998-99

Audit Finding: Allowable Costs and Cost Principles. The Employment Development Department lacked documentation supporting the basis of its allocation for some of its payroll and operating costs charged to federal programs.

Status of Corrective Action: Fully corrected.<sup>7</sup>

Reference Number: **2001-9-1**

Federal Catalog Number: 20.205

State Administering Department: Department of Transportation

Fiscal Year Finding Initially Reported: 2000-01

Audit Finding: Procurement, Suspension, and Debarment, Special Tests and Provisions. The California Department of Transportation (Caltrans) could not always locate its contract files or other documents needed to show that it complied with certain federal requirements for its highway construction projects.

Status of Corrective Action: Partially corrected. Caltrans is continuing to improve its system of tracking contract files and other documents for highway construction projects, as well as ensure that the contract files are complete. Caltrans efforts include the following:

- Additional filing space has been obtained and a file shelving system was procured in the prior fiscal year.
- A business process review of the filing system is completed in draft form and has been distributed for division review and comment.
- The filing backlog resulting from vacancies and inadequate filing space has been significantly reduced with the use of overtime and workload redistribution within the clerical support unit.
- The lack of Federal Highways Administration (FHWA) written concurrence with one Contract Change Order (CCO) was caused by a misunderstanding of FHWA approval requirements. Caltrans clarified the Construction Manual CCO approvals section. Caltrans also developed a "CCO Course" that provides instructions on FHWA approval requirements and Resident Engineers have completed training in this course.

- The lack of support for testing on material and workmanship for two of ten projects is an issue of inadequate controls over records. In July 2001, field office staff were trained on *Field Office Procedures for Statewide Consistency*, which should aid in improving controls over records of testing materials and workmanship.<sup>8</sup>

Reference Number: **2001-8-1**

Federal Catalog Number: 83.544

State Administering Department: Office of Emergency Services

Fiscal Year Finding Initially Reported: 2000-01

Audit Finding: Period of Availability. The Office of Emergency Services (Emergency Services) cannot ensure that the services it is paying for are within the allowable time period.

Status of Corrective Action: Partially corrected. The Emergency Services, Disaster Assistance Division (DAD) fiscal year 2002-03 work plans include initiating grant payment review for open and material sub-grantees. In addition, DAD executive management has initiated a complete review of its current organizational structure to more closely align unit functions with a grant management concept. Finally, Emergency Services will consider redirecting additional resources, if available, after possible current and budget year cuts, to manage this workload.

Reference Number: **2001-9-5**

Federal Catalog Number: 83.544; 83.548

State Administering Department: Office of Emergency Services

Fiscal Year Finding Initially Reported: 1999-00

Audit Finding: Suspension and Debarment. The Office of Emergency Services (Emergency Services) did not require Public Assistance Grants and Hazard Mitigation Grant program applicants to submit suspension and debarment certifications.

Status of Corrective Action: Partially corrected. As described in the prior audit *Department's View and Corrective Action Plan*, Emergency Services is in the process of developing a grant management system. This system will establish a more routine review of subrecipients to ensure that they have complied with applicable grant laws and regulations, including not entering into agreements with any parties who are debarred, suspended, or otherwise excluded from participation in federal assistance programs. Additionally,

Emergency Services will consider adding a link on its web page to the Federal Excluded Parties Listing System website, which would provide easy subrecipient access to debarred, suspended or otherwise excluded parties.<sup>9</sup>

Reference Number: **2001-12-4**

Federal Catalog Number: 83.544; 83.548

State Administering Department: Office of Emergency Services

Fiscal Year Finding Initially Reported: 1999-00

Audit Finding: Reporting. The Office of Emergency Services' (Emergency Services) financial status reports contain unsupported expenditure information.

Status of Corrective Action: Uncorrected. In the last year, Emergency Services has not been successful in meeting with Federal Emergency Management Agency (FEMA) for obtaining guidance on the reporting problems relating to grant and administrative expenditures. It is our intention to submit a written request to FEMA outlining our questions and issues by the end of the 2002 calendar year.<sup>10</sup>

Reference Number: **2001-12-5**

Federal Catalog Number: 83.544; 83.548

State Administering Department: Office of Emergency Services

Fiscal Year Finding Initially Reported: 1997-98

Audit Finding: Reporting. In fiscal year 2000-01, the Office of Emergency Services (Emergency Services) did not reconcile the receipts and disbursements reported in its federal cash transaction reports to its official accounting records.

Status of Corrective Action: Uncorrected. Emergency Services has not reconciled the receipts and disbursements reported in the federal cash transaction reports to our official accounting records. Emergency Services does not have staff to redirect that possesses the level of expertise required to perform these technical functions. Also, Emergency Services is not able to request additional positions for the current fiscal year. It is Emergency Services' intention to comply with the Bureau of State Audits' recommendation with existing staff as workload permits.<sup>11</sup>

Reference Number: **2001-13-3**  
Federal Catalog Number: 83.544; 83.548  
State Administering Department: Office of Emergency Services  
Fiscal Year Finding Initially Reported: 1996-97  
Audit Finding: Subrecipient Monitoring. During fiscal year 2000-01, the Office of Emergency Services did not have a system in place to ensure that its nonprofit subrecipients spending more than \$300,000 in federal funds submitted required audit reports.  
Status of Corrective Action: Fully corrected.

Reference Number: **2001-2-3**  
Federal Catalog Number: 84.011  
State Administering Department: Department of Education  
Fiscal Year Finding Initially Reported: 1999-00  
Audit Finding: Allowable Costs and Cost Principles. The Department of Education did not always determine the cost-effectiveness of the State's use of Migrant Education funds.  
Status of Corrective Action: Fully corrected.<sup>12</sup>

Reference Number: **2001-3-2**  
Federal Catalog Number: 84.181  
State Administering Department: Department of Developmental Services  
Fiscal Year Finding Initially Reported: 2000-01  
Audit Finding: Cash Management. The Department of Developmental Services (Developmental Services) did not always minimize the amount of time elapsing between the transfer of Early Intervention federal funds to the State and their disbursement for program costs.  
Status of Corrective Action: Uncorrected. The Developmental Services continues to acknowledge that the time between receipt and the disbursement of federal funds is not always minimized. Further, the Developmental Services has attempted additional measures to try and expedite the claim schedules through the California State Controller's Office (SCO). However, Developmental Services notes that claim schedules not falling under the guidelines of the Cash Management Improvement Act (CMIA), will not receive special handling without paying an additional SCO processing fee. Developmental Services contacted several

other departments who are also not covered by the CMIA, and found that they are in the same situation. Developmental Services will continue to look for new ways to minimize the time between receipt and disbursement.<sup>13</sup>

Reference Number: **2001-3-3**

Federal Catalog Number: 84.011; 84.181; 84.340

State Administering Department: Department of Education

Fiscal Year Finding Initially Reported: 1999-00

Audit Finding: Cash Management. The Department of Education (Education) does not have adequate procedures to ensure that program subrecipients minimize the time elapsing between their receipt and use of federal program funds.

Status of Corrective Action: Partially corrected. Education implemented procedures in the Special Education and Class Size Reduction programs that provide the Local Education Agencies (LEAs) an initial advance based on their grant award, and the next payment to be based on an interim expenditure report submitted by the LEAs. The Migrant Education program has reduced the amount of advances given to the LEAs and will work with the county and district superintendents on adjusting the next payment based on the interim expenditure reports. It is anticipated changes to the Migrant Education program will be made by July 1, 2003. All three Education programs added an additional reporting field to the expenditure report requesting the amount of interest earned over \$100.<sup>14</sup>

Reference Number: **2001-3-5**

Federal Catalog Number: 84.126

State Administering Department: Department of Rehabilitation

Fiscal Year Finding Initially Reported: 2000-01

Audit Finding: Cash Management. The Department of Finance (Finance) requires state departments to report information related to the receipt and disbursement of federal funds so that it can calculate the State's interest liability under the Cash Management Improvement Act agreement. However, a review of the worksheets used in the calculation of the interest liability revealed an error in a formula in the first-quarter worksheet sent to Finance by the Department of Rehabilitation.

Status of Corrective Action: Fully corrected.

Reference Number: **2001-3-7**

Federal Catalog Number: 84.186

State Administering Department: Department of Alcohol and Drug Programs

Fiscal Year Finding Initially Reported: 1999-00

Audit Finding: Cash Management. The Department of Alcohol and Drug Programs (Drug and Alcohol) lacks adequate procedures to ensure that subrecipients of the Safe and Drug-Free Schools program minimize the time elapsing between receipt and use of program funds.

Status of Corrective Action: Fully corrected. Effective with the federal fiscal year 2002 Safe and Drug-Free Schools and Communities grant award, the department will not be making monthly payments to counties regardless of their actual expenditures. Counties will be submitting invoices, and Drug and Alcohol will then reimburse the counties for actual costs incurred.<sup>15</sup>

Reference Number: **2001-3-8**

Federal Catalog Number: 84.048; 84.243

State Administering Department: California Community Colleges, Chancellor's Office

Fiscal Year Finding Initially Reported: 1997-98

Audit Finding: Cash Management. The California Community Colleges, Chancellor's Office does not have adequate procedures to ensure that subrecipients of the Vocational Education—Basic Grants to States program and the Tech-Prep Education program minimize the time elapsing between their receipt and use of federal program funds.

Status of Corrective Action: Fully corrected.<sup>16</sup>

Reference Number: **2001-5-2**

Federal Catalog Number: 84.126

State Administering Department: Department of Rehabilitation

Fiscal Year Finding Initially Reported: 1996-97

Audit Finding: Eligibility. The Department of Rehabilitation (Rehabilitation) does not always determine applicant eligibility for the Vocational Rehabilitation program within the required time period.

Status of Corrective Action: Partially corrected. Rehabilitation continues to take proactive steps through a collaborative effort with district administrators and rehabilitation supervisors in ensuring

timely and appropriate eligibility determinations. Rehabilitation has partially completed the corrective actions as reported in the prior audit *Department's View and Corrective Action Plan* and has plans to complete the remaining corrective actions.<sup>17</sup>

Reference Number: **2001-9-3**  
Federal Catalog Number: 84.048  
State Administering Department: Department of Education  
Fiscal Year Finding Initially Reported: 2000-01  
Audit Finding: Suspension and Debarment. The Department of Education did not obtain the required suspension and debarment certifications from six of eight contractors reviewed.  
Status of Corrective Action: Fully corrected.

Reference Number: **2001-9-4**  
Federal Catalog Number: 84.010; 84.340  
State Administering Department: Department of Education  
Fiscal Year Finding Initially Reported: 2000-01  
Audit Finding: Suspension and Debarment. The Department of Education needs to improve its procedures for obtaining the required suspension and debarment certifications.  
Status of Corrective Action: Fully corrected.<sup>18</sup>

Reference Number: **2001-12-2**  
Federal Catalog Number: 84.010; 84.011  
State Administering Department: Department of Education  
Fiscal Year Finding Initially Reported: 2000-01  
Audit Finding: Reporting. The Department of Education did not report the correct average daily attendance in its 1999 fiscal report.  
Status of Corrective Action: Fully corrected.

Reference Number: **2001-12-3**

Federal Catalog Number: 84.048

State Administering Department: Department of Education

Fiscal Year Finding Initially Reported: 2000-01

Audit Finding: Reporting. The Department of Education did not report accurate, complete, and supported data in its Vocational Education performance accountability report.

Status of Corrective Action: Fully corrected.<sup>19</sup>

Reference Number: **2001-14-3**

Federal Catalog Number: 84.010; 84.011

State Administering Department: Department of Education

Fiscal Year Finding Initially Reported: 1998-99

Audit Finding: Special Tests and Provisions. The Department of Education (Education) did not require local educational agencies (LEAs) receiving Migrant Education and Title I, Part A funds to file with Education a specific written assurance stating that the LEAs have established and implemented an LEA-wide salary schedule; a policy to ensure equivalence among schools in teachers, administrators, and other staff; and a policy to ensure equivalence among schools in the provision of curriculum materials and instructional supplies.

Status of Corrective Action: Partially corrected. Education included a new assurance regarding comparability as part of the 2002-03 Consolidated Application, which Local Educational Agencies (LEA) are currently completing. The Superintendent or authorized representative for each LEA certifies to these assurances when the LEA submits Part I of the Consolidated Application. Additionally, in a letter dated August 8, 2000, Education reminded the districts of their obligations under Title I, Part A Section 1120 (c)(2,3,4,5). And, on June 17, 2002, the U.S. Department of Education (USDE) assigned a staff person to respond to Education's request concerning the expectation for monitoring this effort. However, Education has not received any information or a response from the USDE.<sup>20</sup>

Reference Number: **2001-8-2**  
Federal Catalog Number: 84.186; 93.959  
State Administering Department: Department of Alcohol and Drug Programs  
Fiscal Year Finding Initially Reported: 1999-00 (84.186); 2000-01 (93.959)  
Audit Finding: Period of Availability. The Department of Alcohol and Drug Programs lacks adequate procedures to ensure that federal grant awards are obligated and spent within their applicable periods of availability.  
Status of Corrective Action: Fully corrected.<sup>21</sup>

Reference Number: **2001-3-1**  
Federal Catalog Number: 93.917  
State Administering Department: Department of Health Services  
Fiscal Year Finding Initially Reported: 2000-01  
Audit Finding: Cash Management. The Department of Health Services did not always minimize the amount of time elapsing between the transfer of federal funds to the State and the funds' disbursement for program costs.  
Status of Corrective Action: Fully corrected.

Reference Number: **2001-3-4**  
Federal Catalog Number: 93.568  
State Administering Department: Department of Community Services and Development  
Fiscal Year Finding Initially Reported: 2000-01  
Audit Finding: Cash Management. The Department of Community Services and Development did not always minimize the amount of time elapsing between the transfer of federal funds to the State and the funds' disbursement for Low-Income Home Energy Assistance program costs.  
Status of Corrective Action: Fully corrected.

Reference Number: **2001-3-6**  
Federal Catalog Number: 93.658  
State Administering Department: Department of Social Services  
Fiscal Year Finding Initially Reported: 2000-01  
Audit Finding: Cash Management, Reporting. The Department of Social Services overstated its disbursements by more than \$1 million and understated its cash on hand by the same amount for its Foster Care program on the federal cash transaction report to the federal government.  
Status of Corrective Action: Fully corrected.

Reference Number: **2001-7-1**  
Federal Catalog Number: 93.994  
State Administering Department: Department of Health Services  
Fiscal Year Finding Initially Reported: 1999-00  
Audit Finding: Earmarking. The Department of Health Services does not have adequate procedures to ensure that it meets the program's earmarking requirements.  
Status of Corrective Action: Fully corrected.

Reference Number: **2001-7-2**  
Federal Catalog Number: 93.778  
State Administering Department: Department of Health Services  
Fiscal Year Finding Initially Reported: 2000-01  
Audit Finding: Matching. The Department of Health Services (Health Services) does not always apply the correct federal rate for Medicaid claims. Specifically, for \$582.6 million in claims filed during fiscal year 2000-01 for services provided between October 1, 2000, and June 30, 2001, Health Services applied a rate of 51.67 percent rather than the approved rate of 51.25 percent.  
Status of Corrective Action: Fully corrected.

Reference Number: **2001-9-2**

Federal Catalog Number: 93.268; 93.917; 93.994

State Administering Department: Department of Health Services

Fiscal Year Finding Initially Reported: 1998-99

Audit Finding: Suspension and Debarment. The Department of Health Services did not always obtain the required suspension and debarment certifications from its subrecipients during fiscal year 2000-01.

Status of Corrective Action: Fully corrected.

Reference Number: **2001-12-1**

Federal Catalog Number: 93.994

State Administering Department: Department of Health Services

Fiscal Year Finding Initially Reported: 1999-00

Audit Finding: Reporting. The Department of Health Services (Health Services) does not always report complete information in its annual program report to the U.S. Department of Health and Human Services. Specifically, Health Services does not identify and explain that it estimated some of the expenditures and other amounts in its annual report.

Status of Corrective Action: Fully corrected.<sup>22</sup>

Reference Number: **2001-12-6**

Federal Catalog Number: 93.568

State Administering Department: Department of Community Services and Development

Fiscal Year Finding Initially Reported: 2000-01

Audit Finding: Reporting. In its January 2001 report to the U.S. Department of Health and Human Services, the Department of Community Services and Development did not accurately report for the Low-Income Home Energy Assistance program the number of households it served during the federal fiscal period covering October 1, 1999, through September 30, 2000, and the demographics of these households.

Status of Corrective Action: Fully corrected.<sup>23</sup>

Reference Number: **2001-14-4**

Federal Catalog Number: 93.778

State Administering Department: Department of Health Services

Fiscal Year Finding Initially Reported: 1997-98

Audit Finding: Special Tests and Provisions. The Department of Health Services (Health Services) does not have adequate controls over provider agreements.

Status of Corrective Action: Partially corrected. Health Services concurs with the finding and has instituted the following activities to help resolve these issues:

- Initiated preliminary discussions with the Licensing and Certification Program to incorporate provider agreements into the acute care enrollment process. These discussions will continue to ensure implementation.
- The impending passage of Assembly Bill 2010, which requires a consolidated application form for licensure of clinics, concurrent enrollment as a MediCal provider, and enrollment in specified Health Services programs, will further promote the consistent collection of required provider agreements from all providers.
- Continue the re-enrollment process so that provider agreements and/or disclosure of significant beneficial interest are reasonably current. This process now prioritizes higher risk providers. Health Services has re-enrolled approximately 600 providers and has deactivated approximately 900 providers.
- Perform mass deactivation of providers that have not billed services for 12 months.<sup>24</sup>

Reference Number: **2001-14-5**

Federal Catalog Number: 93.778

State Administering Department: Department of Health Services

Fiscal Year Finding Initially Reported: 1997-98

Audit Finding: Special Tests and Provisions. When calculating the payment rates effective August 2001 for long-term care facilities that treat developmentally disabled individuals (LTC facilities), the Department of Health Services (Health Services) audited far fewer cost reports than it would have audited had it followed its established methodology.

Status of Corrective Action: Uncorrected. Disagree with finding. Health Services disagrees with the finding that it did not audit the number of cost reports as required by the state plan's provisions and according to its past practices. The state plan for long term

care reimbursement, 4.19-D, Section III, Audits, subsection A states in part, ". . . a minimum of 15 percent of cost report will be field audited by the Department of each year. Facilities identified for audit shall be selected on a random sample basis, except where the entire universe of a class is selected for audit." The plan does not specify any particular sampling technique. A straight 15 percent sample of the facilities in question would have produced a sample of 128, far less than the number actually audited.

While Health Services audited fewer cost reports than what was selected, Health Services believes that it complied with the state plan. Specifically, Health Services audited 15 percent of the population of cost reports, and believes that the state plan can be interpreted to mean that a 15 percent sample is sufficiently large enough to reasonably expect audit results and a class audit adjustment factor representative of the class of facilities for which it will be used during the annual rate-setting process. Moreover, the number of cost reports actually audited (146 cost reports), as opposed to the sample size selected (395 cost reports) is significantly higher than the number of cost reports audited in previous years.

In addition, the class audit adjustment for the one type of LTC facility derived from the sample question was .96550, whereas the class audit adjustment for the previous year was .93852. The class audit adjustment for the other type of facility derived from the sample in question was .94601, whereas the class audit adjustment for the previous year was .94603. Therefore, Health Services maintains, the adjustments derived from the sample in question were within reason. Notwithstanding the above, Health Services is committed to revising, based on the concerns identified in the audit, the language in the state plan addressing the sampling methodology for the selection of facilities to be field-audited. A study is now underway to present alternatives to the current long-term care reimbursement system. Such a change will require a complete revision of the state plan, including audits.

## ENDNOTES—AUDITOR COMMENTS

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<sup>1</sup> The status of this issue remains unchanged. Please refer to reference number 2002-12-1 for additional information.

<sup>2</sup> We reported a similar weakness during our audit of fiscal year 2001-02. Please refer to reference number 2002-2-2 for additional information.

<sup>3</sup> We reported a similar weakness during our audit of fiscal year 2001-02. Please refer to reference number 2002-13-4 for additional information.

<sup>4</sup> We reviewed the status of this issue during our audit of fiscal year 2001-02 and confirmed that the U.S. Department of Agriculture agrees that the county welfare departments may conduct these reviews when the State has delegated the review responsibility to the counties. We also noted that Social Services has included a review of the food stamps bulk storage inventory reports during its onsite visits to evaluate the counties' management of the Food Stamps program. However, we were unable to review the counties' self reporting of the results of their inventory reviews because Social Services had not requested these reports until January 2003.

<sup>5</sup> Although the specific errors reported in this finding were fully corrected, we reported a similar weakness during our audit for fiscal year 2001-02. Please refer to reference number 2002-3-7 for additional information.

<sup>6</sup> We reported a similar weakness during our audit of fiscal year 2001-02. Please refer to reference number 2002-13-5 for additional information.

<sup>7</sup> The Employment Development Department has developed better documentation to support its allocation of costs charged to federal programs, but it still does not adjust these charges to reflect actual activity. Therefore, we reported a similar weakness for these programs in our audit of fiscal year 2001-02. Please refer to reference number 2002-2-3 for additional information.

<sup>8</sup> We reviewed the status of this issue during our fiscal year 2001-02 audit and found a similar, though less severe, condition. We reported this weakness during our audit of fiscal year 2001-02. Please refer to reference number 2002-9-2 for additional information.

<sup>9</sup> Emergency Services did not contract with new subrecipients in fiscal year 2001-02. Consequently, we were unable to verify whether it is obtaining suspension and debarment certifications from its subrecipients.

<sup>10</sup> We reported a similar weakness for these programs in our audit of fiscal year 2001-02. Please refer to reference number 2002-12-3 for additional information.

<sup>11</sup> We reported a similar weakness in our audit of fiscal year 2001-02. Please refer to reference number 2002-12-2 for additional information.

<sup>12</sup> We reported a similar weakness in our audit of fiscal year 2001-02. Please refer to reference number 2002-2-1 for additional information.

<sup>13</sup> During fiscal year 2001-02, we found no reportable issues at the Department of Developmental Services concerning this specific issue. However, we found that the claims payment and cash drawdown process used by the State does not always limit transfers of federal funds to the immediate cash needs for those federal grants not covered by the Cash

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Management Improvement Act Agreement. Please refer to reference number 2002-3-8 for additional information.

<sup>14</sup> We reviewed the status of this finding during our audit of fiscal year 2001-02 and found no reportable issues in the Special Education—Infants and Families with Disabilities and Class Size Reduction programs. However, Education has not fully implemented adequate procedures to ensure that its subrecipients in the Migrant Education program minimize the time elapsing between their receipt and use of program funds. Therefore, we reported a similar weakness for this program during our audit of fiscal year 2001-02. Please refer to reference number 2002-3-10 for additional information.

<sup>15</sup> We reported a similar weakness in our audit of fiscal year 2001-02. Please refer to reference number 2002-3-4 for additional information.

<sup>16</sup> We reported a similar weakness in our audit of fiscal year 2001-02. Please refer to reference number 2002-3-2 for additional information.

<sup>17</sup> We reported a similar weakness during our audit of fiscal year 2001-02. Please refer to reference number 2002-5-1 for additional information.

<sup>18</sup> Although Education modified the legal assurances for its consolidated application for fiscal year 2002-03 to include the suspension and debarment certification, it had not implemented procedures to obtain these certifications from its subrecipients for fiscal year 2001-02. Therefore, we reported a similar weakness in our audit of fiscal year 2001-02. Please refer to reference number 2002-9-6 for additional information.

<sup>19</sup> We reported a similar weakness during our audit for fiscal year 2001-02. Please refer to reference number 2002-12-6 for additional information.

<sup>20</sup> Although Education modified the legal assurances for its consolidated application for fiscal year 2002-03 to include the comparability certification for the Title I Grants to Local Educational Agencies, it had not implemented procedures to obtain these certifications from its subrecipients for fiscal year 2001-02. In addition, Education has not modified the legal assurances for the Migrant Education—Basic State Grant Program. Thus, we reported a similar weakness in our audit of fiscal year 2001-02. Please refer to reference number 2002-14-4 for additional information.

<sup>21</sup> We reviewed the status of this issue during our audit of fiscal year 2001-02 and found that, although DADP did not have a reportable issue for the Safe and Drug-Free Schools and Communities—State Grants program, it had not yet completely resolved the issues that we reported during our audit of fiscal year 2000-01 for expenditures incurred outside the periods of availability. In addition, we found that DADP did not always ensure that charges to federal awards for the Substance Abuse Prevention and Treatment Block Grant program are within each award's period of availability. Therefore, we reported a similar weakness for this program for fiscal year 2001-02. Please refer to reference number 2002-8-1 for additional information.

<sup>22</sup> Although Health Services added new footnotes and text to its annual report explaining that some of the amounts are based on estimates, it did not disclose that other amounts are also based on estimates. Therefore, we reported a similar weakness in our audit of fiscal year 2001-02. Please refer to reference number 2002-12-7 for additional information.

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<sup>23</sup> We reviewed the status of this issue during our audit of fiscal year 2001-02 and found that Community Services and Development had not yet fully implemented adequate procedures to ensure that it accurately reports the number of households it served and the demographics of these households in its Low-Income Home Energy Assistance household report. Therefore, we reported a similar weakness for this program. Please refer to reference number 2002-12-8 for additional information.

<sup>24</sup> Health Services has completed only part of its efforts to re-enroll providers of Medicaid services. Therefore, we reported a similar weakness in our audit of fiscal year 2001-02. Please refer to reference number 2002-14-5 for additional information.

*Agency's response provided as text only:*

Department of Finance  
Office of the Director  
State Capitol, Room 1145  
Sacramento, CA 95814-4998

March 12, 2003

Ms. Elaine M. Howle, State Auditor  
Bureau of State Audits  
555 Capitol Mall, Suite 300  
Sacramento, CA 95814

Dear Ms. Howle:

**State of California: Internal Control and State and Federal Compliance Audit Report  
For the Year Ended June 30, 2002**

Thank you for the opportunity to respond to the internal control and state and federal compliance audit report. This report was the result of your examination of the State's general purpose financial statements and administration of Federal programs for the fiscal year ended June 30, 2002, and will be part of the Single Audit Report covering this period. We accept the reported findings and recommendations. Although our internal controls and administration of federal awards can always be improved, the State is committed to sound and effective fiscal oversight.

California provides its citizens with numerous state and federal programs and activities and is much more complex and vast than most economic entities in the world. Such complexity, along with ever-present budget constraints, challenges us to meet the requirements of those programs and activities efficiently and effectively. Moreover, such operations must exist within a system of internal and administrative control that safeguards assets and resources and produces reliable financial information. Attaining these objectives and overseeing the financial and business practices of the State continues to be an important part of the Department of Finance's leadership.

In meeting our responsibility for financial leadership and oversight, the Department of Finance conducts internal control reviews of State departments and also reviews areas of potential weakness in the State's fiscal systems. In addition, we provide oversight of departmental internal audit units by issuing audit guidelines and conducting quality assurance reviews. Further, we have an ongoing process of issuing Audit Memos to departments that establish statewide policy and provide technical advice on various audit related issues. We will soon issue an Audit Memo concerning the results of the fiscal year 2001-02 Single Audit.

Ms. Elaine Howle  
March 12, 2003  
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The head of each State department is responsible for establishing and maintaining a system of internal accounting and administrative control within their department. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified for changing conditions.

Moreover, all levels of State management must be involved in assessing and strengthening their system of internal accounting and administrative controls to minimize fraud, errors, abuse, and waste of government funds.

Individual departments have separately responded to the report's findings and recommendations. Accordingly, their viewpoints and corrective action plans are included in the report. We will monitor the findings and reported corrective actions to identify potential changes in statewide fiscal procedures.

The Department of Finance will continue to provide leadership to ensure the proper financial operations and business practices of the State, and to ensure that internal controls exist for the safeguarding and effective use of assets and resources.

If you have any questions concerning this letter, please contact Samuel E. Hull, Chief, Office of State Audits and Evaluations, at (916) 322-2985.

Sincerely,

*(Signed by: K. A. Radtkey Gaither for Steve Peace)*

STEVE PEACE  
Director

cc: Members of the Legislature  
Office of the Lieutenant Governor  
Milton Marks Commission on California State  
Government Organization and Economy  
Department of Finance  
Attorney General  
State Controller  
State Treasurer  
Legislative Analyst  
Senate Office of Research  
California Research Bureau  
Capitol Press