CALIFORNIA STATE AUDITOR

State of California:

Internal Control and State and Federal Compliance Audit Report for the Fiscal Year Ended June 30, 2009

March 2010 Report 2009-002

Independent NONPARTISAN TRANSPARENT Accountability

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Elaine M. Howle
State Auditor

Doug Cordiner
Chief Deputy

CALIFORNIA STATE AUDITOR

Bureau of State Audits

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March 30, 2010 2009-002

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

Dear Governor and Legislative Leaders:

As required by California Government Code, Section 8545 et seq., the State Auditor's Office presents its audit report concerning our review of the State of California's internal controls and compliance with state and federal laws and regulations for the year ended June 30, 2009.

This report concludes that the State failed to comply with certain requirements for nine of the 37 federal programs or clusters of programs we audited to such a degree that we had to qualify our opinion. Additionally, we were unable to obtain sufficient documentation to express an opinion on whether the State complied with relevant federal requirements for 10 programs or clusters of programs. Further, the State continues to experience certain deficiencies in its accounting and administrative practices that affect its internal controls over financial reporting and over compliance with federal requirements. Deficiencies 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

ELAINE M. HOWLE, CPA
State Auditor

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AUDITOR'S SECTION

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

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Chief Deputy

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

The Governor and the Legislature of the State of California

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of California as of and for the year ended June 30, 2009, which collectively comprise the State of California's basic financial statements, and have issued our report thereon dated February 12, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. As described in our report on the State of California's financial statements, other auditors audited the financial statements of the following:

Government-wide Financial Statements

- Certain enterprise funds that, in the aggregate, represent 94 percent, 69 percent, and 41 percent, respectively, of the assets, net assets and revenues of the business-type activities.

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

Fund Financial Statements

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

- Certain nonmajor enterprise funds that represent 95 percent, 92 percent, and 89 percent, respectively, of the assets, net assets and revenues of the nonmajor enterprise funds.

- The funds of the Public Employees' Retirement System and the State Teachers' Retirement System that, in the aggregate, represent 88 percent, 92 percent, and 73 percent, respectively, of the assets, net assets and additions of the fiduciary funds and similar component units.

- The discretely presented component units noted above.

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

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies with item numbers 2009-15-1, 2009-15-2, 2009-15-3, 2009-15-4, and 2009-15-5 described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider the item 2009-15-2 to be a material weakness.

Compliance and Other Matters

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

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

JOHN F. COLLINS II, CPA
Deputy State Auditor

February 12, 2010

Elaine M. Howle
State Auditor

Doug Cordiner
Chief Deputy

CALIFORNIA STATE AUDITOR

Bureau of State Audits

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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, 2009. The State of California's major federal programs are identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State of California's management. Our responsibility is to express an opinion on the State of California's compliance based on our audit. We did not audit the State of California's compliance with the requirements of the U.S. Environmental Protection Agency's Capitalization Grants for Clean Water State Revolving Funds (CFDA Number 66.458). This program, which accounts for less than 1 percent of the total of federal assistance received by the State of California, is included in the accompanying schedule of federal assistance. Other auditors have audited the State of California's compliance with this program's requirements and their report thereon has been furnished to us.

The State of California's basic financial statements include the operations of the University of California and the California State University systems, as well as the California Housing Finance Agency, a component unit of the State. However, these entities are not included in the accompanying schedule of findings and questioned costs or schedule of federal assistance for the year ended June 30, 2009. The University of California and the California State University systems, and the California Housing Finance Agency, which reported expenditures of federal awards totaling $3.7 billion, $1.9 billion, and $72.8 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).

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

We were unable to obtain sufficient documentation supporting the State of California's compliance with the requirements described in Table 1, nor were we able to satisfy ourselves as to the State of California's compliance with those requirements by other auditing procedures.

Table 1

MAJOR FEDERAL PROGRAM	CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER	COMPLIANCE REQUIREMENT(S)
SNAP Cluster: State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	Activities allowed/allowable costs and period of availability
Early Intervention Services (IDEA) Cluster: Special Education—Grants for Infants and Families	84.181	Activities allowed/allowable costs
Aging Cluster: Special Programs for the Aging—Title III, Part B—Grants for Supportive Services and Senior Centers, Special Programs for the Aging—Title III, Part C—Nutrition Services, ARRA-Aging Home-Delivered Nutrition Services for States, ARRA-Aging Congregate Nutrition Services for States	93.044 93.045 93.705 93.707	Eligibility, matching, level-of-effort, and earmarking
TANF Cluster: Temporary Assistance for Needy Families	93.558	Activities allowed/allowable costs
Child Support Enforcement	93.563	Eligibility
Low-Income Home Energy Assistance	93.568	Earmarking
Foster Care—Title IV–E	93.658	Activities allowed/allowable costs, and period of availability
Adoption Assistance	93.659	Activities allowed/allowable costs, and period of availability
Social Services Block Grant	93.667	Activities allowed/allowable costs, and period of availability
Block Grants for Prevention and Treatment of Substance Abuse	93.959	Activities allowed/allowable costs, and subrecipient monitoring

As described in Table 2 and in the accompanying schedule of findings and questioned costs, the State of California did not comply with requirements that are applicable to the following major programs:

Table 2

FINDING NUMBER	FEDERAL DEPARTMENT	PROGRAM	CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER	COMPLIANCE REQUIREMENT(S)
2009-1-14	Health and Human Services	Medicaid Cluster: State Medicaid Fraud Control Units, State Survey and Certification of Health Care Providers and Suppliers, Medical Assistance Program	93.775 93.777 93.778	Activities allowed
2009-1-15	Health and Human Services	Medicaid Cluster: State Medicaid Fraud Control Units, State Survey and Certification of Health Care Providers and Suppliers, Medical Assistance Program	93.775 93.777 93.778	Activities allowed/ allowable costs
2009-2-5	Housing and Urban Development	HOME Investments Partnership Program	14.239	Allowable costs and subrecipient monitoring
2009-3-7	Education	Title I, Part A Cluster: Title I Grants to Local Educational Agencies, Title I Grants to Local Educational Agencies—Recovery Act, English Language Acquisition Grants, Improving Teacher Quality State Grants	84.010 84.389 84.365 84.367	Cash management
2009-5-4	Health and Human Services	HIV Care Formula Grants	93.917	Eligibility

FINDING NUMBER	FEDERAL DEPARTMENT	PROGRAM	CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER	COMPLIANCE REQUIREMENT(S)
2009-5-5	Health and Human Services	Medicaid Cluster: State Medicaid Fraud Control Units, State Survey and Certification of Health Care Providers and Suppliers, Medical Assistance Program	93.775 93.777 93.778	Eligibility
2009-13-4	Health and Human Services	Adoption Assistance	93.659	Subrecipient monitoring
2009-13-11	Health and Human Services	Aging Cluster: Special Programs for the Aging—Title III, Part B—Grants for Supportive Services and Senior Centers, Special Programs for the Aging—Title III, Part C—Nutrition Services, Nutrition Services Incentive Program, ARRA-Aging Home-Delivered Nutrition Services for States, ARRA-Aging Congregate Nutrition Services for States	93.044 93.045 93.053 93.705 93.707	Subrecipient monitoring
2009-13-14	Health and Human Services	Block Grants for Prevention and Treatment of Substance Abuse	93.959	Subrecipient monitoring
2009-14-10	Health and Human Services	Medicaid Cluster: State Medicaid Fraud Control Units, State Survey and Certification of Health Care Providers and Suppliers, Medical Assistance Program	93.775 93.777 93.778	Special Tests and Provisions—Provider Eligibility

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

In our opinion, except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the State of California's compliance with the requirements described in Table 1 and except for the remaining noncompliance described in Table 2, the State of California complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009. 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 as items:

2009-1-1, 2009-1-2, 2009-1-3, 2009-1-5, 2009-1-6, 2009-1-8, 2009-1-9, 2009-1-11, 2009-1-12, 2009-1-13, 2009-1-19, 2009-2-1, 2009-2-3, 2009-2-6, 2009-2-7, 2009-3-2, 2009-3-3, 2009-3-4, 2009-3-5, 2009-3-6, 2009-3-8, 2009-4-1, 2009-5-1, 2009-5-2, 2009-5-6, 2009-5-7, 2009-5-8, 2009-7-1, 2009-7-2, 2009-7-5, 2009-7-8, 2009-7-9, 2009-8-2, 2009-8-5, 2009-8-6, 2009-9-1, 2009-9-2, 2009-9-3, 2009-9-4, 2009-9-5, 2009-9-6, 2009-9-7, 2009-12-1, 2009-12-2, 2009-12-3, 2009-12-4, 2009-12-5, 2009-12-7, 2009-12-8, 2009-12-9, 2009-12-10, 2009-12-11, 2009-12-12, 2009-12-14, 2009-13-1, 2009-13-3, 2009-13-5, 2009-13-6, 2009-13-7, 2009-13-8, 2009-13-9, 2009-13-10, 2009-13-12, 2009-13-13, 2009-13-15, 2009-13-16, 2009-13-17, 2009-13-18, 2009-13-19, 2009-13-20, 2009-13-21, 2009-13-22, 2009-13-23, 2009-13-24, 2009-13-25, 2009-13-28, 2009-14-1, 2009-14-2, 2009-14-3, 2009-14-4, 2009-14-5, 2009-14-7, 2009-14-9, 2009-14-11, 2009-14-14.

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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State of California's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the State of California's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2009-1-1, 2009-1-2, 2009-1-3, 2009-1-4, 2009-1-5, 2009-1-6, 2009-1-7, 2009-1-8, 2009-1-9, 2009-1-10, 2009-1-11, 2009-1-12, 2009-1-13, 2009-1-14, 2009-1-15, 2009-1-16, 2009-1-18, 2009-1-19, 2009-2-1, 2009-2-2, 2009-2-3, 2009-2-4, 2009-2-5, 2009-2-6, 2009-2-7, 2009-2-8, 2009-3-1, 2009-3-2, 2009-3-3, 2009-3-4, 2009-3-5, 2009-3-6, 2009-3-7, 2009-3-8, 2009-4-1, 2009-5-1, 2009-5-2, 2009-5-3, 2009-5-4, 2009-5-5, 2009-5-6, 2009-5-7, 2009-5-8, 2009-7-1, 2009-7-2, 2009-7-3, 2009-7-4, 2009-7-5, 2009-7-6, 2009-7-8, 2009-7-9, 2009-7-10, 2009-7-11, 2009-7-12, 2009-7-13, 2009-8-1, 2009-8-2, 2009-8-3, 2009-8-4, 2009-8-6, 2009-8-7, 2009-8-8, 2009-9-1, 2009-9-2, 2009-9-3, 2009-9-4, 2009-9-5, 2009-9-6, 2009-9-7, 2009-12-1, 2009-12-3, 2009-12-4, 2009-12-5, 2009-12-6, 2009-12-7, 2009-12-9, 2009-12-10, 2009-12-11, 2009-12-12, 2009-12-13, 2009-12-14, 2009-12-15, 2009-12-16, 2009-12-17, 2009-12-18, 2009-12-19, 2009-13-1, 2009-13-2, 2009-13-3, 2009-13-4, 2009-13-5, 2009-13-6, 2009-13-7, 2009-13-8, 2009-13-9, 2009-13-10, 2009-13-11, 2009-13-12, 2009-13-16, 2009-13-17, 2009-13-18, 2009-13-19, 2009-13-20, 2009-13-21, 2009-13-22, 2009-13-23, 2009-13-24, 2009-13-25, 2009-13-26, 2009-13-27, 2009-14-1, 2009-14-2, 2009-14-3, 2009-14-4, 2009-14-5, 2009-14-6, 2009-14-8, 2009-14-9, 2009-14-10, 2009-14-11, 2009-14-12, 2009-14-13, and 2009-14-14 to be significant deficiencies.

A *material weakness* is a significant deficiency or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items 2009-1-1, 2009-1-3, 2009-1-4, 2009-1-6, 2009-1-7, 2009-1-10, 2009-1-12, 2009-1-14, 2009-1-15, 2009-2-2, 2009-2-5, 2009-3-7, 2009-5-2, 2009-5-3, 2009-5-4, 2009-5-5, 2009-5-8, 2009-7-1, 2009-7-4, 2009-7-5, 2009-7-6, 2009-7-13, 2009-8-1, 2009-9-1, 2009-9-2, 2009-9-3, 2009-9-5, 2009-12-5, 2009-12-6, 2009-12-7, 2009-12-10, 2009-13-1, 2009-13-4, 2009-13-5, 2009-13-6, 2009-13-8, 2009-13-9, 2009-13-10, 2009-13-11, 2009-13-12, 2009-14-2, 2009-14-3, 2009-14-4, 2009-14-5, 2009-14-8, and 2009-14-10 to be material weaknesses.

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

Schedule of Federal Assistance

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of California, as of and for the year ended June 30, 2009, and have issued our report thereon dated February 12, 2010. We did not audit the following significant amounts in the financial statements of:

Government-wide Financial Statements

- Certain enterprise funds that, in the aggregate, represent 94 percent, 69 percent, and 41 percent, respectively, of the assets, net assets and revenues of the business-type activities.

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

Fund Financial Statements

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

- Certain nonmajor enterprise funds that represent 95 percent, 92 percent, and 89 percent, respectively, of the assets, net assets and revenues of the nonmajor enterprise funds.

- The funds of the Public Employees' Retirement System and the State Teachers' Retirement System that, in the aggregate, represent 88 percent, 92 percent, and 73 percent, respectively, of the assets, net assets and additions of the fiduciary funds and similar component units.

- The discretely presented component units noted above.

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

Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the State of California's basic financial statements. The accompanying schedule of federal assistance is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. OMB Circular A-133 requires the schedule of federal assistance to present total expenditures for each federal assistance program. However, although the State of California's automated accounting system separately identifies receipts for each federal assistance program, it does not separately identify expenditures for each program. As a result, the State of California presents the schedule of federal assistance on a 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 Jelicich

PHILIP J. JELICICH, CPA
Deputy State Auditor

February 12, 2010

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Schedule of Findings and Questioned Costs

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STATE OF CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Summary of Auditor's Results

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness (es) identified?	Yes
Significant deficiency (ies) identified that are not considered to be material weaknesses?	Yes
Type of auditor's reports issued on compliance for major programs:	
HOME Investments Partnerships Program (14.239)	Qualified
Title I, Part A Cluster: Title I Grants to Local Educational Agencies, Title I Grants to Local Educational Agencies—Recovery Act (84.010, 84.389)	Qualified
English Language Acquisition Grants (84.365)	Qualified
Improving Teacher Quality State Grants (84.367)	Qualified
Aging Cluster: Special Programs for the Aging—Title III, Part B—Grants for Supportive Services and Senior Centers, Special Programs for the Aging—Title III, Part C—Nutrition Services, Nutrition Services Incentive Program, ARRA—Aging Home-Delivered Nutrition Services for States, ARRA—Aging Congregate Nutrition Services for States (93.044, 93.045, 93.053, 93.705, 93.707)	Qualified
Adoption Assistance (93.659)	Qualified
Medicaid Cluster: State Medicaid Fraud Control Units, State Survey and Certification of Health Care Providers and Suppliers, Medical Assistance Program, ARRA—Medical Assistance Program (93.775, 93.777, 93.778)	Qualified

continued on next page . . .

HIV Care Formula Grants (93.917)	Qualified
Block Grants for Prevention and Treatment of Substance Abuse (93.959)	Qualified
All other major programs	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133?	Yes
Dollar threshold used to distinguish between Type A and Type B programs	$106.8 million
Auditee qualified as low-risk auditee?	No

Identification of Major Programs:

CFDA Number	*Name of Federal Program or Cluster of Programs*
	Aging Cluster
	Child Care Development Fund Cluster
	Child Nutrition Cluster
	Disability Insurance/SSI Cluster
	Early Intervention Services (IDEA) Cluster
	Highway Planning and Construction Cluster
	Homeland Security Cluster
	Medicaid Cluster
	SNAP Cluster
	Special Education Cluster
	State Fiscal Stabilization Fund Cluster
	TANF Cluster
	Title I, Part A Cluster
	Vocational Rehabilitation Cluster
	WIA Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
14.239	HOME Investment Partnerships Program
16.606	State Criminal Alien Assistance Program
17.225	Unemployment Insurance
64.005	Grants to States for Construction of State Home Facilities
64.114	Veterans Housing—Guaranteed and Insured Loans
84.011	Migrant Education—State Grant Program
84.032	Federal Family Education Loans—Guaranty Agencies
84.048	Career and Technical Education—Basic Grants to States
84.287	Twenty-First Century Community Learning Centers
84.357	Reading First State Grants
84.365	English Language Acquisition Grants
84.367	Improving Teacher Quality State Grants
93.563	Child Support Enforcement
93.568	Low-Income Home Energy Assistance
93.658	Foster Care—Title IV-E
93.659	Adoption Assistance
93.667	Social Services Block Grant
93.767	State Children's Insurance Program
93.917	HIV Care Formula Grants
93.959	Block Grants for Prevention and Treatment of Substance Abuse
97.036	Disaster Grants—Public Assistance (Presidentially Declared Disasters)

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

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DEPARTMENT OF CORRECTIONS AND REHABILITATION

Reference Number: 2009-15-1

Condition

In preparing its financial reports for fiscal year 2008–09, the Department of Corrections and Rehabilitation (Corrections) likely overstated its encumbrances by approximately $270 million and understated its accounts payable by the same amount for the General Fund. When departments enter into contracts, purchase orders, or other agreements during the year, they encumber, or set aside, the value of these agreements to reflect that these funds are no longer available for other purposes. At fiscal year end, departments need to analyze the remaining balances of contracts, purchase orders, or other agreements to determine the proper split between obligations for goods and services received, but not paid for, and remaining amounts that represent encumbrances for goods or services that have not yet been received by year end.

However, Corrections was not able to adequately support the $931 million of encumbrances it reported to the State Controller's Office (SCO) as of June 30, 2009. Although Corrections was able to provide us a schedule that showed the items in the $931 million balance of encumbrances, it was unable to provide support for the more significant items listed on the schedule. In total, the entries on the schedule included positive amounts of approximately $1.994 billion and negative amounts of $1.063 billion. Further, 70 entries on the schedule were labeled as "year-end accrual," and included positive entries of $754 million and negative entries of $724 million, which netted to $30 million. Corrections was able to support that one of these year-end accrual entries, for a negative $665 million, was to correct posting errors in its new business information system related to one vendor, but Corrections' associate director of accounting services (associate director) stated that no support was available for the remaining entries. Based on our analysis of subsequent payments and other analytical procedures, the $931 million balance of encumbrances was likely overstated, and accounts payable was likely understated, by approximately $270 million.

According to the associate director, at the time Corrections prepared financial statements for fiscal year 2008–09, the vendor installing its new business information system had not implemented the financial reporting module, which was necessary for Corrections to produce financial statements. Therefore, the associate director states Corrections estimated accruals and encumbrances based on prior historical knowledge of ending program and fund balances, net of any amounts the Department of Finance directed Corrections to not spend.

Criteria

Under California Government Code, Section 12460, the SCO is required to issue two annual financial reports, one that is prepared in conformance with the Governor's Budget and the Budget Act, and another in accordance with generally accepted accounting principles. To assist in preparing these financial reports, the SCO annually requests that departments submit financial statements for the funds they manage. Further, the SCO and Section 10500 of the *State Administrative Manual* provide guidance for departments when preparing their year-end financial statements, including how to properly report encumbrances and accounts payable.

Recommendations

Corrections should work with its vendor to implement the financial reporting module for its new business information system by no later than June 2010 so that the module is in place when Corrections prepares its financial statements for fiscal year 2009–10. Further, Corrections should ensure that it develops and retains appropriate documentation to support the encumbrances it reports.

Department's View and Corrective Action Plan

Corrections is continuing to work with its contractor to implement all elements of the new business information system, including the financial reporting module. The SCO's reconciliations and financial reporting process is undergoing further development. Corrections' plan is to have the financial reporting module in place in time for it to be used to prepare the fiscal year 2009–10 financial statements.

CALIFORNIA DEPARTMENT OF TRANSPORTATION

Reference Number: 2009-15-2

Condition

The California Department of Transportation (Caltrans) has been incorrectly capitalizing certain costs that should have been expensed related to the seismic retrofit of the San Francisco-Oakland Bay Bridge (bay bridge). Specifically, as part of implementing changes to the State's Comprehensive Annual Financial Report required by Governmental Accounting Standards Board (GASB) Statement Number 34, Caltrans adopted the modified approach to account for certain infrastructure assets, including the State's network of roadways and bridges. However, in accounting for the costs to replace the east span of the bay bridge, Caltrans capitalized 100 percent of these costs instead of the approximate 27 percent, which Caltrans estimates is the increased capacity relating primarily to the addition of a new shoulder and bike path. Because it was replacing the entire east span, Caltrans believed it was appropriate to capitalize 100 percent of these costs. To correct this error, the beginning net assets of the governmental activities in the State's basic financial statements were reduced by $1.9 billion as of July 1, 2008.

Criteria

GASB Statement Number 34 imposes requirements on governmental entities when using the modified approach to account for infrastructure assets. Under the modified approach, all expenditures made for infrastructure assets, including both maintenance and preservation costs, should be expensed in the year incurred unless they represent additions or improvements that increase the capacity or efficiency of the related assets. Further, the response to question 7.17.5 of the GASB implementation guides specifically addresses the practice of building a comparable new bridge alongside an old bridge. In particular, the response indicates that the entire cost of building the new bridge and tearing down the old bridge is considered a preservation cost and should be expensed, except to the extent that the new bridge increased the capacity or efficiency of the bridge network.

Recommendation

Caltrans should ensure that it expenses the maintenance and preservation costs it incurs related to the State's bridges and should only capitalize those costs that increase the capacity or efficiency of the bridge network.

Department's View and Corrective Action Plan

Caltrans concurs with our finding and recommendation. After meeting with us to discuss this issue, it communicated to the State Controller's Office the information needed to correct the basic financial statements for fiscal year 2008–09.

CALIFORNIA DEPARTMENT OF TRANSPORTATION

Reference Number: 2009-15-3

Condition

The California Department of Transportation (Caltrans) is not assessing the condition of its bridges every three years as required under the modified approach of accounting for infrastructure assets. As part of implementing changes to the State's Comprehensive Annual Financial Report required by Governmental Accounting Standards Board (GASB) Statement Number 34, Caltrans adopted the modified approach to account for certain infrastructure assets, including the State's network of roadways and bridges. However, in 2006 Caltrans increased its inspection cycle, from two years to four years, for bridges it deemed to have a low risk of deterioration. As of June 30, 2009, approximately 1,800 bridges were on this four-year cycle and Caltrans had not inspected 284 of those bridges within the last three years, and 21 were also overdue for their scheduled four-year inspection. Although the number of bridges that are overdue for inspection does not currently represent a material portion of the State's 12,266 bridges as of June 30, 2009, Caltrans should change its inspection policy to ensure that all of its bridges meet the three-year assessment criteria. To the extent that a material number of bridges are not assessed timely, the State would no longer meet the requirements for reporting the cost of its bridge network using the modified approach and would have to begin depreciating those assets.

Criteria

GASB Statement Number 34 imposes requirements on governmental entities when using the modified approach to account for infrastructure assets. Under the modified approach, governments must complete condition assessments of eligible infrastructure assets in a consistent manner at least once every three years to provide reasonable assurance that such assets are being preserved at the condition level established and disclosed by the government.

Recommendation

In order to continue to use the modified approach to account for its bridges, Caltrans should change its policy to ensure that it performs condition assessments for its bridges at least once every three years. Those assessments may be performed using statistical samples that are representative of the eligible infrastructure assets being preserved.

Department's View and Corrective Action Plan

Caltrans concurs with our finding and recommendation and is working to bring the frequency of its bridge assessments back in line with the requirements for using the modified approach.

DEPARTMENT OF PARKS AND RECREATION

Reference Number: 2009-15-4

Condition

For fiscal year 2003–04, we reported that the Department of Parks and Recreation (Parks and Recreation) continued to have inadequate procedures to account for and report its real property. Specifically, its acquisition unit had not reported $3.4 million in ancillary costs for the real property acquired between July 2001 and June 2002, and it did not report ancillary costs to the Department of General Services (General Services) in a format that allowed input into the Statewide Property Inventory system. In addition, Parks and Recreation did not reconcile the amounts reported in the Statewide Property Inventory with its records. In December 2004, in an attempt to reconcile the two sources, Parks and Recreation acknowledged an unexplained difference of $167 million between its and General Services' Statewide Property Inventory account balances for land. In its corrective action plan, Parks and Recreation had stated that it would work with General Services to develop a

process to include ancillary costs in the Statewide Property Inventory and that it had initiated a process to reconcile the amounts reported in the Statewide Property Inventory with its Statement of Changes in General Fixed Assets.

In November 2007 we followed up with Parks and Recreation to determine whether it reports ancillary costs to General Services for inclusion in the Statewide Property Inventory. Parks and Recreation informed us that it had reported all ancillary costs of real property to General Services in a format that allows input into the Statewide Property Inventory, and as a result, its records agree with that of General Services. In November 2008 Parks and Recreation informed us that it had not fully implemented our prior year's recommendation to reconcile the amounts reported in the Statewide Property Inventory with its Statement of Changes in General Fixed Assets and that the difference between the two sources was $33.2 million. In January 2010 we again followed up with Parks and Recreation and found that it had reconciled all but $9.2 million of the difference between the amounts reported in the Statewide Property Inventory and its Statement of Changes in General Fixed Assets.

Unless Parks and Recreation reconciles its Statement of Changes in General Fixed Assets with the Statewide Property Inventory, the State's financial statements may be misstated, and the Statewide Property Inventory may be incomplete and inaccurate.

Criteria

The *State Administrative Manual,* Section 8611, requires that all costs related to purchasing land be included in the capitalized amount. This includes ancillary costs such as legal and title fees; title search costs; and costs of grading, surveying, draining, or other related items.

The California Government Code, Section 11011.15, requires departments 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 year. It also requires General Services to maintain a complete and accurate inventory of all real property held by the State. General Services includes Parks and Recreation's information in the Statewide Property Inventory.

The *State Administrative Manual*, Section 7924, requires agencies to annually reconcile the amounts reported in the Statewide Property Inventory with the Statement of Changes in General Fixed Assets.

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

Recommendation

Parks and Recreation should fully reconcile the amounts reported in the Statewide 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 is committed to completing its reconciliation of amounts reported in the Statewide Property Inventory with its Statement of Changes in General Fixed Assets by December 2010.

DEPARTMENT OF GENERAL SERVICES

Reference Number: 2009-15-5

Condition

The Department of General Services (General Services) made several errors when preparing the Architecture Revolving Fund's Statement of Changes in General Fixed Assets for fiscal year 2008–09. The statement initially submitted to the State Controller's Office (SCO) contained both negative additions and a negative ending balance for construction in progress. We found that these errors resulted in an aggregate understatement of its construction in progress of $1.4 billion.

The Architecture Revolving Fund's Statement of Changes in General Fixed Assets summarizes the beginning and ending balances of its construction in progress, as well as the additions and deletions that occurred during the year. General Services makes certain adjustments to report to the SCO only the results for governmental activities. For example, its standard process is to eliminate activity associated with projects funded from enterprise funds or internal service funds because the SCO obtains this data from other sources. However, General Services inadvertently misclassified certain projects as being paid with enterprise funds or internal service funds and eliminated their activity, but these projects were actually funded by governmental funds. As a result, General Services understated its additions to construction in progress by $464 million. In addition, General Services' adjustment to eliminate from additions those projects funded with enterprise funds or internal service funds inappropriately included amounts related to projects that were closed. Overstating this adjustment had the effect of understating additions to construction in progress related to governmental activities by another $343 million. According to General Services, this mistake was due to a programming error that occurred during a computer conversion. General Services also overstated the amount of deletions from construction in progress because it inadvertently failed to remove from its calculation various closed projects totaling $587 million that were financed with enterprise funds.

When departments prepare inaccurate Statements of Changes in General Fixed Assets, the SCO does not have accurate information when reporting the value of the State's capital assets in the Comprehensive Annual Financial Report. Subsequent to our review, General Services submitted a revised Statement of Changes in General Fixed Assets to correct these errors.

Criteria

The *State Administrative Manual*, sections 7463, 7977, and 8660, requires departments to report all additions and deletions to real property funded by governmental funds to the SCO in a Statement of Changes in General Fixed Assets.

Recommendation

General Services should revise its procedures to ensure that its Statement of Changes in General Fixed Assets for the Architecture Revolving Fund only includes construction in progress that is funded by governmental funds.

Department's View and Corrective Action Plan

General Services concurs with our finding and recommendation, and as noted above, submitted a revised Statement of Changes in General Fixed Assets reflecting a $1.4 billion increase to construction in progress.

Compliance Issues Related to All Federal Grants

U.S. OFFICE OF MANAGEMENT AND BUDGET

Reference Number:	2009-12-9
Federal Program Title:	All Programs
Category of Finding:	Reporting
State Administering Department:	Department of Finance (Finance)

Criteria

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

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

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

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

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

(b) Step 1.

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

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

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

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

Condition

State law requires Finance to maintain a complete accounting system to ensure that all revenues, expenditures, receipts, disbursements, resources, obligations, and property of the State are accounted for properly and accurately. Because of limitations in its automated accounting systems, the State has not complied with the provision of OMB Circular A-133 requiring auditees to prepare a schedule of expenditures of federal awards that includes the total federal awards expended for each federal program. As a result, the schedule (beginning on page 309) shows total cash receipts rather than expenditures by program. Further, without the expenditure information, we are unable to comply with the provision of OMB Circular A-133 for determining which federal programs are major programs. Instead, we use the cash receipts information to make our determination for Type A programs. We also review expenditure information for those federal programs that have cash receipts within 10 percent of the Type A program threshold to ensure that they are classified correctly as Type A programs.

Questioned Costs

Not applicable.

Recommendation

As priorities and resources permit, Finance should modify the State's accounting system to allow it to prepare a schedule of expenditures of federal awards that includes the total federal awards expended for each individual federal program.

Department's View and Corrective Action Plan

The State's accounting system will require substantial modification to comply with federal and state requirements. The State has received legislative approval for a new integrated statewide financial management system—the Financial Information System for California (FI$Cal Project)—with an anticipated completion date of 2017. Finance is aware of the importance of the reporting requirement, and it is working cooperatively with state agencies on developing an interim solution by 2010–11.

The FI$Cal Project's requirements related to federal funding include the capability to record grants by Catalog of Federal Domestic Assistance (CFDA) number and to track and record transactions for individual grants at all levels of the account classification structure by time period and by CFDA number. Finance is confident that the new system, upon full implementation to all state departments will have the capability to provide total expenditures for each federal program as required by OMB Circular A-133.

Reference Number:	2009-13-13
Federal Catalog Number:	All programs subject to OMB Circular A-133
Category of Finding:	Subrecipient Monitoring
State Administering Department:	State Controller's Office (SCO)

Criteria

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

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

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

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

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

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

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

2 The SCO will coordinate single audit compliance with local governments.

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

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

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

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

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

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

Condition

In our prior-year audit, we reported that some state departments are not issuing management decisions on audit findings within six months after the State receives the local governments' audit reports. Consequently, the State cannot ensure that local governments are taking timely and appropriate corrective action to address the audit findings.

In our prior-year audit, we explained that the State has established a process that requires local governments such as counties to submit their audit reports to the SCO. If the local government's audit report includes findings with respect to federal funds, the SCO must forward copies of the report and corrective action plan to state entities affected by the audit findings. Another step in the SCO's process is to review the report and perform procedures to determine if it should return the report due to missing information, reject the report due to noncompliance with the applicable reporting standards and requirements, or accept (certify) the report. At the time we conducted our prior-year audit procedures, the SCO's process was to certify the report before forwarding a copy of the acceptance letter and audit report to the appropriate state agencies. However, we found that the SCO took between 1.2 and 9.2 months to certify the reports, thus preventing the State from meeting the six-month requirement for issuing management decisions. As a result, we made several recommendations, including that the SCO improve its process for forwarding the local governments' audit reports to the appropriate state agencies, that it work closely with state agencies to inform them of how much time they have to issue management decisions, and that the SCO work with the Department of Finance to determine whether the SCO must certify the reports before forwarding them to the appropriate state agencies.

During our follow-up procedures for fiscal year 2008–09, we found that the SCO did not fully correct these conditions. For instance, we found that the SCO continued its practice of certifying audit reports before forwarding them to the appropriate state agencies. Specifically, we reviewed 23 counties' audit

reports that the SCO received by June 30, 2009. Although we found that the SCO reduced the amount of time it took to certify these audit reports compared to the amount we reported in our prior-year audit, the SCO's practice of certifying audit reports before sending them to the appropriate state agency minimized the amount of time the State had to meet the six-month requirement.

According to the SCO, it amended its processes in July 2009 after the State's federal cognizant agency, the U.S. Department of Health and Human Services (Health and Human Services), informed the SCO that the six-month requirement for issuing management decisions begins once the SCO receives the audit reports, not when it certifies the audit reports. As a result, the SCO explained that on July 7, 2009, it met with state agencies to discuss the decision and to inform them that they will now have six months from the date that the SCO receives the report to issue a management decision on audit findings. According to the SCO's revised procedures, upon receipt of audit reports containing audit findings, the SCO will immediately distribute copies to the appropriate state agencies that are affected by the findings even if the report has been rejected. Further, in accordance with its revised procedures, the SCO will send each report with a cover letter notifying the appropriate state agency of the six-month requirement and of the date that the management decision must be issued.

Although the SCO modified its process for forwarding audit reports to the appropriate state agencies in July 2009, we found that it did not consistently follow this process. Specifically, to determine whether the SCO followed its new procedures, we selected four counties' audit reports that the SCO certified after July 7, 2009, and that contained audit findings and required management decisions within six months. The SCO immediately began to follow its new procedures by meeting with state agencies to inform them about Health and Human Services' decision; however, for two of the four counties we reviewed, the SCO did not follow its new procedure of immediately forwarding audit reports before certifying them. According to the SCO, it certified one of the two reports within roughly two weeks of receipt and the other within about two months of receipt before forwarding them to the appropriate state agencies. Thus, the SCO limited these state agencies' ability to meet the six-month requirement for issuing management decisions.

Questioned Costs

Not applicable.

Recommendation

To ensure that the State can meet the six-month requirement for issuing management decisions, the SCO should adhere to its new procedures by immediately forwarding the local governments' audit reports to the appropriate state agencies.

Department's View and Corrective Action Plan

The finding states that "*SCO continued its practice of certifying audit reports before forwarding to the appropriate state agencies. Specifically, we reviewed 23 counties' audit reports that the SCO received by June 30, 2009.*"

(1) For BSA to expect its recommendations for corrective action to be fully implemented before it issued its prior year audit finding and/or final audit report is unreasonable and ensures that it will always have a finding in a subsequent report.

(2) This finding, as written, is misleading as it omits a proper timeline to give true perspective to the complete and prompt actions the SCO took to address the prior-year finding. The timeline shows:

1. SCO did not receive the prior-year finding from BSA until late April 2009. BSA issued its final report on May 27, 2009.
2. Once BSA's final report was issued on May 27, 2009, the SCO contacted Health and Human Services to obtain clarification on when the six-month requirement began. SCO did not receive a final clarification from Health and Human Services until late June 2009.

3. Once SCO received the final decision from Health and Human Services in late June 2009, we met with State agencies on July 7, 2009 to inform them of the clarification of six-month requirement and, after discussion with State agency representatives, modified our single audit review process.
4. All 23 reports referenced in the finding were received prior to the BSA issuing its prior-year finding to the SCO in late April 2009 or the BSA's final report on May 27, 2009.

The SCO fully implemented all three of the BSA's recommendations after just more than one month's time after receiving the BSA's final audit report by:

- Improving the forwarding of reports by developing a new process and procedures.
- Working closely with State agencies (evidenced by our July 2009 meeting) and since July 7th, has been providing a management decision due date to inform State agencies of the amount of time they have to issue a decision.
- Working with Health and Human Services to obtain clarification of the six-month requirement as stated in the SCO's response to the prior-year finding.

Our review and certification process for the 2007-08 fiscal year reports was substantially completed when we received the final audit report from the BSA (May 27, 2009) and final clarification from Health and Human Services (late June 2009). Therefore, we revised our policy and procedures, noting that a new "Management Decision Requirement" process was added and will be implemented when the SCO receives the 2008–09 fiscal year audit reports. The new policy states that the SCO will "immediately" forward all audit reports with federal award program audit findings to State agencies. Internally, SCO staff members understand that "immediately" means before reviewing and certifying reports during our peak certification time.

The process involves more than simply forwarding a report to a State agency. The process includes (1) determining whether the SCO has received a complete reporting package; (2) tracking the report receipt, status, and findings within a database system; (3) identifying and databasing affected State agencies; (4) generating letters to each affected State agency; (5) scanning the audit reports; and (6) creating an electronic format CD of relevant reports for each affected State agency.

The SCO considers two-to-eight weeks to be a reasonable amount of time to forward either certified or not-yet-certified audits to State agencies. The two-to-eight week time frame allows State agencies ample time (between four and five and one-half months) to issue management decisions on audit findings. The SCO will continue its new process of notifying State agencies of the six-month date by which the State agency must issue a management decision. However, due to the BSA's literal interpretation of the word "immediately", the SCO will further revise our policy to say that a report copy will be forwarded to affected State agencies "within two to eight weeks" of SCO receiving the complete reporting package. 3

In its finding the BSA also states that the SCO did not consistently follow its new procedures of immediately forwarding the audit reports because it certified two reports before forwarding them to the State agencies. In these two instances, the SCO made a conscious decision to certify these reports before forwarding them to the State agencies because, during off-peak times, it is usually a more efficient and a less-costly use of State resources to do so (i.e., reviewing the report twice, sending two letters, generating two CD's, etc). In order to ensure that the BSA clearly understands our process we will add "peak" and "off-peak" procedures, so that when the SCO determines it is most effective to minimize the number of times a report must be handled (by both the State agency and the SCO) by certifying it first, the process will not result in an audit finding.

The BSA's statement that the two-week to two-month time period that the SCO took to forward two audit reports to the State agencies limited the State agencies' ability to meet the six-month requirement for issuing management decisions, suggests that the BSA expects that the State agencies need the entire six months available to them to issue management decisions. The only way the SCO can accomplish this is to instruct all local governments and special districts to send their audit reports directly to each State agency for which they had pass-through federal expenditures. Not only will this bring additional burden in cost and workload to State agencies, local governments and special districts, it will also put the SCO in violation of the requirements set forth in SAM Section 20070.

(4) Lastly, BSA incorrectly cites pass-through entity responsibilities under OMB A-133 as the criteria for its finding. The SCO is considered a cognizant agency. Therefore, the correct citation should be OMB A-133 Subpart D, Section 400 (a) Cognizant Agency for Audit Responsibilities, since this role has been delegated to the SCO by Health and Human Services and established under SAM Section 20070.

Auditor's Comments on Department's View

(1) The SCO is correct that, generally, an internal control weakness related to the audit of fiscal year 2007–08 that was identified during fiscal year 2008–09 would also be a finding for the audit of fiscal year 2008–09 because the weakness continued to exist and resulted in noncompliance during that period. However, in this case, the concern is not only that a weakness existed during fiscal year 2008–09, but that the SCO also did not follow the procedures it implemented on July 7, 2009, during the 2009–10 time period.

(2) Although the SCO correctly stated that it implemented new procedures shortly after the public release of our fiscal year 2007–08 report, our work on this finding began in December 2008, and we sent the SCO a draft copy of the finding in March 2009. Additionally, regardless of when we notified the SCO of the prior-year finding, the SCO still has the responsibility to follow the procedures it implemented as a result of Health and Human Services' guidance that the six-month requirement begins upon the SCO's receipt of the audit report. Finally, the two exceptions we noted related to those audit reports that the SCO certified after July 7, 2009—the date it implemented its new procedures. Thus, the date that the SCO was notified of the prior-year finding is irrelevant as to whether it adhered to its new procedures.

(3) It is unclear why the SCO's current procedure of immediately forwarding audit reports to the appropriate state agencies is not in the best interest of the State rather than its proposed change that may delay sending reports to state agencies for two to eight weeks. The SCO's current approach maximizes the time that the State has to issue management decisions and thus comply with the federal requirements.

(4) The citation we use refers to the State's ability to meet the six-month requirement to issue management decisions. Thus, our citation is correct.

Reference Number:	2009-14-6
Federal Program Title:	All Programs
Category of Finding:	Special Tests and Provisions
State Administering Department:	Department of Finance (Finance)

Criteria

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

(b) For recipients covered by the Single Audit Act Amendments of 1996 and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," recipients agree to separately identify the expenditures for Federal awards under the Recovery Act on the Schedule of Expenditures of Federal Awards (SEFA) and the Data Collection Form (SF-SAC) required by OMB Circular A-133. This shall be accomplished by identifying expenditures for federal awards made under the Recovery Act separately on the SEFA, and as separate rows under Item 9 of Part III of the SF-SAC by CFDA number, and inclusion of the prefix "ARRA-" in identifying the name of the federal program on the SEFA and as the first characters in Item 9d of Part III on the SF-SAC.

Condition

Finance prepares its Schedule of Federal Assistance (Schedule) on a cash receipts basis and lacks adequate internal controls to ensure that it can identify accurately all receipts from the American Recovery and Reinvestment Act of 2009 (Recovery Act). When preparing its Schedule for fiscal year 2008–09, Finance used a report from the State Controller's Office (SCO) to identify cash receipts by federal catalog number. However, this report did not consistently identify Recovery Act receipts. Specifically, federal programs that used the same federal catalog number for Recovery Act and non-Recovery Act funds are combined together on the SCO's report, unless state departments had previously established separate accounts with the SCO to specifically identify Recovery Act receipts.

On August 5, 2009, the California Recovery Task Force requested all state departments report Recovery Act receipts to Finance so that it could prepare its Schedule. State departments responded to Finance via e-mail, providing assertions of the amount of Recovery Act funds received. However, relying on e-mail assertions from state departments, instead of obtaining their accounting records showing Recovery Act receipts, is an inadequate internal control to ensure that Finance receives accurate information to use when it prepares its Schedule.

In order to ensure that Recovery Act receipts are tracked separately from other federal awards and to facilitate development of the Schedule for fiscal year 2009–10, the California Recovery Task Force instructed state departments on August 26, 2009, to establish separate accounts with the SCO for Recovery Act receipts.

Questioned Costs

Not applicable.

Recommendations

Finance should take steps to ensure that all state departments followed the California Recovery Task Force's directive to establish separate Recovery Act accounts with the SCO. Further, Finance should identify departments that have received or are expected to receive Recovery Act funds during fiscal year 2009–10 and verify that such accounts have been established.

Department's View and Corrective Action Plan

Finance has taken steps to ensure that all state departments follow the California Recovery Task Force's August 26, 2009 directive to establish separate Recovery Act accounts with the State Controller's Office (SCO). Finance continues to identify, communicate, and work with departments that have

received or are expected to receive Recovery Act funds during fiscal year 2009–10 to ensure separate accounts have been established. Additionally, we have verified with the SCO that accounts have been set up.

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

Bureau of State Audits

U.S. DEPARTMENT OF AGRICULTURE

Reference Number:	2009-2-3
Federal Catalog Number:	10.561
Federal Program Title:	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program
Federal Award Numbers and Years:	7CA400CA4; 2009 7CA400CA4; 2008 7CA400CA4; 2007
Category of Finding:	Allowable Costs/Cost Principles
State Administering Department:	Department of Social Services (Social Services)

Criteria

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

Appendix B to Part 225—Selected Items of Cost

8. Compensation for personal services

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

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

(a) More than one Federal award,

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

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

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

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

Condition

Social Services' Food Stamps Policy Bureau (policy bureau) cannot substantiate the payroll expenditures it charged to the Supplemental Nutrition Assistance Program (SNAP). The policy bureau staff spend their time working on activities related to SNAP and the state-funded California Food Assistance Program. However, Social Services does not require its staff to complete personnel activity reports, such as time sheets, or equivalent documentation to support the actual amount of time they spend working on activities related to these two programs. Instead, according to the policy bureau chief, employees submit in monthly e-mails the hours they spend on the federal and state programs, and the policy bureau does not retain these e-mails. Unless Social Services corrects this deficiency, it risks losing federal funds for the time state employees spent administering this program.

Questioned Costs

Unknown

Recommendation

Social Services should require that all staff who do not work exclusively on a single federal program to prepare personnel activity reports or equivalent documentation that meets the federal requirements.

Department's View and Corrective Action Plan

Social Services indicated that its Food Stamp Policy Bureau will utilize an individual time sheet for each staff person, which will indicate time spent on the program in lieu of the e-mail account that is currently in use. The time sheet will be filled out and signed by the employee and the manager, and maintained as documentation and substantiation for an appropriate period of time. Social Services stated that these corrective actions will be completed by January 2010.

THE CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

Reference Number:	2009-7-5
Federal Catalog Number:	94.006
Federal Program Title:	AmeriCorps
Federal Award Numbers and Year:	06ACHCA001; 2006 06AFHCA001; 2006
Category of Finding:	Matching
State Administering Department:	CaliforniaVolunteers

Criteria

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

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

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

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

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

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

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

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

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

    (i) Be verifiable from your records;

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

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

    (iv) Be allowable under applicable OMB cost principles.

Condition

In our prior-year audit, we reported that CaliforniaVolunteers did not confirm that its subgrantees' matching contribution amounts, as reported on their periodic expense reports, were from allowable sources. According to CaliforniaVolunteers, its fiscal desk review process included the collection and review of underlying documentation that supports the subgrantees' reported matching expenses, and it reviewed this documentation for accuracy and allowability of the types of expenses; however, it did not confirm that the source of the match was allowable under the grant during the review.

During our follow-up procedures for fiscal year 2008–09, we found that CaliforniaVolunteers updated its fiscal desk review policies and procedures to include a process for collecting and reviewing documentation to verify that its subgrantees' matching contributions were from allowable sources. However, CaliforniaVolunteers did not update these policies and procedures until June 25, 2009, five days before the end of the period of our review. As a result, CaliforniaVolunteers was unable to ensure that its subgrantees' matching contributions were from allowable sources.

CaliforniaVolunteers stated that it would implement the updated policies and procedures beginning with fiscal desk reviews performed for subgrantees that completed program year 2007–08. As of January 2010, more than six months after it updated its fiscal desk review policies and procedures, CaliforniaVolunteers only completed a fiscal desk review for one of the 27 subgrantees scheduled to receive such a review for program year 2007–08. According to its chief of staff, CaliforniaVolunteers is experiencing a backlog of fiscal desk reviews. She explained that because the fiscal desk review process is relatively new and cumbersome, CaliforniaVolunteers has taken longer than anticipated to complete these reviews. Further, she indicated that the need to prioritize fiscal desk reviews for subgrantees receiving American Recovery and Reinvestment Act of 2009 (Recovery Act) funds for program year 2009–10 has compounded the extent of the backlog. According to its chief of staff, CaliforniaVolunteers developed a fiscal monitoring workplan (workplan) for the period covering January 1, 2010, through June 30, 2010, to resolve the backlog of fiscal desk reviews. The workplan provides a schedule for completing fiscal desk reviews for program years 2006–07 through 2008–09 as well as fiscal desk reviews for subgrantees receiving Recovery Act funds for program year 2009–10. She stated that CaliforniaVolunteers intends to eliminate the backlog by June 30, 2010. Until it does so, CaliforniaVolunteers risks that subgrantees that are meeting the matching requirements with unallowable sources will go undetected during the grant period.

As part of our follow-up procedures, we assessed the one fiscal desk review that CaliforniaVolunteers completed as of January 2010 for program year 2007–08. Our assessment indicates that CaliforniaVolunteers is not properly following the updated fiscal desk review policies and procedures. For example, although the procedures require CaliforniaVolunteers to review a form of payment receipt and the fund into which cash contributions were deposited, it did not complete the verification. According to its chief of staff, CaliforniaVolunteers believes its policy is sufficient; however, it recognizes that it may not have fully implemented its policy in the case of the one fiscal desk review the audit team reviewed. In another instance, although the subgrantee stated the fair market value of its in-kind contributions, CaliforniaVolunteers' internal records indicate the subgrantee did not provide sufficient documentation to support the total value of the contributions. CaliforniaVolunteers requested that the subgrantee submit a corrective action plan, including its methodology for allocating matching contributions. CaliforniaVolunteers' chief of staff indicated that the subgrantee submitted documentation in December 2009; however, as of the beginning of February 2010, CaliforniaVolunteers has not followed up with the subgrantee regarding its submission. In reviewing the documentation submitted by the subgrantee, we noted that the documentation was insufficient for determining the fair market value of the subgrantee's in-kind contributions. Until it verifies the fair market value of its subgrantees' in-kind contributions, CaliforniaVolunteers cannot ensure that subgrantees are properly reporting the value of in-kind match contributions.

Questioned Costs

Unknown

Recommendations

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

Department's View and Corrective Action Plan

Implementation of the workplan that CaliforniaVolunteers established to eliminate the backlog of fiscal desk reviews is currently on track. CaliforniaVolunteers anticipates that fiscal desk reviews for 2006–07 and 2007-08 will be completed by June 30, 2010.

CaliforniaVolunteers will ensure its established policies and procedures for fiscal desk reviews are followed. Based on the auditor's findings and our experience in implementing these new policies, we will review and update, as necessary, these policies so that the policy for reviewing match source appropriately verifies that federal funds are not used as match (unless approved).

In addition, CaliforniaVolunteers will ensure that fiscal desk review policies related to verifying subgrantee match are implemented. As necessary, we will review and update these policies to make certain that the fiscal desk review process verifies that subgrantees are keeping appropriate records on the value of in-kind match reported and that these records are reviewed as part of the fiscal desk review process.

Reference Number:	2009-13-9
Federal Catalog Number:	94.006
Federal Program Title:	AmeriCorps
Federal Award Numbers and Year:	06ACHCA001; 2006 06AFHCA001; 2006
Category of Finding:	Subreciepient Monitoring
State Administering Department:	CaliforniaVolunteers

Criteria

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

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

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

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

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

Condition

In our prior-year audit, we reported that CaliforniaVolunteers continued to review and evaluate its interim policy and procedures related to the review and documentation of fiscal information on site visits. We reported that CaliforniaVolunteers stated that it had accessed technical assistance from the Corporation for National and Community Service (corporation) and was utilizing the results of its fiscal desk reviews to determine the high-risk areas for programs. CaliforniaVolunteers also stated that it was in the process of entering into an agreement with the Department of Finance's Office of State Audits and Evaluations (Finance) to assist it with the evaluation of its site visits. We reported that CaliforniaVolunteers expected to implement its updated site-visit policy and procedures during fiscal year 2008–09.

During our follow-up procedures for fiscal year 2008–09, we found that CaliforniaVolunteers did not implement its updated site-visit policy and procedures. Specifically, CaliforniaVolunteers is still in the process of reviewing and evaluating its interim policy and procedures related to the review and documentation of fiscal information on site visits. CaliforniaVolunteers stated that it has consulted with the corporation regarding high-risk areas for programs and appropriate follow-up strategies. Further, CaliforniaVolunteers entered into an interagency agreement with Finance covering 2009 to assist it, in part, with developing and documenting an ongoing risk-based grant monitoring process for the federal AmeriCorps grants. In July 2009 Finance provided CaliforniaVolunteers with a risk-based methodology for audits of AmeriCorps grants. CaliforniaVolunteers stated that it is considering this methodology in the evaluation of its site visits and that it also plans to contract with Finance to perform audits on high-risk cases. CaliforniaVolunteers expects to implement its updated site-visit policy and procedures by June 2010.

Questioned Costs

Not applicable.

Recommendation

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

Department's View and Corrective Action Plan

CaliforniaVolunteers plans to formalize the policy related to site visits and begin implementation of the revised policy by July 2010. CaliforniaVolunteers anticipates that part of the implementation plan will include an interagency agreement with Finance to conduct site visits of programs deemed high-risk per the revised policy.

U.S. DEPARTMENT OF DEFENSE

Reference Number:	2009-1-6
Federal Catalog Number:	12.401
Federal Program Title:	National Guard Military Operations and Maintenance Projects
Federal Award Numbers and Years:	W912LA-09-02; 2009 W912LA-08-02; 2008
Category of Finding:	Activities Allowed/Allowable Costs
State Administering Department:	Military Department (Military)

Criteria

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

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

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

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

(a) More than one Federal award,

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

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

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

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

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

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

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

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

(d) They must be signed by the employee

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

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

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

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

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

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

Condition

In our prior-year audit, we reported that Military lacked internal controls that would allow it to prevent and/or detect instances when personnel costs are being inappropriately charged to this federal program. Specifically, when Military creates a new position or fills an existing position, it reviews the associated job duties and decides whether charging this federal program is allowable. However, we found that Military lacked a process to identify when personnel may no longer be working on allowable activities. Further, we reported that Military did not comply with the requirements of OMB Circular A-87 as it did not have adequate documentation, such as certifications or personnel activity reports, to support personnel costs it charged to the federal fiscal year 2007 and 2008 awards. Specifically, we reviewed a sample of monthly personnel expenditures for 30 individuals amounting to more than $260,000. In each case, we noted the lack of documentation—such as certifications or personnel activity reports—that are required under OMB Circular A-87. Although the personnel costs were associated with time sheets, these time sheets did not describe what activities the employee worked on for the stated time period.

Further, according to the U.S. Property and Fiscal Officer (USPFO)—the federal representative in California who oversees this program—employees' charging time to the federal program but spending incidental amounts of time on state projects is acceptable. The USPFO defines incidental time as less than 25 percent of the total time. However, without the personnel activity reports required under OMB Circular A-87, it is unclear how Military can comply with the USPFO's guidance. Finally, Section 304 of the Master Cooperative Agreement between Military and the Department of Defense states that the allowability of costs shall be determined according to the terms and conditions of OMB Circular A-87.

During our follow-up procedures for fiscal year 2008–09, we found that Military did not address this finding. However, in conducting our follow-up procedures, we learned that Military developed a monthly certification process in January 2010 that it plans to use to identify when personnel may no longer be working on allowable activities. This monthly certification will require employees to certify that the duties they performed during the respective time period are in accordance with the duties contained in the position descriptions. Employees will also certify that the duties they performed are in accordance with the duties of the authorized positions as approved under the Master Cooperative Agreement, from which the positions are funded, and that the duties have not been modified during the respective time period. Additionally, according to Military's comptroller, Military is developing a process to enable an after-the-fact accounting of the time spent on specific programs in the event that it creates a duty description of a federally funded employee that requires the employee to work

on activities under multiple programs or cost objectives. Military expects to implement its monthly certification process beginning in February 2010. Until it implements these processes, Military lacks assurance that personnel costs are appropriately charged to this federal program.

Questioned Costs

Overall, personnel expenditures accounted for more than $33 million—or approximately 64 percent—of the $51.7 million in program expenditures between July 1, 2008, and June 30, 2009.

Recommendations

Military should implement its monthly certification process to prevent or detect instances when employees, who are funded under this federal program, are no longer working on allowable activities. Further, Military should develop and implement a process to ensure that it adequately and separately tracks actual activities for employees who work on mulitple programs or cost objectives.

Department's View and Corrective Action Plan

Military concurs and has developed a monthly certification process to certify the duties employees performed during the respective time period. In the event the certification process identifies a federally funded employee that works on activities under multiple programs or cost objectives, Military will implement a process that enables an after-the-fact allocation of the time spent on multiple programs or cost objectives.

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U.S. DEPARTMENT OF EDUCATION

Reference Number:	2009-1-1
Federal Catalog Number:	84.181
Federal Program Title:	Special Education—Grants for Infants and Families
Federal Award Numbers and Years:	H181A080037; 2008 H181A070037; 2007
Category of Finding:	Activities Allowed/Allowable Costs
State Administering Department:	Department of Developmental Services (Developmental Services)

Criteria

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

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

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

Condition

Developmental Services did not have an adequate internal control process in place throughout the fiscal year to ensure that the expenses incurred by regional centers were only for allowable activities and costs. Specifically, the regional centers' reimbursement claims frequently lacked the necessary detail to allow Developmental Services' staff who approve them to determine whether the claims include only allowable activities and costs covered under the program. We examined 46 reimbursements totaling $48.8 million and identified concerns with 29 reimbursements totaling $32.9 million.

This finding repeats a finding extending from fiscal year 2006–07. In response to similar findings in prior years, Developmental Services implemented a new invoicing process that required regional centers to submit purchase of service (POS) reports as support for their reimbursement claims. Developmental Services implemented this new invoicing process in March 2009, the last quarter of our testing period. Further, in April 2009, the U.S. Department of Education concluded that information Developmental Services provided it regarding this new invoicing process addressed its concerns about the finding. We identified no concerns with the nine reimbursements we reviewed that occurred after Developmental Services implemented its new invoicing process.

Questioned Costs

Unknown

Recommendation

Developmental Services should continue implementing its new invoicing process to ensure that it reimburses regional centers for only those allowable activities and costs that are supported by sufficient documentation.

Department's View and Corrective Action Plan

As the Bureau of State Audits (bureau) has confirmed, Developmental Services now has a claims review process that ensures that payments are made only for allowable costs. As the bureau also acknowledged, Developmental Services' claims review process has been approved by the federal funding agency, the Office of Special Education Programs.

Reference Number:	2009-1-2
Federal Catalog Number:	84.126
Federal Program Title:	Rehabilitation Services—Vocational Rehabilitation Grants to States
Federal Award Numbers and Years:	H126A090005B; 2009 H126A080005D; 2008 H126A070005D; 2007
Category of Finding:	Activities Allowed/Allowable Costs
State Administering Department:	Department of Rehabilitation (Rehabilitation)

Criteria

TITLE 2—GRANTS AND AGREEMENTS, PART 225—COST PRINCIPLES FOR STATE, LOCAL, AND INDIAN TRIBAL GOVERNMENTS (OMB CIRCULAR A87)

Appendix B to Part 225—Selected Items of Cost

8. Compensation for personnel services

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

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

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

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

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

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

         (d) They must be signed by the employee.

Condition

Rehabilitation lacks sufficient policies regarding staff time distribution. Although many of its staff work solely on the vocational rehabilitation grant, Rehabilitation uses monthly time sheets to substantiate time distribution rather than requiring employees to sign periodic certifications. Our review of six employees found one instance in which neither Rehabilitation's headquarters office nor its district office could locate an original, contemporaneous monthly time sheet signed by the employee. Although Rehabilitation could not locate the employee's original signed time sheet for March 2009, it did provide a time sheet for the missing month that was signed in November 2009 by both the employee and the employee's supervisor. Rehabilitation personnel explained that the inability to locate the original time sheet most likely was caused by a combination of limited resources and staff inexperience. We also believe that Rehabilitation's lack of specific written guidance detailing how staff should process and maintain employee time sheets may have contributed to Rehabilitation's inability to locate the original time sheet. For example, Rehabilitation has not updated the sections of its policy manual that relate to personnel issues, including timekeeping, since 1985. Rehabilitation plans to update this section of its policy manual in 2010. Without sufficient updated policies regarding staff time distribution, Rehabilitation increases the risk that its staff time charged to the vocational rehabilitation grant will not be sufficiently supported.

Questioned Costs

Not applicable.

Recommendation

Rehabilitation should update and implement its policies regarding time distribution to ensure that it maintains appropriate support for personnel costs charged to the grant.

Department's View and Corrective Action Plan

Rehabilitation agrees with this finding. To ensure the appropriate certification of time, Rehabilitation sent out communication on December 8, 2009, to all departmental employees. This communication clarified roles and responsibilities regarding the signatory and filing requirements for Individual Attendance Summaries (timesheets). To reinforce this communication Rehabilitation will conduct training by March 2010. Additionally, Rehabilitation will update relevant policy in the Rehabilitation Administration Manual (RAM) during calendar year 2010.

Reference Number:	2009-1-3
Federal Catalog Number:	84.126
Federal Program Title:	Rehabilitation Services—Vocational Rehabilitation Grants to States
Federal Award Numbers and Years:	H126A090005B; 2009 H126A080005D; 2008 H126A070005D; 2007
Category of Finding:	Activities Allowed/Allowable Costs
State Administering Department:	Department of Rehabilitation (Rehabilitation)

Criteria

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

Appendix A to Part 225—General Principles for Determining Allowable Costs

C. Basic Guidelines

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

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

TITLE 29—LABOR, CHAPTER 16—VOCATIONAL REHABILITATION AND OTHER REHABILITATION SERVICES, SUBCHAPTER I—VOCATIONAL REHABILITATION SERVICES, Part A—General Provisions, Section 723—Vocational Rehabilitation Services

(a) Vocational rehabilitation services for individuals.

Vocational rehabilitation services provided under this subchapter are any services described in an individualized plan for employment necessary to assist an individual with a disability in preparing for, securing, retaining, or regaining an employment outcome that is consistent with the strengths, resources, priorities, concerns, abilities, capabilities, interests, and informed choice of the individual, including—

(5) Vocational and other training services, including the provision of personal and vocational adjustment services, books, tools, and other training materials, except that no training services provided at an institution of higher education shall be paid for with funds under this subchapter unless maximum efforts have been made by the designated State unit and the individual to secure grant assistance, in whole or in part, from other sources to pay for such training;

(18) Specific post-employment services necessary to assist an individual with a disability to, retain, regain, or advance in employment.

TITLE 34—EDUCATION, PART 361—STATE VOCATIONAL REHABILITATION SERVICES PROGRAM, Subpart A—General, Section 361.5—Applicable Definitions

(42) Post-employment services means one or more of the services identified in Section 361.48 that are provided subsequent to the achievement of an employment outcome and that are necessary for an individual to maintain, regain, or advance in employment, consistent with the individual's strengths, resources, priorities, concerns, abilities, capabilities, interests, and informed choice.

Note to paragraph (b)(42): Post-employment services are intended to ensure that the employment outcome remains consistent with the individual's strengths, resources, priorities, concerns, abilities, capabilities, interests, and informed choice. These services are available to meet rehabilitation needs that do not require a complex and comprehensive provision of services and, thus, should be limited in scope and duration. If more comprehensive services are required, then a new rehabilitation effort should be considered.

CALIFORNIA CODE OF REGULATIONS, TITLE 9—REHABILITATIVE AND DEVELOPMENTAL SERVICES, DIVISION 3—DEPARTMENT OF REHABILITATION, CHAPTER 3—VOCATIONAL REHABILIATION SERVICES FOR INDIVIDUALS WITH DISABILITIES, ARTICLE 3—TRAINING AND JOB COACHING SERVICES, Section 7155—Use of Public or Private Institutions

(a) Training in a private institution shall not be provided except when:

(1) It is clear that the training needs of the client can be better met by a private, correspondence, on-the-job, tutorial, or other training institution or method; or

(2) Overall cost to the Department will be less; or

(3) The training is not available in a public institution; or

(4) Attendance in a public training program would cause a significant delay in the client's preparation for suitable employment.

(b) Prior written approval of the Rehabilitation Supervisor shall be required before a Counselor may send a client to a private school for training or to a college or university for graduate level training.

CALIFORNIA CODE OF REGULATIONS, TITLE 9—REHABILITATIVE AND DEVELOPMENTAL SERVICES, DIVISION 3—DEPARTMENT OF REHABILITATION, CHAPTER 1—DEFINITIONS AND TERMS, Section 7021.5—Post-Employment Services

(b) Post-employment services may be provided to meet only those rehabilitation needs that do not require a complex and comprehensive provision of services. Thus, postemployment services shall be limited in scope and duration. If more comprehensive services are required, then a new rehabilitation plan shall be considered.

Condition

Rehabilitation did not always ensure that expenditures were for allowable activities and costs. For the 46 transactions reviewed, we found two instances in which Rehabilitation paid for unallowable activities and costs. In the first instance, Rehabilitation paid for a consumer's post-employment benefits that were not limited in scope and duration. In this instance, more than five years after the consumer achieved her employment objective in March 2003, Rehabilitation paid for goods and services to support a different employment objective. Because Rehabilitation paid for these post-employment expenditures without developing a new individualized plan for employment, it incorrectly provided $2,283 in goods and services to the consumer. In the second instance, Rehabilitation could not provide supporting documentation to verify that $3,700 in private educational costs were preauthorized by a Rehabilitation supervisor, as required. From these two instances, we initially identified $5,983 (9.6 percent) in questioned costs from the $62,501 in our sample of 46 transactions. Through expanded audit work for the first instance, we identified an additional $13,319 in questioned costs that Rehabilitation paid during fiscal year 2008–09 for such goods and services as training for a new job; airfare and hotel to attend the training; a new computer, software, and accessories; and a new cell phone with optical character recognition software. When Rehabilitation incorrectly pays for unallowable activities and costs, it reduces its available resources to serve the vocational rehabilitation needs of other eligible consumers. Rehabilitation incorrectly made these payments because it did not follow its processes to ensure that activities are allowable and appropriately authorized.

Questioned Costs

$19,302

Recommendation

Rehabilitation should ensure that staff understand and follow applicable processes, including authorizations for post-employment services that are limited in scope and duration and obtaining preauthorizations for services from private schools.

Department's View and Corrective Action Plan

Rehabilitation agrees with this finding. Rehabilitation expects opportunities within the new Electronic Record System (current estimated completion date of October 2011) to improve functionality related to prior approval and the provision of post-employment services that will serve to mitigate this finding and potential future issues.

In the interim, Rehabilitation has initiated regional Rehabilitation Supervisor informational meetings designed to provide training around staff's performance gaps, including those identified by the State Auditor's Office. Using all available resources, Rehabilitation continues to ensure that staff have the most effective tools available, within current fiscal constraints, to make the best decisions possible. In the absence of an electronic system capable of tracking required pre-authorizations and the provision of post-employment services, Rehabilitation Supervisors will prioritize manual review of the record of services to ensure that all consumer expenditures reflect allowable activities and costs, and are adequately supported by appropriate documentation.

Additionally, Rehabilitation is currently assessing its service delivery model for opportunities to increase effective monitoring of case activities, including quality reviews of procurements to ensure appropriateness and compliance with state and federal regulations, as well as with Rehabilitation's policy and procedures.

Reference Number:	2009-1-12
Federal Catalog Number:	84.186
Federal Program Title:	Safe and Drug-Free Schools and Communities—State Grants (SDFSC)
Federal Award Numbers and Years:	Q186B080005; 2008 Q186B070005; 2007 Q186B060005; 2006
Category of Finding:	Activities Allowed/Allowable Costs; Subrecipient Monitoring
State Administering Department:	Department of Alcohol and Drug Programs (ADP)

Criteria

TITLE 20—EDUCATION, CHAPTER 70—STRENGTHENING AND IMPROVEMENT OF ELEMENTARY AND SECONDARY SCHOOLS, SUBCHAPTER IV—21ST CENTURY SCHOOLS, Part A—Safe and Drug-Free Schools and Communities, Subpart 1—State Grants, Section 7112—Reservation of State Funds for Safe and Drug-Free Schools

(a) State reservation for the chief executive officer of a State

(5) Use of Funds

Grants and contracts under this section shall be used to implement drug and violence prevention activities, including—

(A) activities that complement and support local educational agency activities under section 7115 of this title, including developing and implementing activities to prevent and reduce violence associated with prejudice and intolerance;

(B) dissemination of information about drug and violence prevention; and

(C) development and implementation of community-wide drug and violence prevention planning and organizing.

TITLE 20—EDUCATION, CHAPTER 70—STRENGTHENING AND IMPROVEMENT OF ELEMENTARY AND SECONDARY SCHOOLS, SUBCHAPTER IV—21ST CENTURY SCHOOLS, Part A—Safe and Drug-Free Schools and Communities, Subpart 4—General Provisions, Section 7164—Prohibited Uses of Funds

No funds under this part may be used for—

(1) construction (except for minor remodeling needed to accomplish the purpose of this part); or

(2) medical services, drug treatment or rehabilitation, except for pupil services or referral to treatment for students who are victims of, or witnesses to, crime or who illegally use drugs.

TITLE 34—EDUCATION, PART 80—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS, Subpart C—Post-Award Requirements—Financial Administration, Section 20—Standards for Financial Management Systems

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

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

Condition

In our prior audits of fiscal years 2006–07 and 2007–08, we reported that ADP does not ensure that SDFSC expenditures are made only for allowable activities and costs. Specifically, we reported that ADP's grants administrative manual states that its analysts may choose to review subgrantee purchase records for large budget items, but should not review lengthy records of routine expenditures such as payroll, local mileage logs, or minor office supplies. Consequently, our review of a sample of ADP's claims found that many claims did not have adequate documentation to support a portion of the subgrantees' expenditures. We also reported that ADP does not use its site visits to ensure the claims and invoices submitted by its subgrantees include only allowable activities and costs.

On September 29, 2009, the assistant deputy secretary for the U.S. Department of Education's Office of Safe and Drug-Free Schools (department) rendered a determination stating, among other things, that the department accepted ADP's statement that claims and their corresponding invoices are required on a quarterly basis and that its program monitors compare the claims with the approved budget estimates and the activity reports to ensure that expenditures are allowable and reflect reported activities. The department also accepted ADP's statement that questionable activities and their associated costs must be explained or justified in writing and may require additional supporting documentation such as purchase orders, receipts, etc., if necessary. The assistant deputy secretary selected five claims we identified in fiscal year 2006–07 as lacking adequate supporting documentation to support all or a

portion of the subgrantee's expenditures and asked ADP to review all supporting documentation for the claims. ADP reported to the department that the documentation it received from the subgrantees was sufficient for it to determine that the funds were used properly and in compliance with statutory and regulatory requirements or that additional corrective action was necessary. The assistant deputy secretary concluded that ADP's process appears to be working in general and that no corrective action was required for our fiscal year 2006–07 finding.

During our follow-up procedures for fiscal year 2008–09, we selected a sample of 10 claims. Our review of these claims and the invoices submitted to ADP by its subgrantees found that six did not have adequate documentation to support a portion of the subgrantees' expenditures. Therefore, we contacted the subgrantees and requested that they submit any missing supporting documentation. We found that one subgrantee could not support some of the costs it claimed. Specifically, the subgrantee claimed personnel costs for five student employees, even though its SDFSC budget was only approved for four student employees. We asked the subgrantee to provide documentation to support its use of five employees instead of the four approved in its budget. However, the subgrantee did not provide this information. Further, we found that a contractor had inadvertently undercharged the SDFSC grant for federal fiscal year 2008 and overcharged the Block Grants for Prevention and Treatment of Substance Abuse (SAPT) by $18 on each of the two claims we reviewed. The contractor informed us that it had consistently made this error for every claim it submitted throughout fiscal year 2008–09.

Similar to ADP's review of the five claims we reviewed in fiscal year 2006–07, we found that its subgrantees continue to make errors that require corrective action. Thus, although the department's deputy assistant secretary concluded that ADP's process appears to be working in general, we continue to believe that ADP can improve its process to ensure that SDFSC expenditures are made only for allowable activities and costs.

Questioned Costs

Of the $386,087 sampled, ADP undercharged $216 to the federal fiscal year 2008 SDFSC grant and overcharged the SAPT grant by the same amount. Additionally, ADP overcharged the federal fiscal year 2008 grant for personnel costs related to an additional student employee. The actual amount of the overcharge is unknown; however, the total amount charged for the five student employees was $6,155.

Recommendation

ADP should establish a quality control process that requires its staff to periodically select a sample of claims and request that its subgrantees submit all of the detailed documentation that supports the claims so that it can ensure that the activities and costs reported are only for allowable activities and costs.

Department's View and Corrective Action Plan

ADP stated that it believes its processes and procedures are consistent with the September 29, 2009, determination letter from the U.S. Department of Education. ADP also provided the following information with regard to the questioned costs:

1. The line item in the county budget was for four (4) .5 FTE, which equated to an annual amount of $44,805. The county did not exceed this level of effort.
2. It appears that the contractor made an error in calculating the distribution of costs between two funding sources for a particular line item. This resulted in the $216 in questioned costs. ADP will follow-up on this issue and any other issues that may be identified in the report of the limited scope fiscal audit this vendor is required to have conducted as a term of the contract.

Auditor's Comments on Department's View

ADP misses the point of our finding related to its subgrantee claiming personnel costs for employees not identified in the budget it approved. ADP's grant administration manual requires subgrantees to identify the requested position(s) and include the percentage of time to be charged to the grant as well as the monthly or hourly rate of pay for the requested position(s). The subgrantee's approved budget included four student employee positions. However, the subgrantee claimed costs for five student employees. As a result, the subgrantee was reimbursed for more employees than approved. Further, although ADP asserts that the subgrantee's personnel costs for the student employees did not exceed the authorized amount of $44,805 for the four student employees, it fails to recognize that disallowing the costs for the fifth student employee reduces the costs charged to the federal fiscal year 2008 SDFSC grant.

Reference Number:	2009-5-2
Federal Catalog Number:	84.126
Federal Program Title:	Rehabilitation Services—Vocational Rehabilitation Grants to States
Federal Award Numbers and Years:	H126A090005B; 2009 H126A080005D; 2008 H126A070005D; 2007
Category of Finding:	Eligibility
State Administering Department:	Department of Rehabilitation (Rehabilitation)

Criteria

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

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

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

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

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

Condition

Rehabilitation did not always determine applicant eligibility under the vocational rehabilitation grant within the required period or properly document extensions to eligibility periods. For six of the 46 applications we reviewed (13 percent), Rehabilitation did not determine eligibility within 60 days or by the expiration of an extension agreed upon with the applicant. In three of these six cases, Rehabilitation was late in determining eligibility by 31 days or less. For the other three cases, Rehabilitation was late by 106 to 401 days. Further, for two other applicants, Rehabilitation lacked documentation noting an agreed-upon extension date. When Rehabilitation does not determine an applicant's eligibility within the required period or does not document extensions in accordance with its

policies, it reduces the assurance that applicants receive the required vocational rehabilitation services promptly. Rehabilitation has processes in place to monitor the timeliness of its eligibility decisions; however, these processes were not effective in identifying and correcting these eight exceptions.

Questioned Costs

Not applicable.

Recommendations

Rehabilitation should more closely monitor the timeliness of its eligibility decisions and ensure that it maintains sufficient documentation for time extensions.

Department's View and Corrective Action Plan

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

Short Term Solution—Local Level Monitoring Of Eligibility Determinations

Counselors and Rehabilitation Supervisors receive automated reminder notices on the FCS before the expiration of the 60 days allowed for eligibility determination. Due to the limited capabilities of the FCS system, Rehabilitation will emphasize the importance of manually tracking eligibility timelines and extensions using available reports. Additionally, Rehabilitation will reorient counselors and managers to the most effective tracking tools available. To ensure appropriateness and compliance with federal regulations, Rehabilitation Supervisors continue to conduct reviews of eligibility determinations and extensions.

Long Term Solution—Implementation Of The Electronic Records System

Rehabilitation has committed considerable resources to replace the FCS with a new Electronic Records System (ERS), expected to be fully implemented statewide by October 2011. Eligibility extensions will be more effectively tracked and monitored in the new ERS. Additionally, the ERS system contains ad hoc reporting features that allow easily attainable reports produced by each user, facilitating increased monitoring at the local level.

Reference Number:	2009-7-1
Federal Catalog Number:	84.181
Federal Program Title:	Special Education—Grants for Infants and Families
Federal Award Numbers and Years:	H181A080037; 2008 H181A070037; 2007
Category of Finding:	Level of Effort—Maintenance of Effort
State Administering Department:	Department of Developmental Services (Developmental Services)

Criteria

TITLE 34—EDUCATION, PART 303—EARLY INTERVENTION PROGRAM FOR INFANTS AND TODDLERS WITH DISABILITIES, Subpart B—State Application for a Grant, Statement of Assurances, Section 303.124—Prohibition Against Supplanting

(a) The statement must include an assurance satisfactory to the Secretary that Federal funds made available under this part will be used to supplement the level of State and local funds expended for children eligible under this part and their families and in no case to supplant those State and local funds.

(b) To meet the requirement in paragraph (a) of this section, the total amount of State and local funds budgeted for expenditures in the current fiscal year for early intervention services for children eligible under this part and their families must be at least equal to the total amount of State and local funds actually expended for early intervention services for these children and their families in the most recent preceding fiscal year for which the information is available. Allowance may be made for—

(1) Decreases in the number of children who are eligible to receive early intervention services under this part; and

(2) nusually large amounts of funds expended for such long-term purposes as the acquisition of equipment and the construction of facilities.

Condition

Developmental Services lacks a sufficient process to demonstrate its compliance with the Early Start program's maintenance of effort requirement. Developmental Services refers to the Special Education—Grants for Infants and Families program as the Early Start program. Although Developmental Services' program staff provided spreadsheets that contained calculations showing it met the maintenance of effort requirement, it did not provide sufficient underlying support for the amounts in those spreadsheets. According to its chief, Developmental Services' accounting section cannot provide the total General Fund costs specific to Early Start activities because these costs are part of the total claims submitted by the regional centers. These claims contain expenses for more than just the Early Start program.

This finding repeats a finding extending from fiscal year 2005–06. In response to our finding from last year, Developmental Services stated that it was in the process of revising its procedures related to maintenance of effort and that these procedures would become effective in fiscal year 2008–09. Further, in June 2009 the U.S. Department of Education (ED) notified the State that the ED had concluded that, based on interviews and documentation, Developmental Services had taken steps to establish a system that will allow Developmental Services to track and establish compliance with the Part C program's maintenance of effort requirement and that the ED considered the finding "resolved and closed."

Developmental Services, however, could not provide evidence that it had implemented the revised procedures that it demonstrated for the ED. We examined the same information that Developmental Services stated that it had provided the ED and found the information insufficient to demonstrate that Developmental Services had implemented these revised procedures. Because an assurance that federal funds will not supplant nonfederal funds is necessary to receive Early Start grant funds, Developmental Services' lack of sufficient documentation may jeopardize its ability to receive the full amount of federal Early Start funding that it might otherwise receive.

Questioned Cost

Unknown

Recommendation

Developmental Services should maintain sufficient documentation demonstrating its compliance with federal requirements related to maintenance of effort.

Department's View and Corrective Action Plan

The Office of Special Education Programs (OSEP), within the ED is the federal funding and oversight agency for the federal grant known as Early Start in California. OSEP requested specific fiscal data from Developmental Services as documentation that it meets the MOE requirement as defined in federal law (Individuals with Disabilities Education Act—IDEA, Part C). OSEP has reviewed and analyzed Developmental Services' fiscal data for the Maintenance of Effort (MOE) and has determined that Developmental Services has continued to meet the federal MOE requirement. The procedures allow Developmental Services to track and document the amount of State and federal funds expended on the program and include a separate claiming process for the Early Start Program Purchase of Service and a separate allocation for Early Start Program Operational funds. In accordance with Technical Bulletin #396 (issued March 4, 2009) and a letter of instruction to regional center administrators (dated March 26, 2009), on a monthly basis, Developmental Services extracts Early Start program claim information from the Uniform Fiscal System and compares each invoice submitted against the total claim for purchase of service before approving the invoice for payment. This same fiscal data and documentation has been provided to the BSA along with official correspondence from OSEP verifying that Developmental Services meets the MOE requirement and has the processes in place to sufficiently provide the necessary documentation.

Auditor's Comments on Department's View

We acknowledge in the finding that the ED concluded that Developmental Services had taken steps to establish a system that, if followed, would meet its MOE requirement and that the spreadsheets the department provided showed that Developmental Services had met the MOE requirements. However, Developmental Services did not provide sufficient documentation to support the amounts in those spreadsheets. Further, as Developmental Services noted in its response, it did not implement this new process until March 2009. Therefore, Developmental Services could not have had the information available to ensure that the amount of state and local funds budgeted for expenditures for fiscal year 2008–09 were at least equal to the amount expended in the most recent preceding fiscal year.

Reference Number:	2009-7-2
Federal Catalog Number:	84.126
Federal Program Title:	Rehabilitation Services—Vocational Rehabilitation Grants to States
Federal Award Numbers and Years:	H126A090005B; 2009 H126A080005D; 2008 H126A070005D; 2007
Category of Finding:	Matching, Reporting
State Administering Department:	Department of Rehabilitation (Rehabilitation)

Criteria

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

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

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

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

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

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

(b) Non-Federal share—

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

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

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

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

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

Condition

Rehabilitation lacks adequate internal controls to ensure compliance with the matching requirement. Specifically, a supervisor does not review the spreadsheets that staff prepare to document certified expenditure information submitted by its vendors. Rehabilitation contracts with vendors, such as state and local governments, to provide vocational rehabilitation services. Under its contract agreement, each vendor must submit a certified expenditure report. An accounting officer-specialist compiles the data from these certifications into a summary spreadsheet that Rehabilitation uses to track and total the amounts it uses in helping to meet its nonfederal funds matching obligation. Rehabilitation also uses information from this spreadsheet when calculating amounts to include on its federal financial reports. However, we observed no evidence that the accounting officer-specialist's supervisor reviewed this summary spreadsheet. Without adequate review of the spreadsheet, the risk of Rehabilitation's misreporting or miscalculating its matching share increases.

In fact, during our review of the summary spreadsheet that Rehabilitation created to support amounts in the final financial status report (revised as of September 2009) for the 2007 grant, we noted six instances for one vendor in which Rehabilitation erroneously included *year-to-date* amounts

in the summary spreadsheet rather than *monthly* amounts. Because Rehabilitation uses the totals from this summary spreadsheet to calculate and report the certified expenditure portion of its nonfederal funding, it overreported the amount of its nonfederal matching share for the 2007 grant by $18,517.

Questioned Costs

$18,517

Recommendation

Rehabilitation should establish a supervisory review process of the amounts entered into its summary certified time spreadsheet and used in support of its final financial status report.

Department's View and Corrective Action Plan

Rehabilitation concurs with the finding and will establish a review process for the certified time spreadsheets. In more recent years, a standardized template form for reporting certified time is being used which shows the monthly total and will eliminate the possibility of this error occurring again.

Reference Number:	2009-12-1
Federal Catalog Number:	84.126
Federal Program Title:	Rehabilitation Services—Vocational Rehabilitation Grants to States
Federal Award Numbers and Years:	H126A090005B; 2009 H126A080005D; 2008 H126A070005D; 2007
Category of Finding:	Reporting
State Administering Department:	Department of Rehabilitation (Rehabilitation)

Criteria

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

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

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

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

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

TITLE 34—EDUCATION, PART 80—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS, Subpart C—Post-Award Requirements, Section 80.41—Financial Reporting

(b) Financial Status Report:

(1) Form. Grantees will use Standard Form 269 or 269A, Financial Status Report, to report the status of funds for all nonconstruction grants and for construction grants when required in accordance with Section 80.41(e)(2)(iii).

TITLE 34—EDUCATION, PART 361— STATE VOCATIONAL REHABILITATION SERVICES PROGRAM, Subpart B—State Plan and Other Requirements for Vocational Rehabilitation Services, Section 361.40—Reports

(a) The State plan must assure that the designated State agency will submit reports, including reports required under sections 13, 14, and 101(a)(10) of the Act:

(1) In the form and level of detail and at the time required by the Secretary regarding applicants for and eligible individuals receiving services under this part; and

(2) In a manner that provides a complete count (other than the information obtained through sampling consistent with section 101(a)(10)(E) of the Act) of the applicants and eligible individuals to—

(i) Permit the greatest possible cross-classification of data; and

(ii) Protect the confidentiality of the identity of each individual.

(b) The designated State agency must comply with any requirements necessary to ensure the accuracy and verification of those reports.

U.S. DEPARTMENT OF EDUCATION, OFFICE OF SPECIAL EDUCATION AND REHABILITATIVE SERVICES, REHABILITATION SERVICES ADMINISTRATION, Policy Directive RSA-PD-06-08, DATE: August 10, 2006; SUBJECT: RSA 2—Annual Vocational Rehabilitation Program/Cost Report

All State Vocational Rehabilitation Agencies responsible for administering the Title I Vocational Rehabilitaiton Services Program, including the Title VI, Part B Supported Employment Services Program, are required to submit a completed RSA-2 to the Rehabilitation Services Administration (RSA).

Condition

Rehabilitation submitted inaccurate program/cost and financial status reports to the federal government for its Rehabilitation Services—Vocational Rehabilitation Grants to States program (vocational rehabilitation grant). Rehabilitation determines the amounts to include on its annual vocational rehabilitation program/cost report (RSA-2) and quarterly financial status reports (SF-269) through a process of manual calculations in a series of support schedules that ultimately are based on accounting records and other appropriate supporting documentation (collectively, underlying documentation). Rehabilitation's underlying documentation supporting its federal reports contained five errors. The five errors in the underlying documentation led to errors in Rehabilitation's RSA-2 report for the federal fiscal year ending in 2008, the final SF-269 report for the 2007 grant, and quarterly SF-269 reports for the 2008 and 2009 grants.

Specifically, in its RSA-2 report for the federal fiscal year ending in September 2008, Rehabilitation overstated services to individuals with disabilities by $1.4 million due to a calculation error in the underlying documentation. Additionally, in the remarks section of its final SF-269 report for the 2007 grant, Rehabilitation overstated costs for one of the reportable activities by $182 due to an apparent typographical error. Moreover, Rehabilitation made similar calculation errors in the

underlying documentation used to support its quarterly SF-269 reports for other grant years. For example, in its quarterly SF-269 report for the 2008 grant (as of December 31, 2008), Rehabilitation understated total expenditures by $24,105 because it inappropriately excluded the amount from its underlying documentation. Similarly, in its quarterly SF-269 report for the 2009 grant (as of December 31, 2008), Rehabilitation overstated total expenditures by $131,643 because a formula in its underlying documentation did not include all relevant negative amounts in the calculation. Finally, in its quarterly SF-269 report for the 2009 grant (as of June 30, 2009), Rehabilitation understated the amount of its cash match by $40,398 in the remarks section because the person responsible for preparing the report entered an amount from a wrong category in Rehabilitation's accounting records. However, Rehabilitation did not include this last error in other portions of the report. Because it relies on the same underlying documentation to ensure it complies with other federal requirements associated with the vocational rehabilitation grant, such as matching and level of effort, Rehabilitation increases its risk for not meeting these requirements when it fails to detect and correct such errors.

These errors occurred because Rehabilitation lacks internal controls to prevent them. Although an accounting chief's signature on the reports certifies that the reports were correct and complete, it appears that the level of the accounting chief's review was insufficient to detect the types of errors we noted. Also, Rehabilitation does not have formal, written policies and procedures in place to ensure consistent calculation of the underlying documentation used to prepare these reports.

Questioned Costs

Unknown

Recommendation

Rehabilitation should institute internal controls, including written procedures for preparing the underlying documentation supporting its reports, along with supervisory review sufficient to detect and correct errors in its reports to the federal government.

Department's View and Corrective Action Plan

Rehabilitation concurs with the finding and will ensure a more thorough review of the reports and underlying work prior to submission. Only two of the errors ($24,105 and $131,643) affected the reporting financially; and one of those two ($131,643) corrected itself in the next quarterly report. The other three errors did not affect the reporting financially. Rehabilitation will develop written procedures and conduct training to support the preparation of the federal financial reports.

Auditor's Comments on Department's View

Notwithstanding its assertion that three errors did not affect the reporting financially, Rehabilitation submitted program/cost and financial status reports to the federal government that contained inaccurate amounts. As we stated earlier, regulations require Rehabilitation to submit accurate reports.

Reference Number:	2009-13-1
Federal Catalog Numbers:	84.181, 84.393
Federal Program Titles:	Special Education—Grants for Infants and Families, Special Education—Grants for Infants and Families, Recovery Act
Federal Award Number and Year:	H393A090037; 2009

Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Developmental Services (Developmental Services)

Criteria

TITLE 2—GRANTS AND AGREEMENTS, PART 176—AWARD TERMS FOR ASSISTANCE AGREEMENTS THAT INCLUDE FUNDS UNDER THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009, PUBLIC LAW 111-5, Subpart A—Reporting and Registration Requirements Under Section 1512 of the American Recovery and Reinvestment Act of 2009, Section 176.50 Award term—Reporting and Registration Requirements Under Section 1512 of the Recovery Act

Agencies are responsible for ensuring that their recipients report information required under the Recovery Act in a timely manner. The following award term shall be used by agencies to implement the recipient reporting and registration requirements in Section 1512:

(c) Recipients and their first-tier recipients must maintain current registrations in the Central Contractor Registration (http://www.ccr.gov) at all times during which they have active federal awards funded with Recovery Act funds. A Dun and Bradstreet Data Universal Numbering System (DUNS) Number (http://www.dnb.com) is one of the requirements for registration in the Central Contractor Registration.

Condition

Developmental Services did not require its subrecipients to register with the Central Contractor Registration or to obtain DUNS numbers before providing them funds under the American Recovery and Reinvestment Act of 2009 (Recovery Act). The Central Contractor Registration is the federal government's primary contractor database; it can collect, store, and disseminate information regarding acquisitions. The DUNS number is a unique nine-digit number to identify a specific entity in Dun and Bradstreet's database of more than 100 million businesses worldwide. The federal government intends to use this information to help meet the Recovery Act's reporting requirements and to provide transparency in how Recovery Act funds are spent. Our review of Developmental Services' subrecipient monitoring found that Developmental Services did not ensure that regional centers (RC) were registered in the Central Contractor Registration or had DUNS numbers before distributing Recovery Act funds to them. Developmental Services drew down $16.6 million in Recovery Act funds in September 2009 and applied these funds to RC expenses for fiscal year 2008–09. Yet, according to Developmental Services' coordinator for Recovery Act-related activities, Developmental Services had not verified whether RCs had registered with the Central Contractor Registration or received DUNS numbers because it was still determining whether these requirements were applicable. When Developmental Services fails to comply with applicable federal requirements, it risks losing Recovery Act funding.

Questioned Costs

Unknown

Recommendations

Developmental Services should ensure that applicable subrecipients maintain current registration with the Central Contractor Registration and obtain DUNS numbers before disbursing Recovery Act funds.

Department's View and Corrective Action Plan

Developmental Services is determining whether this requirement is applicable to its RCs and will consider the recommendation after it has made its determination.

Reference Number:	2009-13-2
Federal Catalog Number:	84.181
Federal Program Title:	Special Education—Grants for Infants and Families
Federal Award Numbers and Years:	H181A080037; 2008 H181A070037; 2007
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Developmental Services (Developmental Services)

Criteria

U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133, *AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS* (OMB CIRCULAR A-133) Subpart B—Audits, Section .200, Audit Requirements

(a) Audit required. Non-Federal entities that expend $300,000 ($500,000 for fiscal years ending after December 31, 2003) or more in a year in Federal awards shall have a single or program-specific audit conducted for that year in accordance with the provisions of this part. Guidance on determining Federal awards expended is provided in Section .205.

Condition

In its contracts with family resource centers (FRCs) that expired June 30, 2009, Developmental Services incorrectly identified the dollar threshold amount at which the FRCs needed to have an independent audit performed in accordance with OMB Circular A-133. The contracts stated the threshold amount as $300,000 when the actual threshold is $500,000. Because of this error, Developmental Services unnecessarily increased the risk that its subrecipients would obtain unneeded A-133 audits.

This finding repeats a finding from fiscal year 2007–08. Although Developmental Services did not correct this finding for those contracts that expired June 30, 2009, it did so for those contracts commencing July 1, 2009. For these new contracts, Developmental Services identified the correct threshold amount of $500,000.

Questioned Costs

None

Recommendation

Developmental Services should continue to include in contracts funded by this grant the correct threshold amount for having independent audits performed in accordance with OMB Circular A-133.

Department's View and Corrective Action Plan

With the correction of the finding in the contracts commencing July 1, 2009, Developmental Services will continue to include in all future contracts funded by this grant, the correct threshold amount for having independent audits performed in accordance with OMB Circular A-133.

Reference Number:	2009-13-15
Federal Catalog Number:	84.186
Federal Program Title: Communities—	Safe and Drug-Free Schools and State Grants (SDFSC)
Federal Award Numbers and Years:	Q186B080005; 2008 Q186B070005; 2007 Q186B060005; 2006
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Alcohol and Drug Programs (ADP)

Criteria

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

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

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

(b) Withholding or disallowing overhead costs;

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

(d) Terminating the Federal award.

U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133, *AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS* (OMB Circular A-133), Subpart C—Auditee Responsibilities, Section .320—Report Submission

(a) General. The audit shall be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit. (However, for fiscal years beginning on or before June 30, 1998, the audit shall be completed and the data collection form and reporting package shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or 13 months after the end of the audit period.) Unless restricted by law or regulation, the auditee shall make copies available for public inspection.

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

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

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

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

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

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

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

2. The SCO will coordinate single audit compliance with local governments.

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

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

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

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

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

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

Condition

Our review of ADP's award documents for six of its subgrantees and its contract for one contractor found that ADP used an incorrect Catalog of Federal Domestic Assistance (CFDA) title. Specifically, ADP listed the grant as the "Safe and Drug-Free Schools and Communities." We reported a similar finding in our prior-year audit. ADP stated that it revised its Notice of Grant Award template to correctly identify the CFDA title. However, ADP's change did not occur until December 2008, which was after it awarded funds to its subgrantees for fiscal year 2008–09.

Further, ADP did not initiate written and verbal contact in a timely manner with those counties that had delinquent OMB Circular A-133 audits. The State Controller's Office (SCO) notifies state agencies of those local governments that must submit an OMB Circular A-133 audit but have not done so. In July 2009 the SCO notified ADP that one county had not submitted its OMB Circular A-133 audit report. However, ADP did not request the county to submit the report until September 2009. Further, although it directed the county to submit the report to the SCO within 30 days, the county did not do so until January 11, 2010. ADP could not provide any evidence to demonstrate its follow-up with the county or any sanctions it took against the county between September 2009 and January 2010 for failing to submit the required audit report. ADP explained that although it has procedures for initiating written and verbal contact with those counties that have delinquent OMB Circular A-133 audits, its procedures do not specify time frames for its staff to do so. As a result, ADP is unable to resolve promptly its subgrantees' failure to submit their OMB Circular A-133 audits by the required due dates.

Questioned Costs

Not applicable.

Recommendations

ADP should ensure that its future award documents include the correct CFDA title. ADP should also modify its procedures to specify time frames for the follow-up of its subgrantees' delinquent OMB Circular A-133 audits. Finally, ADP should modify its procedures to include a process for imposing sanctions in cases in which its subgrantees are unable or unwilling to have an OMB Circular A-133 audit, as required.

Department's View and Corrective Action Plan

ADP stated that it does follow up with the delinquent counties once the SCO notifies the state agencies and has been consistent in its application of the follow-up process. However, ADP also stated that it will be more deliberate in specifying timeframes. Finally, ADP stated that if reports are not completed and submitted according to OMB Circular A-133, sanctions such as those noted in Section .225 can be imposed.

Auditor's Comments on Department's View

The Bureau of State Audits would like to point out that ADP did not address our recommendations. Specifically, ADP did not address our recommendation that it should ensure that its future award documents include the correct CFDA title. ADP also did not address our recommendations that it modify its procedures to include time frames for when subgrantees are delinquent in submitting required audits or a process for imposing sanctions in cases where its subgrantees are unable or unwilling to obtain and submit their OMB Circular A-133 audits, as required.

Reference Number:	2009-14-1
Federal Catalog Number:	84.181
Federal Program Title:	Special Education—Grants for Infants and Families
Federal Award Numbers and Years:	H181A080037; 2008 H181A070037; 2007
Category of Finding:	Special Tests and Provisions
State Administering Department:	Department of Developmental Services (Developmental Services)

Criteria

GRANT AWARD NOTIFICATION, AWARD YEAR 2008, Terms and Conditions

(2) When issuing statements, press releases, requests for proposals, bid solicitations, and other documents describing this project or programs funded in whole or in part with federal money, all grantees receiving federal funds, including but not limited to state and local governments, shall state clearly:

1) The dollar amount of federal funds for the project,

2) The percentage of the total cost of the project that will be financed with federal funds, and

3) The percentage and dollar amount of the total cost of the project that will be financed by non-governmental sources.

Condition

Development Services refers to the Special Education—Grants for Infants and Families as the Early Start program. Developmental Services lacked an internal control process to ensure that the documents describing this program included information on the percentage of the total cost of the project that will be financed with federal funds and the percentage and dollar amount of the total cost of the project that will be financed by nongovernmental sources. We noted that certain documents describing the Early Start program that we reviewed did not contain the required information. Specifically, the contracts Developmental Services had with independent family resource centers (FRCs) that were funded with Early Start program funds did not explicitly identify the proportion of federal funding. These contracts with FRCs expired on June 30, 2009.

This finding repeats a finding from fiscal year 2007–08. Although Developmental Services did not correct this finding for those contracts that expired June 30, 2009, it did so for those contracts commencing July 1, 2009. For these new contracts, Developmental Services identified the federal funding source and specified the percentage of funds received by the subrecipient.

Questioned Costs

None

Recommendation

Developmental Services should continue to identify the proportion of federal funds in its future contracts funded by this grant.

Department's View and Corrective Action Plan

With the correction of the finding in the contracts commencing July 1, 2009, Developmental Services will continue to identify the federal funding source and specify the percentage of funds received by the subrecipient in all future contracts.

Reference Number:	2009-14-8
Federal Catalog Number:	84.032
Federal Program Title:	Federal Family Education Loan Program
Federal Award Number and Year:	None; State Fiscal Year 2008–09

Category of Finding:	Special Tests and Provisions
State Administering Department:	California Student Aid Commission (Student Aid)

Criteria

TITLE 34—EDUCATION, PART 682—FEDERAL FAMILY EDUCATION LOAN (FFEL) PROGRAM, Subpart D—Administration of the Federal Family Education Loan Programs by a Guaranty Agency, Section 682.414—Records, Reports, and Inspection Requirements for Guaranty Agency Programs

(a) Records. (1)(i) The guaranty agency shall maintain current, complete, and accurate records of each loan that it holds, including, but not limited to, the records described in paragraph (a)(1)(ii) of this section. The records must be maintained in a system that allows ready identification of each loan's current status, updated at least once every 10 business days. Any reference to a guaranty agency under this section includes a third-party servicer that administers any aspect of the FFEL programs under a contract with the guaranty agency, if applicable.

CALIFORNIA CODES, EDUCATION CODE, Section 69522, (a)(1)

The commission may establish an auxiliary organization for the purpose of providing operational and administrative services for participation by the commission in the Federal Family Education Loan Program, or for other activities approved by the commission and determined by the commission to be all of the following:

(A) Related to student financial aid.

(B) Consistent with the general mission of the commission.

(C) Consistent with the purposes of the federal Higher Education Act of 1965 (Public Law 89-329) and amendments to that act.

Condition

EdFund, Student Aid's auxiliary organization, administers the FFEL Program and is required by its operating agreement with Student Aid to provide information security over Student Aid's and EdFund's confidential data. However, in past years we found that EdFund had not developed adequate internal controls over its information systems to provide reasonable assurance that it keeps current, complete, and accurate records of each loan.

In June 2005 EdFund hired a contractor that completed a security risk assessment. EdFund has made significant progress by fully addressing all the 2005 security risk assessment high-risk and moderately high-risk findings. However, weaknesses in EdFund's controls over information security still exist. Specifically, in January 2009, an EdFund contractor performed a new security risk assessment. The contractor identified 57 high-risk findings. Although, as of January 2010, EdFund was able to fully address 30 findings, it still has 27 findings to resolve and it had not begun to address four of them. Weaknesses identified in EdFund's information security have the potential to result in insufficient protection of sensitive or critical computer records.

We previously reported that EdFund did not maintain a complete history or audit trail of the changes made to the data. In October 2007, EdFund implemented a project designed to create an audit trail of such changes. However, the resulting audit trail did not track certain types of transactions related to collections and accounting. EdFund stated that on May 27, 2009, it fixed the system to enable logging of all transactions, including those related to collections and accounting. However, we were unable to determine whether EdFund is in fact logging all transactions because the changes to the data were made between May 27, 2009, and June 30, 2009. Thus, by not maintaining a complete history or audit trail of the changes made to the data prior to May 27, 2009, including changes made to transactions related to collections and accounting, EdFund cannot ensure that it maintained current, complete, and accurate records for each loan it held during fiscal year 2008–09.

Questioned Costs

Not applicable.

Recommendations

Student Aid should ensure that EdFund takes the following steps to maintain current, complete, and accurate records for each loan it holds:

- Continue to address all of the high-risk findings in its 2009 security risk assessment.
- Ensure that it maintains a complete history or audit trail of all changes made to its data.

Department's View and Corrective Action Plan

Student Aid stated that it concurs with our findings and recommendations. Student Aid also stated that the operating agreement between it and EdFund includes provisions to appropriately require EdFund to maintain strong control over its information systems including an audit of the information technology controls. The operating agreement, Article VIII Section 8.2.B, requires that "an independent certified public accountant shall provide Student Aid and the EdFund board an annual audit of key system and non-system internal controls affecting the initiation, authorization, recording, processing and/or reporting of transactions . . ." However, the Annual Audit of Internal Controls shall be performed only if the expenses associated therewith are approved by the California Department of Finance." Student Aid stated that the Department of Finance has not approved funding for this audit.

EdFund management informed Student Aid staff that EdFund will address all of the high-risk findings from the 2009 security risk assessment by June 30, 2011. EdFund management has also indicated that it has addressed the stated observation regarding EdFund's electronic detective controls over data maintenance through changes to the Financial Aid Processing System. The same systematic audit trail for the remaining files in which such transactions are conducted for data maintenance was completed in May 2009.

Student Aid staff will recommend to the commissioners for their consideration a corrective action plan to ensure EdFund takes steps to maintain current, complete and accurate records for each loan it holds.

Reference Number:	2009-14-9
Federal Catalog Number:	84.032
Federal Program Title:	Federal Family Education Loan Program
Federal Award Number and Year:	None; State Fiscal Year 2008–09
Category of Findings:	Activities Allowed or Unallowed; Special Tests and Provisions #9—Federal Fund and Agency Operating Fund
State Administering Department:	California Student Aid Commission (Student Aid)

Criteria

TITLE 34—EDUCATION, PART 682—FEDERAL FAMILY EDUCATION LOAN (FFEL) PROGRAM, Subpart D—Administration of the Federal Family Education Loan Programs by a Guaranty Agency, Section 682.423—Guaranty Agency Operating Fund

(C) Uses. A guaranty agency may use the Operating Fund for—

(1) Guaranty agency-related activities, including—

(i) Application processing;

(ii) Loan disbursement;

(iii) Enrollment and repayment status management;

(iv) Default aversion activities;

(v) Default collection activities;

(vi) School and lender training;

(vii) Financial aid awareness and related outreach activities; and

(viii) Compliance monitoring; and

(2) Other student financial aid-related activities for the benefit of students, as selected by the guaranty agency.

CALIFORNIA CODES, EDUCATION CODE, Section 69522, (a)(1)

The commission may establish an auxiliary organization for the purpose of providing operational and administrative services for the participation by the commission in the Federal Family Education Loan Program, or for other activities approved by the commission and determined by the commission to be all of the following:

(A) Related to student financial aid.

(B) Consistent with the general mission of the commission.

(C) Consistent with the purposes of the federal Higher Education Act of 1965 (Public Law 89-329) and amendments to that act.

CALIFORNIA CODES, EDUCATION CODE, Section 69522(d)(1)(A)

(d)(1)(A) The operations of the auxiliary organization shall be conducted in conformity with an operating agreement approved annually by the commission. On and after January 1, 2002, the commission may approve an operating agreement for a period not to exceed five years. Prior to approval, the commission shall provide a copy of the proposed operating agreement to the Department of Finance and the Joint Legislative Budget Committee for their review and comment. The operations of the auxiliary organization shall be limited to services prescribed in that agreement.

CALIFORNIA CODES, EDUCATION CODE, Section 69521.5

(a) The Director of Finance is authorized to take all actions that she or he deems to be necessary or convenient to accomplish any of the following:

(1) To preserve the state student loan guarantee program assets, pending consummation of their sale or the consummation of any other transaction, to maximize the value of the state student loan guarantee program to the state, including, without limitation, as authorized in sections 69522, 69526, and 69766.

CALIFORNIA CODES, EDUCATION CODE, Section 69526

(c) The commission, in consultation with the Department of Finance and the board of directors of the auxiliary organization, shall do all of the following:

(1) Institute a standard accounting and reporting system for the management and operations of the auxiliary organization.

(2) Implement financial standards that will ensure the fiscal viability of the auxiliary organization. The standards shall include proper provision for professional management, adequate working capital, adequate reserve funds for current operations and capital replacements, and adequate provisions for new business requirements.

(3) Institute procedures to ensure that transactions of the auxiliary organization are consistent with the mission of the commission.

(4) Develop policies for the expenditure of funds derived from indirect cost payments not required to implement paragraph (2). The use of those funds shall be regularly reported to the board of directors.

Condition

Background

The U.S. Office of Management and Budget's Circular A-133 Compliance Supplement (A-133 Compliance Supplement) issued in March 2009 suggests that auditors test expenditures of the Operating Fund to ascertain if they were made for allowable purposes. The A-133 Compliance Supplement also requires auditors to obtain an understanding of the entity's internal controls to assess if they are adequate to reasonably ensure compliance with federal laws and regulations relevant to the program. Our determination of whether or not Operating Fund expenditures were for allowable purposes is based primarily on federal regulations, state laws and regulations, the operating agreement between Student Aid and its auxiliary organization—EdFund, and a review conducted by the Department of Finance (Finance).

According to state law, the contents of the Operating Fund are state funds within the custody and control of Student Aid. Federal regulation states that allowable uses of the Operating Fund are limited to guaranty agency-related activities and other student financial aid-related activities for the benefit of students as selected by the guaranty agency, which is Student Aid. In January 1997 Student Aid advanced $20 million to EdFund for operating capital. EdFund uses this advance to pay its monthly operating expenses and it receives reimbursements from the Operating Fund. The operating agreement between Student Aid and EdFund establishes the reimbursement process. Specifically, the operating agreement requires EdFund to submit periodic invoices to Student Aid and to provide Student Aid with the appropriate supporting documentation and, if system security permits, read-only access to its accounting system. Student Aid is responsible for reviewing invoices and approving payments.

In September 2008 Student Aid publicly expressed concerns with, among other things, expenditures of public funds by EdFund that were inconsistent with the operational support it was to provide to Student Aid. In October 2008 Finance conducted a review of the concerns raised by Student Aid. Finance substantiated two of the four concerns regarding expenditures of public funds as well as Student Aid's concern with some items contained in EdFund's fiscal year 2008–09 proposed budget. In regards to the results of Finance's review, EdFund told us that it did not receive a written or verbal directive from Finance to change its spending practices and that Finance did not request it to report back on the resolution of any particular allegations that were substantiated.

Opportunities Exist to Strengthen the Reimbursement Process

During our review of the internal controls related to expenditures, we identified the reimbursement process as a key internal control over the use of the Operating Fund. We found that Student Aid's review of EdFund's invoices can sometimes result in the identification of potentially unallowable expenditures. Specifically, in a September 2009 letter to Finance, Student Aid stated that it had recently notified EdFund that it would not reimburse 171 expenditures, totaling roughly $189,000, made between May 2008 and June 2009.

The operating agreement allows Student Aid to withhold payment for any disputed expenditures and requires it to notify EdFund in writing, within 30 days, of the expenditure it is withholding and its reason. EdFund has the right to appeal Student Aid's decision in accordance with the dispute resolution process outlined in the operating agreement and shown in the textbox. However, in some instances it appears as though Student Aid's reasons for withholding payments could be resolved by more effective communication between it and EdFund. Specifically, in its September 2009 letter to Finance, Student Aid was concerned that EdFund continued to use state funds to make payments similar to those Finance substantiated as improper gifts of public funds. Although the payments may have been made by EdFund in accordance with its policies, Student Aid's review process does not require it to examine EdFund's policies or practices that may need to change as a result of issues Student Aid identifies during the reimbursement process.

Currently, the operating agreement requires EdFund to submit any proposed policies having a potential material effect on the Operating Fund to Student Aid and the EdFund board for review and approval. The operating agreement also requires EdFund to make its policies and procedures available to Student Aid for review and to submit any new or revised policy to Student Aid within 10 days of adopting the policy. Thus, it appears Student Aid has the authority to review EdFund's policies and request revisions to those that affect the Operating Fund so that it can prevent improper uses of state funds.

We also noted that in a few instances Student Aid withheld payment because EdFund did not provide it with supporting documentation related to the expenditures. Student Aid stated that, in cases when EdFund indicated why it would not provide the documentation, it often stated that the information was confidential or proprietary. However, as previously mentioned, the operating agreement requires EdFund to provide Student Aid with the appropriate supporting documentation and, if system security permits, read-only access to its accounting system. Until Student Aid strengthens its reimbursement process, it cannot ensure that Operating Fund expenditures are only for allowable purposes.

Unallowable or Unreasonable EdFund Expenditures

Based on our concerns with the reimbursement process and the concerns raised about EdFund's spending practices by Student Aid, we expanded our initial sample of 46 randomly selected expenditures by judgmentally selecting and reviewing an additional 45 expenditures. In summary, we found that of the 45 additional expenditures totaling $126,852 tested 16 expenditures totaling $29,233 (23 percent) were either partially or wholly unallowable because they did not benefit students or were unreasonable because the amounts spent did not appear to be prudent uses of state funds. We also noted that, for seven of the 45 expenditures, EdFund's internal controls need improvement because it reimbursed its employees for meals even though they did not provide receipts that itemize their meals.

Dispute Resolution Process

1. Parties shall attempt in good faith to resolve through informal negotiation any issue, dispute, claim, controversy and/or breach (breach) arising out of or relating to the operating agreement.
2. Any breach that cannot be so resolved shall first be presented to the respective contract managers for Student Aid and EdFund.
3. If the respective contract managers cannot resolve the issue within five business days, the issue shall be presented to the executive director of Student Aid or a designee of the governing body of Student Aid and the president of EdFund or designee of EdFund. The executive director or designee and the president or designee shall make every good faith effort to resolve the issue.
4. In the event the breach cannot be resolved by the executive director or designee and the president or designee within five business days of receipt, the chairs of Student Aid and the EdFund board shall be notified and a joint meeting of Student Aid and the EdFund board shall be noticed and shall take place within 20 business days of reporting the issue to the chairs to attempt to resolve the breach.
5. In the event the breach cannot be resolved by Student Aid and the EdFund board, Student Aid's decision shall be final.
6. In the event EdFund disagrees with Student Aid's final decision, EdFund may move forward with mediation.
7. In the event of a breach, nothing shall prevent Student Aid or EdFund from pursuing all other legal avenues available to the parties, including but not limited to legal action. However, both parties agree that prior to any legal action they will attempt to resolve their issues in an amicable manner through mediation.

Employee Meals While on Travel

EdFund employs a nationwide workforce of client services representatives and pays for their travel-related expenses, including meals. According to EdFund's travel policy and guidelines, travelers must claim reimbursement for meals based on city-specific per diem rates for meals and incidental expenses published by the U.S. Internal Revenue Service (IRS). These IRS rates are the maximum per diem rate an employer can use without treating the part of the per diem allowance exceeding the maximum rate as taxable wages. In addition to its travel policy and guidelines, EdFund's business expense reimbursement policy allows employees to receive reimbursement for meals if the meal relates to specific EdFund business goals. However, the business expense reimbursement policy does not dictate that employees stay within the IRS city-specific per diem rates.

We asked EdFund's vice president of Client Solutions and Services about the apparent absence of dollar limits in its business expense and reimbursement policy. The vice president stated that EdFund employees have always been expected to use good judgment and ensure, along with their managers, that the business expenses they submit for reimbursement are appropriate, reasonable, and justifiable. The vice president provided a June 2009 e-mail she sent to client services and client training staff stating that, as a rule of thumb and as a gauge for what is considered a reasonable for business expenses, a per-person meal charge that is similar to the per diem amount for the location is appropriate. However, because the business expense reimbursement policy does not specifically require the use of the IRS per diem rates and the vice president's e-mail was not sent until June 2009, this benchmark does not appear to have been used during most of fiscal year 2008–09—the time period of our review.

We selected 18 expenditures charged as EdFund business expenses primarily related to employee meals. We found that five of the 18 expenditures were instances where EdFund employees charged restaurant meals to the business expense—other account and stated they were discussing business to justify the expenditure. In one instance, a dinner for three employees cost $210, which exceeded the employees' combined IRS city-specific per diem rate of $192. Under EdFund's business expense reimbursement policy, this March 2009 expenditure would technically be allowable because, as described on the expense report, it was a "Dinner meeting & strategy recap" and therefore fell under a policy exception for meals that relate to specific EdFund business goals. Although technically allowable under EdFund's policy, we consider this cost an unreasonable use of state funds.

For three of the remaining four expenditures tested, the average cost of one breakfast for six EdFund employees was $31 per person, the average cost of a lunch for seven EdFund employees was $32 per person, and the average cost of a dinner for three EdFund employees was $46 per person. The apparent absence of dollar limits in its business expense reimbursement policy leaves room for the high cost of employee meals described above. On January 13, 2010, the vice president sent an e-mail to EdFund's client services staff to address EdFund's travel and business expense reimbursement policies. The vice president stated that EdFund would continue to follow the per diem rates published by the IRS for meal and incidental expenses under its travel policy. However, effective immediately, staff may not submit future business meal expenses for reimbursement under its business expense and reimbursement policy.

Employee Meals With Industry Contacts

We also found three expenditures charged as EdFund's business expenses related to the cost of EdFund employees' meals with industry contacts that we believe were unreasonable uses of state funds. Specifically, in July 2008, EdFund paid $1,040 for a business meal attended by three EdFund employees and four industry contacts, which is almost $150 per person. The receipt included an ambiguously labeled item that, upon further follow-up with the restaurant, we determined to be a call number for a bottle of wine. However, because this item was not detected or corrected during its review and approval process of the employee's travel expense claim, EdFund reimbursed the employee for the cost of this item. EdFund's business expense reimbursement policy specifically prohibits the reimbursement of alcoholic beverages. After we brought this issue to EdFund's attention, the employee immediately acknowledged the mistake and provided us evidence that he had subsequently reimbursed EdFund $114 for the cost of this item. Although not as expensive, we noted another business dinner attended by

EdFund employees and industry contacts that was reimbursed to the same employee in June 2009. The average cost of the dinner on this occasion was $79 per person, which we believe is still unreasonable when compared to the IRS' daily per diem rate for the area of $64.

EdFund's chief financial officer stated that the employee's business expense related to the July 2008 dinner was permissible under EdFund's travel and business expense reimbursement policies. In particular, the chief financial officer emphasized that he is authorized to permit reimbursements for documented exceptional circumstances that fall outside of EdFund's travel policy. Yet, the employee stated that the July 2008 dinner was held in conjunction with an industry group quarterly meeting and it was EdFund's turn to host the dinner. Consequently, this expense does not appear to be an exceptional circumstance.

Catering Costs Associated With Training Events for Schools

Although federal regulations prohibit a guaranty agency, or its agent or contractor, from making certain payments or providing benefits to any school or school-affiliated organization, they do allow a guaranty agency to provide meals and refreshments that are reasonable in cost and that are in connection with certain training programs, workshops, and forums customarily used by the agency to fulfill its responsibilities under the federal Higher Education Act. A November 2007 Federal Register states that, by reasonable cost, the Secretary of Education anticipates that guaranty agencies will adhere to the "prudent person test."

We reviewed seven expenditures charged as EdFund business expenses related to catering costs for financial-aid-training events sponsored by EdFund. We found that the average cost of a catered meal at the EdFund-sponsored training events in our sample ranged from $4 per person up to $61 per person (including taxes, tips, and service charges). The costs were highest at an event held at the Omni Chicago Hotel in November 2008. There were 31 attendees from various universities, colleges, and institutes and four EdFund employees present at this particular event. Breakfast for this event totaled $2,107, or $60 per person and lunch totaled $2,147, or roughly $61 per person. The cost for the lunch included a $42 per person buffet and the drinks, service charges, and taxes made up the difference of $677. Although the prudent person test is difficult to quantify, the requirement that the costs associated with school-related training-events be prudent, indicates that there is some limit on what can be spent. In our view, providing a $60 per person breakfast or lunch is imprudent, unreasonable, and therefore potentially unallowable.

Moreover, EdFund's FFEL program code of conduct policy states that EdFund may provide refreshments of a *nominal value* for trainings, meetings, workshops, forums, and conferences it conducts in fulfillment of its responsibilities under the federal Higher Education Act. However, EdFund's policy does not define *nominal value* and its vice president of Client Solutions and Services did not respond to our inquiry regarding EdFund's definition of this term.

Catering for EdFund Employee Trainings

We also reviewed two expenditures charged as EdFund business expenses related to catering costs for training events or meetings held for EdFund employees. The "prudent person test" applied to school-related trainings is not applicable for this type of business expense, but similar to the business expense meals discussed earlier, the per diem rate established by the IRS provides a benchmark for evaluating the reasonableness of these expenditures. For one of these expenditures, EdFund spent $900 for daily breakfast at a three-day training event that had 23 attendees. Thus, the breakfasts averaged $13 per person. Given that 16 of the attendees were already on travel status, and would have been reimbursed for their meals anyway, this per-person cost appears to be reasonable. In contrast, EdFund spent nearly $80 per person to provide breakfast and lunch to 87 attendees on the first day of its National Client Services Meeting in January 2009 at the Hilton Sacramento Arden West hotel. The second day cost almost $77 a person for these two meals. The IRS Sacramento-area daily per diem rate of $59 is significantly lower than the per person amounts paid by EdFund for only two meals. Thus, these amounts appear unreasonable. In total, the catering for breakfast and lunch for these two days was almost $12,750.

In response to our inquiry regarding these costs, its vice president of Client Solutions and Services indicated that EdFund does not have a conference room that would facilitate this type of meeting and as such it was required to look at other facilities to host the meeting. The Hilton was selected because it was less than other facilities EdFund reviewed and was available. Because the hotel required a minimum level of catering, EdFund had to purchase the hotel's catering services. The vice president indicated that the food charges were only $60 per person on the first day and $58 per person on the second day because catering service charges were not "food charges" and were required by the hotel. The vice president also stated that, although not reflected on the agenda, the lunch periods were actually working lunches in which the employees continued to discuss the topics on the agenda. Finally, the vice president stated that if EdFund had required its employees to leave the facility to eat, it would have substantially reduced the amount of meeting time each day, which would result in adding an additional day to the agenda and incurring additional hotel charges.

The vice president provided us with a bid sheet that showed that EdFund reviewed three hotels to host this conference, one of which did not bid because it had no openings. Consequently, the costs associated with two hotels were the options considered for this conference. Although the hotel selected had a minimum catering service requirement of $7,500 in food and beverages, EdFund exceeded this amount. Further, because EdFund's travel guidelines state "meal per diem amounts include taxes and tips" and we are using per diem allowances as a basis for comparison purposes, it is appropriate to include the catering service charges in the per person cost calculation. Consequently, we still believe that the catering costs associated with the conference were unreasonable.

Staff Recognition and Miscellaneous Expenditures

In addition to meal costs, we also selected 19 expenditures charged to EdFund's staff recognition and miscellaneous expense accounts. We concluded, similar to Finance in its October 2008 review, that eight of the expenditures in our sample related to staff recognition were not allowable because they do not benefit students. Specifically, EdFund paid $1,490 for gift cards to present to its employees and almost $500 for staff recognition lunches. In one instance, EdFund approved payment for a $205 lunch classified as staff recognition, despite the fact that the employee did identify the staff she took to lunch. We also found that EdFund purchased 648 16-ounce tumblers from Starbucks, at a cost of nearly $6,500, to provide to its employees so that they could stop using the disposable cups at its coffee stations. Finally, we found that in October 2008 EdFund purchased flowers, at a cost of $104, as a gesture of sympathy for a bank representative. EdFund's use of corporate travel cards and purchase cards policy listed sympathy and congratulation flowers as an approved use of the purchasing card at the time of the purchase. However, according to an e-mail dated December 4, 2008, as a result of Student Aid questioning flower expenditures as part of its reimbursement process, EdFund discontinued purchasing flowers after December 2008. Effective February 1, 2010, EdFund revised its purchasing cards policy and no longer includes sympathy and congratulation flowers as an approved use.

Many of the items we questioned as to allowability are the same as those Student Aid refused to reimburse and our concerns are similar to those expressed by Finance's review. In its October 2008 review, Finance analyzed a two-year contract, not to exceed $93,000, that provided coffee services at no charge to EdFund employees. Because providing free coffee could be construed or interpreted as a gift of state funds, and because the free coffee did not "benefit students," Finance concluded that Student Aid's concerns were substantiated. Our review found that EdFund's last payment for the coffee services was in November 2008. Finance also substantiated concerns related to EdFund's proposed fiscal year 2008–09 budget items, including an employee celebration event budgeted for $25,000 and roughly $2,000 in proposed costs related to a health fair, walking program, and giveaways. Finance concluded that these items may indicate the need for an audit to determine whether other costs incurred by EdFund are unallowable under state and federal guidelines.

EdFund's chief financial officer explained that, other than the brief statement that it refrain from expending funds for employee celebrations and coffee services, EdFund did not receive a written or verbal directive from Finance to change its practices as a result of Finance's review. The chief financial

officer added that the review was brief and informal. The chief financial officer also stated that the review as described in the engagement letter was one-time in nature and Finance did not ask EdFund to report back on the resolution of any particular allegations deemed "substantiated" in the letter. The chief financial officer told us that, although there was no specific directive or follow-up process, EdFund has of its own volition made changes to its practices including the elimination of the coffee services, health fair costs and the annual employee event specifically documented in Finance's review.

EdFund Needs to Strengthen Its Accounts Payable Review

During our review of expenditures we noticed certain practices related to paying expenses and reimbursing its employees that EdFund can strengthen to protect the Operating Fund. EdFund's procurement and contracts policy states that approvers or "authorized signers" have the primary responsibility to ensure that expenditures comply with corporate policy. As the dollar amount of the purchase increases, EdFund's policy requires approval from increasingly higher levels of management. For instance, while a manager can approve a purchase up to $2,500, the chief financial officer or president must approve purchases above $50,000. In addition to these individuals, EdFund's accounts payable staff ensure, among other things, that the supporting documentation related to an expenditure is sufficient and that the appropriate approvals have been obtained.

As mentioned earlier, one employee did not identify who she took to a staff recognition luncheon. We also found that this same employee, who used a corporate purchasing card to pay for the lunch, also approved her own invoice. Although EdFund eventually discovered this error and obtained the appropriate approval, it took more than seven months to do so. Strong internal controls do not allow individuals to approve their own payments because, among other things, it increases the risk of fraud. In a May 2008 report, EdFund's internal audit division had a similar concern. Specifically, it noted that in a few instances the authorized signer both prepared and approved purchase requisitions. The internal audit division recommended that EdFund update its policy to include language prohibiting the approval of purchases by individuals initiating the requisition. EdFund's management responded that it would revise the policy by September 2009 but, as of December 2009, it had not done so.

Our review of EdFund's reimbursement of employee meals found that, in seven of 10 instances, at least one receipt in the reimbursement request did not itemize the purchase. Although accounts payable procedures require employees to submit the original receipts with their travel and expense claims, the procedure does not specify that the receipts should itemize the purchases. As previously mentioned, EdFund's business expense reimbursement policy specifically prohibits the reimbursement of alcoholic beverages. If EdFund does not require its employees to submit itemized receipts it can unknowingly reimburse them for alcoholic beverages.

Questioned Costs

Any questioned costs identified are reimbursable to the Operating Fund.

Recommendations

To stengthen its reimbursement process, Student Aid should:

- Ensure that EdFund's proposed and existing policies and procedures are adequate to reasonably ensure compliance with federal and state laws and regulations relevant to the FFEL program.
- Enforce the provision of the operating agreement requiring EdFund to provide it with the appropriate supporting documentation.
- Seek clarifying legislation if it believes it needs additional authority to compel EdFund to allow it to review proprietary and confidential information related to EdFund's expenditures.

To ensure that future Operating Fund expenditures are for allowable activities and costs, Student Aid should:

- Ensure that EdFund modifies its business expense reimbursement policy to incorporate the changes made by its vice president of Client Solutions and Services' January 13, 2010 e-mail.
- Ensure that EdFund specifically defines the permissible exceptional circumstances that would fall outside of its travel policy and require the chief financial officer to exercise his authority.
- Ensure that EdFund modifies its FFEL program code of conduct policy to include a dollar threshhold that defines nominal value for refreshments provided at school-related training events.
- Ensure that EdFund modifies its training policy to limit the meal-related costs of internal training functions to some reasonable standard such as the IRS per diem rate.
- Ensure that EdFund modifies its procurement/contracts policy to specifically prohibit individuals from being able to approve their own payments.
- Ensure that EdFund requires its employees to submit receipts with their travel expense claims that itemize purchases.

Department's View and Corrective Action Plan

Student Aid stated that it concurs with the Bureau of State Audits' (bureau) findings and recommendations. Student Aid staff will recommend to its commissioners that they direct EdFund to modify its policies and procedures to comply with the bureau's recommendations. Student Aid staff will also recommend a corrective action plan to strengthen its reimbursement process and ensure that future Operating Fund expenditures are for only allowable activities and costs.

Additionally, Student Aid stated it believes it has both the authority and the statutory responsibility to review proprietary and confidential information related to EdFund's expenditures. However, EdFund does not agree. Student Aid staff will recommend to the commissioners that they explore all avenues to ensure Student Aid has access to all supporting documentation and the means to recover funds spent inappropriately.

Finally, Student Aid staff expressed concerns that Senate Bill 89 (Chapter 182, Statutes of 2007) complicates Student Aid's ability to fully implement the bureau's recommendations and actually facilitates EdFund's inappropriate expenditures. According to Student Aid, SB 89 authorizes Finance to sell the state's FFEL program assets, including EdFund, and to displace Student Aid's authority over the state's administration of the FFEL program. Student Aid further contends that SB 89 contradicts federal law. Student Aid also stated that under California law it must abide by SB 89 and accept Finance's assumption of responsibility for the FFEL program, absent a court ruling that SB 89 is unconstitutional because it conflicts with federal law.

The above text represents the bureau's summarization of Student Aid's response. The full text is available upon request at the bureau.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Reference Number:	2009-1-7
Federal Catalog Number:	93.958
Federal Program Title:	Block Grants for Community Mental Health Services
Federal Award Numbers and Years:	2B09SM010005-08; 2008 2B09SM010005-07; 2007 06B1CACMHS-01; 2006
Category of Finding:	Activities Allowed/Allowable Costs
State Administering Department:	Department of Mental Health (Mental Health)

Criteria

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

(b) Purpose of grants

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

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

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

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

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

(a) In general

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

(1) to provide inpatient services;

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

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

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

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

Condition

In our audit reports for fiscal years 2006–07 and 2007–08, we reported that Mental Health did not ensure that subgrantees' expenditures were only for allowable activities and costs. Mental Health relied on the counties' budget and program description components of their applications to determine if funds were used for allowable costs and activities. Specifically, the grant renewal application instructions for the Substance Abuse and Mental Health Services Administration's Block Grants for Community Mental Health Services (SAMHSA CMHS) directs counties to include in their program narrative a description that specifies what is actually being paid for by the block grant funds. However, we reported that our review of program narratives found that counties provided a general outline of program activities and did not explain each budget item. Additionally, we reported that Mental Health did not require the counties to submit invoices, receipts, or payroll information to verify amounts they reported as expenditures. Finally, Mental Health did not perform regular site visits to the counties to verify the allowability of their programs' costs and activities.

During our follow-up procedures for fiscal year 2008–09, we found that Mental Health did not fully implement a process to address these conditions. Specifically, although Mental Health added language to its fiscal year 2009–10 renewal application package directing counties to explain each budget item in the application, according to Mental Health, it did not make such revisions to the fiscal year 2008–09 renewal application package. Further, Mental Health explained that although it planned to distribute to counties the fiscal year 2009–10 renewal application package in May 2009, the distribution was delayed until November 2009 due to ongoing revisions to documents in the package. Because counties were not required to submit applications to Mental Health until the end of January 2010, by which time we had completed our follow-up procedures, we were unable to verify whether Mental Health received sufficiently detailed program narratives from each of the counties. Moreover, Mental Health stated that it continues not to require counties to submit invoices, receipts, or payroll information, which would allow it to verify amounts counties report as expenditures.

Additionally, in December 2009, Mental Health sought guidance from the Substance Abuse and Mental Health Services Administration (SAMHSA) regarding whether the counties' annual OMB A-133 audits constitute sufficient monitoring to meet the activities allowed and allowable costs requirements. However, as of January 2010, Mental Health indicated that it had not received a response and that if SAMHSA determines counties' A-133 audits are not sufficient to address the activities allowed and allowable costs requirements, Mental Health will determine the feasibility of having its Program Compliance Division conduct the audits in accordance with Mental Health's risk analysis procedures. Without sufficient processes and procedures, Mental Health cannot be certain of whether counties are charging only allowable costs to the program.

Questioned Costs

Unknown

Recommendation

Mental Health should establish a process to ensure that only allowable costs and activities are paid for with SAMHSA CMHS grant funds.

Department's View and Corrective Action Plan

Mental Health will follow up with SAMHSA on whether the counties' annual OMB A-133 audits constitute sufficient monitoring to meet the activities allowed and allowable cost requirements. If Mental Health does not receive a response from SAMHSA within two weeks, then Mental Health will form a workgroup to determine the feasibility of having its Program Compliance Division conduct the audits in accordance with Mental Health's risk analysis procedures. Mental Health will begin this task in March 2010.

Reference Number:	2009-1-10
Federal Catalog Number:	93.959
Federal Program Title:	Block Grants for Prevention and Treatment of Substance Abuse (SAPT)
Federal Award Numbers and Years:	2B08TI010005-09; 2009 2B08TI010005-08; 2008
Category of Finding:	Activities Allowed/Allowable Costs; Subrecipient Monitoring
State Administering Department:	Department of Alcohol and Drug Programs (ADP)

Criteria

TITLE 42—THE PUBLIC HEALTH AND WELFARE—CHAPTER 6A—PUBLIC HEALTH SERVICE—SUBCHAPTER XVII—BLOCK GRANTS, Part B—Block Grants Regarding Mental Health and Substance Abuse, Subpart ii—Block Grants for Prevention and Treatment of Substance Abuse, Section 300x-31—Restrictions on Expenditure of Grant

(a) In general

(1) Certain Restrictions

A funding agreement for a grant under Section 300x-21 of this title is that the State involved will not expend the grant—

(A) to provide inpatient hospital services, except as provided in subsection (b) of this section;

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

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

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

(E) to provide financial assistance to any entity other than a public or nonprofit private entity; or

(F) to carry out any program prohibited by Section 300ee-5 of this title.

TITLE 42—THE PUBLIC HEALTH AND WELFARE—CHAPTER 6A—PUBLIC HEALTH SERVICE—SUBCHAPTER XXIII—PREVENTION OF ACQUIRED IMMUNE DEFICIENCY SYNDROME, Section 300ee-5—Use of Funds to Supply Hypodermic Needles or Syringes for Illegal Drug Use; Prohibition

None of the funds provided under this Act or an amendment made by this Act shall be used to provide individuals with hypodermic needles or syringes so that such individuals may use illegal drugs, unless the Surgeon General of the Public Health Service determines that a demonstration needle exchange program would be effective in reducing drug abuse and the risk that the public will become infected with the etiologic agent for acquired immune deficiency syndrome.

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

(a) *Fiscal Control And Accounting Procedures*. Except where otherwise required by Federal law or regulation, a State shall obligate and expend block grant funds in accordance with the laws and procedures applicable to the obligation and expenditure of its own funds. Fiscal control and accounting procedures must be sufficient to (a) permit preparation of reports required by the statute authorizing the block grant and (b) permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of the statute authorizing the block grant.

Condition

ADP does not ensure that subgrantees expend SAPT funds only for allowable activities. Specifically, ADP provides SAPT funds to subgrantees in 12 monthly installments during the fiscal year. Although ADP requires subgrantees to submit quarterly federal financial management reports that track their cumulative expenditures for specific line items, these quarterly reports do not provide sufficient data to ensure funds are only being spent on allowable activities and costs.

In its SAPT uniform application for federal fiscal year 2009, ADP stated that it conducts annual compliance reviews of counties to ensure compliance with federal and state requirements. ADP's procedures require its analysts to conduct an on-site visit for each subgrantee at least once every two years and to perform a desk review of those subgrantees that do not receive an on-site visit during the year. However, ADP staff do not review the subgrantees' financial records during their on-site visits and desk reviews to determine whether they spent SAPT funds only on allowable activities and costs.

In its SAPT uniform application for federal fiscal year 2009, ADP also stated that it conducts financial and compliance audits on some number of SAPT recipients each year. ADP stated that a primary focus of the audits is to ensure that SAPT and various other federal and state funding sources are charged for their fair share of costs and to ensure that costs are allowable in accordance with the funding source requirements. Effective August 2006, ADP established procedures requiring its audit staff to review the quarterly federal financial management reports and the underlying documentation when they conduct audits of the counties. According to its fiscal year 2008–09 audit plan, ADP was scheduled to conduct two county audits. However, only one county audit was completed during fiscal year 2008–09 and it was for costs incurred during fiscal year 2000–01. ADP's audit manager explained that the focus of its audits is to review the final approved countywide cost settlement reports for the Drug Medi-Cal Program, which can sometimes include costs charged to the SAPT grant. The audit manager also stated that ADP experienced significant delays related to the county audit it completed in fiscal year 2008–09. Nevertheless, we do not consider this to be an effective, or timely, method of ensuring SAPT funds are only spent on allowable activities and costs.

We reviewed 46 transactions totaling $2.3 million. However, due to ADP's lack of supporting documentation, we are unable to conclude that these transactions were for allowable activities and costs.

Questioned Costs

Unknown

Recommendations

ADP should ensure that its audit staff conduct and complete audits in accordance with its annual county audit plan. As part of its county audits, ADP should direct its audit staff to select a sample of quarterly federal financial management reports from the current fiscal year and review the underlying documentation using the procedures described in its county audit program.

Department's View and Corrective Action Plan

ADP stated that this is a repeat finding from last year and it is in the process of resolving the issue with the U.S. Department of Health and Human Services' Substance Abuse and Mental Health Services Administration.

Reference Number:	2009-1-11
Federal Catalog Number:	93.959
Federal Program Title:	Block Grants for Prevention and Treatment of Substance Abuse (SAPT)
Federal Award Numbers and Years:	2B08TI010005-09; 2009 2B08TI010005-08; 2008 B1CASAPT07-6; 2007
Category of Finding:	Activities Allowed/Allowable Costs
State Administering Department:	Department of Alcohol and Drug Programs (ADP)

Criteria

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

(a) Fiscal control and accounting procedures. Except where otherwise required by Federal law or regulation, a State shall obligate and expend block grant funds in accordance with the laws and procedures applicable to the obligation and expenditure of its own funds. Fiscal control and accounting procedures must be sufficient to (a) permit preparation of reports required by the statute authorizing the block grant and (b) permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of the statute authorizing the block grant.

STATE ADMINISTRATIVE MANUAL, Section 8539—Attendance Records

Agencies will maintain complete records of attendance and absences for each employee during each pay period. These records will be properly certified.

Condition

ADP staff track the hours they spend on various activities and grants, and they charge their time to different program cost account (PCA) codes. ADP has set up several PCA codes for SAPT. ADP's accounting staff enter their timesheet information into the State's Labor Distribution System, which results in funds being drawn down from their ultimate funding sources.

Our review of 46 employee timesheets found six instances in which ADP's accounting records did not agree with the hours reported by the employee. For example, 58.61 hours were charged to an SAPT PCA for an employee, even though the employee reported that she worked 176 hours on activities related to SAPT during the month. This error resulted in an undercharge to the SAPT grant of $3,933. Additionally, ADP was unable to provide us with the timesheets for two employees, even though the accounting records indicated that the SAPT grant was charged $5,059.

Generally, the differences arose because accounting staff did not key in the hours reported on the timesheet into the accounting system and the labor distribution system defaulted to base PCAs established for the employee. One of ADP's accounting administrators explained that in some cases employees did not submit their timesheets in time for accounting to process them and meet the State Controller's Office deadline. The accounting adminstrator also explained that ADP did not require timesheets to be entered into the accounting system if employees reported time that was the same as

their base PCAs. Without an adequate control process, ADP cannot assure that it is accurately charging payroll costs to the SAPT grant. According to the accounting adminstrator, as of April 2009, ADP now requires that all timesheets be entered into the accounting system.

Additionally, on September 16, 2008, ADP transferred payroll costs totaling $375,000—initially charged to non-SAPT PCAs during state fiscal year 2007–08—to the SAPT federal fiscal year 2007 grant. According to ADP, $5,000 of this amount was charged to the SAPT grant to cover payroll costs for its Licensing and Certification Division's Program Compliance Branch that were initially charged to the State's General Fund. Although the payroll costs for this branch appear allowable according to ADP's state application for SAPT for federal fiscal year 2007, ADP was unable to provide the specific timesheets that support the $5,000 in payroll costs charged to the grant.

The remaining $370,000 transferred to SAPT was for payroll costs related to the State's Drug Court Partnership program, Comprehensive Drug Court Implementation program, and Offender Treatment program. Historically, these programs have been funded by the State's General Fund. Specifically, the state law establishing each program authorizes ADP to distribute appropriated State General Fund monies to the counties. ADP stated that it made the transfer to the SAPT grant because it lost funding for its methadone program and the State's General Fund would have otherwise been overextended. ADP also stated that it believes the activities related to these programs are allowable under the SAPT grant because they are for the purpose of planning, carrying out, and evaluating activities to prevent and treat substance abuse. However, ADP's actions leading up to this journal entry do not indicate that costs for these state programs are allowable SAPT activities. For example, ADP established non-SAPT PCA codes to identify the specific funding source for these programs and stated in its communications with the counties that the programs were funded by the State's General Fund. Furthermore, ADP was unable to provide the specific timesheets that support the $370,000 in payroll costs. As a result, it appears as though ADP inappropriately transferred payroll costs for these programs to the federal fiscal year 2007 SAPT grant.

Questioned Costs

From our sample of 46 transactions totaling $105,627, we found five transactions resulting in an undercharge of $5,028, one transaction resulting in an overcharge of $17, and two transactions unsupported by timesheets resulting in a potential overcharge of $5,059.

The journal entry made by ADP on September 16, 2008, potentially overcharged the federal fiscal year 2007 SAPT grant by a total of $375,000.

Recommendations

ADP should establish a quality control process to ensure that it correctly charges payroll costs to the proper PCA codes for SAPT. Additionally, ADP should promptly make adjustments for any timesheet discrepancies that come to its attention. Further, ADP should ensure that it retains the timesheets for all payroll costs it charges to the SAPT grant so that it can demonstrate that the charges are allowable. Finally, ADP should ensure that it only charges SAPT grants for SAPT-related activities.

Department's View and Corrective Action Plan

ADP stated that it is reviewing its accounting records to determine if the issues the Bureau of State Audits identified were inappropriately charged to the SAPT block grant award. ADP also stated that it will return any funds for unauthorized activities to the U.S. Health and Human Services' Substance Abuse and Mental Health Services Administration.

Reference Number:	2009-2-4
Federal Catalog Number:	93.563
Federal Program Title:	Child Support Enforcement
Federal Award Numbers and Years:	0904CA4004; 2009 0904CA4002; 2009 (American Recovery and Reinvestment Act of 2009) 0804CA4004; 2008
Category of Finding:	Allowable Costs/Cost Principles
State Administering Department:	Department of Child Support Services (Child Support Services)

Criteria

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

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

TITLE 45—PUBLIC WELFARE PART 74—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR AWARDS AND SUBAWARDS TO INSTITUTIONS OF HIGHER EDUCATION, HOSPITALS, OTHER NONPROFIT ORGANIZATIONS, AND COMMERCIAL ORGANIZATIONS, Subpart C—Post-Award Requirements—Financial and Program Management,Section 74.21—Standards for Financial Management Systems

(b)(6) Recipients' financial management systems shall provide for the following: Written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award.

TITLE 45—PUBLIC WELFARE PART 74—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR AWARDS AND SUBAWARDS TO INSTITUTIONS OF HIGHER EDUCATION, HOSPITALS, OTHER NONPROFIT ORGANIZATIONS, AND COMMERCIAL ORGANIZATIONS, Subpart C—Post-Award Requirements—Financial and Program Management, Section 74.27—Allowable Costs

(a) For each kind of recipient, there is a particular set of Federal principles that applies in determining allowable costs. Allowability of costs shall be determined in accordance with the cost principles applicable to the entity incurring the costs. Thus, allowability of costs incurred by State, local or federally-recognized Indian tribal governments is determined in accordance with the provisions of OMB Circular A-87, *"Cost Principles for State and Local Governments."*

Condition

Although Child Support Services has now taken steps to fully resolve this issue, during fiscal year 2008–09 it lacked adequate written policies and procedures to ensure that its expenditures met the requirements of U.S. Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State and Local Governments,* and the federal requirements for the Child Support Enforcement program. This was the subject of a finding we reported for fiscal year 2007–08, and Child Support Services asserted that it concurred with our recommendations. In its corrective action plan, Child Support Services stated that it would provide all staff that review and approve contracts, invoices, and

purchase orders with a list of allowable and unallowable expenditures and establish written procedures requiring these staff to use the list to ensure that expenditures are allowable. Further, Child Support Services stated that it would provide training to these staff on the allowability of costs under OMB Circular A-87. Comparing expenditures to OMB Circular A-87 is particularly important because it contains specific instructions on costs that are allowable and unallowable.

During this year's audit, we found that Child Support Services completed the steps included in its corrective action plan. However, most of these changes took place after the end of the fiscal year under review. Specifically, Child Support Services provided a training class in August 2009 that summarized requirements included in OMB Circular A-87 and instructed staff to test allowability of costs against OMB Circular A-87 when reviewing invoices or contracts. Child Support Services stated that during this class, it distributed copies of OMB Circular A-87 to all staff who review and approve contracts, invoices, and purchase orders.

Child Support Services has also established new procedures for processing invoices to ensure that expenditures meet federal requirements for allowability. In March 2009 Child Support Services established a procedure requiring that the accounting staff who perform the final review and approval of expenditures verify invoice charges against OMB Circular A-87 to ensure that they are allowable. As we reported in the prior-year, Child Support Services stated that it had previously distributed OMB Circular A-87 to accounting staff and that it was used during their review of invoices. However, we noted that there was no written procedure directing staff to compare charges to the circular, and we could not verify that such a comparison was performed. In November 2009 Child Support Services established a similar procedure for the contracts fiscal support section, which performs a preliminary review of any invoices related to contracts. At that time, Child Support Services also updated the contracts fiscal support section's Invoice Approval Sheet, which is a checklist used to confirm that each invoice is appropriate for payment, with a check box to indicate that the review against OMB Circular A-87 has been completed. These procedures, if followed, will improve Child Support Services' ability to ensure that all expenditures are allowable and meet the requirements of OMB Circular A-87.

Further, Child Support Services has updated its contract approval process to ensure that prior to a contract's approval, staff verify the allowability of activities and services required by each of Child Support Services' contracts. Specifically, in October 2009, Child Support Services updated its contract checklist, which department staff complete before approving any contracts, with a check box instructing staff to verify as allowable all expenses and ensure that each contract includes a clause relating to OMB Circular A-87. Establishing this procedure will help ensure that Child Support Services is verifying the allowability of its expenditures early in the contract approval process rather than delaying the verification until the invoices are approved by accounting and the contracts fiscal support section.

Questioned Costs

Not applicable.

Recommendations

Child Support Services should continue to provide a copy of OMB Circular A-87 to appropriate staff and conduct training when necessary. Child Support Services should also continue using the written policies and procedures it developed for all staff who review and approve contracts, invoices, and purchase orders.

Department's View and Corrective Action Plan

Child Support Services concurs with the recommendation and will continue to provide a copy of the OMB Circular A-87 to appropriate staff and provide training when necessary. In addition, it will continue using the written policies and procedures.

Reference Number:	2009-3-1
Federal Catalog Number:	93.958
Federal Program Title:	Block Grants for Community Mental Health Services
Federal Award Number and Year:	2B09SM010005-08; 2008
Category of Finding:	Cash Management
State Administering Department:	Department of Mental Health (Mental Health)

Criteria

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

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

WELFARE AND INSTITUTIONS CODE, Section 5713

Advances for funding mental health services may be made by the director of Mental Health from funds appropriated to the department for local mental programs and services specified in the annual Budget Act. Any advances made pursuant to this section shall be made in the form and manner the director of Mental Health shall determine. When certified by the director of Mental Health, advances shall be presented to the Controller for payment. Each advance shall be payable from the appropriation made for the fiscal year in which the expenses upon which the advance is based are incurred. The advance may be paid monthly in 12 equal increments but the total amount advanced in one fiscal year shall not exceed 95 percent of the county's total allocation for that year.

STATE OF CALIFORNIA 2008–09 FINAL BUDGET SUMMARY, CHAPTER 268/269, PAGE 412, Provision 2

The Department of Mental Health may authorize advance payments of federal grant funds on a monthly basis to the counties for grantees. These advance payments may not exceed one-twelfth of Section 2.00 of the individual grant award for the 2008–09 fiscal year.

Condition

In our audit reports for fiscal years 2006–07 and 2007–08, we reported that Mental Health's procedures for monitoring the Substance Abuse and Mental Health Services Administration's Block Grants for Community Mental Health Services (SAMHSA CMHS) did not adequately ensure that the advances made to counties were appropriate. Specifically, the formula in an Excel spreadsheet that Mental Health used to verify that the counties did not have cash balances that were more than 15 percent of their monthly expenditures was flawed, and the 15 percent calculation was based on old information that often did not reflect the counties' current balances. Further, Mental Health did not always follow the procedures that stipulate that a county's advance must be adjusted or not made when a county's cash balance exceeds 15 percent of its monthly expenditures. Finally, Mental Health's procedures did not require a supervisory review and approval of monthly advance amounts. These deficiencies hampered Mental Health's determination of acceptable cash balances for the counties and its ability to make appropriate adjustments to their cash advances if needed. Further, until it addressed these issues, Mental Health could not demonstrate that the amount of federal funds it requested represented its actual immediate cash requirement for carrying out the program.

In conducting our follow-up procedures for fiscal year 2008–09, we found that Mental Health did not correct this finding during the period of our review. Specifically, for fiscal year 2008–09 Mental Health continued to use the same procedures, including using the same flawed spreadsheet, to determine the amount to pay counties. However, according to Mental Health, it revised its procedures regarding payments to counties, and it implemented the procedures for the final fiscal year 2008–09 payments to counties, which were authorized in September 2009. Although it implemented its revised procedures after the end of our review period, we performed a preliminary assessment of the procedures and found that they appear to adequately address concerns we reported previously. Specifically, Mental Health discontinued its practice of providing advances to counties, and its new procedures include making payments to counties on a quarterly basis. Its written procedures indicate that any county with a cash balance greater than 15 percent relative to its quarterly expenditures must have its payment adjusted or stopped. We also found that Mental Health revised its Excel spreadsheet for verifying counties' cash balances and noted that it appears to accurately indicate whether any payment adjustment is necessary. Mental Health's new procedures also require a supervisory review and approval of payment authorizations.

Questioned Costs

Not applicable.

Recommendations

Mental Health should continue to implement its procedures to accurately monitor county SAMHSA CMHS cash balances and to adjust its payments to them in accordance with its procedures. Mental Health should also continue requiring supervisory review and approval of payment authorizations.

Department's View and Corrective Action Plan

Mental Health will continue to implement its procedures to accurately monitor county SAMHSA CMHS cash balances and to adjust its payments to them in accordance with its procedures. Mental Health will also continue requiring supervisory review and approval of payment authorizations.

Reference Number:	2009-3-2
Federal Catalog Number:	93.563
Federal Program Title:	Child Support Enforcement
Federal Award Numbers and Years:	0904CA4004; 2009 0904CA4002; 2009 (American Recovery and Reinvestment Act of 2009) 0804CA4004; 2008
Category of Finding:	Cash Management
State Administering Department:	Department of Child Support Services (Child Support Services)

Criteria

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

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

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

Section 74.21—Standards for Financial Management Systems

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

Section 74.22—Payment

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

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

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

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

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

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

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

Pre-Issuance

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

Monthly Estimate/Monthly Draw—Administrative Costs

Monthly operating and equipment expenditures shall be estimated monthly and recorded on the median day of the month. The State shall request payroll funds such that they are deposited to coincide with the State's monthly payroll cycle. The amount of the requests shall be an estimate of expenditures based on historical data. The request shall be made in accordance with the appropriate Federal agency cut-off time specified in Exhibit I. The estimate will be reconciled to actual costs within 45 days after the end of the month, and future draws will be adjusted accordingly. This funding technique is interest neutral.

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

93.563—Child Support Enforcement

Component:	Payroll/Operating expenses
Technique:	Monthly Estimate/Monthly Draw—Administrative Costs
Component:	Payments to local agencies
Technique:	Pre-issuance

Condition

Although Child Support Services has made improvements, it has not always adhered to cash management requirements for drawing federal funds for the Child Support Enforcement program. As a result, the State may not have paid the federal government all interest owed to it for fiscal year 2008–09. Specifically, Child Support Services failed to consistently use the interest-neutral funding technique specified in the Treasury-State Agreement (TSA) for drawing operating and equipment expenditures during state fiscal year 2008–09. Instead, Child Support Services used an alternative funding methodology—the pre-issuance technique—that was not interest-neutral to draw more than $41 million in operating and equipment expenditures in fiscal year 2008–09.

Although a representative from the Department of Finance (Finance) stated that it was reasonable for Child Support Services to use the pre-issuance technique for these expenditures, Child Support Services did not report these draws as interest-earning to Finance, which calculates and reports state and federal interest liabilities to the federal government. The Finance representative acknowledged that interest was not calculated for these draws and stated that Finance is currently gathering information from Child Support Services to assess whether there is an interest liability. He stated that if a liability exists, Finance will report it to the U.S. Treasury Department. In addition, the Finance representative stated that Finance will be working closely with Child Support Services to determine if changes to the TSA are necessary and that it will instruct Child Support Services to use the funding technique specified in the TSA to eliminate interest liability where possible.

Although Child Support Services used the funding technique specified in the TSA for its remaining operating and equipment expenditures, it did not correctly estimate and draw these funds for most of the fiscal year. As a result, these draws were not interest-neutral. The funding technique described in the TSA states that Child Support Services will estimate monthly operating and equipment expenditures on the median day of the month and base that estimate on historical data. Drawing funds for the entire month in the middle of the month helps ensure that the state and federal government bear an equal interest burden. In the prior-year, we reported that Child Support Services drew down only the amount of *actual expenditures* incurred up until the median day of the month, and subsequently drew the actual amount of expenditures for the second half of the month during the next month's estimate. This methodology relies on the State to pay for the expenditures until the federal government reimburses it, leaving the State unable to earn interest on these funds. Child Support Services continued to use this method for most of fiscal year 2008–09, but in March 2009, following our recommendation, Child Support Services began using the general process required by the TSA. Specifically, it began drawing funds to cover the entire month's expenditures at mid-month and based these draws on historical data.

However, Child Support Services had problems complying with certain aspects of the TSA after switching to this interest-neutral methodology in March 2009. For example, Child Support Services has a process to expend any overdrawn federal funds as soon as possible to ensure that it fully reconciles

these funds within the required 45 days. Yet, it did not reconcile operating and equipment expenditure estimates within the required 45 days of the end of the month for two of the four months we tested. Specifically, in May and June 2009, Child Support Services overestimated its expenditures and therefore drew $1.7 million more in federal funds into its General Fund account than it spent. According to a Child Support Services accounting administrator, Child Support Services was unable to expend these overdrawn funds within 45 days because the State Controller's Office had frozen access to the General Fund due to the State's budget crisis and a cash shortfall occurring in June and July 2009. As a result, Child Support Services did not receive access to May's and June's overdrawn funds and thus did not spend them until 106 and 26 days after the required reconciliation dates, respectively.

In addition, we reported last year that Child Support Services did not estimate operating and equipment expenditure costs on the required median day of the month in four months during fiscal year 2007–08. An accounting administrator stated that, prior to March 2009, it used a process that often resulted in its inability to perform the current month estimate by the median day of the month as required by the TSA. Beginning in March 2009, Child Support Services began using a new process to draw funds for its estimates on the 15th of every month to better meet the requirements of the TSA. Our review of the March through June 2009 draws found that Child Support Services generally met the established deadlines, with only one month's draw occurring four days late.

Finally, we noted that Child Support Services experienced certain difficulties when it attempted to use American Recovery and Reinvestment Act of 2009 (Recovery Act) funds to reimburse payments that it previously made from the General Fund. Child Support Services was awarded more than $65 million in Recovery Act funds for fiscal year 2008–09, of which it drew $28.9 million by the end of the fiscal year. When it awarded the funds, the federal government established a new Recovery Act account in its electronic payment management system, from which Child Support Services was to draw these funds. This account was separate from the federal account used to draw funds for all other federal child support expenditures (federal account). Child Support Services needed to use the Recovery Act funds to repay the General Fund, which had made payments for fiscal year 2008–09 expenditures that were allowable under the Recovery Act but that were made before Recovery Act funding was available. However, because of an oversight, Child Support Services did not reimburse the General Fund for $7.5 million of the $14.9 million that it had initially paid until November 2009, seven months after Recovery Act funds became available. Further, Child Support Services mistakenly used the federal account to reimburse the General Fund for the $7.5 million instead of using Recovery Act funding. We also noted that Child Support Services did not directly reimburse the federal account, which Child Support Services had also used in place of Recovery Act funds to make payments. Instead, Child Support Services used Recovery Act funds to pay for ongoing commitments that it would otherwise pay from the federal account. According to the accounting administrator, Child Support Services did not directly reimburse the federal account because there was no mechanism to do so. Further, she stated that the federal government did not provide any guidance with respect to reimbursing the federal account with Recovery Act funds. When it does not promptly make reimbursements or appropriately draw funds using established accounts, Child Support Services risks being unable to demonstrate that it properly accounted for funds provided to it.

Questioned Costs

Not applicable.

Recommendations

Child Support Services should work with Finance to ensure that it follows the requirements specified in the TSA and to ensure that interest is properly calculated and reported to the federal government for all applicable federal draws. In addition, Child Support Services should ensure that it reconciles monthly operating and equipment expenditures within 45 days of the end of each month. Further, Child Support Services should monitor its new process for drawing monthly operating and equipment expenditures to ensure that it is drawing these funds at mid-month, as required by the TSA. Finally, in instances in which Child Support Services needs to reimburse one funding source with another, it should do so

promptly. If the federal government has established separate accounts from which to draw funds, Child Support Services should ensure that it is using these accounts appropriately. In the event that it needs guidance from the federal government, Child Support Services should pursue this guidance.

Department's View and Corrective Action Plan

Child Support Services concurs with the finding and will continue to work with Finance. Since the prior finding, Child Support Services and Finance have incorporated additional language in the TSA, beginning July 1, 2009. In addition, in January 2010 Child Support Services and Finance began working to ensure that Finance can properly calculate and report interest to the federal government. We will work with Finance to further clarify the circumstances under which pre-issuance would be used.

Child Support Services' Plan of Financial Adjustment (PFA) reconciliations were prepared and submitted within the required 45 days. The May PFA was prepared and submitted on June 25, 2009, and the June PFA was prepared and submitted on July 20, 2009. However, due to the cash shortfall at the state level, the California State Controller's Office froze access to the General Fund, and the process could not be completed.

Child Support Services will continue to ensure that it is drawing down funds at mid-month as required by the TSA. The standard procedure is to monitor process changes for efficiency.

Child Support Services will ensure that future transfers are effected in a timely manner, will ensure that adequate documentation of requests and subsequent clarifications have been obtained, and will continue to work closely with the federal government on reporting requirements.

Reference Number:	2009-5-1
Federal Catalog Number:	93.659
Federal Program Title:	Adoption Assistance
Federal Award Numbers and Years:	0901CA1403; 2009 0901CA1407; 2009 0801CA1407; 2008
Category of Finding:	Eligibility
State Administering Department:	Department of Social Services (Social Services)

Criteria

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

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

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

TITLE 22—SOCIAL SECURITY, DIVISION 2—DEPARTMENT OF SOCIAL SERVICES-DEPARTMENT OF HEALTH SERVICES, SUBDIVISION 4—INSTITUTIONS AND BOARDING HOMES FOR PERSONS AGED 16 AND ABOVE, CHAPTER 3—ADOPTIONS PROGRAM REGULATIONS, SUBCHAPTER 5—PROCEDURES FOR AGENCY ADOPTIONS, ARTICLE I—ASSESSMENT OF THE CHILD, Section 35127.1—Content of Written Assessment of the Child

(b) The agency shall assess each child accepted for adoption services. The assessment shall be in writing and shall include but not be limited to:

(5) Determination of the child's Adoption Assistance Program (AAP) eligibility when applicable, and the basis for such a determination.

CALIFORNIA DEPARTMENT OF SOCIAL SERVICES AGENCY ADOPTION PROGRAM MANUAL, Section IV—Adoption Assistance Program, Part 2, Forms

(2) To satisfy the disclosure requirements and for AAP management, the following forms and written materials have been established:

8. AAP Benefit Determination and Approval form

Condition

Social Services continues to need to improve its controls over eligibility determinations for the Adoption Assistance Program (AAP). Specifically, during our audit for fiscal year 2007–08, we found that Social Services did not always ensure that adoption case files at two of its seven district offices contained the appropriate supervisory approvals and documentation required by federal regulations. According to the chief of the Adoptions Services Bureau (Adoptions Services), Social Services is in the process of correcting these deficiencies. For example, Social Services has developed a closing case summary checklist for use at all seven district offices. The checklist identifies the documents and information that should be in the case file before the adoption is finalized and requires a supervisor's approval. The chief also indicated that in June 2009 Social Services provided training to its managers and supervisors regarding the protocol for using this checklist and that Social Services was making final revisions to the checklist as of October 28, 2009.

Although Social Services is taking steps to correct this prior-year finding, we identified similar deficiencies at a third district office during our current audit. Specifically, we found that all 18 adoption case files we reviewed at this district office were missing documents that demonstrate compliance with federal regulations, or the files did not contain evidence of supervisory review. For example, federal regulations require that an Agreement for Reimbursement of Nonrecurring Expenses of Adoption (agreement) indicate the amount of the nonrecurring expenses to be paid to the adoptive parents and must be signed by the adoptive parents prior to the final decree of adoption. However, we found that 12 of the 18 adoption case files did not contain a signed copy of the agreement. In addition, because the district office was using an outdated form, the agreements in the remaining six case files did not contain the date that the adoptive parent(s) signed the agreement. Further, 16 of the 18 agreements did not include the amount of nonrecurring expenses to be paid. According to the chief of Adoptions Services, although Social Services distributes standardized adoption forms to each of the seven district offices, it does not conduct periodic reviews or monitor to ensure that the district offices are using the appropriate forms. Because it does not review the forms the district offices are using, Adoptions Services is not ensuring that they are complying with federal regulations. Consequently, Social Services cannot demonstrate that adoptive families have been informed—before the final decree of adoption is issued—about their right to receive reimbursement for nonrecurring expenses, and Social Services runs the risk of the federal government disallowing reimbursement of these costs.

We also found that two of the 18 adoption case files we reviewed at this district office did not contain a copy of the adoption order, which provides the date on which the final decree of adoption was issued. Thus, for these two cases, we were unable to assess whether Social Services complied with the federal requirement that the agreement be signed prior to the final decree of adoption.

Finally, five of the 18 adoption case files we reviewed did not contain evidence of supervisor approvals. Adoptions Services requires supervisors in its seven district offices to review case file documentation and to verify the eligibility determinations made by the adoption specialists assigned to the cases to ensure that Social Services is meeting federal requirements. Generally, the supervisors sign two standard forms—the AAP Benefit Determination and Approval form and the Child Assessment and History form—to indicate their review and approval. However, for five of the case files we reviewed, neither form contained the supervisor's approval. The manager of this district office stated that she no longer requires supervisors to sign one of these forms because signing the form duplicates other processes requiring supervisor approval. However, the forms with supervisory signature for those other processes are not generally retained in the case files; thus, we did not find evidence that the district office supervisor reviewed and approved the five eligibility determinations. The district office manager did not offer an explanation as to why the second form was not signed.

Questioned Costs

Not applicable.

Recommendation

Social Services should continue its efforts to implement a quality control process to ensure that staff in its seven district offices are using and retaining the appropriate documentation to demonstrate that Social Services is following established internal control procedures and complying with federal laws and regulations.

Department's View and Corrective Action Plan

Social Services stated that it will continue its efforts to implement controls on the documentation process. Social Services also indicated that because the revised checklist was approved after completion of this most recent audit, improvement will not show until adoption cases finalized after December 1, 2009, are closed. In addition, Social Services stated that it will provide training to managers and supervisors at the January 2010 Manager's meeting on use of the new form and on monitoring compliance requirements.

Reference Number:	2009-5-3
Category of Finding:	Eligibility
State Administering Department:	Department of Aging (Aging)
Federal Catalog Number:	93.044
Federal Program Title:	Special Programs for the Aging—Title III, Part B—Grants for Supportive Services and Senior Centers
Federal Award Numbers and Years:	09AACAT3SP; 2009 08AACAT3SP; 2008

Federal Catalog Number:	93.045
Federal Program Title:	Special Programs for the Aging—Title III, Part C—Nutrition Services
Federal Award Numbers and Years:	09AACAT3SP; 2009 08AACAT3SP; 2008

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

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

Criteria

TITLE 42—THE PUBLIC HEALTH AND WELFARE, CHAPTER 35—PROGRAMS FOR OLDER AMERICANS, SUBCHAPTER III—Grants for State and Community Programs on Aging, Section 3027—State Plans

(a)(1) The plan shall—

(A) require each area agency on aging designated under Section 3025(a)(2)(A) of this title to develop and submit to the State agency for approval, in accordance with a uniform format developed by the State agency, an area plan meeting the requirements of Section 3026 of this title.

TITLE 42—THE PUBLIC HEALTH AND WELFARE, CHAPTER 35–PROGRAMS FOR OLDER AMERICANS, SUBCHAPTER III—Grants for State and Community Programs on Aging, Section 3025—Designation of State Agencies

(a)(2) The State agency shall—

(C) in consultation with area agencies, in accordance with guidelines issued by the Assistant Secretary, and using the best available data, develop and publish for review and comment a formula for distribution within the State of funds received under this subchapter that takes into account—

(i) the geographical distribution of older individuals in the State;

(ii) and the distribution among planning and service areas of older individuals with greatest economic need and older individuals with greatest social need, with particular attention to low-income minority older individuals.

(D) submit its formula developed under subparagraph (C) to the Assistant Secretary for approval.

Condition

The U.S. Office of Management and Budget's (OMB) *Circular A-133 Compliance Supplement* (A-133 Compliance Supplement) issued in March 2009 suggests that auditors perform procedures to verify that amounts awarded to subrecipients were within funding limits. Our review found that Aging did not always maintain supporting documentation for certain amounts used in its calculation of awards to its subgrantees. Specifically, federal law allows Aging to use a portion of its grant to conduct an effective ombdusman program. In calculating its fiscal year 2008–09 allocation, Aging deducted $889,000 and $1.2 million from its federal fiscal year 2008 grant for the state and local ombudsman programs, respectively, but it could not provide supporting documentation for these amounts. In our prior-year audit, we reported a similar finding. In response to our prior-year finding, Aging indicated that it was in the process of documenting the methodology used to determine the federal portion of its ombudsman program. Aging also stated that it would prepare procedures that identify what supporting documentation must be retained in the file in order to ensure that the federal requirements have been met. However, Aging did not complete these tasks in fiscal year 2008–09.

Additionally, federal law requires that Aging place special emphasis on older individuals with the greatest economic or social need, with particular attention to low-income minority older individuals. According to the intrastate funding formula found in its state plan, Aging takes this into account by defining older as age 60 and above and by assigning weights to factors for individuals who are low-income, minority, and residing in non-urban areas (geographic isolation). However, Aging could not provide the supporting documentation for the geographic isolation and low-income data that it used to calculate the weighted factor for each of its subgrantees. According to the deputy director of its Long-Term Care and Aging Services Division, Aging did not retain the original source documents, and recreating the data would require additional staff and monetary resources. Due to the lack of supporting documenation related to the ombudsman programs and to the geographic isolation and low-income data used in its fiscal year 2008–09 allocation, we were unable to determine whether the amounts that Aging awarded to its subgrantees were appropriate.

On March 18, 2009, Aging was awarded roughly $9.8 million in American Recovery and Reinvestment Act of 2009 (Recovery Act) funds for its nutrition services program. Aging also used the weighting factors from its intrastate funding formula for its fiscal year 2009–10 allocation to calculate awards of Recovery Act funds to its subgrantees. Between March 18, 2009, and June 30, 2009, Aging made payments to its subgrantees totaling roughly $535,000. However, in our review of the weighting factors that Aging used to allocate Recovery Act funds, we found the same lack of supporting documentation for the geographic isolation and low-income data that we identified for Aging's fiscal year 2008–09 allocation.

Questioned Costs

Not applicable.

Recommendations

Aging should ensure that it establishes a policy and procedures for determining the federal portion of the state and local ombudsman programs and retain the supporting documentation for the amounts that it includes in its annual allocations.

Aging should also ensure that it retains the appropriate documentation to support the weighting factors it uses in its annual allocations such as the geographic isolation and low-income data.

Department's View and Corrective Action Plan

Aging stated it is documenting its policy in writing indicating that the ombudsman program will continue receiving an annual baseline allocation from the federal Title III grant of $889,000 for state operations and $1.2 million for local assistance. These federal funds represent only a portion of the cost

to run the program. California has augmented federal funds historically with State General Fund and special funds. Any future changes needed to this allocation will be properly supported and documented and the documentation retained in the budget development file for each year.

Aging also stated it has revised its funding allocation procedures to require data team staff to retain copies of the actual raw demographic data from the U.S. Department of Health and Human Services' Administration on Aging and the California Department of Finance web sites used to calculate weighting factors. The procedures require that the data, along with source references and any calculations made using the data, will be electronically archived and referenced in the funding formula file for each allocation year even when the data has not changed from year to year. Aging will immediately begin to follow the procedures for retaining more consistent support documentation files by year. When the raw data changes on the official source websites, it can be captured and retained as the new procedures require.

Reference Number:	2009-5-8
Federal Catalog Number:	93.568
Federal Program Title:	Low-Income Home Energy Assistance Program (LIHEAP)
Federal Award Numbers and Years:	G-09B1CALIEA; 2009 G-08B1CALIEA; 2008
Category of Finding:	Eligibility
State Administering Department:	Department of Community Services and Development (CSD)

Criteria

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

(b) Certifications required for covered activities

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

(2) make payments under this subchapter only with respect to—

(B) households with incomes which do not exceed the greater of—

(i) an amount equal to 150 percent of the poverty level for such State; or

(ii) an amount equal to 60 percent of the State median income.

TITLE 8—ALIENS AND NATIONALITY, CHAPTER 14—RESTRICTING WELFARE AND PUBLIC BENEFITS FOR ALIENS, Subchapter I—Eligibility for Federal Benefits, Section 1611—Aliens Who Are Not Qualified Aliens Ineligible for Federal Public Benefits

(a) In general

Notwithstanding any other provision of law and except as provided in subsection (b) of this section, an alien who is not a qualified alien (as defined in Section 1641 of this title) is not eligible for any Federal public benefit (as defined in subsection (c) of this section).

TITLE 8—ALIENS AND NATIONALITY, CHAPTER 14—RESTRICTING WELFARE AND PUBLIC BENEFITS FOR ALIENS, Subchapter IV—General Provisions, Section 1642—Verification of Eligibility for Federal Public Benefits

(d) No verification requirement for nonprofit charitable organizations

Subject to subsection (a) of this section, a nonprofit charitable organization, in providing any Federal public benefit (as defined in Section 1611(c) of this title) or any State or local public benefit (as defined in Section 1621(c) of this title), is not required under this chapter to determine, verify, or otherwise require proof of eligibility of any applicant for such benefits.

Condition

CSD contracts with local agencies to make eligibility determinations and to provide assistance under LIHEAP to eligible participants residing in their service areas. However, in our prior-year audit, we reported that local agencies did not always maintain sufficient documentation to substantiate their eligibility determinations. In addition, we noted that the flexibility CSD allows when calculating monthly income amounts could lead local agencies to inappropriately approve some applicants whose monthly income amounts would otherwise make them ineligible. We identified similar deficiencies during the current audit.

Specifically, our review of 16 (17.4 percent) of the 92 applicant files tested found that local agencies did not provide us with sufficient documents supporting applicants' monthly income amounts or did not complete the intake form correctly. For example, CSD's *LIHEAP Eligibility and Verification Guide* (guide) states that proof of income documents submitted by the applicant must be dated within six weeks of the applicant's intake date, which is the date the applicant applies for the services. However, in five instances local agencies accepted documents from applicants that were dated up to 13 months from the applicants' intake dates. In other instances, local agencies did not always include the income or the household size of the applicant on the intake forms, calculate the amount of income correctly, or provide all the required documents to support the amount of the applicants' income.

We also found that public local agencies did not obtain sufficient citizenship documentation for four (27 percent) of 15 applicants. For two of these applicants, the public local agencies relied on letters from the federal Social Security Administration that indicated the applicants' places of birth. CSD's guide lists acceptable citizenship documents, such as the applicant's U.S. birth certificate and passport. For the remaining two applicants, CSD made determinations of citizenship but could not provide evidence as to what it used to verify the applicants' citizenship. When local agencies and CSD do not follow appropriate CSD guidance for eligibility determinations, they may inappropriately allow ineligible applicants to receive LIHEAP benefits.

Further, in our prior-year audit, we reported that when applicants present local agencies with weekly or biweekly income documents, CSD's guide allows local agencies the flexibility to calculate an applicant's monthly income amount by using multipliers of four or 4.333 for weekly income amounts and either two or 2.167 for biweekly income amounts. Therefore, when local agencies use four as a multiplier for weekly income amounts or two for biweekly income amounts, we reported that they could inappropriately approve some applicants whose monthly income would otherwise exceed federal annual income standards. To address this issue, in September 2009 CSD published a revised guide on its Web site that no longer allows this flexibility and that requires local agencies to use the multipliers of 4.333 for weekly income amounts and 2.167 for biweekly income amounts. In addition, CSD offered training to the local agencies regarding this change. However, during the current audit period, CSD continued to allow this flexibility until the revised guide was released in September 2009.

Questioned Costs

Payments of $12,013.64 to 11 applicants from a total of $119,685.86 in payments to our sample of 92 applicants.

Recommendations

CSD should ensure that local agencies use only acceptable documentation to verify applicants' income and, when applicable, citizenship. To the extent that CSD determines eligibility, it should also ensure that it uses and retains appropriate documentation with regard to citizenship. CSD should also ensure that local agencies appropriately complete applicants' intake forms and maintain adequate documentation to support their eligibility determinations for LIHEAP applicants.

CSD should continue to require local agencies to calculate an applicant's monthly income amount by multiplying weekly income amounts by 4.333 or biweekly income amounts by 2.167.

Department's View and Corrective Action Plan

CSD concurs that it needs to improve local agency income eligibility verification compliance according to its LIHEAP eligibility and verification guide. CSD indicated that it will (1) develop various tools such as a quality control checklist to assist intake workers with examples of the most common forms of acceptable documentation; (2) provide additional training on all aspects of CSD's eligibility guidelines, appropriate completion of the energy intake form, and a review of the proper documentation that should be included in each client file; (3) within the next 60 days, host a webinar training to discuss issues raised by the Bureau of State Audits with respect to eligibility verification, and refresher training on all aspects of CSD eligibility policies; (4) provide additional training to public local agencies on CSD's eligibility guidelines for verifying citizenship, including hosting a webinar within the next 60 days for training public local agencies to discuss acceptable forms of documentation for verifying citizenship; (5) enhance monitoring field protocols and techniques to ensure client sampling reviews in the areas of income verification and citizenship verification for public local agencies; and (6) to strengthen the income eligibility determinations, develop a questionnaire both to standardize and to validate income earnings for clients self-declaring income.

Reference Number:	2009-7-3
Federal Catalog Number:	93.958
Federal Program Title:	Block Grants for Community Mental Health Services
Federal Award Numbers and Years:	2B09SM010005-08; 2008 2B09SM010005-07; 2007 06B1CACMHS-01; 2006
Category of Finding:	Earmarking
State Administering Department:	Department of Mental Health (Mental Health)

Criteria

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

(b) Limitation on administrative expenses—

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

Condition

In our audit reports for fiscal years 2006–07 and 2007–08, we reported that Mental Health did not have an official written policy or procedures in place to ensure that administrative costs were charged appropriately to the Substance Abuse and Mental Health Services Administration's Block Grants for Community Mental Health Services (SAMHSA CMHS). Mental Health charged all or only a portion of salaries for certain key Substance Abuse and Mental Health Services Administration (SAMHSA) staff to the grant, based on approved timesheets, but other expenditures, such as travel, were allocated to the SAMHSA CMHS grant by staff's choice.

During our follow-up procedures for fiscal year 2008–09, we found that Mental Health had not developed written policies and procedures to ensure that it consistently and properly applied administrative costs to the SAMHSA CMHS grant. Mental Health stated that updated procedures were unavailable due to the retirement of staff. As a result, Mental Health explained that it will form a workgroup consisting of management and staff from program, fiscal, and personnel areas to conduct a review of the current process and to develop a written policy and processes to ensure that only allowable costs are used to meet the earmarking requirement. Mental Health asserted that the workgroup plans to begin this task in February 2010. Without an official policy that outlines the allowable costs that may be claimed and procedures such as supervisory reviews, Mental Health cannot reasonably assure that earmarking requirements are met using only allowable costs.

Questioned Costs

Unknown

Recommendation

Mental Health should establish a written policy, as well as processes and procedures, to ensure that only allowable costs are used to meet the earmarking requirement.

Department's View and Corrective Action Plan

Mental Health will establish a written policy, as well as processes and procedures, to ensure that only allowable costs are used to meet the earmarking requirement.

Reference Number:	2009-7-4
Federal Catalog Number:	93.958
Federal Program Title:	Block Grants for Community Mental Health Services
Federal Award Numbers and Years:	2B09SM010005-08; 2008 2B09SM010005-07; 2007 06B1CACMHS-01; 2006
Category of Finding:	Level of Effort—Maintenance of Effort
State Administering Department:	Department of Mental Health (Mental Health)

Criteria

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

(a) Allocation for systems of integrated services for children

(1) In general

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

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

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

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

(2) Waiver

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

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

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

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

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

(1) In general

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

(2) Exclusion of certain funds

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

(3) Waiver

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

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Federal Register Volume 66, Number 130 (July 6, 2001), contains a notice from the Substance Abuse and Mental Health Service Administration (SAMHSA) executive officer specifying that states are required as a condition of receipt of funds to maintain State expenditures for community based mental health services for adults with serious mental illness (SMI) and children with serious emotional disturbance (SED) at a level that was equal to the average expenditures for such purposes over the previous two years. The federal register also stated that the Secretary, as a matter within his discretion, had the authority to exclude from the calculation of the maintenance of effort "funds appropriated to the principal agency for authorized activities which are of a non-recurring nature and for a specific purpose."

Condition

In our audit reports for fiscal years 2006–07 and 2007–08, we reported that Mental Health lacked processes and procedures to ensure that it complies with the maintenance of effort (MOE) requirement for this program. Specifically, for the MOE requirement related to the allocation for systems of integrated services for children with SED, we found that two of the seven components that Mental Health included in its MOE calculation—the Early Mental Health Initiative (EMHI) program and the California AIDS mental health project (AIDS project)—did not specifically target children with SED. Mental Health also did not provide documentation to support the percentages it applied against the total of managed care and realignment dollars to arrive at the amount it reported as expenditures for children with SED. Finally, Mental Health was unable to provide documentation that showed the components and expenditures used to generate the fiscal year 1994–95 threshold of $160 million. For the MOE requirement related to the State's expenditures for community mental health services, we found that Mental Health did not report all state expenditures for adults with SMI and children with SED. Specifically, it did not include any expenditures made with funds from the Mental Health Services Act (MHSA), and it could not positively state whether other state agencies fund community mental health programs for adults with SMI or children with SED. Finally, one of the six components—the EMHI program—that Mental Health included in its calculations of total expenditures for community mental health services did not specifically target adults with SMI or children with SED.

During our follow-up procedures for fiscal year 2008–09, we found that Mental Health had partially corrected these conditions. Specifically, we determined that Mental Health appropriately excluded the EMHI program and the AIDS project from its fiscal year 2008–09 calculation of the MOE for integrated services for children with SED. Similarly, Mental Health appropriately excluded the EMHI from its calculation of total expenditures for community mental health services. However, Mental Health had yet to determine how the percentages it applied against the total managed care and realignment dollars used for the calculation of the MOE were derived. Mental Health also continued to be unable to provide documentation to show the components and expenditures that it used to calculate the fiscal year 1994–95 threshold amount. Further, Mental Health did not report all state expenditures for adults with SMI and children with SED. For example, it did not include any funding from the MHSA in its calculation, and it could not positively state whether other state agencies fund community mental health programs for adults with SMI or children with SED. Until it includes only appropriate expenditures in its calculation of MOE and can adequately support that calculation, Mental Health cannot ensure that it is complying with the MOE requirement for both integrated services for children with SED and for community mental health services.

Questioned Costs

Not applicable.

Recommendations

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

Mental Health should revise its methodology for calculating the community mental health services MOE requirement to accurately capture and report all state expenditures for adults with SMI and children with SED only.

Department's View and Corrective Action Plan

Mental Health will research the percentages used to support the managed care and realignment dollars used in its calculation and retain the supporting documentation. In addition, Mental Health will make inquiries to locate the financial statements for fiscal year 1994–95.

Furthermore, Mental Health will look into revising its methodology for calculating the community mental health services MOE requirement to accurately capture and report all State expenditures for adults with SMI and children with SED only.

Reference Number:	2009-7-6
Category of Finding:	Matching, Level of Effort, Earmarking
State Administering Department:	Department of Aging (Aging)
Federal Catalog Number:	93.044
Federal Program Title:	Special Programs for the Aging—Title III, Part B—Grants for Supportive Services and Senior Centers
Federal Award Numbers and Years:	08AACAT3SP; 2008 06AACAT3SP; 2006

Federal Catalog Number:	93.045
Federal Program Title:	Special Programs for the Aging—Title III, Part C—Nutrition Services
Federal Award Numbers and Years	08AACAT3SP; 2008 06AACAT3SP; 2006

Criteria

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

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

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

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

TITLE 42—THE PUBLIC HEALTH AND WELFARE, CHAPTER 35—PROGRAMS FOR OLDER AMERICANS, Subchapter III—Grants for State and Community Programs on Aging

Section 3026(c) Reduction of State Allotment

A State's allotment under Section 3024 of this title for a fiscal year shall be reduced by the percentage (if any) by which its expenditures for such year from State sources under its State plan approved under Section 3027 of this title are less than its average annual expenditures from such sources for the period of three fiscal years preceding such year.

TITLE 45—PUBLIC WELFARE, PART 1321—GRANTS TO STATE AND COMMUNITY PROGRAMS ON AGING, Subpart B—State Agency Responsibilities

Section 1321.49 State Agency Maintenance of Effort

In order to avoid a penalty, each fiscal year the State agency, to meet the required non-federal share applicable to its allotments under this part, shall spend under the State plan for both services and administration at least the average amount of State funds it spent under the plan for the three previous fiscal years. If the State agency spends less than this amount, the Commissioner reduces the State's allotments for supportive and nutrition services under this part by a percentage equal to the percentage by which the State reduced its expenditures.

TITLE 42—THE PUBLIC HEALTH AND WELFARE, CHAPTER 35—PROGRAMS FOR OLDER AMERICANS, Subchapter III—Grants for State and Community Programs on Aging

Section 3026

(a) Preparation and Development by Area Agency on Aging; Requirements

Each area agency on aging designated under Section 3025 (a)(2)(A) of this title shall, in order to be approved by the State agency, prepare and develop an area plan for a planning and service area for a two-, three-, or four-year period determined by the State agency, with such annual adjustments as may be necessary. Each such plan shall be based upon a uniform format for area plans within the State prepared in accordance with Section (a)(1) of this title. Each such plan shall—

(2) provide assurances that an adequate proportion, as required under Section 3027 (a)(2) of this title, of the amount allotted for Part B of this subchapter to the planning and service area will be expended for the delivery of each of the following categories of services—

(A) services associated with access to services (transportation, health services (including mental health services), outreach, information and assistance (which may include information and assistance to consumers on availability of services under Part B and how to receive benefits under and participate in publicly supported programs for which the consumer may be eligible), and case management services);

(B) in-home services, including supportive services for families of older individuals who are victims of Alzheimer's disease and related disorders with neurological and organic brain dysfunction; and

(C) legal assistance; and assurances that the area agency on aging will report annually to the State agency in detail the amount of funds expended for each such category during the fiscal year most recently concluded.

Condition

Aging lacks adequate policies and procedures to provide reasonable assurance that matching, level-of-effort, and earmarking requirements are met for the programs it administers using only allowable funds or costs that are properly calculated and valued. Specifically, Aging does not have an official written policy that outlines factors such as its methods of valuing matching requirements and the allowable costs that may be claimed. Further, Aging's accounting section does not have written policies and procedures that include the review and approval of its calculations and the amounts it reports to the federal government. We reported a similar finding in fiscal year 2007–08. According to its deputy director of administration, Aging has drafted written procedures that include controls to avoid errors and to maintain appropriate accounting documentation to support calculations; however, the procedures have not been finalized and approved. Aging anticipates that approved procedures will be in place by March 2010. Until Aging completes the tasks outlined by its deputy director, the absence of controls will continue to hinder Aging's ability to prevent errors or promptly detect any errors that may exist.

Aging also lacks adequate policies and procedures to ensure that it reviews its subgrantees' financial closeout reports (CDA 180 reports) promptly. Aging requires its subgrantees to submit their CDA 180 reports within 60 days after the end of the state fiscal year. According to its fiscal review tool, Aging reviews the reports to ensure that the subgrantees have met their matching and earmarking requirements, such as minimum spending percentages for access, in-home services, and legal assistance. However, Aging has no formal policy or procedures that specify when its staff must complete their reviews of the subgrantees' CDA 180 reports. As of December 8, 2009, Aging had not completed any reviews of its subgrantees' CDA 180 reports. According to its policy manager, Aging will develop policies and procedures by March 2010.

We are unable to conclude on whether or not Aging met its level-of-effort—maintenance-of-effort (MOE) requirement. Federal law and regulation state that to meet the MOE requirement, a state must spend at least the average amount of state funds it spent under the plan for administration and services as it did for the three previous fiscal years. The May 2009 instructions that Aging received from the federal Department of Health and Human Services' Administration on Aging (AoA) on how to complete the federal fiscal year 2008 MOE certification cite the federal regulation. However, Aging calculated its federal fiscal-year 2008 MOE by multiplying its grant award by 5 percent for state operations and 95 percent for local assistance to establish estimated expenditures in these two categories. Aging then developed factors it derived for its matching requirements. Specifically, Aging used its estimated state operations amount to arrive at its estimated matching requirement of at least 25 percent of the cost of administering the state plan. Aging then used its estimated local assistance amount to arrive at its estmated matching for its share of the 15 percent of the total service costs, which is 5 percent. After adding the amounts together and arriving at $7.8 million, Aging compared this amount to the average MOE certification amount for the three prior fiscal years, which were prepared using the same methodology. For federal fiscal year 2008, Aging certified its MOE as $7.8 million, but its MOE worksheet indicated that it spent $26.7 million. Thus, Aging's MOE certification is based on factors it applies to budgeted expenditures based on its federal award rather than its actual expenditures. Further, Aging was unable to provide documentation to support its actual local assistance expenditures. Aging's deputy director of administration stated that she received verbal guidance from a federal representative that the AoA accepts Aging's methodology.

We also spoke with the federal representative. Specifically, according to an AoA financial operations specialist, the AoA agrees with the method Aging is using to calculate its MOE certification because it is based on Section 8 of the AoA's May 2004 fiscal guide, which states that "the maintenance of

effort for Title III expenditures from state sources must not be less than the average of the previous three fiscal years' certifications. Any amount of state resources included in Title III maintenance of effort certification that exceeds the minimum amount mandated becomes part of the permanent maintenance of effort. Excess state match does not become part of the maintenance of effort unless the state certifies it as such." The financial operations specialist also stated that the guide does not supersede the law, but is AoA's interpretation of the law. Further, he stated that the AoA has discussed the differences between its fiscal guide and federal law, regulation, and annual program instructions and that these discussions have involved the possibility of issuing clarifying language. Nevertheless, because the AoA's certification instructions, which are consistent with federal law and regulation, are sent to the states by its deputy assistant secretary for policy and management, we believe that Aging's methodology, as well as the verbal guidance received from the AoA's federal representative, is incorrect.

Questioned Costs

Not applicable.

Recommendations

Aging should establish policies and procedures to ensure that it complies with the matching, level-of-effort, and earmarking requirements of the programs it administers. Additionally, Aging should establish policies and procedures to specify when its staff must complete their reviews of the subgrantees' CDA 180 reports. Finally, Aging should obtain written approval from the AoA's deputy assistant secretary for policy and management allowing it to follow the fiscal guide, which contains a methodology that is not described in federal law, regulation, and the AoA's certification instructions.

Department's View and Corrective Action Plan

Aging stated it will ensure that, by March 2010, the draft accounting policies and procedures related to matching, level of effort and earmarking are finalized and approved by the deputy director. The policies and procedures will include provision for an appropriate review and approval process. Aging also stated its established fiscal procedures address the processing of the CDA-180 reports, but do not specify the approximate timeframes within which Aging will process them. Aging's undocumented policy is for staff to process CDA-180s within an average of four-to-six weeks from November 1st of the fiscal year following the fiscal year the closeout reports are prepared. By March 2010 Aging will update its fiscal procedures to document the four-to-six-week timeframe for processing CDA-180 reports.

Aging stated it will seek an official written determination from the AoA regarding its MOE certification procedures. Aging also stated its current policy is consistent with the AoA's 2004 fiscal guide and the verbal instructions it received from an AoA representative. If after receipt of an official written determination from the AoA it becomes evident that procedural changes are needed, Aging will make whatever policy revisions are necessary to meet federal requirements and will document them in writing.

Reference Number:	2009-7-13
Federal Catalog Number:	93.568
Federal Program Title:	Low-Income Home Energy Assistance Program (LIHEAP)
Federal Award Numbers and Years:	G-09B1CALIEA; 2009 G-08B1CALIEA; 2008 G-07B1CALIEA; 2007 G-06B1CALIEA; 2006 G-05B1CALIEA; 2005

Category of Finding:	Earmarking
State Administering Department:	Department of Community Services and Development (CSD)

Criteria

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

(b) Certifications required for covered activities

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

(9) provide that—

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

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

(16) use up to 5 percent of such funds, at its option, to provide services that encourage and enable households to reduce their home energy needs and thereby the need for energy assistance, including needs assessments, counseling, and assistance with energy vendors, and report to the Secretary concerning the impact of such activities on the number of households served, the level of direct benefits provided to those households, and the number of households that remain unserved.

(k) Limitation on use of funds; waiver

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

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

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

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

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

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

Section 8626A

(c) Formula for distribution of amounts

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

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

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

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

(b) permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of the statute authorizing the block grant.

Condition

CSD lacks sufficient internal controls to ensure that it meets earmarking requirements. Although CSD budgets its grant awards to comply with the applicable earmarking requirements, it does not have a mechanism in place to track final expenditures related to these earmarking requirements. As a result, when we reviewed records that support CSD's final Financial Status Report for the 2005 grant (dated December 2008), we were unable to determine whether CSD met its earmarking requirements. Specifically, CSD's accounting records do not segregate administrative expenditures claimed by subrecipients, which would allow CSD to ensure that total administrative costs do not exceed the maximum 10 percent allowed. Similarly, its accounting records do not segregate amounts spent for "energy need reduction services," which would allow CSD to ensure that these costs do not exceed 5 percent of certain grant awards. CSD's accounting records also do not segregate weatherization expenses paid from different funding sources to ensure that expenditures paid from the appropriate grants did not exceed the maximum 25 percent allowed until the 2007 grant year. Finally, CSD's accounting records did not segregate amounts spent for identifying and developing leveraging programs, which would allow it to ensure that these costs do not exceed the greater of $35,000 or 0.08 percent of total funding. Although CSD implemented a new accounting code to track this last earmarking requirement beginning with the 2008 grant year, CSD cannot provide sufficient evidence that it did not exceed it for the 2005 grant year. Because it does not have a mechanism in place to track final LIHEAP expenditures related to the earmarking requirements, CSD cannot reasonably assure that the earmarking requirements have been met.

Questioned Costs

Unknown

Recommendation

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

Department's View and Corrective Action Plan

CSD concurs that it needs to set up procedures that accurately track earmarking requirements. CSD indicated that program, contracts, and accounting staff will set up the line-item budget detail in CSD's Expenditure Activity Reporting System and Payable, Accounts Receivable and Contracts databases and those dollars will be assigned an object code in CSD's accounting records and tracked separately.

Reference Number:	2009-8-3
Federal Catalog Number:	93.958
Federal Program Title:	Block Grants for Community Mental Health Services
Federal Award Numbers and Years:	2B09SM010005-08; 2008 2B09SM010005-07; 2007 06B1CACMHS-01; 2006
Category of Finding:	Period of Availability
State Administering Department:	Department of Mental Health (Mental Health)

Criteria

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

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

Condition

In our audit reports for fiscal years 2006–07 and 2007–08, we reported that Mental Health did not have an adequate process to establish obligations of federal awards to counties for a predetermined time period. Specifically, we reported that Mental Health did not revise its accounting procedures to instruct staff on how to charge expenditures to each Block Grant for Community Mental Health Services (CMHS) so that it could ensure the two-year period of availability requirement is met.

During our follow-up work for fiscal year 2008–09, we found that Mental Health did not have adequate accounting procedures in place throughout the fiscal year to ensure that it met the two-year period of availability requirement. Specifically, Mental Health did not revise its accounting procedures to instruct staff on how to charge expenditures to each CMHS grant until March 2009. Mental Health instructs it staff to draw down federal funds for the actual state fiscal year that the expenditures are incurred. For example, the 2008 CMHS grant had a two-year period of availability that started October 1, 2007, and ended September 30, 2009. Mental Health would have allocated these funds for fiscal year 2008–09, which extended from July 1, 2008, through June 30, 2009. To ensure that Mental Health adhered to its new procedures, we reviewed four local assistance payments that occurred after Mental Health revised its procedures, and we identified no concerns with the payments.

Questioned Costs

Not applicable.

Recommendation

Mental Health should continue using its revised accounting procedures to ensure that CMHS grant funds are used within the two-year period of availability.

Department's View and Corrective Action Plan

Mental Health will continue using its revised accounting procedures to ensure that CMHS grant funds are used within the two-year period of availability.

Reference Number:	2009-8-4
Category of Finding:	Period of Availability
State Administering Department:	Department of Aging (Aging)
Federal Catalog Number:	93.044
Federal Program Title:	Special Programs for the Aging—Title III, Part B—Grants for Supportive Services and Senior Centers
Federal Award Numbers and Years:	09AACAT3SP; 2009 08AACAT3SP; 2008

Federal Catalog Number:	93.045
Federal Program Title:	Special Programs for the Aging—Title III, Part C—Nutrition Services
Federal Award Numbers and Years:	09AACAT3SP; 2009 08AACAT3SP; 2008

Federal Catalog Number:	93.053
Federal Program Title:	Nutrition Services Incentive Program
Federal Award Numbers and Years:	09AACANSIP; 2009 08AACANSIP; 2008

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

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

Criteria

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

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

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

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

Condition

Aging does not consistently follow its procedures for review and authorization of its subgrantees' requests for funds. Specifically, Aging requires its analysts and fiscal coach to review and approve the subgrantees' requests for advances /reimbursements prior to forwarding the requests to accounting for payment. However, although the fiscal coach did not approve one of the 42 requests we reviewed, accounting processed the request for payment. The accounting administrator stated that the accounting unit overlooked the fact that the request lacked the necessary approval. If established internal controls are not followed, Aging cannot ensure that funds are being spent in accordance with the federal requirements.

Questioned Costs

Not applicable.

Recommendation

Aging should establish a quality control process to ensure that its staff follow its procedures for processing its subgrantees' requests for funds.

Department's View and Corrective Action Plan

Aging stated that it agrees that all requests for funds should have a signature by a fiscal staff person authorized to approve payments before processing the request for funds for payment. Aging has updated its accounting procedures to include a process to ensure that all requests for funds have been approved before payment is processed. The process includes a requirement that the accounting supervisor sign off on each request for funds before staff process it for payment.

Reference Number:	2009-8-5
Federal Catalog Number:	93.959
Federal Program Title:	Block Grants for Prevention and Treatment of Substance Abuse (SAPT)
Federal Award Number and Year:	B1CASAPT-07-6; 2007
Category of Finding:	Period of Availability
State Administering Department:	Department of Alcohol and Drug Programs (ADP)

Criteria

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

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

SAPT NOTICE OF FORMULA GRANT AWARD, AWARD YEAR 2007, Terms and Conditions

Funds awarded under this grant must be obligated and expended by September 30, 2008.

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

(a) *Fiscal control and accounting procedures*. Except where otherwise required by Federal law or regulation, a State shall obligate and expend block grant funds in accordance with the laws and procedures applicable to the obligation and expenditure of its own funds. Fiscal control and accounting procedures must be sufficient to (a) permit preparation of reports required by the statute authorizing the block grant and (b) permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been in violation of the restrictions and prohibitions of the statute authorizing the block grant.

STATE ADMINISTRATIVE MANUAL, Section 17101—Federal Trust Fund

The purpose of this fund is to provide a single depository for all Federal funds deposited in the State Treasury. Information such as sources of funds from individual Federal agencies and programs is available on a statewide basis.

STATE ADMINISTRATIVE MANUAL, Section 17130—Year-End Reporting

Accounts in the Federal Trust Fund will be maintained on a modified accrual basis. Using the modified accrual basis, accounts are maintained on a cash basis throughout the year and accruals are only recognized at year-end. Accounts receivable are accrued at June 30 as a source of funds if they have been billed and are expected to be collected within one year after the end of the current fiscal year. Expenditures are accrued at June 30 for all valid obligations incurred as of June 30 but not yet paid.

STATE ADMINISTRATIVE MANUAL, Section 10210—Expenditures

All agency expenditure accounts will be maintained on an appropriation expenditures basis to be consistent with appropriation accounting in the State Controller's Office and to provide detailed budget reports reflecting transactions affecting the appropriations.

STATE ADMINISTRATIVE MANUAL, Section 8800—General

The central fund accounts of the State are maintained by the Division of Accounting of the State Controller's Office. During the fiscal year they are kept on cash basis and provide that office with the following information to the degree applicable for each fund: cash, investments, appropriation balances, disbursements (by appropriation if the fund is appropriated by specific appropriations), estimated revenue (or operating income) balances, and receipts by source. This information is needed to assure that money and, where applicable, specific appropriation for its expenditure exists whenever claims are presented for payment, and to prepare periodic financial reports.

The accounts are posted during the fiscal year on the basis of cash ordered into the funds in treasury, transfers between funds, and warrants issued.

At the end of the fiscal year, each agency operating from a Governmental Cost Fund or Bond Fund sends to the State Controller's Office a Report of Accruals to Controller's Accounts for each such fund from which it operates. This report is in essence a compound journal entry consisting of (1) current assets, current liabilities, and deferred credits accounted by the agency but not yet recorded in the central accounts and (2) application of these assets, liabilities, and deferred credits to the central accounts. The posting of all such accrual reports to the central accounts results in a consolidation of all assets, liabilities, and net worth for each Governmental Cost Fund on a modified accrual basis. This brings the central accounts to the same basis, for reporting purposes, as the agency's detailed accounts at June 30. It is called a "modified" accrual basis because revenues are accrued only if it is expected that they are billed and will be collected within one year after the end of the current fiscal year.

STATE ADMINISTRATIVE MANUAL, Section 10608—Entry Number A-8 [Accounts Payable Are Accrued]

Nature of Transaction:

The A-8 entry accrues expenditures for valid encumbrances (commitments) and obligations for the fiscal year just ended. This entry is dated and posted as of June 30.

STATE ADMINISTRATIVE MANUAL, Section 10609—Entry Number A-8R [Entry A-8 Is Semi-Reversed]

Nature of Transaction: Entry A-8 is semi-reversed as of July 1.

Explanation:

This entry reverses the accounts payable accrued in Entry A-8 so that: (1) expenditures from continuing appropriations may be recorded in the same manner as other current expenditures; and (2) expenditures from appropriations no longer available for encumbrance may be posted to the Prior-Year Appropriation Adjustments accounts on a claims filed basis without adjusting for each transaction wherein the amount paid differs from the amount accrued at June 30.

Condition

ADP charged expenditures to the federal fiscal year 2007 grant after the period of availability totaling $4.6 million. Specifically, between October 1, 2008, and December 31, 2008, ADP charged expenditures totaling almost $1 million to the grant because it believed it had an additional 90 days after the end of the grant period to pay any remaining obligations. Further, between January 2009 and May 2009, ADP transferred charges totaling $3.6 million to the grant using its cost allocation process. Finally, in June 2009, ADP charged the federal fiscal year 2007 grant with an additional seven payments totaling $46,967. ADP's management stated that based on discussions with the U.S. Department of Health and Human Services' Substance Abuse and Mental Health Services Administration (SAMHSA), it believes that the definition of "expended" is the rendering of the services by September 30, 2008, but that there is no time limit for the payment of the services. However, ADP did not provide us with any documents from SAMHSA to support its assertion. Thus, because ADP's definition of expended is inconsistent with the SAPT grant award that requires it to expend funds by September 30, 2008, and the State's cash basis expenditure process for federal funds (except for the year-end accruals at June 30 that are reversed on July 1), we do not believe ADP is in compliance with the period of availability requirements.

Questioned Costs

$4,607,991

Recommendation

ADP should seek written clarification from SAMHSA regarding the definition of expended.

Department's View and Corrective Action Plan

ADP stated that it will resolve this issue with SAMHSA.

Reference Number:	2009-9-1
Category of Finding:	Procurement, Suspension and Debarment
State Administering Department:	Department of Social Services (Social Services)
Federal Catalog Number:	93.556
Federal Program Title:	Promoting Safe and Stable Families (PSSF)
Federal Award Numbers and Years:	G-0901CAFPSS; 2009 G-0801CAFPSS; 2008

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

Federal Catalog Number:	93.566
Federal Program Title:	Refugee and Entrant Assistance—State Administered Programs (Refugee Program)
Federal Award Numbers and Years:	G-09AACA9110; 2009 G-08AACA9110; 2008

Federal Catalog Number:	93.645
Federal Program Title:	Child Welfare Services—State Grants (CWS)
Federal Award Numbers and Years:	G-0901CA1400; 2009 G-0801CA1400; 2008

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

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

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

Criteria

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

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

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES—ADMINISTRATION FOR CHILDREN AND FAMILIES TERMS AND CONDITIONS—FISCAL YEARS 2008 and 2009, SURECIPIENTS AND VENDORS UNDER GRANTS

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

Condition

Social Services did not comply with the suspension and debarment requirements in the Administration for Children and Families (ACF) grants' terms and conditions. Specifically, Social Services did not adequately notify the counties of the suspension and debarment requirements articulated in the terms and conditions of the grant agreements. The counties received notification of these requirements from Social Services for the Refugee Program only during fiscal year 2008-09. Although Social Services has periodic, ongoing correspondence with counties through fiscal letters that it uses to notify the counties of various issues including those related to administratve costs, these letters were not used to notify counties of the suspension and debarment requirements for the programs we reviewed. According to the chief of the fiscal systems and accounting branch, in fiscal year 2008–09 Social Services had planned to include suspension and debarment language on a Web site that counties could access. However, the chief stated that Social Services is still formulating what information should be given to counties and how it should be presented but that the information would be accessible to counties by December 2009.

Furthermore, Social Services did not consult the federal Excluded Parties List System (EPLS) to ensure that counties were eligible for funding before disbursing funds to them. In response to the fiscal year 2007–08 suspension and debarment finding, Social Services indicated it would develop a methodology to routinely check all California counties against the EPLS. However, Social Services has yet to implement this corrective action.

Until Social Services addresses these deficiencies in its internal controls, it risks losing federal funds for noncompliance with these requirements.

Questioned Costs

Not applicable.

Recommendations

Social Services should amend its process for making ACF-funded subawards to the counties by using its annual county fiscal letters to notify counties of the suspension and debarment requirements they are to follow.

In addition, for ACF programs, Social Services should establish and follow procedures to ensure that it consults the EPLS before issuing subawards to counties.

Department's View and Corrective Action Plan

On December 17, 2009, Social Services issued an annual county fiscal letter that provides instructions to counties regarding the suspension and debarment requirements and the use of the Excluded Parties List System.

Auditor's Comments on Department View

Although Social Services has taken action to inform counties of their responsibilities regarding suspension and debarment, Social Services' corrective action does not address its own responsibility to consult the EPLS before issuing subawards to counties.

Reference Number:	2009-9-2
Category of Finding:	Procurement, Suspension and Debarment
State Administering Department:	Department of Social Services (Social Services)
Federal Catalog Number:	93.556
Federal Program Title:	Promoting Safe and Stable Families (PSSF)
Federal Award Numbers and Years:	G-0901CAFPSS; 2009 G-0801CAFPSS; 2008

Federal Catalog Number:	93.566
Federal Program Title:	Refugee and Entrant Assistance—State Administered Programs (Refugee Program)
Federal Award Number and Years:	G-09AACA9110; 2009 G-08AACA9110; 2008

Criteria

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

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

TITLE 2—GRANTS AND AGREEMENTS, PART 180—OMB GUIDELINES TO AGENCIES ON GOVERNMENTWIDE DEBARMENT AND SUSPENSION (NONPROCUREMENT)

Subpart B—Covered Transactions, Section 180.200

A covered transaction is a nonprocurement or procurement transaction that is subject to the prohibitions of this part. It may be a transaction at—

(a) The primary tier, between a Federal agency and a person; or

(b) A lower tier, between a participant in a covered transaction and another person.

Subpart C—Responsibilities of Participants Regarding Transactions Doing Business With Other Persons, Section 180.330

Before entering into a covered transaction with a participant at the next lower tier, you must require that participant to—

(a) Comply with this subpart as a condition of participation in the transaction. You may do so using any method(s), unless the regulation of the Federal agency responsible for the transaction requires you to use specific methods.

(b) Pass the requirement to comply with this subpart to each person with whom the participant enters into a covered transaction at the next lower tier.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES—ADMINISTRATION FOR CHILDREN AND FAMILIES TERMS AND CONDITIONS—SUBRECIPIENTS AND VENDORS UNDER GRANTS

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

Condition

In our last two audits, we reported that Social Services did not comply with either of the suspension and debarment requirements included in the Administration for Children and Families (ACF) grants' terms and conditions when entering into contracts with noncounty subrecipients. During our follow-up procedures for fiscal year 2008–09, we found that Social Services still has not corrected this issue.

Our review of contracts with two noncounty subrecipients found that the contracts did not include the correct suspension and debarment terms and conditions. For example, the contract that Social Services used for a noncounty subrecipient to provide services for the Refugee Program stated that for federally funded agreements of $25,000 or more, the contractor certified by signing the agreement that to the best of the contractor's knowledge and belief, the contractor and its principals or affiliates were not debarred or suspended from federal financial assistance programs and activities nor proposed for debarment, declared ineligible, or voluntarily excluded from participation in covered transactions by any federal department or agency. However, this contract's terms were incorrect because there is no dollar threshold for the suspension and debarment requirement for programs receiving federal funds from an ACF grant. Further, the terms did not include language specific to lower-tier subrecipients. In May 2009 Social Services revised its standard agreement to correct the suspension and debarment language. The amended agreement removed any mention of a dollar threshold and included language regarding lower-tier subrecipients.

Our review of two noncounty subrecipient contracts found that Social Services' staff did not consult the federal Excluded Parties List System (EPLS) Web site before issuing subawards or contracts as required by the ACF terms and conditions. According to the chief of the contracts and financial analysis bureau, Social Services has introduced a checklist that requires its staff to check the EPLS Web site before finalizing a contract. However, the chief indicated that because the checklist was instituted during fiscal year 2008–09, staff would not have reviewed the EPLS for contracts that were finalized before fiscal year 2008–09.

Until Social Services corrects these issues, it will be unable to ensure that its noncounty subrecipients have not been suspended or debarred.

Questioned Costs

Not applicable.

Recommendations

For contracts with noncounty subrecipients that are funded by ACF grants, Social Services should do the following:

(1) Continue the use of its revised suspension and debarment language when entering into contracts with new noncounty subrecipients and amend existing contracts to include this language.

(2) Continue the use of its contract checklist that prompts staff to consult the EPLS Web site before entering into these contracts.

Department's View and Corrective Action Plan

Social Services concurs with our finding. Social Services stated that it will continue to use the revised suspension and debarment language in all contracts submitted for renewal or amendment, and it will conduct the EPLS search before entering into contracts. Results from the EPLS Web site are printed and included in the contract file as part of the documentation.

Reference Number:	2009-9-3
Federal Catalog Number:	93.667
Federal Program Title:	Social Services Block Grant (SSBG)
Federal Award Numbers and Years:	G-0901CASOSR; 2009 G-0801CASOSR; 2008

Category of Finding:	Procurement, and Suspension and Debarment Subrecipient Monitoring
State Administering Department:	Department of Developmental Services (Developmental Services)

Criteria

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

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

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES—ADMINSTRATION FOR CHILDREN AND FAMILIES TERMS AND CONDITIONS—FISCAL YEARS 2008 and 2009, SUBRECIPIENTS AND VENDORS UNDER GRANTS

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

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

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

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

(2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or agreements as well as any supplemental requirements imposed by the pass-through entity.

Condition

Developmental Services did not comply with one of the suspension and debarment requirements included in the Administration for Children and Families (ACF) grants' terms and conditions. Specifically, Developmental Services did not consult the federal Excluded Parties List System (EPLS) before issuing contracts to its regional center subrecipients. Developmental Services' staff did not consult the EPLS because they were unaware of the EPLS and the requirement for them to check it before issuing contracts. Until Developmental Services addresses this deficiency, it risks losing federal funds for noncompliance with the ACF requirement.

Additionally, Developmental Services did not inform its regional centers of federal award information, such as the CFDA program title and number and relevant federal laws and regulations. Developmental Services included this information in the contracts with its regional centers for the federal program,

Special Education—Grants for Infants and Families, in response to a finding we reported in fiscal year 2007–08; however, it failed to include similar information for the SSBG program. By not providing complete award information to its regional centers, Developmental Services cannot be sure that its subrecipients are aware of and following all program requirements imposed on them.

Questioned Costs

Not applicable.

Recommendations

Developmental Services should establish procedures to ensure that it consults the EPLS, as required by the ACF terms and conditions, before issuing contracts with the regional centers. Additionally, Developmental Services should ensure that its contracts with the regional centers include federal award identification information.

Department's View and Corrective Action Plan

Developmental Services stated that it will revise the regional center contracts to include the federal award identification information as soon as possible, but no later than June 30, 2010. Also, Developmental Services will implement procedures to ensure that program staff provides the Contracts Unit with the most current federal award identification information prior to the processing of the regional center contracts.

In addition, Developmental Services indicated it will implement a procedure to ensure that it consults the federal Excluded Parties List System (EPLS) before issuing contracts to its regional center subrecipients.

Reference Number:	2009-9-5
Federal Catalog Number:	93.958
Federal Program Title:	Block Grants for Community Mental Health Services
Federal Award Number and Year:	2B09SM010005-08; 2008
Category of Finding:	Procurement and Suspension and Debarment
State Administering Department:	Department of Mental Health (Mental Health)

Criteria

TITLE 2—GRANTS AND AGREEMENTS, PART 180—U.S. OFFICE OF MANAGEMENT AND BUDGET GUIDELINES TO AGENCIES ON GOVERNMENTWIDE DEBARMENT AND SUSPENSION (NONPROCUREMENT), Subpart C—Responsibilities of Participants Regarding Transactions Doing Business With Other Persons, Section 180.330—What Requirements Must I Pass Down to Persons at Lower Tiers With Whom I Intend to Do Business?

Before entering into a covered transaction with a participant at the next lower tier, you must require that participant to—

(a) Comply with this subpart as a condition of participating in the transaction. You may do so by using any method(s), unless the regulation of the Federal agency responsible for the transaction requires you to use specific methods.

(b) Pass the requirement to comply with this subpart to each person with whom the participant enters into a covered transaction at the next lower tier.

TITLE 2—GRANTS AND AGREEMENTS, PART 376—NONPROCUREMENT DEBARMENT AND SUSPENSION, Subpart C—Responsibilities of Participants Regarding Transactions, Section 376.332—What Methods Must I Use to Pass Requirements Down to Participants at Lower Tiers With Whom I Intend to Do Business?

To communicate the requirements to lower-tier participants, you must include a term or condition in the lower-tier transaction requiring the lower-tier participant's compliance with 2 CFR Part 180, as supplemented by this subpart.

Condition

In our audit reports for fiscal years 2006–07 and 2007–08, we reported that Mental Health did not require counties, as part of their suspension and debarment certifications to the State, to ensure that lower-tier entities with which they entered into covered transactions were not suspended or debarred. Mental Health also did not require counties to pass the requirements down to each person with whom they entered into a covered transaction.

In our follow-up procedures, we found that Mental Health had not yet addressed this finding for fiscal year 2008–09. Mental Health's suspension and debarment certification for fiscal year 2008–09 only requires the county to certify that the county itself is not suspended or debarred, but does not address transactions at the next lower tier. However, a revised suspension and debarment certification is included in the fiscal year 2009–10 Planning Estimate and Renewal Application (application) that Mental Health sent to counties in May 2009. We verified that the language included in the application, which, generally speaking, requires counties to certify that neither they, nor their contracted providers, are presently suspended or debarred, was adequate to address our concerns regarding this issue.

Questioned Costs

Not applicable.

Recommendation

Mental Health should continue to require counties to certify that neither they, nor their contracted providers, are presently suspended or debarred in their applications.

Department's View and Corrective Action Plan

Mental Health will continue to require counties to certify that neither they, nor their contracted providers, are presently suspended or debarred in their applications.

Reference Number:	2009-9-7
Federal Catalog Number:	93.568
Federal Program Title:	Low-Income Home Energy Assistance Program (LIHEAP)

Federal Award Numbers and Years:	G-09B1CALIEA; 2009 G-08B1CALIEA; 2008
Category of Finding:	Procurement and Suspension and Debarment
State Administering Department:	Department of Community Services and Development (CSD)

Criteria

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

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

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES—ADMINISTRATION FOR CHILDREN AND FAMILIES TERMS AND CONDITIONS—FISCAL YEARS 2008 and 2009, SURECIPIENTS AND VENDORS UNDER GRANTS

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

Condition

CSD did not comply with the suspension and debarment requirements in the Administration for Children and Families grants' terms and conditions. Specifically, although CSD includes language in its contracts with subrecipients requiring them to certify that they are not suspended or debarred, CSD did not consult the federal Excluded Parties List System (EPLS) to ensure that the subrecipients were eligible for funding before it disbursed funds to them. CSD indicated that it is developing a methodology to routinely check the subrecipients against the EPLS, which it plans to have in place before June 30, 2010.

Until CSD addresses these deficiencies in its internal controls, it risks losing federal funds for noncompliance with these requirements.

Questioned Costs

Not applicable.

Recommendation

CSD should establish and follow procedures to ensure that it consults the EPLS before disbursing funds to its subrecipients.

Department's View and Corrective Action Plan

CSD concurs that a policy should be established to routinely check grant subrecipients against the EPLS to ensure that subrecipients are eligible to receive federal funds. CSD indicated that it will (1) verify all current subrecipients' EPLS status by April 1, 2010; (2) develop written policies and procedures for verifying subrecipient status on the EPLS; (3) incorporate a process whereby EPLS verification will become part of the contract file for each subrecipient; and (4) complete and implement these steps by June 30, 2010.

Reference Number:	2009-12-5
Federal Catalog Number:	93.958
Federal Program Title:	Block Grants for Community Mental Health Services
Federal Award Number and Year:	2B09SM010005-07; 2007
Category of Finding:	Reporting
State Administering Department:	Department of Mental Health (Mental Health)

Criteria

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

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

(1) Block grants containing time limits on both the obligation and the expenditure of funds. After the close of each statutory period for the obligation of block grant funds and after the close of each statutory period for the expenditure of block grant funds, each grantee shall report to the Department:

(i) Total funds obligated and total funds expended by the grantee during the applicable statutory periods; and

(ii) The date of the last obligation and the date of the last expenditure.

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

Condition

In our prior-year audit, we reported that Mental Health did not have written procedures in place during fiscal year 2007–08 for the annual Standard Form (SF-269A), Financial Status Report, to ensure that the individual who approves the report is not the same individual who prepares it. We also reported that after we brought this to Mental Health's attention, it revised its procedures in February 2009 to require both the preparer and the accounting administrator to sign the report. We recommended that Mental Health implement these procedures.

During our follow-up work for fiscal year 2008–09, we found that Mental Health did not implement its procedures for the SF-269A that it submitted during the period of our review. Specifically, Mental Health was unable to provide documentation to support that someone different from the preparer reviewed and approved the SF-269A for federal fiscal-year 2007 block grants for Community Mental Health Services (CMHS)—a report that was submitted on time in December 2008.

However, Mental Health stated that it did not implement its revised procedures for submitting the SF-269A until March 2009, more than three months after it submitted the SF-269A for the federal fiscal year 2007 CMHS grant.

Although the SF-269A for the federal fiscal year 2008 CMHS grant was due in December 2009, six months after the end of our review period, we reviewed the report to determine whether Mental Health implemented its procedures to require both the preparer and the accounting administrator to sign the report. We found that the SF-269A for the federal fiscal year 2008 CMHS grant was appropriately signed by both the preparer and the reviewer.

Questioned Costs

Not applicable.

Recommendation

Mental Health should continue to follow its procedures to ensure that the individual who approves the SF-269A is not the same individual who prepares it.

Department's View and Corrective Action Plan

Mental Health will continue to follow its procedures to ensure that the individual who approves the SF-269A is not the same individual who prepares it.

Reference Number:	2009-12-7
Category of Finding:	Reporting
State Administering Department:	Department of Aging (Aging)
Federal Catalog Number:	93.044
Federal Program Title:	Special Programs for the Aging—Title III, Part B—Grants for Supportive Services and Senior Centers
Federal Award Numbers and Years:	08AACAT3SP; 2008 07AACAT3SP; 2007 06AACAT3SP; 2006

Federal Catalog Number:	93.045
Federal Program Title:	Special Programs for the Aging—Title III, Part C—Nutrition Services
Federal Award Numbers and Years:	08AACAT3SP; 2008 07AACAT3SP; 2007 06AACAT3SP; 2006

Federal Catalog Number:	93.053
Federal Program Title:	Nutrition Services Incentives Program
Federal Award Number and Year:	08AACANSIP; 2008

Criteria

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

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

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

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

TITLE 45—PUBLIC WELFARE, PART 92—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE, LOCAL, AND TRIBAL GOVERNMENTS, Subpart C—Post-Award Requirements, Section 92.41(a)(3)—Financial Reporting

(a) General. (1) Except as provided in paragraphs (a) (2) and (5) of this section, grantees will use only the forms specified in paragraphs (a) through (e) of this section, and such supplementary or other forms as may from time to time be authorized by OMB, for:

(i) Submitting financial reports to Federal agencies, or

(ii) Requesting advances or reimbursements when letters of credit are not used.

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

(b) Financial Status Report—(4) Due date. When reports are required on a quarterly or semiannual basis, they will be due 30 days after the reporting period. When required on an annual basis, they will be due 90 days after the grant year. Final reports will be due 90 days after the expiration or termination of grant support.

Condition

Aging lacks adequate policies and procedures to provide reasonable assurance that the Financial Status Report and Administration on Aging Supplemental Form (SF-269) reports it submits to the federal government include all activities, are supported by accounting records, and are fairly presented. In our prior-year audit, we reported a similar finding. Specifically, during fiscal year 2007–08, Aging did not have an official written policy that established responsibility for reporting, provided the procedures for periodic monitoring of due dates, and verified the reports' content. Thus, Aging was unable to prevent errors in its reports. In fact, Aging submitted several reports that were not adequately supported by the accounting records used by its accounting specialist to prepare them. In response to our finding, Aging indicated that it was in the process of establishing policies and procedures that would include the verification of content and accounting record support, management review and approval, and a system to track due dates.

However, Aging did not complete these tasks in fiscal year 2008–09. For example, although Aging developed draft procedures, it did not include in its procedures a system to track due dates or establish deadlines for management reviews. In addition, Aging's management has yet to approve the draft procedures. Further, similar to our prior-year audit, we found errors in the final SF-269 report that Aging submitted for the Title III portion of the federal fiscal year 2006 grant. Although Aging reported $239 million for total program outlays less program income (line a), according to its accounting records, the amount should be $246 million. Aging also underreported its in-kind contributions (line e) by $887,538 and its all other-recipient outlays (line h) by $5.9 million. These errors occurred because, when

Aging prepared the report, it inappropriately excluded certain expenditures reflected in its accounting records. According to its deputy director of administration, Aging will approve and issue its policies and procedures by March 2010.

Aging also did not submit either of the two SF-269s we reviewed by their due dates. Specifically, we reviewed the SF-269 that included Title III, Part B and Part C for the federal fiscal year 2006 grant. This report was due at the end of December 2008, but Aging submitted it in July 2009—seven months late. Similarly, Aging submitted the SF-269 for the Nutrition Services Incentive Program (NSIP) in April 2009, five months after the due date of October 31, 2008. According to the accounting administrator, Aging submitted the Title III SF-269 late because of errors it needed to correct and because the staff person responsible for preparing the report retired in October 2008. The accounting administrator stated that although new staff were hired and directed to prepare the report, delays continued because of workload from other position vacancies. The accounting administrator also cited staff turnover as the reason that Aging submitted the SF-269 for NSIP late. Until Aging implements effective reporting procedures, it will continue to be unable to detect errors in its reports and miss federal reporting deadlines.

Questioned Costs

Not applicable.

Recommendations

Aging should establish policies and procedures to ensure that its SF-269 reports include all activities, are supported by accounting records, and are fairly presented. These policies and procedures should provide for management review and approval, as well as a system to track report due dates. Finally, Aging should examine its accounting records and submit a corrected SF-269 for the federal fiscal year 2006 grant to the U.S. Department of Health and Human Services' Administration on Aging (AoA).

Department's View and Corrective Action Plan

Aging stated it will ensure that management formally approves the updated federal reporting procedures that were developed in response to last year's audit finding by March 2010. The updated SF-269 reporting procedures will include a mechanism for monitoring due dates and will provide for management review and approval of reports to ensure they include all activities, are supported by accounting records and are fairly presented. Aging is reviewing its accounting records for the federal fiscal year 2006 grant and will submit a corrected SF-269 to the AoA as appropriate.

Reference Number:	2009-12-10
Federal Catalog Number:	93.959
Federal Program Title:	Block Grants for Prevention and Treatment of Substance Abuse (SAPT)
Federal Award Number and Year:	B1CASAPT-07-6; 2007
Category of Finding:	Reporting
State Administering Department:	Department of Alcohol and Drug Programs (ADP)

Criteria

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

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

(1) Block grants containing time limits on both the obligation and the expenditure of funds. After the close of each statutory period for the obligation of block grant funds and after the close of each statutory period for the expenditure of block grant funds, each grantee shall report to the department:

(i) Total funds obligated and total funds expended by the grantee during the applicable statutory periods; and

(ii) The date of the last obligation and the date of the last expenditure.

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

SAPT NOTICE OF FORMULA GRANT AWARD, AWARD YEAR 2007, Terms and Condition

Funds awarded under this grant must be obligated and expended by September 30, 2008.

Condition

ADP lacks written procedures instructing staff on how to prepare the U.S. Office of Management and Budget's Form 269, Financial Status Report (Form 269). We also found that the federal fiscal year 2007 Form 269 submitted to the U.S. Department of Health and Human Services by ADP did not include all required information. Therefore, ADP did not comply with the reporting requirements. Specifically, ADP did not include the date of the last obligation and the date of the last expenditure on its Form 269. Furthermore, although the instructions to the Form 269 require ADP to identify the accounting method it used to complete the form, ADP did not report this information. According to a supervisor in ADP's accounting unit, these errors occurred because she was not aware of these Form 269 reporting requirements. The accounting supervisor also stated that ADP is in the process of writing procedures on how to complete Form 269 and expects to complete them in January 2010.

The Form 269 was due to the U.S. Department of Health and Human Services by December 31, 2008. Although ADP received an extension to submit the form by June 1, 2009, it did not do so until July 7, 2009. The accounting supervisor stated that ADP had to reconcile some expenditure information and chose to submit a late Form 269 rather than an incorrect one. Nevertheless, ADP did not meet the extended form submission due date.

Questioned Costs

Not applicable.

Recommendations

ADP should establish and approve written procedures for preparing the Form 269. Further, ADP should ensure that it submits future Form 269s to the U.S. Department of Health and Human Services by the due date. Finally, ADP should ensure the forms it submits include all required information such as the date of the last obligation, date of the last expenditure, and the accounting method used to complete the form.

Department's View and Corrective Action Plan

ADP stated that it will include the date of the last obligation and the date of the last expenditure on its Form 269. ADP also stated that it will identify the accounting method it used to complete the form. Finally, ADP stated that procedures for how to complete Federal Financial Report (now SF-425) were written in January 2010.

Reference Number:	2009-12-19
Federal Catalog Number:	93.568
Federal Program Title:	Low-Income Home Energy Assistance Program (LIHEAP)
Federal Award Numbers and Years:	G-09B1CALIEA; 2009 G-08B1CALIEA; 2008 G-07B1CALIEA; 2007 G-06B1CALIEA; 2006 G-05B1CALIEA; 2005
Category of Finding:	Reporting
State Administering Department:	Department of Community Services and Development (CSD)

Criteria

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

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

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

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

(ii) The date of the last obligation.

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

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

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

Condition

CSD lacks sufficient internal controls to ensure that it meets reporting requirements. Specifically, in January 2009, CSD developed and implemented desk procedures that identify its process for completing the Financial Status Report (FSR). This addressed our prior-year audit finding that CSD lacked written procedures for its process to reconcile information it uses to prepare the FSRs. However, although the new desk procedures direct staff to include on the FSRs the federal share of program outlays as recorded on internally developed spreadsheets, CSD's procedures do not include steps to reconcile the federal share of program outlays from the spreadsheets to the official accounting records. By failing to reconcile the spreadsheets to the official accounting records, CSD does not have sufficient assurance that it accurately reports the federal share of program outlays on its FSRs and increases the risk of reporting errors.

Questioned Costs

Not applicable.

Recommendation

CSD should include in its desk procedures, which identify its process for completing its FSRs, steps to reconcile the federal share of program outlays included on its internally developed spreadsheets to its official accounting records.

Department's View and Corrective Action Plan

CSD concurs that it needs to diligently revise desk manuals, policies, and procedures. CSD indicated that it is currently in negotiations with Cooperative Personnel Services to assist CSD in developing clear written procedures, processes and policies for all departmental programs and divisions. In addition, CSD accounting staff currently has drafted procedures for the FSR.

Auditor's Comments on Department's View

In its view and corrective action plan, CSD does not mention specifically that it will include a step for reconciling the amounts for the federal share of program outlays from its internally developed spreadsheets to its official accounting records as part of the new procedures it is developing with Cooperative Personnel Services. It also does not state that such a step is part of the FSR procedures its accounting staff drafted. If its new procedures state that it will continue to rely on internally developed spreadsheets when completing FSRs, CSD should ensure that it reconciles the amounts for the federal share of program outlays from these spreadsheets to its official accounting records.

Reference Number:	2009-13-4
Federal Catalog Number:	93.659
Federal Program Title:	Adoption Assistance
Federal Award Numbers and Years:	0901CA1407; 2009 0901CA1403; 2009 0801CA1407; 2008
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Social Services (Social Services)

Criteria

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

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

Condition

Social Services lacks formal processes to ensure that it fulfills its pass-through responsibility to monitor the counties during the award period. For example, Social Services does not perform monitoring procedures such as on-site visits or desk reviews of the counties' activities to ensure that they are administering the program in compliance with federal laws and regulations. Although Social Services provides technical assistance to the counties by answering questions regarding eligibility determinations, these efforts are not sufficient to ensure the counties' compliance with all applicable federal laws and regulations during the award period. When it does not monitor the counties to the degree required, Social Services has no means of ensuring that counties are making correct eligibility determinations and complying with other requirements applicable to the program. In addition, counties may be providing program funds to ineligible recipients.

Questioned Costs

Not applicable.

Recommendation

Social Services should establish and implement policies and procedures for monitoring the counties during the award period to ensure that they are complying with applicable laws, regulations, and the provisions of contracts or grant agreements.

Department's View and Corrective Action Plan

Social Services stated that its Adoptions Services Bureau (Adoptions Services) does not have sufficient resources to "conduct on-site visits or desk reviews of the counties' activities" for the Adoption Assistance Program (AAP) at this time but that Adoptions Services will continue to monitor and provide technical assistance to the counties.

Social Services' Children Services and Operations and Evaluations Branch monitors the county programs. The Outcomes and Accountability Bureau (OAB) partners with the counties to implement and monitor the California Outcomes and Accountability System (COAS) as mandated by the Child Welfare System Improvement and Accountability Act of 2001 [AB 636 (Chapter 678, Statutes of 2001)]. The OAB measures, tracks, monitors, and collaborates with the counties on an ongoing basis, and it provides focused attention and technical assistance during each component of the continuous improvement process. Adoptions Services works with the counties to resolve identified Adoption Assistance program issues.

Social Services also indicated that it relies on the A-133 single audit report as its primary tool for monitoring county activities relative to AAP eligibility. When audit issues surface during regular inspection by Adoptions Services of the A-133 reports, Social Services' AAP analysts coordinate with the Audits Office to develop and monitor corrective actions.

Auditor's Comments on Department's View

Social Services' corrective action plan does not disagree with our finding, although it indicates that Social Services does not have sufficient resources to do as we recommended. However, the corrective action plan implies that Social Services has been and continues to monitor the counties during the award period to ensure that they are complying with applicable laws, regulations, and the provisions of contracts or grant agreements. Thus, Social Services' characterization of its efforts to monitor the counties requires clarification.

The state law establishing the COAS states the following: "Child and family service reviews shall maximize compliance with the federal regulations for the receipt of money from Subtitle E (commencing with Section 470) of Title IV of the federal Social Security Act (42 U.S.C. Section 670 and following) and ensure compliance with state plan requirements set forth in Subtitle B (commencing with Section 421) of Title IV of the federal Social Security Act (42, U.S.C. Section 621 and following)." However, the COAS focuses primarily on measuring outcomes for safety, permanence, and child and family well-being.

Reference Number:	2009-13-6
Federal Catalog Number:	93.556
Federal Program Title:	Promoting Safe and Stable Families (PSSF)
Federal Award Numbers and Years:	G-0901CAFPSS; 2009 G-0801CAFPSS; 2008
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Social Services (Social Services)

Criteria

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

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

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

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

Condition

In our two prior-year audits, we reported that Social Services did not have processes and procedures to ensure that its noncounty subrecipients have met the OMB Circular A-133 audit requirements. Specifically, Social Services did not have a process in place to collect and review the OMB Circular A-133 audits or to ensure that it issues management decisions within six months after receiving the audits.

During our follow-up work for fiscal year 2008–09, we found that Social Services had developed written procedures to help ensure compliance by its grantees and contractors with OMB Circular A-133 audit requirements. These procedures contained an effective date of March 2, 2009. Among other things, these procedures specify that Social Services will include language in grants and contracts executed by its Office of Child Abuse Prevention that informs contractors and grantees that they must have an audit performed by a certified public accountant annually and submit a copy of the audit report to Social Services. The procedures also specify that Social Services must issue management decisions for findings contained in the submitted audit reports. However, because Social Services is not planning to collect any of the OMB Circular A-133 audit reports from its noncounty subrecipients until fiscal year 2009–10, we were unable to test these new procedures. Until Social Services fully implements these procedures, it is unable to ensure that these subrecipients have taken timely and appropriate corrective action on all audit findings and are complying with the applicable federal program requirements.

Questioned Costs

Not applicable.

Recommendation

Social Services should implement the processes and procedures that it has proposed to collect and respond to noncounty subrecipients' A-133 audits, including processes and procedures to:

(1) Ensure that all required subrecipients meet the audit requirement.

(2) Issue a management decision on audit findings within six months after receipt of the audit report.

(3) Ensure that subrecipients take appropriate and timely corrective actions.

Department's View and Corrective Action Plan

Social Services concurs with our finding. Social Services stated that its Office of Child Abuse Prevention has implemented the processes and procedures that it has proposed to collect and respond to noncounty subrecipients' A-133 audits, including processes and procedures to ensure that all required subrecipients meet the audit requirement in this case, specifically Rady Children's Hospital and Health Center, in San Diego, California.

(1) Social Services indicated that its Program and Financial Audits Bureau completed its review of the Financial Audit Report for the year ending June 30, 2008. On December 3, 2009 a management decision on audit findings was transmitted to the Rady's Children's Hospital and Health Center. A corrective action plan will reasonably address the findings based on their written responses and concurrence with the findings related to the valuation of certain investments and a key spreadsheet error.

(2) According to Social Services, beginning with fiscal year 2009–10, its Office of Child Abuse Prevention will continue to monitor and collect data related to the effectiveness and timeliness of the new audit review process for noncounty subrecipients.

Reference Number:	2009-13-8
Federal Catalog Number:	93.958
Federal Program Title:	Block Grants for Community Mental Health Services

Federal Award Numbers and Years:	2B09SM010005-08; 2008 2B09SM010005-07; 2007 06B1CACMHS-01; 2006
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Mental Health (Mental Health)

Criteria

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

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

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

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

OMB CIRCULAR A-133, Subpart B—Audits, Section .225—Sanctions

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

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

(b) Withholding or disallowing overhead costs;

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

(d) Terminating the Federal award.

Condition

In our audit reports for fiscal years 2006–07 and 2007–08, we reported that Mental Health used the incorrect Catalog of Federal Domestic Assistance (CFDA) title in its correspondence to the counties by referring to the grant as the "Federal Substance Abuse and Mental Health Services Administration (SAMHSA) Block Grant." We also reported that Mental Health did not have procedures in place to follow up when counties had not submitted their annual OMB Circular A-133 audits to the State.

During our follow-up procedures for fiscal year 2008–09, we found that Mental Health did not fully correct these conditions. Specifically, it did not use the correct CFDA title in its correspondence to the counties during fiscal year 2008–09; however, for fiscal year 2009–10, Mental Health did include the correct title in its correspondence to the counties. We also found that Mental Health did not develop until March 2009 a procedure for following up with counties that have delinquent OMB Circular A-133 audits. Mental Health's new procedures involve sending a letter to the counties after the State Controller's Office (SCO) indicates that it has not received the counties' OMB Circular A-133 audits. However, we found that Mental Health did not follow its new procedures when the SCO notified it of a county's delinquent OMB Circular A-133 audit in November 2009. Specifically, Mental Health did not follow up with the respective county and allowed more than two months to elapse between the time the SCO notified it of the county's delinquent audit report and the SCO's receipt

of that report. Until Mental Health implements and follows its new procedures, it will be unable to identify and take timely, appropriate corrective action against the counties that fail to comply with the OMB Circular A-133 audit requirements.

Questioned Costs

Not applicable.

Recommendations

Mental Health should continue to ensure that it is using the correct CFDA title on its correspondence to counties.

Mental Health should implement and follow its new procedures for following up with counties that have not submitted their OMB Circular A-133 audits, and it should sanction the counties as necessary. Additionally, Mental Health should ensure that it exercises its new procedures in a timely manner.

Department's View and Corrective Action Plan

Mental Health will continue to ensure that it is using the correct CFDA title on its correspondence to counties.

Mental Health will implement and follow its new procedures for following up with counties that have not submitted their OMB Circular A-133 audits, and it will take appropriate corrective actions, as necessary. Additionally, Mental Health will ensure that it exercises its new procedures in a timely manner.

Reference Number:	2009-13-10
Federal Catalog Number:	93.563
Federal Program Title:	Child Support Enforcement
Federal Award Numbers and Years:	0904CA4004; 2009 0904CA4002; 2009 (American Recovery and Reinvestment Act of 2009) 0804CA4004; 2008
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Child Support Services (Child Support Services)

Criteria

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

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

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

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

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

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

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

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

TITLE 2—GRANTS AND AGREEMENTS—PART 176—AWARD TERMS FOR ASSISTANCE AGREEMENTS THAT INCLUDE FUNDS UNDER THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009, PUBLIC LAW 111–5—Subpart D—Single Audit Information for Recipients of Recovery Act Funds

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

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

Condition

Child Support Services has made some improvements but still did not completely fulfill its subrecipient monitoring responsibilities for the Child Support Enforcement program. In the prior-year finding, we reported that Child Support Services did not provide the required award identification information in the agreement, effective June 2008, that it executed with each local child support agency (LCSA). The OMB Circular A-133 Compliance Supplement states that pass-through entities are responsible for identifying this information to the subrecipient at the time of the award. We also reported that Child Support Services sent LCSAs an e-mail in September 2008 notifying them of the CFDA title and number as well as the awarding agency. However, this was more than three months after the effective date of the agreement, and the notification did not explain that this information was supplemental to the earlier agreement. Further, the e-mail did not include the award number. If subrecipients are not notified of the federal award information at the time of the agreement, they may not be aware of award requirements as they are expending funds. In its corrective action plan to the prior-year finding, Child Support Services stated that it would provide all required information to the LCSAs at the beginning of their agreements. However, Child Support Services has not yet entered into a new agreement with the LCSAs. Instead, it extended the existing agreement. In September 2009, shortly after the agreement was extended, Child Support Services addressed the concern by sending the LCSAs an e-mail notifying them of the required information, including the federal award numbers, for fiscal year 2009–10.

Although Child Support Services took steps to provide the necessary award identification information for its regular program funding, it did not provide the required information concerning the award and disbursement of American Recovery and Reinvestment Act of 2009 (Recovery Act) funds to subrecipients. Specifically, Child Support Services did not identify to LCSAs the amount of Recovery Act funds awarded and disbursed, and it did not provide the federal award number of Recovery Act awards. In addition, Child Support Services did not require LCSAs to specifically identify Recovery Act funding on their SEFAs. By not identifying Recovery Act funds and communicating requirements for proper reporting to its subrecipients, Child Support Services cannot ensure that its subrecipients use and report these funds as required by the Recovery Act.

In the prior-year finding, we also reported that Child Support Services did not effectively monitor the LCSAs' use of federal funds through site visits, limited scope audits, or other means. Specifically, we reported that its use of limited-scope audits conducted by the Department of Finance (Finance) provided insufficient assurance of LCSAs' compliance with federal requirements. Child Support Services contracted with Finance in August 2004 to conduct audits that evaluate the LCSAs' compliance with Office of Management and Budget circulars A-133 and A-87, state codes and regulations applicable to their claiming of funds, and related internal controls. We reported that Child Support Services completed fiscal audits of only three LCSAs during fiscal year 2007–08, and only 16 of 52 LCSAs had been audited since 2004. In its corrective action plan, Child Support Services reported that it intended to use a new approach to increase its monitoring of LCSAs. However, in fiscal year 2008–09 Child Support Services continued to rely on the audits conducted by Finance, and only two audits were completed during the fiscal year. Further, we reported in the prior-year finding that Child Support Services did not request follow-up documentation for several findings. During this year's audit, we found that it followed up on findings for one of the two audits completed during the fiscal year. However, as of December 2009, more than six months after the audit was completed, Child Support Services had yet to request follow-up documentation for findings related to the remaining audit.

These audits were central to Child Support Services' oversight of the LCSAs' compliance with federal requirements and—according to Child Support Services—were the key control for allowability of costs at the LCSA level. Without such audits as these, Child Support Services' current procedures do not provide reasonable assurance that the LCSAs meet federal requirements, such as spending federal funds on allowable activities and costs only. Child Support Services told us that in June 2009 it chose to discontinue its contract with Finance to conduct fiscal audits, and it has begun to implement a new method of monitoring subrecipients for compliance with federal requirements. As of November 2009, Child Support Services planned to have department staff audit 12 to 14 LCSAs each year, beginning in fiscal year 2009-10.

In addition, we reported in the prior-year audit that Child Support Services did not issue management decisions related to subrecipients' OMB Circular A-133 audit findings within the required six-month time frame. OMB Circular A-133 requires a management decision to be issued for subrecipient audit findings within six months of receipt of the report from the subrecipient. The State has established a process whereby local governments submit copies of their OMB Circular A-133 reports to the State Controller's Office (SCO). The SCO is responsible for certifying that the report conforms to auditing standards. The SCO then sends copies of OMB Circular A-133 audit reports to state agencies, which are responsible for reviewing findings and issuing management decisions as to the adequacy of the corrective action taken. In the prior year, Child Support Services received four of five audits requiring a management decision more than six months after the State initally received them, and the fifth was received days before the deadline. As a result, no management decisions were issued within six months of receipt of the audit. Further, Child Support Services did not promptly issue management decisions once it received the audits.

In fiscal year 2008–09, the SCO certified and provided copies of audits with findings to Child Support Services more quickly than in the prior year, with an average time of a little more than two months between the State's initial receipt of the audit and Child Support Services' receipt of the audit. Additionally, Child Support Services stated that it began the follow-up process more quickly after

receiving the audits. As a result, Child Support Services issued management decisions for seven of the eight subrecipient audits that required follow-up within the required time frame. It issued a management decision for the remaining audit 11 days after the required six-month period had passed.

Questioned Costs

Not applicable.

Recommendations

Child Support Services should ensure that it provides all required award information to subrecipients for its regular program funding. Additionally, Child Support Services should provide subrecipients with the required Recovery Act information at the time of the award and disbursement of funds.

Further, Child Support Services should continue to implement its new plan to audit LCSAs, and assess this new plan to ensure that it provides Child Support Services with sufficient oversight over LCSAs' use of federal funds. Once audits are completed, Child Support Services should promptly follow up to request documentation to verify whether corrective action has been taken.

Finally, Child Support Services should ensure that it issues management decisions regarding audit findings within six months of the date the State receives the report from the subrecipient.

Department's View and Corrective Action Plan

Child Support Services will send revised fiscal year 2008–09 and fiscal year 2009–10 allocation letters to the LCSAs (subrecipients) that includes their federal award numbers, CFDA numbers, and amount of Recovery Act funds. In addition, Child Support Services will add a statement to the AA190 (Statement of Remittance) which accompanies the LCSA disbursement. The statement will specify that Recovery Act Funds are included and the dollar amount. And, finally, Child Support Services will include the federal award number, CFDA number, and amount of Recovery Act funds in the upcoming fiscal year 2010–11 allocation letter to the subrecipients. Each revised letter will include language requiring the subrecipients to include on their SEFA information to specifically identify Recovery Act funding similar to the requirements for the recipient SEFA described above.

Child Support Services has developed an audit plan and will continue to conduct reviews of the LCSAs for compliance with federal requirements. Child Support Services will follow up with the LCSAs within 15 days after the due dates if the documentation requested in the demand letters is not received by the due dates.

Child Support Services will continue follow-up of the audit findings and issue management decisions within the six-month period as required.

Reference Number:	2009-13-11
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Aging (Aging)
Federal Catalog Number:	93.044
Federal Program Title:	Special Programs for the Aging—Title III, Part B—Grants for Supportive Services and Senior Centers
Federal Award Numbers and Years:	09AACAT3SP; 2009 08AACAT3SP; 2008

Federal Catalog Number:	93.045
Federal Program Title:	Special Programs for the Aging—Title III, Part C—Nutrition Services
Federal Award Numbers and Years:	09AACAT3SP; 2009 08AACAT3SP; 2008

Federal Catalog Number:	93.053
Federal Program Title:	Nutrition Services Incentive Program
Federal Award Numbers and Years:	09AACANSIP; 2009 08AACANSIP; 2008

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

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

Criteria

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

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

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

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

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

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

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

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

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

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

AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009, TITLE XV ACCOUNTABILITY AND TRANSPARENCY, Subtitle A—Transparency and Oversight Requirements, Section 1512—Reports on Use of Funds

(c)(4) Detailed information on any subcontracts or subgrants awarded by the recipient to include the data elements required to comply with the Federal Funding Accountability and Transparency Act of 2006 (Public Law 109-282), allowing aggregate reporting on awards below $25,000 or to individuals, as prescribed by the Director of the Office of Management and Budget.

(h) Registration. Funding recipients required to report information per subsection (c) (4) must register with the Central Contractor Registration database or complete other registration requirements as determined by the Director of the Office of Management and Budget.

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

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

TITLE 2—GRANTS AND AGREEMENTS, PART 176—AWARD TERMS FOR ASSISTANCE AGREEMENTS THAT INCLUDE FUNDS UNDER THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009, Subpart D—Single Audit Information for Recipients of Recovery Act Funds, Section 176.50—Award Term—Reporting and Registration Requirements Under Section 1512 of the Recovery Act

(c) Recipients and their first-tier recipients must maintain current registrations in the Central Contractor Registration (http://www.ccr.gov) at all times during which they have active federal awards funded with Recovery Act funds. A Dun and Bradstreet Data Universal Numbering System (DUNS) Number (http://www.dnb.com) is one of the requirements for registration in the Central Contractor Registration.

Condition

Award Identification

Aging lacks internal controls to ensure that it identifies required federal award information at the time it awards funds to its subgrantees. Specifically, Aging's contract review and approval process does not ensure that its staff include specific references to the federal award year and name of the federal agency—the U.S. Department of Health and Human Services—on the standard agreement it sends annually to each of its 33 subgrantees. This is a repeat finding.

Additionally, Aging lacks internal controls to ensure that it identifies required federal award information to its subgrantees at the time it awards American Recovery and Reinvestment Act of 2009 (Recovery Act) funds. Specifically, on March 18, 2009, Aging was awarded roughly $9.8 million in Recovery Act funds for its nutrition services program. Aging awarded Recovery Act funds to its 33 subgrantees. However, our review of the standard agreement it sent to each of its subgrantees indicates that Aging's contract review and approval process did not ensure that staff included specific language requiring the subgrantees to provide the identification of the Recovery Act awards on their OMB Data Collection Forms (SF-SAC). Further, before the award of the Recovery Act funds, Aging did not check the Central Contractor Registration database to determine whether the subgrantees were registered. In fact, as of late October 2009, Aging had not communicated the registration requirement to its subgrantees.

According to its deputy director of administration, Aging became aware of the additional Recovery Act requirements after it had already contracted with its subgrantees for the Recovery Act funds. The deputy director stated that Aging would notify its subgrantees of such requirements when it issued contract amendments to reallocate fiscal year 2008–09 funds to them for use in fiscal year 2009–10. In mid-November 2009, Aging issued a program memo to its subgrantees that included a reference to the registration requirement.

During-the-Award Monitoring

In our prior-year audit, we reported that although Aging has a process in place for monitoring subgrantees' use of funds, which includes site visits by its fiscal and contract team (team), it lacks adequate procedures that require staff to document the specific procedures they performed or the documents they reviewed to support their conclusions. Aging stated that it would develop written procedures documenting the fiscal monitoring process and would include a requirement to identify specific procedures performed during on-site fiscal monitoring and to retain copies of all documents obtained from the subgrantee as part of the official monitoring file. However, as of November 2009, Aging had developed written procedures documenting its fiscal monitoring process, but had not developed a requirement to retain supporting documents. According to its policy manager, Aging will address this procedure as part of its monitoring redesign project by March 2010.

Additionally, one of Aging's monitoring tools does not ensure that its subgrantees are complying with all relevant federal requirements. While on site, the team uses Aging's administrative review tool that is designed to assess its subgrantees' compliance with various federal requirements, including those related to their procurement and contracting processes. However, our assessment of Aging's review tool found that it does not contain procedures to determine whether its subgrantees are making awards to debarred or suspended parties or whether its subgrantees' contracts or grant agreements with their service providers include provisions related to the federal suspension and debarment requirements. The policy manager stated that Aging includes this requirement in its contracts, but did not include it in the team's monitoring tool. He also stated that Aging will address this omission as part of its monitoring redesign project.

Furthermore, Aging's policy requires its audit staff to conduct on-site audit compliance reviews of its 33 subgrantees at least once every three years. However, during fiscal year 2008–09, Aging's audit branch completed six reviews instead of the 11 planned. According to its deputy director of administration, Aging's goal of conducting reviews every three years has not changed. However, due to significant staff turnover and periods without an audit manager, Aging has not met its goal. The deputy director also stated that Aging will strive to eliminate its backlog of reviews.

Finally, Aging's policy requires its program staff to conduct on-site comprehensive assessments of each subgrantee every four years, as resources permit. As part of this assessment process, Aging requires its staff to issue their final reports and corrective action plans to the subgrantees 75 [calendar] days after the exit conference for the on-site assessment. The subgrantees have 30 days to respond to the final report and corrective action plan. During fiscal year 2008–09, Aging conducted five on-site comprehensive assessments. Our review of one of these assessments found that Aging did not issue its final report and corrective action plan within 75 days, and it did not obtain the subgrantee's response within 30 days. Although Aging's procedure does not say working days, according to the policy manager, the team interprets the 75 day requirement as such. Thus, Aging will revise its procedure to clarify that the corrective action plans are due to the subgrantees 75 working days after the exit conference.

Without adequate documentation to support conclusions reached during its reviews, monitoring tools that include all relevant federal requirements, and timely audit compliance reviews and follow-up on deficiencies it identifies, Aging cannot demonstrate that it effectively monitors its subgrantees and ensures that they are using program funds in accordance with all applicable federal requirements.

Subrecipient Audits

Aging's process does not ensure timely receipt of the subgrantees' Single Audit reports (reports). Specifically, Aging's annual contracts require subgrantees to send a copy of their reports directly to it. Aging's staff use a tracking sheet to capture information such as the date it receives the reports, the status of its review of the reports, and its issuance of management decisions. Our review found that the subgrantees did not submit their reports to Aging within the earlier of 30 days after they receive such a report or nine months after the end of their fiscal year. In fact, we found that all three reports we reviewed were received by Aging after March 31, 2009, which was more than nine months after the end of its subgrantee's fiscal year. The deputy director of adminstration stated that Aging plans to continue to follow up with the subgrantees and work with them to determine and resolve the reasons for submitting late reports. When Aging does not receive its subgrantees' audit reports timely, it cannot ensure that they promptly address the issues contained in the report.

Questioned Costs

Not applicable.

Recommendations

Award Identification

Aging should modify its contract review and approval process to ensure that it includes specific references to the federal award name and number, the award year, and the name of the federal agency—the U.S. Department of Health and Human Services—on the standard agreement it sends annually to each of its 33 subgrantees. Further, it should modify its contract review and approval process to ensure that it includes in the standard agreement specific language requiring the subgrantees to provide the identification of the Recovery Act awards on their OMB Data Collection Forms (SF-SAC). Finally, before awarding future Recovery Act funds, Aging should inform the subgrantees of the registration requirement and check the Central Contractor Registration database to determine whether they are registered.

During-the Award Monitoring

Aging should develop written procedures that identify a specific requirement for retaining copies of all documents obtained from the subgrantee as part of the official monitoring file. Aging should also revise its administrative review tool to include procedures to determine if its subgrantees are making awards to debarred or suspended parties or if its subgrantees' contracts or grant agreements with their service providers include provisions related to the federal suspension and debarment requirements. Furthermore, Aging should ensure that it eliminates its backlog of on-site audit compliance reviews. Finally, for its on-site comprehensive assessments, Aging should revise its procedure to clarify that the corrective action plans are due to the subgrantees 75 working days after the exit conference and it should ensure that it receives subgrantees' responses within 30 days.

Subrecipient Audits

Aging should ensure that its subgrantees submit their Single Audit reports in accordance with OMB Circular A-133.

Department's View and Corrective Action Plan

Award Identification

Aging stated that, effective with the next fiscal year 2009–10 contract amendments, it will include the federal award year, name, and number in the program memo it uses to transmit program contract amendments to subgrantees. Because the annual contract enters a lengthy review and approval process before this information is available from the federal government, it cannot be included in the actual contract terms and conditions. The name of the federal agency, which is always the same, is already reflected in the fiscal year 2009–10 contract terms and conditions. Aging will revise its program memo procedures by March 2010 to include sample language or a template for the program memo it uses to transmit contracts to its subgrantees.

Aging also stated it will transmit instructions, by January 31, 2010, to the subgrantees related to the requirement to report Recovery Act awards on their OMB Data Collection Forms (SF-SAC).

Finally, Aging stated it became aware of the additional Recovery Act requirements after issuing its contracts for the Recovery Act funds. In fiscal year 2009–10 Aging notified the subgrantees through a program memo of the requirement that all subgrantees must be registered in the Central Contractor Registration database at all times when in receipt of Recovery Act funds. This requirement is also included in Exhibit F of the Recovery Act contract amendment. Aging will ensure it has a procedure in place to check the registration of the subgrantees on the Central Contractor Registration database.

During-the-Award Monitoring

Aging stated it has approved procedures in place for monitoring. As part of its current redesign project. Aging will revise its procedures to include detailed written processes for fiscal review and document retention. This will be accomplished by March 2010.

Aging also stated it has language in its contracts for the federal requirements regarding debarred or suspended parties. Federal suspension or debarment requirements are not referenced in its administrative review tool and on-site comprehensive assessment monitoring procedures. By March 2010, Aging will revise its administrative tool and on-site comprehensive assessment procedures to include federal suspension or debarment requirements.

Further, Aging stated its goal of conducting on-site audit compliance reviews every three years has not changed and it is committed to striving to eliminate the backlog of audit reviews.

Finally, Aging stated it modified its on-site comprehensive assessment procedures last year to specify that it would have 75 "days" to issue its corrective action plans to the subgrantees. However, the procedures did not distinguish between "working" and "calendar" days. Aging will modify its procedures by March 2010 to specify that corrective action plans will be issued within 75 "working" days.

Subrecipient Audits

Aging stated it agrees with the concern regarding the timely receipt of the subgrantees' Single Audit reports. In addition to just monitoring the receipt of the reports, Aging will institute a process of contacting each subgrantee prior to the due date of the Single Audit report to determine the report's status and to reinforce the importance of submitting the report timely. In addition, the audit manager is consulting with legal staff about additional measures that can be taken to facilitate timely completion and submission of the subgrantees' Single Audit reports.

Reference Number:	2009-13-14
Federal Catalog Number:	93.959
Federal Program Title:	Block Grants for Prevention and Treatment of Substance Abuse (SAPT)
Federal Award Number and Year:	2B08TI010005-08; 2008
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Alcohol and Drug Programs (ADP)

Criteria

U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133, *AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS* (OMB CIRCULAR A-133), Subpart C—Auditee Responsibilities, Section .320—Report Submission

(a) General. The audit shall be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit. (However, for fiscal years beginning on or before June 30, 1998, the audit shall be completed and the data collection form and reporting package shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or 13 months after the end of the audit period.) Unless restricted by law or regulation, the auditee shall make copies available for public inspection.

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

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

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

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

U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133, *AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS* (OMB CIRCULAR A-133), Subpart D—Federal Agencies and Pass-Through Entities, Section .405—Management Decision.

(a) General. The management decision shall clearly state whether or not the audit finding is sustained, the reasons for the decision, and the expected auditee action to repay disallowed costs, make financial adjustments, or take other action. If the auditee has not completed corrective action, a timetable for follow-up should be given. Prior to issuing the management decision, the Federal agency or pass-through entity may request additional information or documentation from the auditee, including a request for auditor assurance related to the documentation, as a way of mitigating disallowed costs. The management decision should describe any appeal process available to the auditee.

U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133, *AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS* (OMB CIRCULAR A-133), Subpart D—Federal Agencies and Pass-Through Entities, Section .225—Sanctions

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

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

(b) Withholding or disallowing overhead costs;

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

(d) Terminating the Federal award.

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

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

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

2. The SCO will coordinate single audit compliance with local governments.

a. Each state entity will monitor the federal funds it disburses to local governments to ensure compliance with federal laws and regulations. State entities will receive local government audit reports performed in accordance with the Single Audit Act of 1984, P.L. 98-502, and the Single Audit Act Amendments of 1996, P.L. 104-156 from the SCO when the audit report includes a schedule of findings and questioned costs with respect to federal funds that were passed through state entities. In addition, the SCO will distribute the single

audit reports to state entities when the prior fiscal year's single audit report included audit findings related to federal funds. The state entity will review these reports and evaluate the corrective action plans submitted in response to findings of noncompliance.

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

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

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

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

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

Condition

ADP issued management decisions for the audit findings contained in the OMB Circular A-133 audits for five counties. However, although ADP stated it follows the requirements in OMB Circular A-133, its management decisions did not contain all required elements. Specifically, ADP's management decisions did not clearly state whether it was sustaining the finding, the reasons it sustained the finding, a timetable for corrective action, and information on the appeals process. Instead, ADP's management decisions request only that the counties provide written attestation letters that the corrective action plan has been fully implemented and the findings no longer exist. Further, although ADP issued its management decisions to two of the five counties in July 2009, as of December 2009, the counties had not submitted their attestation letters. Hence, ADP did not ensure that the counties took appropriate and timely corrective action to resolve the audit findings.

Further, ADP did not initiate written and verbal contact in a timely manner with those counties that had delinquent OMB Circular A-133 audits. The State Controller's Office (SCO) notifies state agencies of those local governments that must submit an OMB Circular A-133 audit but have not done so, as well as county audit reports it rejects because they are inaccurate. In July 2009 the SCO notified ADP that one county had not submitted its OMB Circular A-133 audit. ADP was also notified by the SCO that another county's report had been rejected, although ADP was unable to provide the exact date. However, ADP did not follow up to request that the counties submit their reports until September 2009. Further, although it requested the counties to submit their reports to the SCO within 30 days, one county did not submit its report until January 11, 2010, and the other county still had not submitted its report as of January 26, 2010. ADP could not provide any evidence to demonstrate its follow-up with the counties or any actions it took against the counties between September 2009 and January 2010 for failing to submit the required audit reports.

In fact, it was not until we brought it to their attention that its staff recommended to one of its deputy directors that ADP initiate the process of withholding funds from the county that has not submitted its OMB Circular A-133 audit to the SCO. ADP explained that although it has procedures for initiating written and verbal contact with those counties that have delinquent OMB Circular A-133 audits, its procedures do not specify the time frame for its staff to do so. As a result, ADP is unable to resolve promptly its subgrantees' failure to submit their OMB Circular A-133 audits by the required due dates.

Questioned Costs

Not applicable.

Recommendations

ADP should revise its management decisions to conform to the OMB Circular A-133 requirements. Further, ADP should ensure that the counties act quickly to resolve the audit findings contained in the management decisions.

ADP should also modify its procedures to specify the time frames for the follow-up of its subgrantees' delinquent OMB Circular A-133 audits.

Finally, ADP should modify its procedures to include a process for imposing sanctions in cases where its subgrantees are unable or unwilling to obtain and submit their OMB Circular A-133 audits, as required.

Department's View and Corrective Action Plan

ADP stated that it will revise its management decision letters to comply with OMB Circular A-133 Section .405 to ensure that the counties act quickly to resolve the audit findings contained in the management decisions.

Additionally, ADP stated that it does follow-up with the delinquent counties once the SCO notifies the state agencies and has been consistent in its application of the follow-up process. However, ADP also stated that it will be more deliberate in specifying timeframes.

Finally, ADP stated that if reports are not completed and submitted according to OMB Circular A-133, sanctions 'such as' those noted in Section .225 can be imposed.

Auditor's Comments on Department's View

The Bureau of State Audits would like to point out that ADP did not address our recommendations that it modify its procedures to include time frames for follow-up when subgrantees are delinquent in submitting required audits or a process for imposing sanctions in cases where its subgrantees are unable or unwilling to obtain and submit their OMB Circular A-133 audits, as required.

Reference Number:	2009-13-28
Federal Catalog Number:	93.568
Federal Program Title:	Low-Income Home Energy Assistance Program (LIHEAP)
Federal Award Numbers and Years:	G-09B1CALIEA; 2009 G-08B1CALIEA; 2008 G-07B1CALIEA; 2007 G-06B1CALIEA; 2006 G-05B1CALIEA; 2005
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Community Services and Development (CSD)

Criteria

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

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

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

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

Condition

CSD's audit services unit (ASU) did not always ensure that it issued management decisions—or as ASU calls them, follow-up letters—on audit findings within six months of receipt of subrecipients' OMB Circular A-133 reports. In response to a similar finding in the prior year's audit report, in January 2009 ASU implemented a spreadsheet-based tracking system to ensure that it receives subrecipients' audit reports. Nonetheless, ASU did not consistently ensure that it issued timely follow-up letters and took appropriate corrective action. During our review of eight of the OMB Circular A-133 reports, we found that ASU did not issue follow-up letters for two of the audit reports until 40 and 43 days after the required six-month deadline. Based on its review of the audit reports for these two subrecipients, CSD made a total of 10 recommendations in the follow-up letters including seven specifically related to the LIHEAP. When ASU does not issue its follow-up letters within the required six-month deadline, it cannot assure that its subrecipients are promptly addressing audit findings, and it increases the potential for misuse of federal funds.

The audit manager for ASU agreed that CSD issued these follow-up letters late. He indicated that many factors contribute to ASU issuing them late, including staffing limitations and the fact that some audit issues require substantial time for ASU to resolve.

Questioned Costs

Not applicable.

Recommendation

CSD's ASU should continue to strengthen its monitoring efforts by ensuring that it issues management decisions for all applicable subrecipient A-133 audit reports within six months.

Department's View and Corrective Action Plan

According to CSD, ASU is committed to meeting its mandated obligations for obtaining and reviewing OMB Circular A-133 reports within six months. CSD indicated that ASU will continue its efforts to eliminate unnecessary review processes and is currently discussing with the Department of Finance's Office of State Audits & Evaluations, the possibility of an interagency agreement for assistance in reviewing OMB Circular A-133 reports in order to clear up CSD's audit backlog.

Reference Number:	2009-14-3
Federal Catalog Number:	93.958
Federal Program Title:	Block Grants for Community Mental Health Services
Federal Award Number and Year:	2B09SM010005-08; 2008
Category of Finding:	Special Tests and Provisions

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

Criteria

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

(a) In general

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

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

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

Condition

In our audit reports for fiscal years 2006–07 and 2007–08, we reported that Mental Health did not facilitate peer reviews. In the past, Mental Health had facilitated peer reviews in conjunction with its site reviews, but it phased out peer reviews in 2004 after a departmental reorganization.

During our follow-up procedures for fiscal year 2008–09, we found that Mental Health continued not to facilitate peer reviews. Mental Health has consulted with the California Mental Health Planning Council (council), which has agreed to conduct the independent peer reviews. Mental Health and the council have drafted a memorandum of understanding that describes the procedure by which the council will conduct the peer reviews and Mental Health's role in the process. According to Mental Health, the council has agreed to review three counties per year to meet the federal peer review requirements. Further, Mental Health explained that the memorandum of understanding should be executed by early spring 2010 and that the council will begin conducting peer reviews shortly thereafter. However, until Mental Health resumes peer reviews, its oversight of the programs offered by counties using the block grants for Community Mental Health Services' funds is diminished.

Questioned Costs

Not applicable.

Recommendation

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

Department's View and Corrective Action Plan

Mental Health will continue to work with the council to execute the memorandum of understanding by early spring 2010 and ensure that the council will begin conducting peer reviews shortly thereafter.

Reference Number: 2009-14-4

Federal Catalog Number: 93.563

Federal Program Title: Child Support Enforcement

Federal Award Numbers and and Years:	0904CA4004; 2009 0804CA4004; 2008
Category of Finding:	Special Tests and Provisions
State Administering Department:	Department of Child Support Services (Child Support Services)

Criteria

TITLE 45—PUBLIC WELFARE, PART 303—STANDARDS FOR PROGRAM OPERATIONS, Section 303.7—Provision of Services in Interstate IV-D Cases

(a) Interstate central registry.

(1) The State IV-D agency must establish an interstate central registry responsible for receiving, distributing and responding to inquiries on all incoming interstate IV-D cases.

(2) Within 10 working days of receipt of an interstate IV-D case from an initiating State, the central registry must:

(i) Ensure that the documentation submitted with the case has been reviewed to determine completeness;

(ii) Forward the case for necessary action either to the State Parent Locator Services (PLS) for location services or to the appropriate agency for processing;

(iii) Acknowledge receipt of the case and ensure that any missing documentation has been requested from the initiating State; and

(iv) Inform the IV-D agency in the initiating State where the case was sent for action.

(3) If the documentation received with a case is inadequate and cannot be remedied by the central registry without the assistance of the initiating State, the central registry must forward the case for any action which can be taken pending necessary action by the initiating State.

4) The central registry must respond to inquiries from other States within 5 working days of receipt of the request for a case status review.

Condition

Although it has made improvements, Child Support Services did not completely fulfill its responsibility to respond to interstate case requests and status review requests within the time required in fiscal year 2008–09. Of the 23 case requests we reviewed, Child Support Services did not respond to 11 case requests within the required 10-day period, instead responding between 11 and 59 days of receipt. In addition, Child Support Services' records did not indicate that it responded to the initiating jurisdictions for an additional two case requests. Further, our review of 23 status requests found that Child Support Services' responses for five requests took either six or seven days instead of the five days required. However, Child Support Services' response times for both case and status requests improved over the prior year. For fiscal year 2007–08, we reported that Child Support Services could not demonstrate that it responded to 21 of 23 case requests and 15 of 23 status requests within the required 10-day and five-day periods, respectively.

In the prior year, we identified several control weaknesses hindering Child Support Services' compliance with these requirements. For example, we found that Child Support Services did not update or follow its procedures for maintaining case and status request documentation. Although Child Support Services has made improvements in these areas from the prior year, it could not provide all requested documentation. We reported for fiscal year 2007–08 that specific documentation requirements were absent from current status request procedures, and Child Support Services could not provide complete hard-copy documentation for any of the 23 status requests we reviewed. For fiscal year 2008–09, Child Support Services was able to provide complete hard copy documentation for 18 of

the 23 status requests we reviewed and partial documentation for four more requests. Further, following our prior-year's recommendation, Child Support Services updated its procedures for processing status requests in April 2009 to include specific documentation retention requirements. In addition, we reported in the prior-year finding that Child Support Services had not maintained supporting documentation for six of the 23 cases we reviewed. By contrast, Child Support Services could not provide supporting documentation for two of the 23 cases we reviewed for fiscal year 2008–09.

Although Child Support Services' retention of documents has improved its ability to demonstrate compliance with federal response requirements, we noted instances in which incomplete status request documentation made it difficult to determine compliance. In the prior-year, we reported that Child Support Services' weak procedures for recording status request activities within its new, statewide case and financial management system (new system) resulted in difficulties monitoring compliance. In particular, we reported that instead of following the format included in procedures, staff used a variety of different written responses to record performed activities in the new system, and in some cases did not include critical information, such as the date an activity took place. For fiscal year 2008–09, we noted that staff continued to use a variety of written responses that did not conform to these procedures. However, we were generally able to verify activities entered into the new system against dates on hard-copy documentation as a result of Child Support Services' improved retention of documents. Further, in June 2008 Child Support Services began to maintain an electronic log outside of the new system, in which staff record activities taking place on each status request. This provides another means by which Child Support Services can ensure that its activities comply with federal requirements. Despite these improvements, we noted certain instances in which we were unable to confirm compliance due to incomplete supporting documentation. Specifically, we were unable to verify compliance for three status requests because staff did not record the date the request was received on the hard copy documents it retained. In addition, we noted discrepancies between among the dates entered into the new system, the electronic log of status requests, and the hard copy documentation for two status requests. Without accurately recording dates that activities took place, Child Support Services cannot document that it is appropriately responding to all status requests.

Child Support Services has also improved its access to critical data regarding its activities and workload. In the prior-year finding, we noted that Child Support Services could not provide us with timely information about data within the new system, and we recommended that it develop methods that would enable it to more effectively monitor compliance. In June 2009, near the end of our audit period, Child Support Services implemented a new document-tracking database that enables it to track case requests individually and to monitor overall compliance and workload. This tracking system allows management to track how long case requests have been awaiting assignment to staff for processing, the amount of time remaining within the 10-day time period, and the total compliance rate for a given set of case requests. According to management, Child Support Services anticipates adding status request tracking to this document-tracking database in February 2010.

In the prior-year audit, we also reported that Child Support Services failed to process or respond to 548 electronically submitted case requests that were mistakenly rejected by the new system. Further, we reported that Child Support Services did not notify the initiating jurisdictions that these cases had been rejected. Child Support Services implemented a system change in February 2009 intended to prevent further rejections. In our review of 23 case requests for fiscal year 2008–09, we found one case that had been mistakenly rejected prior to the implementation of this system change.

We noted one instance in which Child Support Services did not sufficiently ensure that counties fulfilled their responsibilities to process case requests. Specifically, we reported in the prior-year finding that if a county had not yet transitioned to the new system, Child Support Services delegated responsibility to the county to open the case, which would trigger the notification to the initiating jurisdiction. For fiscal year 2008–09, Child Support Services could not document that the initiating jurisdiction had received an acknowledgement for one case request that a county was responsible for opening. As we reported in the prior-year audit, because all counties had transitioned to the new system by November 2008,

and because Child Support Services is now responsible for responding to initiating jurisdictions, this control weakness existed only for fiscal year 2007–08 and the first part of fiscal year 2008–09. Thus, no corrective action is necessary for this obsolete process.

Finally, we noted that in June 2009, Child Support Services implemented a new business plan to manage its interstate case operations. The main focus of the plan is compliance with the 10-day and five-day requirements. In addition to the new document-tracking database for case requests discussed previously, the plan includes a variety of improved processes, such as daily, weekly, and monthly management and performance reporting of status requests and cases, with follow-up as appropriate. These new processes, if followed, should help Child Support Services improve its compliance with federal requirements for processing interstate cases.

Questioned Costs

Not applicable.

Recommendations

Child Support Services should comply with federal requirements for processing case and status requests. In addition, it should ensure that it retains all relevant documentation related to case- and status-request processing activities in order to demonstrate compliance with federal requirements. Finally, it should ensure that its new processes are working as intended and are further improved as necessary.

Department's View and Corrective Action Plan

Child Support Services, California Central Registry (CCR), is required to meet the standards for program operations under Title 45—Public Welfare Part 303—STANDARDS FOR PROGRAM OPERATIONS—Section 303.7, Provision for Services in Interstate IV-D. In order to comply with federal program standards, as well as to improve CCR performance based on 2007–2008 Bureau of State Audits (bureau) findings, Child Support Services implemented a new business design for the operation of CCR in June of 2009. A prime component of this business design was the implementation of an inventory management system that improved management controls over CCR. Since implementation, CCR has significantly improved federal compliance percentages and management controls over CCR.

CCR concurs with the bureau's recommendations that CCR should comply with federal requirements for processing case and status requests and ensure that it retains all relevant processing documents required by Child Support Services in order to demonstrate federal compliance. CCR also concurs that the new business design is improving CCR processes and that it will continue to improve upon federal requirements for processing interstate cases.

<u>Business Process Improvement</u>

CCR management is confident that the implementation and continued enhancement of their business plan will continue to improve the program performance of CCR. Performance monitoring of CCR will be achieved through a continuous business process improvement plan. Primary components of this plan are as follows:

- Management Practices and Controls
- Best Practices and Operational Standards
- Communications
- Effective Utilization of Child Support Automation
- Continuous Improvement Initiatives

Reference Number:	2009-14-5
Federal Catalog Number:	93.053
Federal Program Title:	Nutrition Services Incentive Program (NSIP)
Federal Award Number and Year:	08AACANSIP; 2008
Category of Finding:	Special Tests and Provisions
State Administering Department:	Department of Aging (Aging)

Criteria

TITLE 42—THE PUBLIC HEALTH AND WELFARE, CHAPTER 35—PROGRAMS FOR OLDER AMERICANS, SUBCHAPTER III—GRANTS FOR STATE AND COMMUNITY PROGRAMS ON AGING, Section 3030a(d)—Option to Obtain Commodities From Secretary of Agriculture

(4) Each State agency shall promptly and equitably disburse amounts received under this subsection to recipients of grants and contracts. Such disbursements shall only be used by such recipients of grants or contracts to purchase domestically produced foods for their nutrition projects.

Condition

Aging lacks adequate procedures to provide reasonable assurance that cash received in lieu of commodities is distributed equitably. Specifically, although its 2003 policy issued to its subgrantees states that NSIP funding to subgrantees is based on the number of meals they served in the prior year in proportion to the number of meals served statewide, during fiscal year 2008–09 Aging lacked adequate procedures to ensure staff follow the policy. The lack of adequate procedures hinders Aging's ability to prevent errors or to detect early any errors that may exist in the allocation.

Aging's draft procedures issued January 2009 direct analysts to use the actual number of meals served in the most recently documented year (prior-prior year) based on the timing of the allocation and its reporting to the U.S. Department of Health and Human Services' Administration on Aging (AoA). According to Aging, in practice, the most recently documented meal counts are those most recently certified as accurate by the AoA and reported for the prior-prior state fiscal year for the next year's allocation. For example, the meal counts certified as accurate for fiscal year 2006–07 would be used to calculate the fiscal year 2009–10 allocation, which is prepared in fiscal year 2008–09. By contrast, as previously stated, Aging's 2003 policy specifies the use of meal counts from the prior year. This is inconsistent. For example, in reviewing its calculation of the allocation for fiscal year 2008–09, we found that the analyst used meal counts from fiscal year 2005–06 instead of those from the prior year, fiscal meal counts were the most recently finalized meal counts available at the time that the fiscal year 2008–09 allocation was prepared in fiscal year 2007-08. Our analysis found that Aging's departure from the methodology described in the 2003 policy issued to its subgrantees results in discrepancies in the amounts they would have received. Specifically, we found that if Aging had followed the methodology described in its policy, the total NSIP allocation for one of the three subgrantees we reviewed would have been 31 percent greater if the calculation was based on fiscal year 2007–08 meal counts instead of fiscal year 2005–06 meal counts. In our prior-year audit, we reported a similar finding.

Aging stated that its procedures had been updated to be consistent with its current methodology and that it would issue a policy memo update to its subgrantees to remind them of its policy and procedures. As previously mentioned, Aging issued draft procedures in January 2009, and these procedures are consistent with its current methodology. However, Aging has not officially approved these procedures. Further, Aging did not issue a policy memo update to notify its subgrantees that it would be using the fiscal year 2005–06 meal counts to calculate the fiscal year 2008–09 allocation. According to its deputy director of administration, Aging will approve and issue its policy

and procedures by February 2010. The deputy director also stated that Aging notified its subgrantees about the use of the meal counts in its calculation of the fiscal year 2009–10 allocation because it was the next policy memo that Aging issued on the subject.

Additionally, Aging did not distribute the NSIP allocations promptly according to its procedures. The procedures specify that NSIP payments will be made quarterly starting with the first quarter in July, the second quarter in October, the third quarter in January, and the fourth quarter in April. However, the payments made to three of the 33 subgrantees we reviewed were made 30 or 60 days late. According to the accounting administrator, these payments were made late due to staff vacancies. Nevertheless, Aging is not in compliance with this federal requirement.

Questioned Costs

Not applicable.

Recommendations

Aging should finalize its draft procedures for handling cash received in lieu of commodities so that it can ensure that it equitably distributes NSIP funds. Moreover, Aging should ensure that its procedures are consistent with its policy and issue policy memo updates annually to its subgrantees to remind them of its policy and procedures for distributing NSIP funds. Finally, Aging should ensure that it follows its procedure for distributing NSIP payments promptly.

Department's View and Corrective Action Plan

Aging stated that it is finalizing the revised NSIP allocation procedures, which clarify that allocations are based on the meal counts most recently certified by the AoA. These most recently certified counts are and have historically been from the "prior-prior" year, even though not clearly described as such in past documentation. Aging expects the clarified procedures to be approved and issued by March 2010. Aging will remind subgrantees of its policy in the annual program memo that accompanies the NSIP allocations.

Finally, Aging stated that, in early fiscal year 2009–10, it implemented steps to ensure that NSIP payments are made timely and accurately. The process requires separate reviews of the NSIP payment document by staff from the program fiscal team and the accounting unit. Aging plans to provide additional training to the accounting unit to ensure they follow the procedures for prompt payment.

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

Reference Number:	2009-1-4
Category of Finding:	Activities Allowed/Allowable Costs
State Administering Department:	Department of Social Services (Social Services)
Federal Catalog Number:	10.561
Federal Program Title:	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program
Federal Award Numbers and Years:	7CA400CA4; 2009 7CA400CA4; 2008 7CA400CA4; 2007

Federal Catalog Number:	93.558
Federal Program Title:	Temporary Assistance for Needy Families
Federal Award Numbers and Years:	G-0902CATANF; 2009 G-0802CATANF; 2008 G-0702CATANF; 2007

Federal Catalog Number:	93.658
Federal Program Title:	Foster Care—Title IV-E
Federal Award Numbers and Years:	0901CA1402; 2009 0901CA1401; 2009 0801CA1401; 2008 0701CA1401; 2007

Federal Catalog Number:	93.659
Federal Program Title:	Adoption Assistance
Federal Award Numbers and Years:	0901CA1407; 2009 0901CA1403; 2009 0801CA1407; 2008 0701CA1407; 2007

Federal Catalog Number:	93.667
Federal Program Title:	Social Services Block Grant
Federal Award Numbers and Years:	G-0901CASOSR; 2009 G-0801CASOSR; 2008 G-0701CASOSR; 2007

Criteria

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

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

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

Condition

Social Services' processes for reviewing and authorizing the counties' expense and assistance claims do not provide reasonable assurance that federal funds are spent for allowable activities only. Expense claims that the counties submit to Social Services include administrative costs, and their assistance claims include a summary total of county assistance payments to beneficiaries by program. In fiscal year 2008–09, Social Services reimbursed counties approximately $5.8 billion for the five programs listed above.

Social Services does not require the counties to submit detailed supporting documentation for their expense and assistance claims. Counties submit their expense claims to Social Services quarterly and their assistance claims monthly. Social Services performs desk reviews on both types of claims. The steps in the desk reviews include making sure that the counties' welfare directors and auditors have signed the certification pages of the claims, thus attesting to their accuracy, and that the amounts on the signed certification pages match the amounts in the claims. Other steps Social Services takes in reviewing claims include determining if program codes in counties' program cost summaries are allowable for expense claims and—according to the manager of the contracts and county assistance payment unit—identifying variances in assistance claims that are greater than 20 percent between months and then following up with the counties for explanations.

However, since July 2005, Social Services has required counties to submit their claims in an electronic template provided by Social Services, and it has not required counties to submit detailed documentation for specific line items with their claims. Moreover, according to Social Services' management, the department did not conduct any on-site visits to the counties to review their supporting documentation for their expense and assistance claims in fiscal year 2008–09. Without procedures such as reviewing the supporting documentation for the counties' expense and assistance claims before payment or conducting on-site visits to review the claims during the award period, Social Services has no way of assuring that counties are spending federal funds on allowable activities only. Thus, we are unable to conclude that Social Services is complying with this requirement for the programs previously listed.

Social Services believes it is complying with applicable federal requirements and cited several reasons for this belief. For example, it pointed out that all eligibility determinations are done through federally approved automated systems, which, according to Social Services, ensures all costs are allowable. Social Services also indicated that all expenses claimed by a county welfare department must be independently reviewed, verified, and approved by the county auditor's office. Social Services further pointed out that all counties must have an independent audit conducted annually in conformance with the single audit act and the Office of Management Budget Circular A-133 and that these audits are submitted to the federal government. Nevertheless, none of these activities relieves Social Services of its responsibility to ensure that federal funds were spent for allowable activities only. We believe that this responsibility requires Social Services to review periodically the underlying supporting documentation for counties' expense and assistance claims during the award period.

Questioned Costs

Unknown

Recommendations

If Social Services believes that its current processes comply with federal requirements concerning allowable activities, it should seek written concurrence from the U.S. Department of Agriculture and the U.S. Department of Health and Human Services. However, if this concurrence does not take place, Social Services should strengthen its desk reviews of counties' expense and assistance claims by requiring them to submit detailed supporting documentation for a sample of claims and by reviewing the documentation or conducting site visits at the counties to review such documentation.

Department's View and Corrective Action Plan

Social Services disagrees with the recommendation. Social Services stated that its existing controls provide a reasonable level of accountability. In addition, Social Services indicated that the previous audits by the Bureau of State Audits have not identified losses that would support this finding or the addition of costly field staff to support the undefined monitoring functions. Social Services also indicated it has frequent and open communication with the federal cognizant agencies and they have not expressed concern over its processes for reviewing and authorizing counties' expense and assistance claims.

Auditor's Comments on Department's View

If through frequent and open communication with its federal cognizant agencies Social Services believes its existing controls provide a reasonable level of accountability, Social Services should follow our recommendation to obtain its federal cognizant agencies' concurrence in writing.

Reference Number:	2009-2-2
Category of Finding:	Allowable Cost/Cost Principles
State Administering Department:	Department of Social Services (Social Services)
Federal Catalog Number:	10.561
Federal Program Title:	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program
Federal Award Numbers and Years:	7CA400CA4; 2009 7CA400CA4; 2008 7CA400CA4; 2007

Federal Catalog Number:	93.658
Federal Program Title:	Foster Care—Title IV–E
Federal Award Numbers and Years:	0901CA1402; 2009 0901CA1401; 2009 0801CA1401; 2008 0701CA1401; 2007

Federal Catalog Number:	93.659
Federal Program Title:	Adoption Assistance
Federal Award Numbers and Years:	0901CA1407; 2009 0901CA1403; 2009 0801CA1407; 2008 0701CA1407; 2007

Criteria

TITLE 45—PUBLIC WELFARE, PART 95—GENERAL ADMINISTRATION—GRANT PROGRAMS (PUBLIC ASSISTANCE, MEDICAL ASSISTANCE AND STATE CHILDREN'S HEALTH INSURANCE PROGRAMS), Subpart E—Cost Allocation Plans, Section 95.507—Plan Requirements

(b) The cost allocation plan shall contain the following information:

(7) If the public assistance programs are administered by local government agencies under a State supervised system, the overall State agency cost allocation plan shall also include a cost allocation plan for the local agencies. It shall be developed in accordance with the requirements set forth above. More than one local agency plan shall be submitted if the accounting systems or other conditions at the local agencies preclude an equitable allocation of costs by the submission of a single plan for all local agencies. Prior to submitting multiple plans for local agencies, the State should consult with the Director, Division of Cost Allocation (DCA). Where more than one local agency plan is submitted, the State shall identify the specific local agencies covered by each plan.

TITLE 45—PUBLIC WELFARE, PART 95—GENERAL ADMINISTRATION—GRANT PROGRAMS (PUBLIC ASSISTANCE, MEDICAL ASSISTANCE AND STATE CHILDREN'S HEALTH INSURANCE PROGRAMS), Subpart E—Cost Allocation Plans, Section 95.517—Claims for Federal Financial Participation

(a) A State must claim Federal financial participation (FFP) for costs associated with a program only in accordance with its approved cost allocation plan. However, if a State has submitted a plan or plan amendment for a State agency, it may, at its option claim FFP based on the proposed plan or plan amendment, unless otherwise advised by the DCA. However, where a state has claimed costs based on a proposed plan or plan amendment the State, if necessary, shall retroactively adjust its claims in accordance with the plan or amendment as subsequently approved by the Director, DCA. The State may also continue to claim FFP under its existing approved cost allocation plan for all costs not affected by the proposed amendment.

Condition

Social Services does not have adequate internal controls in place to ensure that county welfare departments are claiming costs according to the cost allocation plan (CAP) for local agencies. Specifically, Social Services submits to the U.S. Department of Health and Human Services a CAP for the county welfare departments that describes the allocation basis and direct charge rationale for charging programs and projects supported by federal funds. The CAP indicates that the counties charge these program costs on the county expense claims (CECs) that they submit quarterly to Social Services. However, Social Services does not have a process in place to ensure that the costs that are reflected on the CECs are calculated in accordance with the CAP. Specifically, according to the chief of the Fiscal Systems Bureau, Social Services does not require counties to submit supporting documentation with their quarterly CECs, nor does Social Services conduct site visits during the award year to review the counties' processes related to capturing and allocating the costs reported in the CECs.

Social Services believes it is complying with applicable federal requirements and cites several reasons for this belief. For example, Social Services provides guidance in county fiscal letters it issues quarterly regarding completion of counties' CECs and of time studies used to allocate staff costs. According to the chief of the Fiscal Systems Bureau, the county fiscal letters reflect any changes in program code descriptions and the local agency CAP. In addition, each quarter Social Services provides the counties with a template for completing their CECs. According to the chief, the template is based on methodologies in the local agency CAP for claiming administrative expenses and, therefore, the counties' use of the template ensures that they are complying with the CAP.

Although these procedures might be helpful to counties in completing their CECs, they neither validate that counties are claiming and being reimbursed for allowable costs nor do they relieve Social Services of its responsibility to ensure that federal funds are expended only in accordance with its approved CAP, which we believe requires Social Services to periodically review the underlying supporting documentation for CECs during the award period.

Questioned Costs

Unknown

Recommendations

If Social Services believes that its current processes comply with federal requirements concerning allowable activities and allowable costs, it should seek written concurrence from the U.S. Department of Health and Human Services. However, if the U.S. Department of Health and Human Services does not agree with Social Services, Social Services should develop a process and procedures to ensure counties are adhering to the local agency CAP and claiming only allowable costs.

Department's View and Corrective Action Plan

Social Services disagrees with the recommendation. Social Services indicated that its existing controls provide a reasonable level of accountability. It also stated that it is in frequent and open communication with the DCA, Administration of Children and Families, Food and Nutrition Services on the approval of the local agency CAP, which determines the acceptable methodologies for claiming allowable costs. None of the above mentioned federal agencies have expressed any concern with regards to Social Services' internal controls. Social Services stated it will continue the current processes and procedures to ensure counties are adhering to the local agency CAP and claiming only allowable costs.

Auditor's Comments on Department's View

If through frequent and open communication with its federal cognizant agencies, Social Services believes that its existing controls provide a reasonable level of accountability, Social Services should follow our recommendation to obtain its federal cognizant agencies' concurrence in writing.

Reference Number:	2009-8-1
Category of Finding:	Period of Availability
State Administering Department:	Department of Social Services

Federal Catalog Number:	10.561
Federal Program Title:	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program
Federal Award Numbers and Years:	7CA400CA4; 2009 7CA400CA4; 2008 7CA400CA4; 2007

Federal Catalog Number:	93.658
Federal Program Title:	Foster Care—Title IV-E
Federal Award Numbers and Years:	0901CA1402; 2009 0901CA1401; 2009 0801CA1401; 2008 0701CA1401; 2007

Federal Catalog Number:	93.659
Federal Program Title:	Adoption Assistance
Federal Award Numbers and Years:	0901CA1403; 2009 0901CA1407; 2009 0801CA1407; 2008 0701CA1407; 2007

Federal Catalog Number:	93.667
Federal Program Title:	Social Services Block Grant
Federal Award Numbers and Years:	G-0901CASOSR; 2009 G-0801CASOSR; 2008 G-0701CASOSR; 2007

Criteria

TITLE 7—AGRICULTURE—CHAPTER II—FOOD AND NUTRITION SERVICE, DEPARTMENT OF AGRICULTURE—PART 277—PAYMENTS OF CERTAIN ADMINISTRATIVE COSTS OF STATE AGENCIES, Section 277.11—Financial Reporting Requirements

(d) Time limit for State agencies to file claims.

(2) Subject to the availability of funds from the appropriation for the year in which the expenditure was incurred, Food and Nutrition Services (FNS) may reimburse State agencies for an allowable expenditure only if the State agency files a claim with FNS for that expenditure within two years after the calendar quarter in which the State agency (or local agency) incurred the cost. FNS will consider non-cash expenditures such as depreciation to have been made in the quarter the expenditure was recorded in the accounting records of the State agency in accordance with generally accepted accounting principles.

TITLE 45—PUBLIC WELFARE PART 95—GENERAL ADMINISTRATION—GRANT PROGRAMS (PUBLIC ASSISTANCE, MEDICAL ASSISTANCE AND STATE CHILDREN'S HEALTH INSURANCE PROGRAMS), Subpart A—Time Limits for States to File Claims

Section 95.7—Time limit for claiming payment for expenditures made after September 30, 1979

Under the programs listed in Section 95.1, we will pay a State for a State agency expenditure made after September 30, 1979, only if the State files a claim with us for that expenditure within 2 years after the calendar quarter in which the State agency made the expenditure. Section 95.19 lists the exceptions to this rule.

Section 95.19—Exceptions to time limits.

The time limits in sections 95.7 and 95.10 do not apply to any of the following—

(a) Any claim for an adjustment to prior year costs, which means an adjustment in the amount of a particular cost item that was previously claimed under an interim rate concept and for which it is later determined that the cost is greater or less than that originally claimed.

(b) Any claim resulting from an audit exception.

(c) Any claim resulting from a court-ordered retroactive payment.

(d) Any claim for which the Secretary decides there was good cause for the State's not filing it within the time limit.

TITLE 42—THE PUBLIC HEALTH AND WELFARE—CHAPTER 7—SOCIAL SECURITY—SUBCHAPTER XX—BLOCK GRANTS TO STATES FOR SOCIAL SERVICES—Section 1397a—Payments to States

(c) Expenditure of funds.

Payments to a State from its allotment for any fiscal year must be expended by the State in such fiscal year or in the succeeding fiscal year.

Condition

Social Services' processes for reviewing and authorizing the counties' administrative and assistance claims do not provide reasonable assurance that adjustments included on the claims are for expenditures made within two years after the calendar quarter in which the expenditures were either initially paid or incurred or within two years after the program funds were awarded. A county may adjust a claim when there is a need to increase or decrease an amount it had previously claimed. However, Social Services does not require the counties to provide documentation to support the adjustments on their claims. Without supporting documentation, Social Services cannot be sure that counties' adjustments are for expenditures made within the two-year limits.

Social Services believes that the process outlined in an April 1, 2008, fiscal letter to the counties notifying them of established due dates for submitting their adjusted claims ensures that Social Services is meeting the two-year limit for claiming payments. Social Services also cited several other reasons why it believes that it is complying with applicable federal requirements. For example, Social Services pointed out that counties are required to maintain supporting documentation for all claimed expenses using accounting procedures that the State Controller's Office promulgated and that meet federal accounting standards. According to Social Services, this documentation would reflect that the costs claimed are within the period of availability. Social Services also indicated that all expenses claimed by county welfare departments must be independently reviewed, verified, and approved by the county auditor. Social Services further pointed out that each county must have an independent audit conducted annually in conformance with the single audit act and the Office of Management and Budget Circular A-133, and these audits are submitted to the federal government. However, none of these

activities relieves Social Services of its responsibility to ensure that adjustments were for transactions that occurred during the period of availability, which we believe requires Social Services to review periodically the underlying supporting documentation for adjustments included on the claims. If Social Services does not ensure that the expenditure of federal funds included in adjusted claims occurred within the proper period, fewer funds may be available for current claims. Additionally, because Social Services does not require the counties to submit detailed supporting documentation for their administrative and assistance claims, we are unable to conclude that the counties' adjustments are for expenditures made within the two-year limit for claiming payment.

Questioned Costs

Unknown

Recommendations

If Social Services believes that its current processes comply with federal requirements concerning the period of availability, it should seek concurrence in writing from the U.S. Department of Agriculture and the U.S. Department of Health and Human Services. However, if these federal agencies do not agree, Social Services should strengthen its desk audits of the adjustments included on the counties' expense and assistance claims by requiring them to submit detailed supporting documentation for a sample of claims and by reviewing the support for the adjustments or conducting site visits at the counties to review such documentation.

Department's View and Corrective Action Plan

Social Services disagrees with the recommendation. Social Services stated that its existing controls provide a reasonable level of accountability. Social Services also indicated that the previous audits by the Bureau of State Audits have not identified losses that would support this finding or the addition of costly field staff to support the undefined monitoring functions. According to Social Services, it has frequent and open communication with the federal cognizant agencies, and they have not expressed concern over Social Services' process for reviewing and authorizing counties' expense and assistance claims.

Auditor's Comments on Department View

If through frequent and open communication with its federal cognizant agencies Social Services believes its existing controls provide a reasonable level of accountability, Social Services should follow our recommendation to obtain its federal cognizant agencies' concurrence in writing.

Reference Number:	2009-13-3
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Social Services (Social Services)
Federal Catalog Number:	10.561
Federal Program Title:	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program
Federal Award Numbers and Years:	7CA400CA4; 2009 7CA400CA4; 2008

Federal Catalog Number:	93.556
Federal Program Title:	Promoting Safe and Stable Families (PSSF)
Federal Award Numbers and Years:	G-0901CAFPPS; 2009 G-0801CAFPSS; 2008

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

Federal Catalog Number:	93.566
Federal Program Title:	Refugee and Entrant Assistance—State Administered Programs (Refugee Program)
Federal Award Numbers and Years:	G-09AACA9110; 2009 G-08AACA9110; 2008

Federal Catalog Number:	93.645
Federal Program Title:	Child Welfare Services—State Grants
Federal Award Numbers and Years:	G-0901CA1400; 2009 G-0801CA1400; 2008

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

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

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

Criteria

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

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

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

(2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or agreements as well as any supplemental requirements imposed by the pass-through entity.

Condition

Social Services did not always inform the counties of certain federal award information, such as the Catalog of Federal Domestic Assistance (CFDA) program title and number, and relevant federal laws and regulations that govern each program we reviewed, excluding the Refugee Program. Specifically, Social Services has periodic, ongoing correspondence with counties through fiscal letters that it uses to notify them of various issues, including those related to administrative costs. Although Social Services issued several county fiscal letters that contained the CFDA number and program title, it did not consistently include this information in all fiscal letters that it sent to the counties during fiscal year 2008–09. Moreover, Social Services did not include in any of the fiscal letters the federal laws, regulations, and grant provisions governing these programs, nor did it inform the counties of this required information using some other method. According to the chief of the fiscal systems and accounting branch, in fiscal year 2008–09 Social Services had planned to make available to the counties through a Web site the CFDA number, the federal regulatory information, and the terms and conditions of the grant awards. However, the chief stated that Social Services is still formulating what information should be given to counties and how it should be presented, but that it should be accessible to counties by December 2009.

Finally, during our follow-up procedures for the PSSF and Refugee progams, we found that Social Services did not provide all of the required federal award information in its contracts with its noncounty subrecipients. According to the chief of the contracts and financial analysis bureau, Social Services is planning to include the CFDA number on contract transmittal sheets sent to noncounty contractors.

By not providing complete award information to its county and noncounty subrecipients, Social Services cannot be sure that its subrecipients are aware of and following all program requirements imposed on them.

Questioned Costs

Not applicable.

Recommendations

Social Services should ensure it consistently informs the counties of the federal award information and relevant federal laws and regulations governing the programs in its annual county fiscal letters, or use other media, such as a Web site, to provide counties with this information.

Social Services should also continue its implementation of a process to communicate to its noncounty subrecipients the federal award information and relevant federal laws and regulations governing the programs.

Department's View and Corrective Action Plan

On December 17, 2009, Social Services issued an annual county fiscal letter that provides information for counties regarding the CFDA number. Further, Social Services posted on its Web site the terms and conditions and other relevant federal information, which includes references to federal laws and regulations, for all federal funds for which Social Services is the single state agency.

Auditor's Comments on Department's View

Although not indicated in its view and corrective action plan, Social Services' confirmed that it plans to send contract transmittal letters notifying noncounty subrecipients of federal award information.

Reference Number:	2009-13-5
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Social Services (Social Services)
Federal Catalog Number:	10.561
Federal Program Title:	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program
Federal Award Numbers and Years:	7CA400CA4; 2008 7CA400CA4; 2007

Federal Catalog Number:	93.558
Federal Program Title:	Temporary Assistance for Needy Families
Federal Award Numbers and Years:	G-0802CATANF; 2008 G-0702CATANF; 2007

Federal Catalog Number:	93.658
Federal Program Title:	Foster Care—Title IV–E
Federal Award Numbers and Years:	0801CA1401; 2008 0701CA1401; 2007

Federal Catalog Number:	93.659
Federal Program Title:	Adoption Assistance
Federal Award Numbers and Years:	0801CA1407; 2008 0701CA1407; 2007

Federal Catalog Number:	93.667
Federal Program Title:	Social Services Block Grant
Federal Award Numbers and Years:	G-0801CASOSR; 2008 G-0701CASOSR; 2007

Federal Catalog Number:	93.778
Federal Program Title:	Medicaid Cluster: Medical Assistance Program
Federal Award Numbers and Years:	05-0805CA5228; 2008 05-0705CA5228; 2007

Criteria

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

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

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

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

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

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

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

(b) Withholding or disallowing overhead costs;

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

(d) Terminating the Federal award.

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

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

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

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

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

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

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

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

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

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

Condition

Social Services did not always ensure that it issued management decisions on audit findings within six months after the State received the counties' OMB Circular A-133 audit reports. Although Social Services told us that it revised its policies and procedures in November 2008, the revised policies and procedures are still not sufficient to ensure that Social Services issues management decisions within the required six months.

According to Social Services, as of October 2009, the SCO had provided it with the fiscal year 2007–08 OMB Circular A-133 audit reports for 50 of California's 58 counties. In addition, based on information the SCO provided Social Services, it was aware that the SCO had rejected as inadequate two audit reports from counties and was in the process of reviewing another three audit reports, which the SCO had not yet forwarded to Social Services. Although the SCO had provided Social Services with information indicating it had approved the audit reports from the remaining three counties, Social Services failed to follow up with the SCO to determine why it had not yet received the reports.

Additionally, when we reviewed a sample of fiscal year 2007–08 OMB Circular A-133 audit reports for 10 counties that contained a total of 29 audit findings related to federal programs for which Social Services is the pass-through entity, we found that Social Services either had not issued management decisions or had issued the management decisions late for 13 of the 29 findings. Specifically, as of October 30, 2009, Social Services had not yet issued management decisions for eight of the 13 findings even though the State had received the audit reports from the counties eight to 10 months earlier. Further, it issued management decisions for the remaining five findings six to 49 days after the six-month time frame for issuing such decisions had already expired. The SCO contributed to Social Services' issuing its management decisions late because the SCO took between 55 and 92 days to process the audit reports before providing them to Social Services.

To assist it in tracking OMB Circular A-133 audit reports and ensuring that it issues management decisions timely, Social Services has developed policies and procedures for processing findings contained in reports concerning programs for which it is the pass-through entity. However, its procedures incorrectly indicate that Social Services should use the date the SCO transmits the OMB Circular A-133 audit reports to it rather than the date the SCO received the audit reports from the counties when determining the date by which it must issue its management decisions.

By not issuing management decisions within the required six-month deadline and not following up on delinquent reports, Social Services has no assurance that the counties are promptly addressing the audit findings. Furthermore, by failing to ensure that the counties correct audit findings, the risk of misuse of federal funds increases.

Questioned Costs

Unknown

Recommendations

To ensure that it issues management decisions for audit findings within the required six-month deadline, Social Services should work with the SCO to obtain each county's OMB Circular A-133 audit report as soon as possible after the SCO receives the report. In addition, Social Services needs to update its policies and procedures to reflect that it should use the date the SCO receives the counties' OMB Circular A-133 audit reports when determining the deadlines for it to issue its management decisions and then ensure that it meets those deadlines.

Department's View and Corrective Action Plan

Social Services stated that it has implemented the Bureau of State Audit's recommendations in order to comply with the OMB Circular A-133 requirements.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES
SOCIAL SECURITY ADMINISTRATION

Reference Number:	2009-2-1
Category of Finding:	Allowable Costs/Cost Principles
State Administering Department:	Department of Social Services (Social Services)
Federal Catalog Number:	93.658
Federal Program Title:	Foster Care—Title IV–E (Foster Care)
Federal Award Numbers and Years:	0901CA1402; 2009 0901CA1401; 2009 0801CA1401; 2008

Federal Catalog Number:	96.001
Federal Program Title:	Social Security—Disability Insurance (Disability Insurance)
Federal Award Numbers and Years:	04-0904CADI00; 2009 04-0804CADI00; 2008

Criteria

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

Appendix B to Part 225—Selected Items of Cost

8. Compensation for personal services

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

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

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

         (a) More than one Federal award,

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

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

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

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

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

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

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

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

(d) They must be signed by the employee.

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

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

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

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

Condition

Social Services does not always ensure that staff, whose payroll costs are charged to the Disability Insurance and Foster Care programs, follow federal regulations. More specifically, the distribution of payroll costs between the federal Disability Insurance and the state disability programs for eight of 24 staff we reviewed who work in two branches at Social Services was not supported by personnel activity reports, as required. Four of these employees work in the Onsite and System Support Bureau (support bureau), which provides information technology support to the various branches of the Disability Determination Services Division (disability division). According to the chief of the support bureau, payroll costs are allocated between federal and state disability programs using percentages that have remained the same since at least 2007 and are based on discussions the chief had with staff in that year. The remaining four staff members are clerical employees in the disability division's Oakland branch office for whom there were no activity reports to support the allocation of their payroll costs.

In addition, we found that although the Foster Care Rates Bureau charged 100 percent of its staff time during April through June of fiscal year 2008–09 to one program activity code, five of its 16 staff reported time spent during this period on other program activity codes, which would have changed the distribution of these employees' payroll costs. In fact, for the one quarter we reviewed, Social Services undercharged the federal Foster Care program by almost $4,000 and overcharged the State's General Fund by the same amount. If this condition persisted throughout the year, the amount inappropriately charged would have been approximately $15,000.

Unless Social Services corrects these deficiencies, it risks losing federal funds for noncompliance with federal requirements.

Questioned Costs

Not determined.

Recommendation

Social Services should require that all staff whose costs are charged to multiple activities, including the federal Disability Insurance and the Foster Care program activities, prepare and correctly use the personnel activity reports or equivalent documentation.

Department's View and Corrective Action Plan

Social Services stated that it concurs with the finding. Social Services indicated that its disability division strives to follow all applicable guidelines, and having been made aware of this deficiency, Social Services will work with disability division fiscal staff to fully remedy this issue and be in compliance with all aspects of Circular A-87. This finding should be resolved by April 2010.

Additionally, Social Services indicated that effective October 2009, the Foster Care Rates Bureau has corrected this finding by instructing the time and attendance staff to appropriately identify and prepare personnel activity documentation to identify reported activity codes listed on the quarterly time studies. Social Services stated that this will ensure that program activities identified are in fact charged to the correct Foster Care program.

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U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Reference Number:	2009-1-13
Federal Catalog Number:	14.228
Federal Program Title:	Community Development Block Grants/ State's Program (CDBG)
Federal Award Number and Year:	B-08-DC-06-001; 2008
Category of Finding:	Activities Allowed/Allowable Costs; Subrecipient Monitoring
State Administering Department:	Department of Housing and Community Development (Housing)

Criteria

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

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

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

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

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

Condition

In our prior-year audit, we reported that Housing's process for reviewing subrecipients' payment requests does not provide reasonable assurance that expenditures of CDBG funds were only for allowable activities and allowable costs. Specifically, we noted that Housing did not require subrecipients to submit supporting documentation for the costs they claimed. Further, the prior-year audit found that Housing did not always follow its monitoring procedures, such as performing risk assessments to identify high-risk subrecipients and performing site visits to ensure that these subrecipients were complying with program requirements. In response to this finding, Housing indicated that it would make various improvements to its monitoring program and develop an annual monitoring plan that it expected to implement by the beginning of fiscal year 2009–10.

During our audit of fiscal year 2008–09, we noted that Housing implemented new procedures in January 2009 that require subrecipients to provide documentation to support their payment requests. We verified that Housing was following its new process after January 2009, but noted that payments it made before this policy change—between July and December 2008—followed the same process outlined in the prior year's audit finding. Further, we noted that Housing did not develop a site visit monitoring schedule for fiscal year 2008–09. Although Housing asserted that it performed six site visits during that fiscal year, it acknowledged that these reviews only pertained to the economic development component of the CDBG program. For perspective, this program component accounts for only 26 percent of all CDBG funds that Housing awarded to subrecipients during fiscal

year 2008–09. In contrast, Housing awarded 68 percent—or more than $27 million—to subrecipients under the general allocation component. Without a more robust monitoring program that includes all components of the CDBG program, Housing cannot demonstrate that its subrecipients are complying with CDBG program requirements.

Questioned Costs

Unknown

Recommendations

Housing should continue to follow its new procedures that require subrecipients to submit documentation to support their requests for CDBG funds. Further, to ensure that it provides adequate monitoring of its subrecipients, Housing should develop and adhere to a site visit monitoring schedule that covers all components of the CDBG program.

Department's View and Corrective Action Plan

The Department believes, based on extensive communication with the U.S. Department of Housing and Urban Development (HUD), that an active, risk based, field monitoring effort meets all federal requirements. However, the Department will continue to follow its new procedures that require subrecipients to submit documentation to support their requests for CDBG funds until the following action plan is fully implemented:

1. CDBG will complete its risk assessment of both General and Economic Development (ED) awards for State recipients by February 24, 2010. This will be done on an annual basis prior to the beginning of each calendar year. CDBG staff members have been trained on the use of the risk assessment tool with the actual assessments being completed at this time.
2. CDBG will conduct site visits, as indicated by the results of the risk assessment, of the highest-risk State recipients in General and ED awards. The Department will not monitor all CDBG recipients, although the risk assessment analysis will take into consideration the extent to which State recipients have never or rarely been monitored.
3. CDBG will prepare a specific monitoring schedule for annual site visits. The next schedule will be prepared by February 24, 2010. For the calendar year 2010, CDBG will conduct 16 ED monitoring site visits, and 24 General site visits, for a total of 40 visits in 2010.

Reference Number:	2009-2-5
Federal Catalog Number:	14.239
Federal Program Title:	HOME Investment Partnerships Program (HOME Program)
Federal Award Number and Year:	M08-SG060100; 2008
Category of Finding:	Allowable Costs; Subrecipient Monitoring
State Administering Department:	Department of Housing and Community Development (Housing)

Criteria

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

C. Basic Guidelines

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

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

j. Be adequately documented.

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

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

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

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

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

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

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

Condition

Housing cannot demonstrate that the HOME funds it disburses to state recipients are necessary and reasonable in accordance with OMB Circular A-87. State recipients are local governments—such as cities or counties—that have been authorized by Housing to administer certain components of the HOME program. During fiscal year 2008–09, Housing disbursed approximately $40 million in HOME funds to more than 100 State recipients. However, we noted that Housing does not require state recipients to submit supporting documentation for the costs they claim. Instead, Housing only requires state recipients to submit a form indicating the amount of HOME funds being requested and a certification that such costs meet federal requirements. As a result, Housing does not know whether its payments of HOME funds to state recipients are for allowable activities or allowable costs at the time such payments are made.

Housing explained that it does not require supporting documentation of costs because it has established a process to monitor whether state recipients are adhering to HOME Program requirements, including the eligibility of claimed costs. Housing refers to this process as its *close-out monitoring* process (close-out monitoring). In its online contracting manual, Housing describes close-out monitoring as the "primary tool used to ensure that state recipients comply with HOME Program requirements." Close-out monitoring is designed to review state recipients' overall performance and adherence to program requirements through inspecting a sample of their HOME-funded programs or projects. HOME-funded *programs* refer to activities such as helping first-time homebuyers purchase a home while the term *projects* refer to instances such as when HOME funds were used to build housing for low-income individuals. A component of Housing's close-out monitoring review is determining whether state recipients can demonstrate that the HOME funds they received were for allowable activities and costs. Based upon Housing staff's review of a sample of a state recipients' programs or projects, Housing concludes as to whether a state recipient is administering the HOME Program in accordance with federal and state requirements.

However, during fiscal year 2008–09, we noted that Housing did not consistently perform its close-out monitoring reviews in accordance with its policies and procedures. According to Housing, it has not performed any close-out monitoring for nearly three years—July 2007 through December 2009—for state recipients that have completed HOME-funded projects. Housing cited staffing constraints and employee furloughs as the cause for not performing these reviews.

Housing monitors HOME-funded programs differently, setting a goal of reviewing 25 completed programs based on its staff's availability. Although Housing surpassed its goal by reviewing 27 completed programs, it did not always issue finding letters to these state recipients in a timely manner following these reviews. Housing's finding letters represent the formal notification of the results of its close-out monitoring and details for the state recipient the required corrective actions and related deadlines. Housing's contracting manual specifies that Housing will issue such letters within 30 days of the monitoring visit; however, our review of a sample of three of the 27 completed reviews found that Housing did not issue its finding letters timely. Two finding letters were issued 91 and 286 days following the on-site visit. Housing had not yet issued its finding letter for the third site visit in our sample, which as of January 2010, was more than 200 days since this site visit took place in June 2009. As a result of these delays, it is questionable whether Housing is ensuring that these state recipients are taking timely corrective action in response to the problems that Housing identifies during its close-out monitoring reviews.

Questioned Costs

Unknown

Recommendations

Housing should take steps to better ensure that state recipients are spending HOME Program funds on allowable activities and allowable costs. Such steps might include requiring state recipients to periodically submit supporting documentation for the costs they claim, or taking measures to ensure that it performs close-out monitoring in accordance with its own policies and procedures. Further, to ensure state recipients take steps to correct deficiencies that Housing identifies during its close-out monitoring process, Housing should notify state recipients in a timely manner regarding its findings and concerns, required corrective actions, and deadlines for providing written responses.

Department's View and Corrective Action Plan

The Bureau of State Audits' (bureau) report omits mention of the work that HOME already does
1 to ensure that costs are incurred for eligible activities. HOME funds are only disbursed to State recipients when they submit "set-up" documents for every household assisted with HOME funds. Each "set-up" document identifies income and other demographic information on each household. All First Homebuyer projects require the final HUD1 form, which documents that the HOME funds

were disbursed for an eligible cost and eligible activity. Each check request is signed by the authorized representative of the State recipient certifying that all expenses were incurred for eligible HOME expenses. Further, all State recipients must be in full compliance with A-133 reporting requirements to even be eligible for HOME funds. All State recipients that meet the threshold requirements established by A-133 requirement are audited on site by an independent auditor. All findings are forwarded in accordance with State requirements to Housing for follow-up resolution by Housing staff. (2)

As the bureau notes, 27 State recipients receiving HOME Program awards were monitored in the time period analyzed. Housing acknowledges that there were a few instances when the finding letters were not sent in a timely manner.

Housing acknowledges that no State recipients receiving HOME project awards were monitored since July 2007. However, the bureau omits the essential difference between project awards and program awards. Housing's review of project awards is more extensive than it is for program awards, thus significantly reducing the risk of ineligible expenses for project awards versus program awards. This was the reason why HOME management decided to prioritize the monitoring of program awards. (3)

The bureau implies that anything less than monitoring all State recipients is inadequate. Housing disagrees. Housing believes that a system involving risk assessment, to identify the riskiest State recipients, followed by a tiered monitoring approach, involving some desk monitoring and some field monitoring fully meets the federal requirements and, more importantly, reasonably safeguards HOME Program resources. HUD agrees with this approach. (4)

Despite these omissions in the bureau's report, Housing agrees that it should do a more thorough job of monitoring. Therefore, Housing's corrective action plan consists of the following steps.

1. Continue risk assessment of both program and project awards for State recipients. This will be done on an annual basis, with the next assessment done by June 30, 2010.
2. Conduct either desk reviews or site visits, as indicated by the results of the risk assessment, of the highest-risk State recipients with either program or project awards. Housing will not monitor all State recipients, although the risk assessment analysis will take into consideration the extent to which State recipients have never or rarely been monitored. HOME will complete 40 monitoring visits in 2010.
3. Prepare a specific monitoring schedule, of both desk reviews and site visits, annually. The next schedule will be prepared by August 31, 2010.
4. Conduct the monitoring specified in the monitoring schedule. Note: monitoring visits, based on the previous year's risk assessment, will continue in the time remaining until the next risk assessment and monitoring schedule are conducted.
5. Send all finding letters to State recipients within 30 days of the monitoring review, establishing a response deadline, and following up to ensure that the responses are submitted in a reasonable time frame.

Auditor's Comments on Department's View

Housing's response attempts to minimize the effect of it not following its own during-the-award monitoring policies for state recipients. Federal regulations require Housing to conduct such audits and reviews of its state recipients as may be necessary or appropriate to determine whether the state recipient has complied with HOME Program requirements. Housing's contracting manual describes its close-out monitoring process as the way it achieves this. Our finding simply reports that such close-out monitoring is not occurring as described in Housing's policies. Although we have provided additional

perspective on certain points raised in Housing's response in the paragraphs below, ultimately we note that Housing does not dispute the facts of this finding and agrees that it should do a more thorough job of monitoring its state recipients.

1 Housing's response correctly states that the finding omits mention of its "set-up" documentation as a way to ensure that HOME Program costs are incurred for eligible activities. We have intentionally omitted such discussion because it is irrelevant to our finding. Although "set-up" documentation may provide state recipients with information on how they can spend HOME Program funds, these "set-up" documents provide Housing with no assurance that State recipients are actually adhering to HOME Program requirements. Similarly, relying on forms where state recipients self-certify their compliance with HOME Program requirements, such as through a signed check request, provides limited assurance that federal requirements are being met.

2 Housing attempts to minimize its lack of during-the-award monitoring activities by implying that audits of state recipients in accordance with OMB Circular A-133 are adequate. We disagree with such an implication and suggest that if Housing truly believes this to be the case, then it should obtain HUD's concurrence that such an approach is adequate.

3 Housing's response attempts to confuse the issue by discussing programs and projects as opposed to its monitoring responsibilities for state recipients, who may administer both projects and programs on Housing's behalf under the HOME Program. The fact remains that Housing is not following its own policies to ensure state recipients are adhering to HOME Program requirements through its close-out monitoring process.

4 Housing is incorrect when it states that the finding implies that anything less than monitoring all state recipients is inadequate. To clarify, federal regulations—as noted in the criteria section of this finding—provide Housing with the authority to determine how often it should monitor its state recipients. Our audit objective was to identify Housing's during-the-award monitoring process and then determine if such a process was being followed during the audit period.

Reference Number:	2009-7-8
Federal Catalog Number:	14.239
Federal Program Title:	HOME Investment Partnerships Program (HOME Program)
Federal Award Number and Year:	M07-SG-06-0100; 2007
Category of Finding:	Matching; Reporting
State Administering Department:	Department of Housing and Community Development (Housing)

Criteria

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

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

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

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

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

Condition

In our prior-year audit, we reported that Housing lacked adequate internal controls to ensure that it reported accurate matching information to HUD for each year it draws down funds from the U.S. Treasury for HOME Program projects. Specifically, our review of Housing's HOME Program Match Report submitted to HUD during fiscal year 2007–08 revealed that the match liability and contribution data that Housing reported were inaccurate. We identified inconsistencies in the data generated by the database Housing used to track matching activity, and Housing could not provide supporting documentation for some of the amounts it used in determining its match contribution. In response to this finding, Housing had indicated that it would take various steps, including selecting random samples of subrecipients' match reports for comparison to its own computer-generated match report, testing the computer program that generates the match report, and providing further training to its staff.

During our audit for fiscal year 2008–09, we found that although Housing met its match contribution requirement, the amount it reported as its match contribution was not supported by its records. On October 21, 2008, Housing provided HUD with match information for fiscal year 2007–08, reporting that its match liability for that year was approximately $11.8 million, based on the federal funds it had received. Housing also reported that its match contribution for that year was more than $27 million. However, according to the Housing's fiscal program manager for the HOME Program (fiscal manager), the amount of the match contribution should have been approximately $26 million. The cause of this overstatement resulted from Housing's computer system double-counting certain amounts on its match report. The fiscal manager explained that Housing had intended to check the fiscal year 2007–08 match report for double-counting issues similar to what was found in the prior audit, but had not done so. Our review also found that Housing did not accurately categorize the various sources of match—such as cash and the appraised value of contributed land.

Finally, we note that Housing is allowed to consider its excess match amounts from prior fiscal years when reporting its annual match contribution to HUD. Housing's October 21, 2008, match report to HUD indicated that it had more than $140 million in excess match amounts that would be carried over to the next fiscal year. However, to the extent Housing has been overstating its match amounts for prior fiscal years, the excess match amounts it carries forward to future years also is likely overstated.

Questioned Costs

Not applicable.

Recommendations

Housing should conduct a more thorough review of the accuracy of the match report that it submits to HUD, ensuring that its reported match contribution does not reflect the double counting of match amounts and that the sources of match contributions are reported correctly. Finally, Housing should adjust the excess match amounts it carries forward to future years after determining the extent of its annual overstatements.

Department's View and Corrective Action Plan

Housing views this continuing reporting inaccuracy with concern. These problems occur partly because the staff assigned reporting responsibilities have not been able to spend enough time ensuring reporting accuracy because of the high volume of daily work providing service to our customers, maintaining the two central databases, and processing set-up and drawdown documentation. Therefore, Housing will assign overall monitoring responsibility to a Housing specialist, whose primary responsibility will be the coordination of monitoring responsibilities. The 2009–10 reporting cycle will begin soon; therefore, these responsibilities will be assigned by March 31, 2010. The specialist will prepare a detailed reporting corrective action plan by May 31, 2010.

While it is important to have perfect reporting accuracy, Housing believes it is important to note that the degree of inaccuracy is very low, and does not materially affect the performance by Housing in meeting HUD's match requirements.

Auditor's Comments on Department's View

Housing asserts that the degree of inaccuracy in its report is very low. We question how Housing can make such a claim when it has not determined whether its over-reporting of match contributions from prior years would have a material effect on the $140 million in excess match it reported to HUD. As we state in the finding, Housing is able to consider excess match amounts from prior years when reporting its current match contribution. Housing reported that its excess match amount exceeded $140 million in October 2008. Our recommendation that Housing determine the effect of its prior overstatements is intended to ensure that Housing does not rely on an overstated excess match figure when determining whether it met HUD's match requirements.

Reference Number:	2009-12-11
Federal Catalog Number:	14.239
Federal Program Title:	HOME Investment Partnerships Program (HOME Program)
Federal Award Number and Year:	M08-SG-06-0100; 2008
Category of Finding:	Reporting
State Administering Department:	Department of Housing and Community Development (Housing)

Criteria

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

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

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

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

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

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

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

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

Condition

In our prior-year audit, we reported that Housing did not provide the Department of Finance (Finance) with the correct amount of its outstanding loans under the HOME Program, for which affordability requirements continue for five to 20 years. Finance is required to include this information when preparing the Schedule of Federal Assistance. In response to this finding, Housing indicated that it would reconcile its accounting records to its loan records and develop procedures to ensure that new loans are coded correctly in its accounting system.

During our audit for fiscal year 2008–09, we found that Housing reported to Finance that it had more than $82 million in outstanding loans under the HOME Program. However, Housing had not yet completed its reconciliation at the time it reported this information. As a result, the amount included on the Schedule of Federal Assistance has potentially been understated. Housing indicated that it expects to complete its reconciliation by March 31, 2010, and anticipates that the total loan amount at that time will be more than $92 million. Our review also found that Housing developed procedures to ensure that new loans will be recorded accurately in its accounting system.

Questioned Costs

Not applicable.

Recommendation

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

Department's View and Corrective Action Plan

The HOME Program provided all reconciliation information to Housing's Accounting Office on January 31, 2010. Housing had previously reported to the Bureau of State Audit's staff that the reconciliation process would be completed by March 31, 2010. However, now having entered into this process, which is more staff-intensive than originally determined, Housing expects that it will be completed by June 30, 2010.

Reference Number:	2009-12-12
Federal Catalog Number:	14.239
Federal Program Title:	HOME Investment Partnerships Program (HOME Program)
Federal Award Number and Year:	M07-SG-06-0100; 2007
Category of Finding:	Reporting
State Administering Department:	Department of Housing and Community Development (Housing)

Criteria

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

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

Condition

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

During our audit for fiscal year 2008–09, Housing continued to lack adequate internal controls to ensure that all subrecipients who were required to report Section 3 information actually did so. Housing provided guidance to its subrecipients in June 2008, instructing them to provide Section 3 data by mid-August 2008 if they answered yes to a series of questions. Housing's reliance on subrecipients to self-identify whether they needed to report Section 3 data—without independently verifying such information—increases the risk that Housing's report to HUD will be incomplete because subrecipients may mistakenly believe that they are not required to provide Section 3 information. Our review also found that Housing overstated certain information when it provided its Section 3 Summary Report for fiscal year 2007–08 to HUD. Specifically, Housing reported that the number of new Section 3 employees hired during that year was three. However, Housing's records indicated that there was only one such employee. Housing's overstatement resulted from errors that occurred when it compiled information from its subrecipients. According to Housing's fiscal manager for the HOME Program, Housing has begun to identify which subrecipients it expects to report Section 3 data based on its own records. Housing was able to provide us with an example of a new tracking sheet it is using as it prepares to develop its next Section 3 Summary Report.

Questioned Costs

Not applicable.

Recommendation

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

Department's View And Corrective Action Plan

Housing's corrective action plan has been fully implemented for the report submitted by the Bureau of State Audits (bureau) to HUD in September 2009. Nonetheless, to enhance the completeness of the Section 3 information reported to HUD, annually, beginning in fiscal year 2010–11, Housing will

sample approximately 10 percent of those subrecipients that have determined they are not required to submit Section 3 information, to validate that they meet non-reporting criteria. Any subrecipients incorrectly applying for non-reporting criteria will be so notified.

Auditor's Comment on Department's View

Housing's response mistakenly indicates that the bureau submitted the Section 3 report to HUD in September 2009. Housing is responsible for reporting this information.

Reference Number:	2009-12-13
Federal Catalog Number:	14.228
Federal Program Title:	Community Development Block Grants/ State's Program (CDBG)
Federal Award Number and Year:	B-07-DC-06-0001; 2007
Category of Finding:	Reporting
State Administering Department:	Department of Housing and Community Development (Housing)

Criteria

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

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

Condition

In our prior-year audit, we reported that Housing lacked adequate internal controls to ensure the completeness of the Section 3 report that it submits to HUD. Housing did not maintain a central list or tracking system to ensure that it receives Section 3 reports from all applicable subrecipients, and instead relied on the subrecipients to determine whether they met the expenditure threshold that requires them to submit the report on Section 3 activity to Housing. In response to this finding, Housing indicated that it would establish controls to ensure that it obtains and reports the Section 3 activity from all its subrecipients that meet the requirements to report this activity, such as establishing and maintaining a central list or tracking system to independently identify which of its subrecipients meet the requirement to report.

During our audit of fiscal year 2008–09, we noted that Housing submitted its Section 3 report for fiscal year 2007–08 in October 2008. Housing's methodology for preparing this report was substantially similar to the process it followed in the prior fiscal year. Specifically, Housing relied on its subrecipients to determine on their own whether they needed to report Section 3 statistics for inclusion in Housing's report to HUD. As a result, the internal control finding we reported in the prior-year's audit remained uncorrected for fiscal year 2008–09.

Nevertheless, we noted that Housing has taken steps that should improve the quality of its reporting beginning with its report for fiscal year 2008–09, which it submitted to HUD in December 2009. Specifically, we noted that Housing used a computer system to identify those subrecipients that should be providing Section 3 data based on the amounts of their sub-awards. Although we did not review this computer system, nor did we audit the October 2009 report, it nevertheless appears that Housing has taken steps to better ensure the completeness of subsequent Section 3 reports.

Questioned Costs

Not applicable.

Recommendation

Housing should continue to strengthen its internal controls to ensure that it reports complete Section 3 information to HUD.

Department's View and Corrective Action Plan

Housing's corrective action plan has been fully implemented for the report submitted by the Bureau of State Audits (bureau) to HUD in September 2009. Nonetheless, to enhance the completeness of the Section 3 information reported to HUD, annually, beginning in fiscal year 2010–11, Housing will sample approximately 10 percent of those subrecipients that have determined they are not required to submit Section 3 information, to validate that they meet the non-reporting criteria. Any subrecipients incorrectly applying the non-reporting criteria will be so notified.

Auditor's Comment on The Department's View

Housing's response mistakenly indicates that the bureau submitted the Section 3 report to HUD in September 2009. Housing is responsible for reporting this information.

Reference Number:	2009-13-16
Federal Catalog Number:	14.239
Federal Program Title:	HOME Investment Partnerships Program
Federal Award Number and Year:	M08-SG060100; 2008
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Housing and Community Development (Housing)

Criteria

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

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

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

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

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

The Federal Single Audit Act of 1984 as amended by the Single Audit Act Amendment of 1996 and amendments in conjunction with the OMB Circular A-133, defines a pass-through entity as a non-federal entity that provides a federal award to a sub recipient to carry out a federal program.

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

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

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

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

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

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

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

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

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

Condition

Housing did not issue management decisions on audit findings within six months after the State's receipt of a local agency's audit report. The State has established a process whereby local governments submit copies of their OMB Circular A-133 reports to the SCO. The SCO will then distribute copies of each audit report to state entities affected by audit findings. The state entities are responsible for following up on the audit findings related to federal programs. In July 2009 the SCO provided Housing with a listing of five audit findings pertaining to four local agencies, instructing Housing to resolve the audit findings and provide an update on each finding's status by July 28, 2009. The SCO's July 2009 letter did not specify when the State received these audit reports and when Housing's management

decisions were due. In October 2009 the SCO provided an updated list of audit findings, identifying a total of seven findings pertaining to six local agencies. In its October 2009 letter, the SCO provided Housing with information on when the State received the audit reports and when Housing's six-month management decisions were due. However, we noted that the management decisions for two of these findings were already overdue before the SCO sent its October letter in which it provided Housing with the due date information. For the remaining five findings, we noted either that Housing issued timely management decisions or that such decisions were not yet due based on when the State received these audit reports.

Housing also lacks adequate internal controls to ensure that it issues timely management decisions. Although Housing's audit division maintains a tracking spreadsheet for this purpose, we noted that during fiscal year 2008–09 Housing's audit division calculated the six-month period as beginning on the date that Housing received each audit report from the SCO—as opposed to the date on which the SCO first received the report. The lead auditor of Housing's audits division informed us that Housing will implement a new policy change that will reflect the need for Housing to issue management decisions within six months of the dates that SCO receives audit reports from local agencies. Further, Housing plans to work with the SCO to receive the proper date on which the SCO receives each OMB Circular A-133 audit report.

Questioned Costs

Unknown

Recommendation

Housing should coordinate with the SCO to ensure that required management decisions are issued within six months of the State's receipt of a local agency's OMB Circular A-133 audit report.

Department's View and Corrective Action Plan

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

Housing will work with the SCO to resolve findings within six months of the State's receipt of a local agency's A-133 audit report. The SCO has started including the date of receipt with A-133 reports distributed to Housing. The Audit Division will use this date to calculate the due date for issuing management decisions on findings within six months of the receipt of reports by SCO. The Audit Division will provide this due date along with the findings to program staff so they will be aware of the deadline for issuing management letters.

However, to the degree federally required A-133 reports continue to be received by Housing from the SCO without providing Housing sufficient time to process them within the required time limitation, Housing's process improvements alone cannot fully address the timeliness problems identified by the Bureau of State Audits.

Reference Number:	2009-13-17
Federal Catalog Number:	14.228
Federal Program Title:	Community Development Block Grants/ State's Program (CDBG)

Federal Award Number and Year:	B-08-DC-06-0001; 2008
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Housing and Community Development (Housing)

Criteria

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

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

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

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

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

The Federal Single Audit Act of 1984 as amended by the Single Audit Act Amendment of 1996 and amendments in conjunction with the OMB Circular A-133, defines a pass-through entity as a non-federal entity that provides a federal award to a sub recipient to carry out a federal program.

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

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

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

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

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

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

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

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

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

Condition

Housing did not issue management decisions on all audit findings within six months after the State's receipt of a local agency's audit report. The State has established a process whereby local governments submit copies of their OMB Circular A-133 reports to the SCO. The SCO will then distribute copies of each audit report to state entities affected by audit findings. The state entities are responsible for following up on the audit findings related to federal programs. In July 2009 the SCO provided Housing with a listing of 10 audit findings pertaining to six local agencies, instructing Housing to resolve the audit findings and provide an update on each finding's status by July 28, 2009. The SCO's July 2009 letter did not specify when the State received these audit reports and when Housing's management decisions were due. In October 2009 the SCO provided an updated list of audit findings, identifying a total of 13 findings pertaining to nine local agencies. In its October 2009 letter, the SCO provided Housing with information on when the State received the audit reports and when Housing's six-month management decisions were due. However, we noted that the management decisions for three of these findings were already overdue before the SCO sent its October 2009 letter in which it provided Housing with the due date information. For the remaining 10 findings, we noted either that Housing issued timely management decisions or that such decisions were not yet due based on when the State received these audit reports.

Housing also lacks adequate internal controls to ensure that it issues timely management decisions. Although Housing's audit division maintains a tracking spreadsheet for this purpose, we noted that during fiscal year 2008–09 Housing's audit division calculated the six-month period as beginning on the date that Housing received each audit report from the SCO—as opposed to the date on which the SCO first received the report. The lead auditor of Housing's audits division informed us that Housing will implement a new policy change that will reflect the need for Housing to issue management decisions within six months of the dates that SCO receives audit reports from local agencies. Further, Housing plans to work with the SCO to receive the proper date on which the SCO receives each OMB Circular A-133 audit report.

Questioned Costs

Unknown

Recommendations

Housing should coordinate with the SCO to ensure that required management decisions are issued within six months of the State's receipt of a local agency's OMB Circular A-133 audit report.

Department's View and Corrective Action Plan

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

Housing will work with the SCO to resolve findings within six months of the State's receipt of a local agency's A-133 audit report. The SCO has started including the date of receipt with A-133 reports distributed to Housing. The Audit Division will use this date to calculate the due date for issuing

management decisions on findings within six months of the receipt of reports by the SCO. The Audit Division will provide this due date along with the findings to program staff so they will be aware of the deadline for issuing management letters.

However, to the degree federally required A-133 reports continue to be received by Housing from the SCO without providing Housing sufficient time to process them within the required time limitation, Housing's process improvements alone cannot fully address the timeliness problems identified by the Bureau of State Audits.

Reference Number:	2009-14-7
Federal Catalog Number:	14.239
Federal Program Title:	HOME Investment Partnerships Program (HOME Program)
Federal Award Number and Year:	M08-SG-06-0100; 2008
Category of Finding:	Special Tests and Provisions
State Administering Department:	Department of Housing and Community Development (Housing)

Criteria

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

(d) On site inspections—

(1) HOME assisted rental housing. During the period of affordability, the participating jurisdiction must perform on-site inspections of HOME-assisted rental housing to determine compliance with the property standards of Section 92.251 and to verify the information submitted by the owners in accordance with the requirements of Section 92.252 no less than: every three years for projects containing one to four units; every two years for projects containing five to 25 units; and every year for projects containing 26 or more units. Inspections must be based on a sufficient sample of units.

Condition

In our prior-year audit, we identified that the U.S. Department of Housing and Urban Development (HUD) conducted an on-site programmatic review of Housing's HOME Program in August 2008 and found that Housing was accumulating a backlog of unfinished monitoring reviews. Similar to HUD's concern, we reported that Housing did not conduct all of the housing quality standards inspections (inspections) that were due to be completed on Community Housing Development Organizations' rental housing projects (CHDO rental projects). In response to our finding, Housing indicated that it would complete all of the required inspections by June 30, 2010, and indicated that thereafter it would conduct all required inspections every year.

During our audit for fiscal year 2008–09, we noted that Housing's records indicated that it needed to perform 70 inspections of CHDO rental projects over this period. The majority of these required inspections were already overdue at the beginning of the fiscal year, representing Housing's previously discussed backlog. As of January 2010, Housing's records indicated that it was able to complete 35 inspections during fiscal year 2008–09, completing an additional six of these inspections during fiscal year 2009–10. As a result, Housing did not perform inspections for 29 CHDO rental projects,

representing approximately 41 percent of its inspection workload for the fiscal year. According to Housing's records, 47 of the 82 CHDO rental projects that it is currently tracking require annual inspections, and Housing's HOME branch chief (branch chief) acknowledged that the number of CHDO rental projects requiring annual inspections is expected to increase each year.

The branch chief anticipates that Housing's peak workload will come in 2011, when all of the annual and most of the projects requiring an inspection every other year will need to be inspected; he stated that Housing will need to conduct 72 inspections in that year. The branch chief indicated that Housing has hired a manager as well as two additional staff persons expressly for the purpose of meeting its inspection requirements, and indicated that Housing will become compliant with the housing quality standards inspection requirements no later than December 31, 2010.

Without consistently conducting inspections of CHDO rental housing, Housing cannot ensure that CHDO rental projects are in compliance with property standards and cannot ensure that HOME-assisted units in these projects are occupied by eligible low-income families.

Questioned Costs

Unknown

Recommendation

Housing should ensure that it complies with its long-term monitoring policies and federal monitoring obligations.

Department's View and Corrective Action Plan

Housing agrees that these inspections are behind schedule. Housing is actively implementing its plan to do all required inspections by December 31, 2010 (or sooner), and to continue to do all required inspections every year thereafter.

U.S. DEPARTMENT OF JUSTICE

Reference Number:	2009-1-19
Federal Catalog Number:	16.606
Federal Program Title:	State Criminal Alien Assistance Program (SCAAP)
Federal Award Number and Year:	2008-AP-BX-1367; 2008
Category of Finding:	Activities Allowed/Allowable Costs
State Administering Department:	Department of Corrections and Rehabilitation (Corrections)

Criteria

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

(i) Incarceration

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

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

(b) Take the undocumented criminal alien into the custody of the Federal Government and incarcerate the alien.

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

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

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

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

Condition

Corrections submitted ineligible inmate data in its federal fiscal year 2008 application for SCAAP funding. Specifically, Corrections' application included nearly 2,000 duplicate records. Corrections stated that inmates with more than one Alien Registration Number in a valid format may have multiple records in the SCAAP application for the same incarceration period. However, according to a policy advisor from the U.S. Department of Justice, data related to a single inmate should not be submitted as multiple records with different alien numbers. Additionally, we noted that Corrections' SCAAP application included one inmate who was a U.S. citizen and thus was ineligible under SCAAP guidelines. From the 44,760 inmate records that Corrections submitted, we selected a random sample of 29 records and reviewed these records to determine the inmates' citizenship status. For one inmate in our sample, Corrections had information from the federal government that the inmate was a naturalized U.S. citizen. Federal fiscal year 2008 SCAAP guidelines state that applicants may submit

records for inmates who "[w]ere born outside of the United States or one of its territories and had no documented claim to U.S. citizenship." In addition, the guidelines state that "the inmate file reflects the jurisdiction's good faith and due diligence efforts to identify and list undocumented criminal aliens housed in its correctional facilities."

The process that Corrections uses to compile the inmate data file may inappropriately include ineligible inmates. Specifically, the program that Corrections uses to extract data from its databases may inappropriately change the birthplace from a U.S. state or territory to a foreign country for certain inmates. In addition, the program that Corrections uses may inappropriately change an inmate's birthplace to "unknown" when that inmate is identified as both born in the U.S. or one of its territories and as requiring notification of U.S. Immigration and Customs Enforcement before his or her release. Corrections stated that because it does not receive citizenship information for all inmates and does not record citizenship information in any data system, it assumes all foreign born inmates are not U.S. citizens. By making this assumption and by making changes to birthplaces without verifying that the changes are correct, Corrections risks reporting ineligible inmates in the SCAAP application. Although Corrections stated that it changed its program so that it no longer changes the birthplaces from a U.S. state or territory to a foreign country, the change occurred after it submitted its federal fiscal year 2008 SCAAP application.

Questioned Costs

Not applicable.

Recommendations

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

Department's View and Corrective Action Plan

Corrections would like to thank the Bureau of State Audits for its federal compliance audit of SCAAP for the state fiscal year 2008–09. To receive SCAAP funding, Corrections submits records of foreign-born persons in our custody to the United States Immigration and Customs Enforcement agency. During the audit period, Corrections submitted 44,760 records as part of its SCAAP application.

We agree with your recommendation that Corrections should seek guidance from the federal government to ensure we practice due diligence in our SCAAP applications. In fact, we have been working closely with the federal government, including the Policy Advisor for the Bureau of Justice Assistance mentioned in your report, and will continue to do so. We also will work with the United States Immigration and Customs Enforcement to resolve any issues involving their assignment of multiple alien numbers to our inmates, as recommended in your report. While we are confident that we have acted in good faith on this issue since we have presented those multiple alien numbers as part of a single record associated with a single individual, we will continue to work with the federal government to ensure that we are presenting our applications in a manner that complies with federal standards.

We thank you again for this report. We have used our best efforts in good faith to determine SCAAP eligibility and we will continue to work with the federal government to find ways to improve our process for doing so. We welcome your input and look forward to your future efforts to ensure Corrections' compliance with federal guidelines.

U.S. DEPARTMENT OF LABOR

Reference Number:	2009-1-5
Federal Catalog Number:	17.245
Federal Program Title:	Trade Adjustment Assistance (TAA)
Federal Award Numbers and Years:	TA-17843-09-55-A-6; 2008 UI-18009-09-55-A-6; 2008
Category of Finding:	Activities Allowed/Allowable Costs; Eligibility
State Administering Department:	Employment Development Department (EDD)

Criteria

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

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

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

(2) The worker would benefit from appropriate training.

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

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

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

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

Condition

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

In our prior year follow-up, we reported that EDD indicated it made policy and procedure changes, but the changes were not implemented during fiscal year 2007–08. EDD stated that it revised and published the TAA Training Plan, DE-8751, in October 2008 and that the training plan serves as a control document. Additionally, EDD stated that it had procedures in place to randomly monitor TAA document files on a quarterly basis and that the Workforce Services Branch was coordinating with the Compliance and Review Division to develop onsite monitoring of documents during one quarter of every year.

According to EDD, the prior-year audit finding has been fully corrected. Specifically, EDD stated that it revised the TAA Training Plan in September 2008 and developed new TAA monitoring guidelines in July 2009. Because the revised TAA Training Plan and monitoring guidelines were not in place during all of fiscal year 2008–09, we were unable to determine whether this audit finding has been fully corrected.

Questioned Costs

Unknown

Recommendations

EDD should ensure that the policy and procedure changes it recently developed specify what documents should support each of the six conditions for training approval and include a checklist in the Trade Act Manual. Additionally, EDD should ensure that it adheres to its new monitoring guidelines.

Department's View and Corrective Action Plan

EDD revised and published the TAA Training Plan, DE 8751, in September 2008. The training plan serves as a control document.

When completed correctly, the training plan provides justification for TAA eligibility. The training plan instructs specialists to attach applicable documentation to the training plan to support the six criteria for the approval of training. In addition, the training plan requires written justification (documented on the training plan) from TAA specialists that explains how they analyzed the applicable documents to support that the six criteria have been met prior to the approval of training.

The EDD has procedures in place to randomly select and monitor TAA document files on a quarterly basis by TAA program staff in EDD's Central Office. In addition, monitoring guidelines were revised in accordance with the 2009 Act regulations in July 2009.

The revised guidelines include one quarter a year on-site file review of TAA files as agreed to by the U.S. Department of Labor (DOL). The on-site review is in addition to the quarterly review by TAA program staff in EDD's Central Office. On an annual basis, EDD will monitor an additional 20 files more than what is required by the program's federal guidelines.

Reference Number:	2009-8-2
Federal Catalog Number:	17.503
Federal Program Title:	Occupational Safety and Health—State Program
Federal Award Numbers and Years:	SP17734SP9; 2009 60F8-0090; 2008
Category of Finding:	Period of Availability
State Administering Department:	Department of Industrial Relations (Industrial Relations)

Criteria

TITLE 29—LABOR, PART 97—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS, Subpart C—Post-Award Requirements, Section 97.23—Period of Availability of Funds

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

(b) Liquidation of obligations. A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation) to coincide with the submission of the annual Financial Status Report (SF-269). The Federal agency may extend this deadline at the request of the grantee.

TITLE 29—LABOR, PART 97—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS, Subpart A—General, Section 97.3—Definitions

Obligations means the amounts of orders placed, contracts and subgrants awarded, goods and services received, and similar transactions during a given period that will require payment by the grantee during the same or a future period.

Condition

In our prior-year audit, we reported that Industrial Relations lacked adequate controls to ensure that it only charged to the award costs resulting from valid obligations of the funding period and that it liquidated these obligations not later than 90 days after the end of the funding period. The funding period of the federal awards used to partially fund the California Occupational Safety and Health program (program) is from October 1 of one year to September 30 of the next year. Federal regulations require that all obligations be liquidated by December 31 (90 days after the end of the funding period). In our prior-year audit, we reported that Industrial Relations obligated $4,042.79 for federal fiscal year 2007 that were not based on a valid order placed during the funding period. Further, we reported that Industrial Relations liquidated an obligation of $10.42 after the December 31, 2007, deadline.

During our follow-up procedures for fiscal year 2008-09, we found that Industrial Relations had not corrected this finding during the period of our review. Specifically, we identified two charges to the federal fiscal year 2008 award, totaling $37, resulting from obligations Industrial Relations made after the end of the funding period. Thus, valid obligations did not exist during the funding period. Further, Industrial Relations liquidated one of these obligations in January 2009 and the remaining obligation in March 2009, after the December 31, 2008, deadline. Industrial Relations therefore did not comply with federal regulations regarding the period of availability. Although the amounts we identified are small, if Industrial Relations does not establish and adhere to controls that prevent the charging of costs to the wrong funding period, it risks wrongly charging much larger amounts. Further, until November 2009—several months after the end of our review period—Industrial Relations did not develop procedures to ensure that it complies with federal regulations regarding the period of availability. Industrial Relations' revised procedures require staff to submit purchase orders, standard agreements, contracts, and similar documents before September 30 to ensure that the obligations are ordered and expended within the funding period and liquidated before December 31. If properly followed, these procedures will help Industrial Relations ensure that it complies with federal regulations regarding the period of availability.

Questioned Costs

Obligations of $37 for federal fiscal year 2008 that were not made during the funding period.

Recommendation

Industrial Relations should follow its newly established procedures to ensure that it only charges to the award costs resulting from valid obligations of the funding period and that it liquidates these obligations not later than 90 days after the end of the funding period.

Department's View and Corrective Action Plan

Industrial Relations will follow its newly established procedures to ensure that it charges federal grant contracts, purchase orders, subscriptions, and encumbrance lag to the correct funding period of the federal award.

Industrial Relations will ensure that it only charges to the award costs resulting from valid obligations of the funding period and that it liquidates these obligations not later than 90 days after the end of the funding period.

Reference Number:	2009-9-4
Federal Catalog Numbers:	17.207, 17.801, 17.804
Federal Program Title:	Wagner-Peyser Act; Disabled Veterans' Outreach Program (DVOP); Local Veterans' Employment Representative Program (LVER)
Federal Award Numbers and Years:	ES-17548-08-55-A-6; 2008 E-9-5-8-5085; 2008
Category of Finding:	Procurement, Suspension and Debarment
State Administering Department:	Employment Development Department (EDD)

Criteria

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

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

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

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

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

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

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

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

Condition

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

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

Questioned Costs

Not applicable.

Recommendation

EDD should ensure that the policies it recently established address performing the required verifications for suspension and debarment when entering into a contract with a value equal to or more than $25,000.

Department's View and Corrective Action Plan

In February 2009, EDD provided a response stating the following: "EDD has implemented suspension and debarment procedures for goods purchases that fall into the above noted category on Friday, February 13, 2009, through verbal instructions to buyers within EDD."

In September 2009, EDD provided an update stating the following: "On April 14, 2009, EDD updated the desk procedures for buyers to include querying the Excluded Parties List System (EPLS) and printing a copy of the results for the procurement file for all purchases over $25,000. The buyers were verbally instructed as to the procedures on February 13, 2009."

Reference Number:	2009-12-2
Federal Catalog Number:	17.503
Federal Program Title:	Occupational Safety and Health—State Program
Federal Award Numbers and Years:	SP17734SP9; 2009 60F8-0090; 2008
Category of Finding:	Reporting
State Administering Department:	Department of Industrial Relations (Industrial Relations)

Criteria

TITLE 29—LABOR, CHAPTER XVII—OCCUPATIONAL SAFETY AND HEALTH ADMINISTRATION, DEPARTMENT OF LABOR, PART 1954—PROCEDURES FOR THE EVALUATION AND MONITORING OF APPROVED STATE, Subpart B—State Monitoring Reports and Visits to State Agencies, Section 1954.10—Reports From the States

(a) In addition to any other reports required by the Assistant Secretary under sections 18(c)(8) and 18(f) of the Act and 1902.3(1) of this chapter; the State shall submit quarterly and annual reports as part of the evaluation and monitoring of state programs.

Special provisions outlined in the federal award include a financial report with the following frequency:

F2. Financial Status Report (SF-269) is due 30 days after the end of each Federal Fiscal Quarter with the close-out report due 90 days after the end of the performance period.

(b) Close-out Reporting. All agreements must be closed 90 days after the end of the performance period (generally December 31). The final financial reports must be submitted by December 31.

Condition

In our two prior audit reports, we reported that Industrial Relations had submitted an inaccurate closeout report for the 2006 and 2007 federal awards associated with the California Occupational Safety and Health Program (program). Specifically, in its closeout report for the 2006 federal award, Industrial Relations reported it spent the entire federal fiscal year 2006 award of $23.1 million and had no unliquidated obligations. However, based on data from its accounting records, Industrial Relations actually had $360,000 in unliquidated obligations at the end of December 2006. In its 2007 federal fiscal year closeout report, Industrial Relations reported that it had nearly $316,000 in obligations that were unliquidated and that would be paid fully with state funds. However, we reported that it did not provide accounting records to demonstrate that the unliquidated obligations were paid with state funds.

During our follow-up procedures for fiscal year 2008–09, we found that Industrial Relations had not fully corrected this finding. Specifically, on its 2008 federal fiscal year closeout report, Industrial Relations reported the federal share of net outlays as $22.6 million, which was the total amount of its 2008 federal award. In the "Remarks" section of the report, Industrial Relations reported that it had roughly $233,000 in obligations that were unliquidated and that would be paid fully with state funds. Industrial Relations was able to provide accounting records to support its total outlays, program income, and how it arrived at the roughly $233,000 in unliquidated obligations. However, Industrial Relations could only provide accounting records demonstrating that approximately $187,000 of the $233,000 in unliquidated obligations was paid with state funds. Thus, we are unable to verify that federal funds were not used to pay for about $46,000 in unliquidated obligations and that Industrial Relations has provided accurate information to the U.S. Department of Labor regarding this issue.

Questioned Costs

Not applicable.

Recommendation

Industrial Relations should ensure that it retains adequate documentation to support the information it submits on its SF-269 with the appropriate accounting records.

Department's View and Corrective Action Plan

Industrial Relations will ensure that it retains adequate documentation to support the information it submits on its SF-269 with the appropriate accounting records. The amount of unliquidated obligations on its SF-269 will be based on the D16 Report, the Document Report for SCO Reconciliation, and not on the F01 Report, the Summary of Project Revenues & Expenditures.

Reference Number:	2009-12-3
Federal Catalog Number:	17.245
Federal Program Title:	Trade Adjustment Assistance (TAA)
Federal Award Numbers and Years:	TA-17843-09-55-A-6; 2008 UI-18009-09-55-A-6; 2008
Category of Finding:	Reporting
State Administering Department:	Employment Development Department (EDD)

Criteria

TITLE 20—EMPLOYEES' BENEFITS, PART 617—TRADE ADJUSTMENT ASSISTANCE FOR WORKERS UNDER THE TRADE ACT OF 1974, Subpart B—Trade Readjustment Allowances (TRA), Section 617.19—Requirement for Participation in Training

(d) Recordkeeping and reporting.

(1) State agencies must develop procedures for compiling and reporting on the number of waivers issued and revoked, by reason, as specified in paragraphs (b) and (c) of this section, and report such data to the Department of Labor as requested by the Department.

TITLE 20—EMPLOYEES' BENEFITS, PART 617—TRADE ADJUSTMENT ASSISTANCE FOR WORKERS UNDER THE TRADE ACT OF 1974, Subpart G—Administration by Applicable State Agencies, Section 617.57—Recordkeeping; Disclosure of Information

(a) Recordkeeping.

Each State agency will make and maintain records pertaining to the administration of the Act as the Secretary requires and will make all such records available for inspection, examination and audit by such Federal officials as the Secretary may designate or as may be required by law. Such recordkeeping will be adequate to support the reporting of TAA activity on reporting form ETA 563 approved under OMB Control Number 1205-0016.

TITLE 20—EMPLOYEES' BENEFITS, PART 617—TRADE ADJUSTMENT ASSISTANCE FOR WORKERS UNDER THE TRADE ACT OF 1974, Subpart G—Administration by Applicable State Agencies—Section 617.61—Information, Reports, and Studies

A State agency shall furnish to the Secretary such information and reports and conduct such studies as the Secretary determines are necessary or appropriate for carrying out the purposes of the Act and this Part 617.

TRAINING AND EMPLOYMENT GUIDANCE LETTER NUMBER 23-06, Subject: Instructions for Implementing the Revised ETA-563 Trade Adjustment Assistance (TAA) Quarterly Activities Report

5. Action Required: State Administrators are required to provide the above information to appropriate staff. State Trade Act Coordinators (or the individuals assigned responsibility for submitting reports) are required to prepare and submit quarterly reports according to the instructions attached to this advisory [TEGL 23-06]

Condition

In our fiscal year 2006–07 audit report, we reported that EDD lacked controls to ensure the accuracy of the data in the Employment Training Administration 563 report (ETA-563 report) that it submits to the U.S. Department of Labor (Federal Labor). We found that the ETA-563 report that EDD submitted to Federal Labor for the quarter ending June 30, 2007, did not comply with Federal Labor's instructions for reporting training costs and participants, that EDD could not demonstrate the accuracy and completeness of the information it received from its field offices, and that EDD underreported the number of training waivers issued because of an error in summarizing data from its Unemployment Insurance Division's Special Claims Office.

Our current-year follow-up procedures consisted of confirming whether and when EDD established controls to ensure the accuracy of the data in the ETA-563 report it submits to Federal Labor. To address this finding and to increase reporting accuracy, EDD stated that it eliminated its practice of using three separate data systems to complete the ETA-563. In February 2010, EDD intends to submit its first ETA-563 report for the October/December 2009 quarter using data only from the Job Training Automation System (JTA). However, because EDD did not begin to implement this change until October 2009, this finding remained uncorrected for the 2008–09 fiscal year.

Questioned Costs

Not applicable.

Recommendations

EDD should review Federal Labor's instructions for completing the ETA-563 report and establish controls that include, at a minimum, supervisory review and approval of the data contained in the ETA-563 report that it submits to Federal Labor.

Department's View and Corrective Action Plan

Federal Labor consolidated the Trade Act Participant Report (TAPR) and ETA-563 report into one report, as outlined in Training and Employment Guidance Letter (TEGL) 06-009 dated September 2009.

EDD has consolidated the ETA-563 report into its JTA as of the October–December 2009 quarter to ensure adequate control of data and report accuracy. In addition, the consolidated report complies with federal guidelines outlined in the TEGL 06-009. The first consolidated JTA/ETA 563/TAPR report will be submitted to Federal Labor in February 2010, as outlined in the TEGL.

Reference Number:	2009-12-4
Federal Catalog Number:	17.245
Federal Program Title:	Trade Adjustment Assistance (TAA)
Federal Award Numbers and Years:	TA-17843-09-55-A-6; 2008 UI-18009-09-55-A-6; 2008
Category of Finding:	Reporting
State Administering Department:	Employment Development Department (EDD)

Criteria

TITLE 20—EMPLOYEES' BENEFITS, PART 617—TRADE ADJUSTMENT ASSISTANCE FOR WORKERS UNDER THE TRADE ACT OF 1974, Subpart G—Administration by Applicable State Agencies, Section 617.61—Information, Reports, and Studies

A State agency shall furnish to the Secretary such information and reports and conduct such studies as the Secretary determines are necessary or appropriate for carrying out the purposes of the Act and this Part 617.

EMPLOYMENT AND TRAINING ADMINISTRATION, OMB Control Number 1205-0392, Trade Act Participant Report (TAPR): General Reporting Instructions and Specifications, Revised 2006

1. GENERAL INSTRUCTIONS

   States are required to maintain standardized individual records containing characteristics, activities, and outcomes information for all individuals who receive services or benefits financially assisted by the Trade Adjustment Assistance (TAA) program (Trade Adjustment Assistance Reform Act of 2002 (P.L. 107-210) 20 CFR 617.57 and 617.61).

   These individual records are collectively known as the Trade Act Participant Report (TAPR).

Condition

In our fiscal year 2006–07 audit, we reported that EDD's TAPR for the first calendar quarter of 2007 contained errors. Specifically, we found that the TAPR included information on participants who exited the program in the fourth calendar quarter of 2005, that wage data for the "first quarter following exit" line item for one participant was underreported by $4,500, and that the TAPR included instances in which participants who had wages were reported as not having wages in the "third quarter following exit" line item.

Our current-year follow-up procedures related to confirming whether and when EDD established adequate controls to ensure that it uses the appropriate data to prepare the TAPR. According to EDD, it consolidated all TAA performance data into its Job Training Automation system as of July 1, 2008, and it submitted its first report to the U.S. Department of Labor (Federal Labor) using the consolidated data for the October/December 2008 quarter. EDD stated that the consolidation helps ensure the accuracy of the data captured for the quarterly TAPR. However, because EDD did not begin to implement this change until October 2008, this finding remained uncorrected for the 2008–09 fiscal year.

Questioned Costs

Not applicable.

Recommendation

EDD should ensure that it uses the appropriate data to prepare the TAPR.

Department's View and Corrective Action Plan

The TAPR report was consolidated into the Job Training Automation System (JTA) as of July 1, 2008, to ensure adequate control of data and report accuracy. The first JTA/TAPR report was submitted for the October-December 2008 quarter.

Federal Labor consolidated the TAPR and Employment Training Administration 563 report (ETA-563 report) into one report, as outlined in the Training and Employment Guidance Letter (TEGL) 06-009 dated September 2009. EDD revised its JTA/TAPR report to comply with the federal guidelines outlined in TEGL 06-009. The first consolidated JTA/ETA-563/TAPR report will be submitted to Federal Labor in February 2010, as outlined in the TEGL.

Reference Number:	2009-13-7
Federal Catalog Numbers:	17.258, 17.259, 17.260
Federal Program Title:	Workforce Investment Act (WIA) Adult Program, WIA Youth Activities, WIA Dislocated Workers
Federal Award Number and Year:	AA-17110-08-A-6; 2008
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Employment Development Department (EDD)

Criteria

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

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

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

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

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

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

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

(2) The State monitoring system must:

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

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

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

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

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

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

Condition

EDD allots WIA funds to both Local Workforce Investment Areas (LWIAs) and non-Local Workforce Investment Areas (non-LWIAs) for use in a range of workforce development activities. However, during the past two fiscal years, EDD has only conducted the required monitoring for LWIAs. The purpose of the WIA is to promote an increase in the employment, job retention, earnings, and occupational skills of participants. LWIAs include both cities and counties, and non-LWIAs include Community Based Organizations (CBOs) and various state entities, including the California Department of Corrections and Rehabilitation and the California Community Colleges Chancellor's Office. For fiscal year 2008–09, EDD allocated more than $320 million to 49 LWIAs and $41 million to 51 non-LWIAs for these workforce development activities. Further, the American Recovery and Reinvestment Act of 2009 (Recovery Act) authorized an additional $388 million that was allocated to LWIAs in April 2009 and $6 million that was allocated to non-LWIAs in June 2009.

In our prior-year federal compliance audit, we reported that EDD did not monitor any CBOs. During our follow-up procedures for fiscal year 2008–09, we found that EDD has not fully corrected this finding. Specifically, although EDD's Compliance Monitoring Section (CMS) monitored all LWIAs, monitoring was performed at only five of the non-LWIAs. Because of the failure to conduct the required monitoring of all non-LWIAs, EDD cannot ensure that non-LWIAs are complying with federal laws, regulations, and provisions of grant agreements. The U.S. Office of Management and Budget Circular A-133 Compliance Supplement requires that pass-through entities such as EDD monitor the activities of subrecipients to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. Additionally, federal regulations require that the State monitoring system provide for annual on-site monitoring reviews of local areas' compliance with the U.S. Department of Labor's uniform administrative requirements.

This finding relates to expenditures made prior to the enactment of the Recovery Act. However, if EDD does not correct this internal control deficiency, Recovery Act expenditures will not be adequately monitored. According to the CMS chief (chief), the failure to monitor all non-LWIAs is due to the lack of available staff. EDD has received Recovery Act funds that it plans to use for four new positions, and it is currently making efforts to fill them. Once these new staff members are in place, the chief stated that EDD plans to schedule annual onsite reviews of all non-LWIAs. Additionally, according to the chief, because non-LWIAs and LWIAs did not receive Recovery Act funds until late in fiscal year 2008–09, the CMS began monitoring the use of Recovery Act funds during fiscal year 2009–10 for both LWIAs and non-LWIAs. According to the chief, the four new positions currently have limited terms, and they are solely funded by the Recovery Act. In order to ensure that these positions become permanent when Recovery Act funds run out, the CMS plans to request permanent positions during the fiscal year 2009–10. However, the CMS previously made similar requests but was unsuccessful in getting approval for additional positions. If these positions do not become permanent, EDD will once again risk inadequate monitoring of WIA recipients due to lack of available staff. Further, if EDD does not monitor all LWIAs and non-LWIAs, it cannot effectively oversee the expenditure of Recovery Act funds.

Questioned Costs

Not applicable.

Recommendation

EDD's CMS should implement a more effective during-the-award monitoring process to ensure that all recipients of WIA funds use federal funds for authorized purposes.

Department's View and Corrective Action Plan

EDD agrees with the value of maintaining an effective during-the-award monitoring process that includes on-site monitoring reviews. As noted, we were previously unable to complete on-site reviews of all community-based organizations due to staffing limitations. Accordingly, EDD has already hired additional staff and, after completing their training, will start conducting the remaining monitoring reviews in February 2010. We expect to complete monitoring reviews of all community-based organizations by the end of 2010.

On-site reviews are one important component of EDD's overall monitoring effort for Workforce Investment Act funding. In addition, each community-based organization has either a project manager or a regional advisor assigned by the Workforce Services Division who visits the organization on a regular basis and ensures it carries out the duties and responsibilities contained in its contract.

Reference Number:	2009-14-2
Federal Catalog Number:	17.225
Federal Program Title:	Unemployment Insurance (UI)
Federal Award Numbers and Years:	UI180090955A6; 2008 UI167350855A6; 2007
Category of Finding:	Special Tests and Provisions
State Administering Department:	Employment Development Department (EDD)

Criteria

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

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

Condition

EDD's financial management systems do not allow EDD to separately identify and report on Recovery Act funds expended for certain benefits paid under the UI program. OMB *Circular A-133 Compliance Supplement* dated June 2009 regarding special tests and provisions for awards with American Recovery and Reinvestment Act of 2009 (Recovery Act) funding indicates that the financial management system must permit the preparation of required reports and the tracing of funds adequate to establish that funds were used for authorized purposes and allowable costs. Additionally, according to a Program Letter provided by the U.S. Department of Labor (Federal Labor), some unemployment benefit payments should be reported separately on its Employment and Training Administration (ETA) 2112 report as Recovery Act expenditures. However, EDD's financial management systems do not separately identify Recovery Act funds from non-Recovery Act funds.

During fiscal year 2008–09, the UI program expended $14.5 billion, which included both Recovery Act and non-Recovery Act funds. Of the several types of unemployment benefit programs, the Emergency Unemployment Compensation (EUC), Federal-State Extended Benefits (Fed-Ed), and Federal Additional Compensation (FAC) programs expended Recovery Act funds. FAC, which increased all benefit payments (including regular unemployment insurance) by $25 a week, is entirely funded through the Recovery Act. However, EDD cannot currently identify what portion of the total expenditures shown for Fed-Ed and EUC program benefits were paid for with Recovery Act funds.

In fiscal year 2008–09, EDD spent $255 million for Fed-Ed program benefits, an unknown portion of which was funded by the Recovery Act. Fed-Ed provides up to 20 additional weeks of UI benefits. The Recovery Act provides that such benefits are paid fully by the Federal government except benefits paid to claimants whose eligibility for UI benefits was based on prior employment with state and local governments or federally recognized Indian Tribes. Further, in fiscal year 2008–09, EDD spent $3.7 billion under EUC in program benefits, an unknown portion of which was funded by the Recovery Act. EUC provides up to 34 additional weeks of UI benefits to claimants. EUC existed before the enactment of the Recovery Act; however, the act extended the benefits paid under the program.

The manager of the general ledger unit (manager) acknowledged that EDD cannot currently separately identify Recovery Act fund expenditures for either the EUC program or the Fed-Ed program because its financial management systems do not allow it to identify the total dollar amount of benefit payments authorized by the Recovery Act and paid to claimants. However, the manager also noted that EDD is in the process of updating its systems so that it can identify this information, and the manager added that once EDD has completed the update of its financial management systems, it will amend the financial reports submitted to Federal Labor. Until EDD has completed the necessary program changes, it cannot maintain records that identify the source and application of Recovery Act funds or separately identify the expenditures of federal awards under the Recovery Act on the Schedule of Expenditures of Federal Awards, as required by federal law.

Questioned Costs

Not applicable.

Recommendation

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

Department's View and Corrective Action Plan

EDD agrees with our recommendation. According to the manager, EDD hopes to complete the update of its financial management systems by March 2010.

U.S. DEPARTMENT OF TRANSPORTATION

Reference Number:	2009-1-9
Federal Catalog Number:	20.205
Federal Program Title:	Highway Planning and Construction
Federal Award Numbers and Years:	N4520.201; 2009 N4510.705; 2009 N4520.196; 2008
Category of Finding:	Activities Allowed/Allowable Costs; Subrecipient Monitoring
State Administering Department:	Department of Transportation (Caltrans)

Criteria

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

Appendix A to Part 225—General Principals for Determining Allowable Costs

C. Basic Guidelines

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

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

2. Reasonable costs. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances . . . In determining reasonableness of a given cost, consideration shall be given to:

   a. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the Federal Award.

   b. The restraints or requirements imposed by such factors as: Sound business practices; arm's-length bargaining; Federal, State and other laws and regulations; and, terms and conditions of the Federal award

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

TITLE 49—TRANSPORTATION, PART 18—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS, Subpart C—Post Award Requirements, Section 18.40—Monitoring and Reporting Program Performance

(a) Monitoring by Grantees. Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements

Condition

In 1992 the U.S. Department of Transportation–Federal Highway Administration (FHWA) delegated to Caltrans the responsibility for the authorization and oversight of certain federally funded projects, such as projects not located on the National Highway System. For state-authorized projects that are

developed and administered by local agencies, Caltrans agreed to provide the necessary review and oversight to assure compliance with federal requirements. Working under this delegated authority, Caltrans provided more than $1 billion in federal funds to local agencies during fiscal year 2008–09.

However, during this period, Caltrans lacked adequate internal controls to ensure that its progress payments—payments made while a project is ongoing—to local agencies were reasonable per the federal guidance described in U.S. Office of Management and Budget (OMB) Circular A-87. Specifically, Caltrans' procedures for approving progress payments did not consider or evaluate whether the costs that local agencies claimed were necessary or reasonable in relation to the work performed. Caltrans' Local Assistance Procedures Manual requires local agencies to submit their progress invoices directly to Caltrans' Local Program Accounting Branch for processing and reimbursement. According to Caltrans' chief of the Division of Local Assistance, Caltrans' accounting staff do not review local agency progress invoice packages to determine whether the costs claimed meet federal eligibility requirements, and do not verify that the work actually performed was consistent with the funds invoiced. Instead, according to Caltrans' procedures, accounting staff review other aspects of the progress invoices, such as reviewing them for mathematical accuracy and verifying that local agencies were not seeking reimbursement for costs incurred prior to the authorization of the work. Caltrans does not make a determination as to whether a project's costs are reasonable based on the work performed until a District Local Assistance Engineer—the Caltrans engineer in each district responsible for providing services and assistance to local agencies—reviews the completed project and determines whether the local agency needs to return any funds that Caltrans had provided previously.

In September 2008, FHWA concluded a review of Caltrans' local assistance program and recommended that Caltrans consider having its district staff copied on the progress invoices to review project status and the eligibility of pay items. In response to FHWA's concerns, Caltrans changed its policy effective September 1, 2009, requiring engineers at the district offices to ensure that the work claimed on progress invoices was actually performed and eligible for reimbursement.

Questioned Costs

Unknown

Recommendation

Caltrans should continue to implement its September 2009 policy requiring district engineers to ensure that work was actually performed and eligible for federal reimbursement.

Department's View and Corrective Action Plan

Caltrans will continue to implement its September 2009 policy requiring district engineers to review and approve all progress invoices prior to payment. Caltrans Accounting will not pay progress or final invoices until the district engineers approve them.

Reference Number:	2009-13-12
Federal Catalog Number:	20.205
Federal Program Title:	Highway Planning and Construction
Federal Award Numbers and Years:	N4520.201; 2009 N4510.705; 2009 N4520.196; 2008
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Transportation (Caltrans)

Criteria

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

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

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

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

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

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

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

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

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

2. The SCO will coordinate single audit compliance with local governments.

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

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

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

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

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

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

Condition

During-the-Award Monitoring

The U.S. Department of Transportation–Federal Highway Administration (FHWA) entered into an agreement with Caltrans in 1992, delegating to Caltrans the responsibility for authorizing and overseeing certain projects funded under the Highway Planning and Construction Program. For state-authorized projects that are developed and administered by local agencies, such as cities and counties, Caltrans agreed to provide the necessary review and oversight to assure compliance with federal requirements. According to Caltrans' *Local Assistance Procedures Manua*l, which has been approved by FHWA, Caltrans states that it will use process reviews as the main method for determining if local agencies are in compliance with all federal-aid laws, regulations, and procedures. Process reviews are designed to be topic-oriented, such as focusing on whether a sample of local agencies have complied with the Americans with Disabilities Act or construction contractor payment requirements. The number of process reviews that Caltrans expects to perform is documented in an annual monitoring plan that is approved by Caltrans' Process Review Committee. During fiscal year 2008–09, Caltrans' annual monitoring plan identified seven process reviews.

Caltrans did not complete any of the process reviews listed on its monitoring plan and expects to issue a report on one of these seven reviews in January 2010. The chief of Caltrans' Local Assistance Division acknowledged that Caltrans did not conduct all of the process reviews according to its plan, explaining that Caltrans staff who were dedicated to performing the process reviews are now assisting other external agencies, such as FHWA and the Government Accountability Office (GAO), with their own performance reviews. Nevertheless, FHWA has an expectation that Caltrans conduct the process reviews according to its annual monitoring plan. In September 2008, FHWA completed a review of Caltrans' oversight activities for local agencies, concluding the following: "From 2005 through 2007, eleven process reviews were conducted, ten of which were initiated by FHWA. The gap in initiating and conducting reviews from 2004 on does not adequately provide verification that federal requirements are being met." FHWA recommended that Caltrans reassess its entire oversight process and methods for determining and verifying compliance and develop a comprehensive oversight action plan.

Subrecipient Audits

Caltrans did not issue management decisions on audit findings within six months after the State's receipt of a local agency's audit report. The State has established a process whereby local governments submit copies of their OMB Circular A-133 reports to the State Controller's Office (SCO). The SCO will then distribute copies of each audit report to state entities affected by the audit findings. The state entities are responsible for following up on the audit findings related to federal programs. In July 2009, the SCO provided Caltrans with a listing of 13 audit findings pertaining to 10 local agencies, instructing Caltrans to resolve the audit findings and provide an update on each finding's status by July 28, 2009. The SCO's July 2009 letter did not specify when the State received these audit reports and when Caltrans' management decisions were due. In October 2009, the SCO provided an updated list of audit findings, identifying a total of 27 findings pertaining to 21 local agencies. In its October 2009 letter, the SCO provided Caltrans with information on when the State received the audit reports and when Caltrans' six-month management decisions were due. However, we noted that the management decisions for 10 of these findings were already overdue before the SCO sent its October letter in which it provided Caltrans with due date information.

On November 3, 2009, Caltrans' chief of External Audits confirmed that Caltrans had not issued management decisions on any of the 27 findings, explaining that she expects such decisions to be issued in January 2010, six months after the SCO's initial July notification. As a result, Caltrans is late in issuing management decisions on 12 of the 27 findings—findings where the management decision due date preceded November 3, 2009. The chief of External Audits informed us that Caltrans will implement a new policy change reflecting the need to issue management decisions within six months of SCO receiving the report by the end of 2009 and is currently drafting policies that reflect this change.

Questioned Costs

Unknown

Recommendations

During-the-Award Monitoring

Caltrans should either take steps to ensure that it completes all of the process reviews outlined in its annual monitoring plan or work with FHWA to establish reasonable expectations for the performance of such reviews.

Subrecipient Audits

Caltrans should coordinate with the SCO to ensure that required management decisions are issued within six months of the State's receipt of a local agency's OMB Circular A-133 audit report.

Department's View and Corrective Action Plan

During-the-Award Monitoring

Although Caltrans did not complete the process reviews listed on its monitoring plan, it did perform some process-review activities. When Caltrans' Local Assistance Procedure Manual was written, FHWA was not conducting any process reviews. Subsequently, FHWA began conducting process reviews, and Caltrans participated in many of them instead of performing separate reviews. For the performance of future process reviews, Caltrans will work with the FHWA to establish reasonable expectations and establish a new plan. In addition, Caltrans will update the Local Assistance Procedure Manual to reflect the process-review changes.

Subrecipient Audits

As the State's single audit clearinghouse, SCO receives and distributes local government single audit reports to State agencies, such as Caltrans. In July 2009, SCO notified State agencies that single audits would no longer be subject to an SCO review process prior to distribution. This change inprocess by SCO was made to ensure State agencies, such as Caltrans, would be able to comply with the six-month requirements of OMB, Circular A-133. Caltrans will continue to coordinate with SCO and will establish new policy and process changes accordingly.

U.S. DEPARTMENT OF VETERANS AFFAIRS

Reference Number:	2009-1-8
Federal Catalog Number:	64.005
Federal Program Title:	Grants to States for Construction of State Home Facilities
Federal Award Number and Year:	06-044; 2007
Category of Finding:	Activities Allowed/Allowable Costs, Matching
State Administering Department:	California Department of Veterans Affairs (Veterans Affairs)

Criteria

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

C. Basic Guidelines

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

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

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

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

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

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

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

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

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

   i. Be the net of all applicable costs.

   j. Factors affecting allowability of costs. To be allowable under Federal awards, costs must Be adequately documented.

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

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

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

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

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

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

Condition

Although Veterans Affairs is responsible for adminstering this program, the Department of General Services (General Services) acts as project manager for the construction and renovation of veterans homes and is responsible for contracting for construction of the homes. Veterans Affairs reimburses General Services for costs related to the construction and renovation work. During our review, we found that General Services could not always demonstrate that its inspectors reviewed pay requests from construction contractors. According to a General Services project director, a contractor is required to have work inspected before that work can be considered for payment. The project director stated that General Services inspectors, as well as construction and project management, review the contractor payment requests in accordance with the work performed to date and approve or modify payment accordingly.

However, we found that two of the six payment requests we reviewed did not contain the inspector's signature or any other indication that an inspection had occurred to verify that the contractors' work had been completed. Both of these payments related to a single veterans home project. The project director for this veterans home stated that in the past, the payment request form had a field in which the inspector would sign but that the field was removed when the form was revised. As a result, the project director stated that she assumed that the inspector's signature was no longer required, and therefore she did not require inspectors to sign the payment requests. The project director also confirmed that no other documentation confirms that inspections occurred. In fact, General Services' policy and guidelines manual states that an inspector's signature is desirable but not required to authorize payment. Consequently, we were unable to confirm that General Services performed an inspection prior to authorizing payments for this veterans home.

Additionally, for one of the six pay requests we reviewed, General Services was unable to provide documentation that detailed the completed tasks for which a contractor was paid. Without this documentation, we were unable to determine whether the payment, which totaled $1.4 million, was for allowable costs. Further, because the State uses its funds to pay a portion of the expenditures, the lack of documentation also prevents the State from demonstrating compliance that its matching funds were for allowable costs.

Veterans Affairs has not developed written policies and procedures for this program, including procedures for its oversight and monitoring of General Services to ensure compliance with applicable federal requirements related to the program. When we informed Veterans Affairs of our concerns, the assistant deputy secretary who oversees the program stated that he was not aware of these issues. The assistant deputy secretary stated that Veterans Affairs only receives summary-level information about General Services' expenditures for the veterans homes projects. The assistant

deputy secretary agreed with our concern regarding the inspectors' not documenting their reviews and concurred that Veterans Affairs needs to increase its oversight of General Services' process and procedures to ensure that contractors are completing the work for which they seek payment.

Questioned Costs

Unknown

Recommendations

Veterans Affairs should develop written policies and procedures for the program, including procedures for its oversight and monitoring of General Services to ensure compliance with applicable federal requirements. Specifically, Veterans Affairs should include procedures that increase its oversight and monitoring of General Services to ensure that the State can demonstrate that required inspections of the construction contractors' work occur before approval of payment. Veterans Affairs' oversight and monitoring should also ensure that it communicates to General Services the importance of retaining supporting documentation for all contractor payments.

Department's View and Corrective Action Plan

Veterans Affairs does not disagree with the findings.

- Veterans Affairs has had preliminary discussions with General Services to review the rule to ensure that all future projects (Redding and Fresno Veterans Homes which are currently underway) related to the Federal Construction Grant Program have required documentation and approval prior to official payment being made.
- As a component of future established policies and procedures, Veterans Affairs plans to formally provide General Services with every official grant application an entire list of requirements required of the United States Veterans Administration.
- Procedures will request verification by General Services that the Inspector of Record is approving all pay requests and that all pay requests include supporting documentation.
- Veterans Affairs Capital Assets and Facilities Management staff will request periodic reviews of pay requests to ensure procedures are being followed.

Reference Number:	2009-4-1
Federal Catalog Number:	64.005
Federal Program Title:	Grants to States for Construction of State Home Facilities
Federal Award Numbers and Years:	06-059; 2008 06-044; 2007 06-048; 2004
Category of Finding:	Davis-Bacon Act
State Administering Department:	California Department of Veterans Affairs (Veterans Affairs)

Criteria

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

(a) The Agency head shall cause or require the contracting officer to insert in full in any contract in excess of $2,000 which is entered into for the actual construction, alteration, and/or repair, including painting and decorating, of a public building or public work, or building or work financed in whole or in part from Federal funds or in accordance with guarantees of a Federal agency or finance from funds obtained by pledged of any contract of a Federal agency or financed from funds obtained by pledge of any contract of Federal agency to make a loan, grant or annual contribution (except where a different meaning is expressly indicated), and which is subject to the labor standards provisions of any of the acts listed in Section 5.1, the following clauses (or any modifications thereof to meet the particular needs of the agency, provided, that such modifications are first approved by the Department of Labor):

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

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

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

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

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

Condition

Although Veterans Affairs is responsible for adminstering this program, the Department of General Services (General Services) acts as project manager for the construction and renovation of veterans homes and is responsible for contracting for construction of the homes. However, General Services did not include the required clauses in the construction contracts related to the requirements of the Davis-Bacon Act (Davis-Bacon), nor did it collect the weekly payrolls and certifications from the contractors, as required. A project director stated that General Services believed that the only Davis-Bacon provisions it was required to follow were including in the contracts federal prevailing wage rates and ensuring that a contracted construction manager received monthly payroll information. Without ensuring that General Services includes all of the required contract language and collects weekly payrolls and certifications as required, Veterans Affairs does not have reasonable assurance that appropriate wages are paid to construction laborers and that consequently it is complying with federal requirements.

The assistant deputy secretary at Veterans Affairs who oversees the veterans homes construction program stated that he had been in his current position for less than a year and was unaware to what extent federal requirements were communicated to General Services at the beginning of the project,

but was told that General Services was informed of all applicable federal requirements. However, because Veterans Affairs has not established written policies and procedures to communicate formally all Davis-Bacon requirements, it could not demonstrate what it had communicated. The assistant deputy secretary stated that Veterans Affairs would ensure that the required language would be amended in existing construction contracts and that such language will be incorporated into the construction contract language for future veterans home projects.

Questioned Costs

Not applicable.

Recommendations

Veterans Affairs should ensure that it establishes written policies and procedures to communicate formally to General Services all applicable Davis-Bacon requirements so that General Services can comply with these requirements. Additionally, Veterans Affairs should ensure that General Services amend existing contracts to include required Davis-Bacon contract language and incorporate the required language into future construction contracts. Finally, Veterans Affairs should ensure that General Services collects the weekly payrolls and certifications, as required by federal regulations.

Department's View and Corrective Action Plan

Veterans Affairs does not disagree with the findings of the Bureau of State Audits.

- Veterans Affairs has had preliminary discussions with General Services to ensure all future contracts (Redding and Fresno Veterans Homes which are currently underway) include Davis-Bacon contract language as well as weekly payroll and certification as required by federal regulations.
- As a component of future established policies and procedures, with every official federal grant award, Veterans Affairs will formally provide General Services the list of program requirements required of the United States Veterans Administration Construction Grant Program.
- Procedures will request verification by General Services that Davis-Bacon requirements such as content and language have been included within the official contract and that payroll will be reported weekly.
- Amendments for both Member Services Building and the Greater Los Angeles and Ventura Counties, West Los Angeles contracts will be completed to include required Davis-Bacon contract language and weekly reporting requirements.

Reference Number:	2009-9-6
Federal Catalog Number:	64.005
Federal Program Title:	Grants to States for Construction of State Home Facilities
Federal Award Number and Year:	06-059; 2008
Category of Finding:	Suspension and Debarment
State Administering Department:	California Department of Veterans Affairs (Veterans Affairs)

Criteria

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

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

(a) Checking the EPLS; or

(b) Collecting a certification from that person; or

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

Condition

Although Veterans Affairs is responsible for administering this program, the Department of General Services (General Services) acts as project manager for the construction and renovation of veterans homes and is responsible for contracting for construction of the homes. General Services' contracts with its general contractors for this work are considered covered transactions and thus are subject to federal suspension and debarment requirements.

We reviewed four such contracts and found that General Services did not obtain a suspension and debarment certification as required before it entered into one of the four contracts. Obtaining certifications is one of the three options for satisfying the suspension and debarment requirement. According to one of its contracts managers, General Services requests and receives instructions from its clients such as Veterans Affairs for special requirements and provisions that need to be followed regarding the contracts. The certifications obtained from contractors that we noted in three of the four contract files indicated that Veterans Affairs had informed General Services of the need to obtain certifications, as the forms used were from the U.S. Department of Veterans Affairs. There was no indication that Veterans Affairs intended to use, nor that General Services used, the remaining two options for satisfying the federal suspension and debarment requirement.

When we asked General Services about the certification that was missing for the fourth contract, the contracts manager provided a copy that General Services obtained after our request. The contracts manager explained that the certification was signed and dated by the contractor before the contract execution date, but the contractor never returned the certification to the department. Because Veterans Affairs has not established written policies and procedures for this program, including a procedure to ensure that General Services complies with the federal requirement related to suspension and debarment, it was not aware that General Services did not comply with the requirement.

By not ensuring that federal suspension and debarment requirements are complied with, Veterans Affairs runs the risk of the State entering into a contract with a party that is excluded from doing business on federally funded projects.

Questioned Costs

Not applicable.

Recommendation

Veterans Affairs should ensure that it establishes written policies and procedures for the program, including a procedure to ensure that General Services complies with the federal suspension and debarment requirement.

Department's View and Corrective Action Plan

Veterans Affairs does not disagree with the findings of the Bureau of State Audits.

- Veterans Affairs has had preliminary discussions with General Services to ensure all future contracts (Redding and Fresno Veterans Homes which are currently underway) include Suspension and Debarment certification requirements as required by federal regulations.
- As a component of future established policies and procedures, Veteran Affairs plans to formally provide General Services with every official grant application an entire list of requirements required of the United States Veterans Administration.
- Procedures will request verification by General Services that Suspension and Debarment certification requirements have been met and are part of the contract file within General Services.

Reference Number:	2009-12-6
Federal Catalog Number:	64.005
Federal Program Title:	Grants to States for Construction of State Home Facilities
Federal Award Numbers and Years:	06-059; 2008 06-044; 2007
Category of Finding:	Reporting
State Administering Department:	California Department of Veterans Affairs (Veterans Affairs)

Criteria

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

Section 43.20—Standards for financial management systems

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

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

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

Section 43.41—Financial Reporting

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

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

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

Condition

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

During our review, we found that General Services does not have a sufficient process for reporting the amounts spent by category on the request for reimbursement. Good internal controls require that management have a process to ensure that funds spent and amounts reported are supported by documentation. We found that General Services completes the request for reimbursement by categorizing costs into 13 project activities. However, when we attempted to trace the amounts reported in certain categories to supporting documentation, we were unable to do so. According to an analyst at General Services, she prepares the requests for reimbursement by relying on General Services' accounting system. However, General Services' accounting system provides summarized expenditure information by contractor and not by the specific project activities for which the contractor was requesting payment. The analyst told us that the contractor is responsible for three areas: land development, demolition and removal, and construction and project improvement costs. By relying exclusively on the accounting system's summarized data, General Services is not ensuring that amounts reported by category are accurate.

We found that for five of the 18 requests for reimbursement for which Veterans Affairs received federal payment in fiscal year 2008–09, General Services shifted a portion of the construction contractor costs from the *construction and project improvement* category to the *land development* and *demolition* and *removal* categories, indicating that it spent funds in these categories. However, General Services did not have documentation that it had verified these costs were previously spent to adequately support this shift in cost categories. Further, in one case, we noted that a General Services project director instructed the analyst to bill one-third of the remainder of the land development category over three reporting periods in order to exhaust the funds remaining in that category for the project.

When we expressed our concern to General Services about these costs, General Services was able to gather and provide documentation to us that identified the costs it included in the land development category for fiscal year 2008–09. We focused on the land development category because it included most of the shifted costs that we noted. The documentation indicated that the costs identified were at least equal to the amounts reported by General Services in those categories. However, General Services' process does not include a step to perform this verification routinely before it shifts costs among categories on its requests for reimbursement. Without such verifications, the State could inadvertantly request and receive federal funds for a particular cost category that exceeds the amounts actually incurred in the category.

When we informed Veterans Affairs about our concern with General Services' process, the assistant deputy secretary who oversees the program stated that he was unaware of this situation, despite the fact that Veterans Affairs approves the requests for reimbursement. The assistant deputy secretary agreed that Veterans Affairs needs to strengthen its oversight of General Services' reporting to ensure that General Services is accurately reporting costs actually incurred under each category on the requests for reimbursement.

Questioned Costs

Not applicable.

Recommendation

Veterans Affairs should improve its oversight of General Services' reporting to ensure that the State is accurately reporting costs by category on the requests for reimbursement.

Department's View and Corrective Action Plan

Veterans Affairs does not disagree with the findings.

As a component of future established policies and procedures, with every official federal grant award, Veterans Affairs will formally provide General Services the list of program requirements required of the United States Veterans Administration Construction Grant Program.

Policy and procedures will ensure that:

- Veterans Affairs will consult with General Services in the establishment of all 424c's (Federal Budget Document) being submitted by the State to the USDVA.
- The 424c will be tied to the current three page estimate for each particular project as the 424c is dependent upon the scope and circumstances of each project.
- The line item costs within the General Services estimate will be tied to the reimbursement categories within the 424c based on General Services' and Veterans Affairs' best assumption of the project deliverables and future billing.
- General Services' analyst will utilize the contractor's schedule of values in the establishment of reimbursable billing. General Services will then apply the costs against the most appropriate billing code available in the existing accounting system. Schedule of values provided by the contractor will be closely tied to the established reporting categories for that particular project.
- Monthly cost review reports which show totals to date of amounts billed within each established category and will be reviewed by Veterans Affairs.

Reference Number:	2009-12-8
Federal Catalog Number:	64.114
Federal Program Title:	Veterans Housing—Guaranteed and Insured Loans
Federal Award Number and Year:	None; State fiscal year 2008–09
Category of Finding:	Reporting
State Administering Department:	California Department of Veterans Affairs (Veterans Affairs)

Criteria

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

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

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

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

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

Condition

Veterans Affairs is approved by the U.S. Department of Veterans Affairs (VA) to offer VA-guaranteed home loans to eligible veterans. In November 2008, Veterans Affairs began using the VA's new electronic reporting interface and became subject to the federal requirements for electronic reporting. Under these reporting requirements, Veterans Affairs is required to report to the VA specific events related to loans that have been issued a VA guaranty. During our review of selected requirements, we found that Veterans Affairs did not report to the VA that it had notified the credit bureau of loan defaults, as required for all five delinquent loan files we reviewed for this requirement.

According to the loan servicing operations manager, Veterans Affairs was aware of this reporting requirement, but it has not yet begun reporting this information because of limited staff resources. However, the manager stated that Veterans Affairs is working with its Information Services Division and the VA and that Veterans Affairs plans to implement this requirement as soon as possible.

Additionally, we also noted that for one of five files reviewed, Veterans Affairs did not report to the VA a foreclosure referral within seven calendar days of the referral, as required. Instead, Veterans Affairs reported the referral to the VA 40 days late.

Questioned Costs

Not applicable.

Recommendations

Veterans Affairs should continue its plans to begin reporting the required information to VA related to notifying credit bureaus. Additionally, Veterans Affairs should ensure that staff report all required information within the specified time frames.

Department's View and Corrective Action Plan

Veterans Affairs is currently reporting defaults to the credit bureau. However, in its transition to the electronic reporting format and because it had very few VA foreclosures in prior years, the delinquency part of the reporting system did not get adequately mapped and tested. Veterans Affairs is currently working with its Information Services Division and the VA in order to implement this last remaining item as soon as possible.

In reference to the one file that had a late foreclosure referral reported to the VA, this was an employee error in reporting the claim information. Veterans Affairs is reviewing its claim reporting process in order to determine if changes are needed to verify timely and complete reporting of information.

KPMG LLP

U.S. DEPARTMENT OF AGRICULTURE

Reference Number:	2009-3-3
Federal Catalog Number:	10.557
Federal Program Title:	Special Supplemental Nutrition Program for Women, Infants and Children (WIC)
Federal Award Numbers and Year:	7CA700CA7; 2009 7CA700CA1; 2009
Category of Finding:	Cash Management
State Administering Department:	Department of Public Health (Public Health)

Criteria

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

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

Condition

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

In our sample of 60 drawdowns totaling approximately $166 million, we noted two drawdowns—one for $1,917,558 and another for $264,823—for which the payments to the contractors were issued five days and 29 days, respectively, from the dates of the drawdown requests. Thus, these payment dates did not meet the three-day requirement in the CMIA agreement. By not issuing the warrants within three days from the dates of the drawdown requests, Public Health is not complying with the cash management requirements of the WIC program.

Questioned Costs

No specific questioned costs were identified.

Recommendation

Public Health should enhance its current policies and procedures to ensure that payments issued to contractors meet the three-day time requirement.

Department's View and Corrective Action Plan

Public Health agrees with the recommendation that we should enhance our current policies and procedures to ensure payments to contractors are issued within the three-day timing requirement. In October 2009, the accounting staff met with the SCO and agreed on procedures, which will enhance current procedures in meeting the three-day timing requirement. Additionally, the Accounting Payables Unit Desk Manual was updated in November 2009 and Accounting staff were provided training in November 2009 concerning these enhanced procedures.

Reference Number:	2009-13-18
Federal Catalog Number:	10.557
Federal Program Title:	Special Supplemental Nutrition Program for Women, Infants and Children (WIC)
Federal Award Numbers and Year:	7CA700CA7; 2009 7CA700CA1; 2009
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Public Health (Public Health)

Criteria

TITLE 31—MONEY AND FINANCE, SUBTITLE V—GENERAL ASSISTANCE ADMINISTRATION, CHAPTER 75—REQUIREMENTS FOR SINGLE AUDITS, Section 7502—Audit Requirements; Exemptions

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

(C) Review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the Director, pertaining to Federal awards provided to the subrecipient by the pass-through entity.

(h) The non-Federal entity shall transmit the reporting package, which shall include the non-Federal entity's financial statements, schedule of expenditures of Federal awards, corrective action plan defined under subsection (i), and auditor's reports developed pursuant to this section, to a Federal clearinghouse designated by the Director, and make it available for public inspection within the earlier of:

(1) 30 days after receipt of the auditor's report; or

(2) Nine months after the end of the period audited, or within a longer timeframe authorized by the Federal agency, determined under criteria issued under Section 7504, when the nine-month timeframe would place an undue burden on the non-Federal entity.

TITLE 7—AGRICULTURE, SUBPART B—REGULATIONS OF DEPARTMENT OF AGRICULTURE, PART 246—SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN, Subpart F—Monitoring and Review, Section 246.19—Management Evaluation and Monitoring Reviews

(b) State Agency Responsibilities

(1) The state agency shall establish an ongoing management evaluation system, which includes at least the monitoring of local agency operations, the review of local agency financial and participation reports, the development of corrective action plans to resolve program deficiencies, the monitoring of the implementation of corrective action plans, and on-site visits. The results of such actions shall be documented.

(2) Monitoring of local agencies must encompass evaluation of management, certification, nutrition education, participant services, civil rights compliance, accountability, financial management systems, and food delivery systems. If the state agency delegates the signing of vendor agreements, vendor training, or vendor monitoring to a local agency, it must evaluate the local agency's effectiveness in carrying out these responsibilities.

(3) The state agency shall conduct monitoring reviews of each local agency at least once every two years. Such reviews shall include on-site reviews of a minimum of 20 percent of the clinics in each local agency or one clinic, whichever is greater. The state agency may conduct such additional on-site reviews as the state agency determines to be necessary in the interest of the efficiency and effectiveness of the program.

(4) The state agency must promptly notify a local agency of any finding in a monitoring review that the local agency did not comply with program requirements. The state agency must require the local agency to submit a corrective action plan, including implementation timeframes, within 60 days of receipt of a state agency report of a monitoring review containing a finding of program noncompliance. The state agency must monitor local agency implementation of corrective action plans.

Condition

During our review of subrecipient monitoring of Office of Management and Budget Circular A-133 audits (A-133 audits), we noted that Public Health's policy is to issue a late notice to each local agency whose A-133 audit is not received within 10 months after the local agency's year-end. For three of the 41 local agencies selected, we noted that the A-133 audit reports were not submitted by the local agencies by the required nine-month due date. Further, Public Health did not review the information on the Federal Audit Clearinghouse for subrecipients that were not required to submit reporting packages because they had no current- or prior-year audit findings. However, Public Health did not issue late notices to the subrecipients that were 30 days past the nine-month post year-end due date in accordance with its policy. Specifically, we found the following:

- For two of the 41 local agencies selected, where the local agency submitted the A-133 audit report more than 30 days late, we noted the late notice was sent by Public Health 41 days after the due date and was not within the required 30-day policy.

- For one of the 41 local agencies selected, where the local agency submitted the A-133 audit report more than 30 days late, we noted that Public Health did not send a late notice to the local agency.

During our examination of during-the-award monitoring, we noted that Public Health contracts with the State Controller's Office (SCO) through an interagency agreement to perform financial management reviews (financial reviews), which take place for all local agencies every two years. The SCO issues finding letters for issues identified during the financial reviews. The local agency is required to submit a corrective action plan (CAP) within 60 days of receipt of the finding letter. In our sample of 35 completed financial reviews, we noted the following:

- For two of the financial reviews, Public Health was not able to locate the CAP submitted by the local agencies to support that proper follow-up on corrective actions was taken.

- For one of the financial reviews, the local agency submitted the CAP 76 days after receipt of the letter of finding and not by the required 60-day deadline.

During our analysis of during-the-award monitoring, we noted that Public Health performs program evaluations, which take place for all local agencies every two years. Public Health issues finding letters for issues identified during these evaluations. The local agency is required to submit a CAP within 60 days of receipt of the finding letter. In our sample of 44 completed evaluations, we noted the following:

- For one of these evaluations, the CAP was submitted by the local agency 89 days after receipt of the letter of finding rather than within the required 60 days.

- For eight of the evaluations, the scheduled evaluations were not performed.

Without properly designed processes and controls in place to notify, obtain, and review the required A-133 audits and CAPs, and if it does not perform evaluations as required, there is increased risk that subrecipient agencies may not be complying with federal program rules and regulations. Amounts that Public Health paid to subrecipients totaled $158 million of the $1.2 billion total WIC program expenditures for fiscal year 2008–09.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Public Health should enhance its current policies and procedures to ensure subrecipient A-133 audit reports are submitted within nine months after the agencies' year-end and that late notices are sent timely. Public Health should also utilize the Federal Audit Clearinghouse database to assist with determining if required audits were performed for subrecipients with no prior- or current-year audit findings. Public Health should also implement controls over follow-up on finding letters related to the financial management reviews and evaluations, and ensure all scheduled evaluations are completed.

Department's View and Corrective Action Plan

Public Health agrees with the recommendation in condition one for the WIC Division to enhance its current policies and procedures to ensure A-133 Audit Reports are submitted within nine months after the agencies' year-end and to send timely notices regarding late submissions to non-compliant agencies. The scope of work in the State Controller's Office (SCO) contract with Public Health WIC will be revised to replace quarterly reports with monthly reports of A-133 status to enhance WIC's monitoring and follow-up on A-133 audit reports. The WIC Division will also pursue the use of the Federal Audit Clearinghouse database to determine whether required A-133 audits were performed for WIC local agencies.

Public Health agrees with the finding noted in condition two. The WIC Division will implement revised procedures on January 1, 2010, for transmitting the financial review reports conducted by the SCO to local agencies, requiring that local agencies provide a corrective action plan for any findings within 60 days, and following up on the corrective action plans submitted by local agencies.

Public Health agrees that all required WIC program evaluations of local agency contractors should be completed as noted in condition three. Public Health WIC was unable to complete eight of the 44 reviews that were scheduled during the summer of 2008 because staff could not be reimbursed for travel expenses during the period of July 1 through late September 2008 in the absence of a State budget. As noted in the audit finding, federal regulations require on-site reviews for the program evaluations which necessitate staff travel. Due to the delay in the State budget in 2008 and consequent inability to travel, staff conducted "desk reviews" of the eight local agencies that were scheduled for program evaluations and they were able to complete some, but not all, required elements of the evaluation through this alternative process. As has been its practice, Public Health WIC will schedule the program evaluations in a manner that avoids staff travel during the summer months to the extent feasible.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Reference Number:	2009-1-14
Federal Catalog Number:	93.778
Federal Program Title:	Medicaid Cluster—Medical Assistance Program (Medi-Cal)
Federal Award Numbers and Years:	0905CAARRA; 2009 05-0905CA5028; 2009 05-0805CA5028; 2008
Category of Finding:	Activities Allowed
State Administering Department:	Department of Health Care Services (Health Care Services)

Criteria

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

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

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

CALIFORNIA CODE OF REGULATIONS, TITLE 22, Section 51476

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

DEPARTMENT OF HEALTH SERVICES PROVIDER MANUAL—PROVIDER REGULATIONS

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

Condition

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

- Three claims were not deemed medically necessary.
- Three claims (including one counted as not medically necessary) did not have sufficient documentation to support whether the required medical procedures were rendered on the beneficiary.

Total exceptions amounted to $1,845 of the total $145,670 sampled of federal Medicaid expenditures for fee-for-service claims. Total federal Medicaid expenditures for fee-for-service claims amounted to $9.5 billion for fiscal year 2008-09. Due to the enhanced Federal Medical Assistance Percentage of 11.59 percent, an additional $430 of these exceptions was funded by the American Reinvestment and Recovery Act of 2009 (Recovery Act). Total Recovery Act expenditures for fee-for-service claims amounted to $1.4 billion for fiscal year 2008–09.

Questioned Costs

$1,845 of the $145,670 expenditures sampled and $430 in Recovery Act expenditures.

Recommendations

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

Department's View and Corrective Action Plan

Annually, Health Care Services processes and pays more than 200 million fee-for-service claims. The verification of each of the 200 million fee-for-service claims processed and paid annually for adequacy of documentation would not be financially feasible. Health Care Services agrees that a level of surveillance and control is necessary to ensure only medically necessary claims and eligible providers are paid. Health Care Services also agrees that an internal control process is needed to detect providers in violation of record retention rules.

In an effort to maximize claims monitoring efficiency, staff, and resources, Health Care Services has developed several pre- and post-payment reviews to identify violations and, if warranted, expand the scope of reviews. Health Care Services routinely conducts pre- and post-payment reviews throughout the year, including the following review types: Random Claims Review, Self-Audits, Desk Audits, Field Audit Reviews, and Audit for Recovery.

In an effort to aid in the identification of potential problems and issues common among provider types, Health Care Services has also carried out provider education reviews. The Medi-Cal Payment Error Rate Study (MPES) has been one of the tools used to identify any potential problem trends. In the last four years of conducting the MPES, Health Care Services has been able to identify significant documentation issues with pharmacies, adult day health centers (ADHC), local educational agencies (LEA), and non-emergency medical transportation (NEMT) providers. Based on the findings of the MPES, Health Care Services has developed projects such as the Pharmacy Outreach Project, which review over 2,000 pharmacies and the NEMT Project which reviewed approximately 200 NEMT providers. Health Care Services has completed several ADHC projects, reviewing over 100 ADHCs. Also, as a result of the MPES, an independent extended review of LEAs was conducted by the State Controller's Office and was part of the MPES 2007 report. In addition, Health Care Services has conducted provider education to ADHCs and LEAs.

Health Care Services has consistently and aggressively addressed the issues of monitoring and controls to ensure that only medically necessary claims and eligible providers are paid and that the providers are observing the record retention rules. In fiscal year 2008–09 alone, Health Care Services issued close to 1,000 provider review cases including audits for recovery, field audit reviews, desk reviews and special projects cases.

Of the 50 claims selected and reviewed, it was determined that there were exceptions noted for five of the claims: three claims were not deemed medically necessary, and the services for three claims were not documented properly (one claim was determined not medically necessary and not documented properly). Recoveries for the paid amounts will be requested from the five providers where exceptions were found. In addition, it will be determined if additional reviews are needed for the providers where exceptions were found.

Reference Number:	2009-1-15
Federal Catalog Number:	93.778
Federal Program Title:	Medicaid Cluster—Medical Assistance Program (Medi-Cal)
Federal Award Numbers and Years:	0905CAARRA; 2009 05-0905CA5028; 2009 05-0805CA5028; 2008
Category of Finding:	Activities Allowed/Allowable Costs
State Administering Department:	Department of Health Care Services (Health Care Services)

Criteria

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

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

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

Condition

During our procedures performed over the Medi-Cal program, we reviewed 15 available audit and investigation reports of the program that were published and released during fiscal year 2008–09. The following is a summary of the findings cited in the fourth annual Medi-Cal Payment Error Study (MPES) performed during the calendar year 2007:

> The sampling universe consists of Medi-Cal fee-for-service (FFS) claims paid through the fiscal intermediary, Electronic Data Systems, as well as dental claims paid, during the period of April 1, 2007, through June 30, 2007. There are 1,148 claims in the sample. The sample size was extracted from a universe of 20,980,274 Medi-Cal claims. Proportional allocation of the sample size was used to determine the sample size from each stratum, ensuring a minimum sample size of 50 claims for each stratum.
>
> [The results of the MPES indicated that] 6.56 percent of the total dollars paid had some indication that they contained a provider payment error. The 6.56 percent equates to $1.05 billion of the total $16 billion in annual payments made for FFS medical and dental services in calendar year 2007 and represents the percentage of payment error attributable to Medi-Cal program dollars "at risk" of being paid inappropriately due to findings related to such factors as a lack of medical necessity, abuse, or fraud. Of the total payments, 2.53 percent, or $405 million, were for claims submitted by providers that disclosed characteristics of potential fraud. Of the payments for claims with errors, 46 percent were for claims with insufficient documentation. This means that the documentation presented by the provider did not support the services claimed.
>
> A total of 40 percent of all payments for claims with errors were for claims in which the provider's documentation did not support the medical necessity for the services billed, meaning the services did not need to be provided.
>
> There were no claims processing errors identified.

Based on the error percentage related to Medi-Cal payments, the risk of noncompliance with allowable costs and activities is considered material.

Additionally, effective October 1, 2008, the American Reinvestment and Recovery Act of 2009 (Recovery Act) granted an additional 11.59 percent as the enhanced Federal Medical Assistance Percentage to the State of California for medical assistance expenditures. Total Recovery Act expenditures during fiscal year 2008–09 amounted to $2.8 billion.

Questioned Costs

No specific questioned costs were identified.

Recommendations

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

Department's View and Corrective Action Plan

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

The annual MPES provides opportunities for identifying new patterns of payment errors and areas of potential fraud, waste, and abuse in the Medi-Cal program. The MPES findings reinforce the need to continuously and systematically identify those areas of the program most vulnerable to fraud and abuse and to use these findings to guide Health Care Services in its allocation of fraud control resources and its development of innovative anti-fraud strategies and fraud prevention tools.

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

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

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

Reference Number:	2009-2-6
Federal Catalog Number:	93.778
Federal Program Title:	Medicaid Cluster—Medical Assistance Program (Medi-Cal)
Federal Award Numbers and Years:	0905CAARRA; 2009 05-0905CA5028; 2009 05-0805CA5028; 2008
Category of Finding:	Allowable Costs
State Administering Department:	Department of Health Care Services (Health Care Services)

Criteria

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

(b) Terms of Rebate Agreement

(2) State Provision of Information:

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

Condition

Drug manufacturers and labelers are required to provide a list to the Centers for Medicare and Medicaid Services (CMS) of all covered outpatient drugs and, to provide on a quarterly basis their average manufacturer's price and their best prices for each covered outpatient drug. Based upon this data, CMS calculates a unit rebate amount for each drug and provides the rebate information to the states. The State Medicaid Agency is required to provide to drug manufacturers and labelers the drug utilization data no later than 60 days after the end of the quarter. We tested 40 rebate invoices related to the third and fourth quarters of 2008 as well as to the first and second quarters of 2009, and we noted the following:

- On December 10, 2008, CMS provided the unit rebate amount for the third quarter 2008 (July to September 2008) drug data. The State Medicaid Agency should have mailed drug utilization data to the labelers by November 29, 2008; however, for the sample selected, the State Medicaid Agency provided the drug utilization data to labelers on December 10, 2008, which was 11 days late.

- On March 17, 2009, CMS provided the unit rebate amount for the fourth quarter 2008 (October to December 2008) drug data. The State Medicaid Agency should have mailed drug utilization data to the labelers by March 1, 2009; however, for the sample selected, the State Medicaid Agency provided the drug utilization data to labelers on March 17, 2009, which was 16 days late.

- On June 3, 2009, CMS provided the unit rebate amount for first quarter 2009 (January to March 2009) drug data. The State Medicaid Agency should have mailed drug utilization data to the labelers by May 30, 2009; however, for the sample selected, the State Medicaid Agency provided the drug utilization data to the labelers on June 3, 2009, which was four days late.

- On September 1, 2009, CMS provided the unit rebate amount for second quarter 2009 (April to June 2009) drug data. The State Medicaid Agency Drug should have mailed the utilization data to the labelers by August 29, 2009; however, for the sample selected, the State Medicaid Agency provided the drug utilization data to the labelers on September 1, 2009, which was three days late.

Total combined federal and state drug rebates for the first, second, third, and fourth quarters amounted to $219.6 million, $237.2 million, $244.5 million, and $251.4 million, respectively, for fiscal year 2008–09. Approximately 11.59 percent of Medicaid drug expenditures starting October 1, 2008, were funded using money from the American Reinvestment and Recovery Act of 2009.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Health Care Services should ensure that drug utilization data are provided to drug manufacturers and labelers on a timely basis (that is, no later than 60 days after the end of the quarter) and to monitor the receipt of payments from labelers.

Department's View and Corrective Action Plan

Health Care Services implemented changes on April 1, 2009, that substantially reduced the amount of manual review time needed for all claims, including the blood-factor claims that previously required significant manual review. Successful determination of these system changes was recognized when the second quarter of 2009 invoices were produced and mailed with a postmark date of September 1, 2009. These system changes eliminated the bulk of the manual review processes needed, especially for blood-factor invoices. Health Care Services will continue to review and modify the Rebate Accounting and Information System processes to ensure timely mailing of the drug utilization data.

Reference Number:	2009-2-7
Federal Catalog Number:	93.778
Federal Program Title:	Medicaid Cluster—Medical Assistance Program(Medi-Cal)
Federal Award Numbers and Years:	0905CAARRA; 2009 05-0905CA5028; 2009 05-0805CA5028; 2008
Category of Finding:	Allowable Costs
State Administering Department:	Department of Health Care Services (Health Care Services)

Criteria

TITLE 42—PUBLIC HEALTH, PART 455—PROGRAM INTEGRITY–MEDICAID, Subpart A—Medicaid Agency Fraud Detection and Investigation Program, Section 455.18—Provider's Statements on Claims Forms

(a) Except as provided in Section 455.19, the agency must provide that all provider claims forms be imprinted in boldface type with the following statements, or with alternate wording that is approved by the Regional CMS [Centers for Medicare and Medicaid Services] Administrator:

(1) "This is to certify that the foregoing information is true, accurate, and complete."

(2) "I understand that payment of this claim will be from federal and state funds, and that any falsification, or concealment of a material fact, may be prosecuted under federal and state laws."

(b) The statements may be printed above the claimant's signature or, if they are printed on the reverse of the form, a reference to the statements must appear immediately preceding the claimant's signature.

Condition

Health Care Services has contracted with the Department of Social Services (Social Services) to implement the Personal Care Services Program (PCSP) of the Medicaid grant. The PCSP is part of the In-Home Supportive Services (IHSS) program of Social Services. PCSP services are federally reimbursed in part through the Medi-Cal program. The Medi-Cal Benefits Branch reviews all invoices submitted by Social Services for reimbursement under the agreement, and the branch verifies the allowability of the costs incurred. The recipient and provider complete, sign, and submit semimonthly to the county the provider claims forms (time sheets), which list the number of hours worked by the provider for services performed for the care of the recipient.

Of the 25 provider claims forms selected for review, one form did not have the provider's signature, as required. This provider claims form related to Sacramento County for November 2008.

Total exceptions amounted to $155 of the $6,437 sampled for Social Services' provider claims forms from the $2.6 billion federal Medicaid expenditures to Social Services during fiscal year 2008–09.

Due to the enhanced Federal Medical Assistance Percentage of 11.59 percent, an additional $36 of this exception was funded by the American Reinvestment and Recovery Act of 2009 (Recovery Act). Total Recovery Act expenditures related to the PCSP and the IHSS program amounted to $517 million for fiscal year 2008–09.

Questioned Costs

$155 of the $6,347 expenditures sampled and $36 in Recovery Act expenditures.

Recommendation

Health Care Services and Social Services should enhance controls related to the PCSP to ensure that provider claims forms are properly signed by the providers.

Department's View and Corrective Action Plan

Health Care Services will direct Social Services to remind counties that IHSS time sheets must be properly signed by providers.

Reference Number:	2009-3-4
Federal Catalog Number:	93.917
Federal Program Title:	HIV Care Formula Grants
Federal Award Numbers and Years:	X07HA12778; 2009 X07HA00041; 2008
Category of Finding:	Cash Management
State Administering Department:	Department of Public Health (Public Health)

Criteria

TITLE 31—MONEY AND FINANCE TREASURY—DEPARTMENT OF THE TREASURY, PART 205—RULES AND PROCEDURES FOR EFFICIENT FEDERAL-STATE FUNDS TRANSFERS, Subpart B—Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement, Section 205.33—How Are Funds Transfers Processed?

(a) A state must minimize the time between the drawdown of federal funds from the federal government and their disbursement for federal program purposes. A Federal Program Agency must limit a funds transfer to a state to the minimum amounts needed by the state and must time the disbursement to be in accord with the actual, immediate cash requirements of the state in carrying out a federal assistance program or project. The timing and amount of funds transfers must be as close as is administratively feasible to a state's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. States should exercise sound cash management in funds transfers to subgrantees in accordance with OMB Circular A-102.

Condition

During our review of cash management requirements and Public Health's payments to its subrecipients and vendors, we examined a sample of invoices for any reimbursement amount due to determine whether Public Health was minimizing the time between the subrecipient and vendor expenditure of program funds and the subsequent reimbursement from Public Health. We reviewed the date on which each invoice was received by Public Health. If no date received was indicated, we used the date that the request was signed by the subrecipient or vendor. We then compared those dates to the dates that payments were actually disbursed.

To determine the reasonableness of Public Health's minimization of payment timing, we reviewed the California Prompt Payment Act, which addresses the minimization of the timing of payments to certain types of grant award subrecipients. The act encourages payments to be made within 45 days of receipt of the reimbursement request and states that the State Controller's Office (SCO) has not more than 15 calendar days to issue a warrant once it receives a correct claim schedule from a state agency and no more than 30 calendar days between the receipt of a correct invoice and the claim schedule submission date. Although the HIV Formula Grants are not defined as specifically applicable under this regulation, the intent of the legislation appears to be consistent with the intent of federal cash management requirements; therefore, this regulation appears to provide an appropriate basis for determining the reasonableness for timing of payments.

In our sample of undisputed subrecipient and vendor invoices, we noted that of the 60 invoices tested, 33 invoices—totaling approximately $7 million—were reimbursed later than 45 days after Public Health received the invoices. These disbursement delays ranged from 49 to 214 days from the date the invoice was received to the date the invoice was paid. In reviewing the cause of the delays for the 33 undisputed invoices, we noted the following:

- Totaling approximately $6.7 million, 28 invoices took Public Health longer than 30 days to submit to the SCO. These delayed submissions to the SCO ranged from 35 to 204 days.

- Totaling approximately $73,000, two invoices were paid by the SCO in 23 and 28 days instead of the required 15 days.

Claiming approximately $54,000, one invoice, was submitted by Public Health to the SCO in 102 days instead of the required 30 days, and it was paid by the SCO in 16 days instead of the required 15 days.

Further, for two undisputed invoices, which totaled approximately $183,000, Public Health was unable to provide claim schedules to determine the cause of the delays (such as late submission by Public Health or late payment by the SCO). In addition, in examining the 60 sample items, we found that Public Health did not provide any documentation (such as, invoices and claim schedules) to support that timely payments were made for four sample items totaling $443,000.

Public Health does not have an adequate policy that addresses minimizing the time for making reimbursement payments to subrecipients and vendors. As a result, Public Health disbursed approximately $7 million of the $46 million sampled from the $175 million paid for fiscal year 2008–09 without minimizing the time between the receipt of reimbursement request (for example, subrecipient need) and the disbursement of federal funds.

Questioned Costs

$442,618 of the $46,051,332 sampled in program disbursements.

Recommendations

Public Health should ensure that policies and procedures are in place to minimize the time between the receipt of undisputed payment requests and the disbursement of funds as well as policies and procedures to minimize the time between drawdown of federal funds and the funds' subsequent disbursement in order to comply with federal and state requirements.

Department's View and Corrective Action Plan

Public Health agrees with this finding and recommendation. In December 2008 the Office of AIDS (OA) created a Fiscal Management Unit and a Contracts Unit within the Administration Section in order to develop capacity and centralize functions that had been distributed to various units within the Division, including processing invoices. The centralization of duties and responsibilities in processing invoices allowed the two units to work together, and with Program staff, to ensure invoices are processed more efficiently. These two units were fully staffed as of February 2009 and processes were steadily improving from February through August 2009. Subsequently, OA reduced the number of staff in the Administration Section due to budget cuts.

OA has implemented a system so that each fund source has an annual allocation plan that includes the budget, encumbrances, expenditures (invoices), and balance. OA has updated its system so that individual expenditures are reviewed, approved, and charged to the appropriate funding source to eliminate invoice processing errors. In addition, OA requested that Accounting send monthly CD104 Reports via email. These reports will enable OA to verify that a warrant has been issued from the SCO for individual payments.

Desk procedures are being written to be sure that Administration Section staff understands the duties and responsibilities for processing invoices expeditiously and correctly to minimize invoice returns from CDPH Accounting. Additionally, OA staff has met with Accounting and attends Public Health Admin User Group monthly meetings to determine what we can do to ensure that invoices are processed in a timely manner. In addition to utilizing the *CDPH Accounting Section Preliminary Invoice Screening Checklist* to ensure that each invoice is submitted as a complete package, we have also implemented other procedures suggested by Accounting to facilitate the process through to the SCO.

OA continues to work on making systems more efficient, to review work of Accounting, reconcile available information to various reports, and improve follow up time. Public Health's Strategic Plan Goal 5, Objectives 3 and 4 address increasing the percentage of invoices processed by CDPH Accounting within 30 days of receipt in the section. This is a high priority for the department. Public Health cannot address delays at the SCO.

To ensure time is minimized between the receipt of undisputed payment requests and the disbursement of funds, the Accounting Department is reviewing current policies and procedures concerning payments to vendors and will update the *Accounting Payables Unit Desk Manual* and train staff on updated policies and procedures by June 30, 2010.

Additionally, to minimize the time between draw downs of the federal funds and their subsequent disbursements, the portion of the *Accounting Payables Unit Desk Manual* dealing with federal claim schedules was updated in November 2009. Accounting staff have been given training on these updated procedures to provide claim schedules as they are processed to the Accounting Federal Reporting Unit to draw down the federal funds in a timely manner to meet federal and state requirements.

Reference Number:	2009-5-4
Federal Catalog Number:	93.917
Federal Program Title:	HIV Care Formula Grants
Federal Award Numbers and Years:	X07HA12778; 2009 X07HA00041; 2008
Category of Finding:	Eligibility
State Administering Department:	Department of Public Health (Public Health)

Criteria

TITLE 42—THE PUBLIC HEALTH AND WELFARE, CHAPTER 6A—PUBLIC HEALTH SERVICE, SUBCHAPTER XXIV—HIV HEALTH CARE SERVICES PROGRAM, Part B—Care Grant Program, Subpart I—General Grant Provisions, Section 300ff-26—Provision of Treatments

(b) *Eligible individual*. To be eligible to receive assistance from a State under this section, an individual shall:

1. Have a medical diagnosis of HIV disease; and
2. Be a low income individual, as defined by the State.

Condition

Program coordinators are required to visit AIDS Drug Assistance Program (ADAP) enrollment sites every five years in accordance with requirements established by the agreement between the sites and the State. This quality control process redetermines eligibility for individually sampled cases of beneficiary eligibility made by enrollment workers at the local enrollment sites. Enrollment-site visits are performed to ensure that individuals receiving services meet eligibility requirements. Site-visit reports are completed by program coordinators and reviewed by the program chief.

We selected all 11 site-visit reports prepared by the Office of AIDS' program coordinators during fiscal year 2008–09, and noted that all reports had detailed several instances of noncompliance with eligibility requirements, such as proof of income, proof of HIV status, and up-to-date Cluster of Differentiation Four (CD4)/Viral Load counts. Some examples of errors noted in the reports written by program coordinators are as follows:

- At one site, no ADAP client files were available for review; the site had only computer printouts of the ADAP application and no supporting eligibility documentation.
- At two sites where 21 and seven files were reviewed, respectively, 57 percent of the files reviewed did not have documentation of current CD4/Viral Load counts.
- At one site where 10 files were reviewed, 50 percent of those files were missing or had incomplete income documentation, and 10 percent did not have proof of HIV status or current CD4/Viral Load counts.

- At one site where 14 files were reviewed, 7 percent of the files were missing or required Financial Screening forms, and 71 percent were missing proof of HIV status and current CD4/Viral Load counts.

- At one site where 15 files were reviewed, 60 percent were missing proof of income.

Based on our review of the site-visit reports, it appears there may be material noncompliance regarding documentation to support the eligibility of the participants. The site-visit reports did not quantify specific or potential questioned costs related to the exceptions noted. Total expenditures paid to program participants amounted to $130 million for fiscal year 2008–09.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Public Health should strengthen its internal controls over the eligibility process to ensure that payments are only made to eligible recipients and that all required documentation to verify eligibility is maintained in the recipient's file. Public Health should also implement controls for following up on findings related to the site visits.

Department's View and Corrective Action Plan

Public Health generally agrees with the recommendation. Of the 11 site visit reports reviewed by the auditor, a total of 10 sites have developed and submitted corrective action plans as a direct outcome of program coordinators' communication and follow-up with the sites in question. Due to ADAP staffing turnover, the corrective action plan requested from the 11th site was never submitted by the site.

Public Health will take the following corrective steps to further ensure compliance with the *State of California Enrollment Procedures* and *Guidelines for Determining ADAP Eligibility*:

1) A follow-up site visit will be conducted at the 11th site, the ADAP enrollment site where no ADAP client files were available for review, only computer printouts of the ADAP application and no supporting eligibility documentation. The site visit will take place no later than January 31, 2010. All ADAP client files will be audited to ensure full compliance with ADAP standards as mandated by state guidelines, enrollment site agreements, and LHJ Standard Agreements. A corrective action plan will be developed, with specific timeframes for implementation and additional program assessment.

2) Technical Assistance will be provided to the 11th site enrollment site/workers. ADAP staff will review ADAP eligibility and documentation requirements.

3) A centralized site visit tracking system for all planned site visits, site visit reports, corrective action plans (as needed) and follow-up with the sites to assure implementation of the corrective action plans is in development and a program staff person has been assigned to provide lead responsibility. The site visit tracking system will be implemented for all program site visits (15) planned for fiscal year 2009–10.

ADAP has numerous policies and procedures that define the client enrollment and eligibility process to ensure eligible recipients receive services. These policies and procedures are contained in the *State of California Enrollment Procedures and Guidelines for Determining ADAP Eligibility*. Responsibility for compliance with these is strengthened through a number of mechanisms, including: 1) mandatory annual eligibility training/recertification of all ADAP Enrollment Workers, 2) *ADAP Enrollment Site Agreements*; 3) *Standard Agreements* with all participating local health jurisdictions for the provision of ADAP services; and 4) ADAP conducts enrollment site visits, including audits of client eligibility files, to further assure compliance with client eligibility requirements and documentation.

Reference Number:	2009-5-5
Federal Catalog Number:	93.778
Federal Program Title:	Medicaid Cluster—Medical Assistance Program (Medi-Cal)
Federal Award Numbers and Years:	0905CAARRA; 2009 05-0905CA5028; 2009 05-0805CA5028; 2008
Category of Finding:	Eligibility
State Administering Department:	Department of Health Care Services (Health Care Services)

Criteria

TITLE 42—PUBLIC HEALTH, PART 431—STATE ORGANIZATION AND GENERAL ADMINISTRATION, Subpart A—Single State Agency, Section 431.10—Single State Agency

(c) Determination of eligibility

(1) The plan must specify whether the agency that determines eligibility for families and for individuals under 21 is—

(i) The Medicaid agency; or

(ii) The single state agency for the financial assistance program under Title IV-A (in the 50 States or the District of Columbia), or under Title XVI (AABD), in Guam, Puerto Rico, or the Virgin Islands.

(2) The plan must specify whether the agency that determines eligibility for aged, blind, or disabled is—

The Medicaid Agency; or

(i) The single state agency for the financial assistance program under Title IV-A (in the 50 States or the District of Columbia), or under Title XVI (AABD), in Guam, Puerto Rico, or the Virgin Islands, or

(ii) The federal agency administering the supplemental security income program under Title XVI (SSI). In this case, the plan must also specify whether the Medicaid agency or the Title IV-A agency determines eligibility for any groups whose eligibility is not determined by the federal agency.

TITLE 42—PUBLIC HEALTH, PART 435—ELIGIBILITY IN THE STATES, DISTRICT OF COLUMBIA, THE NORTHERN MARIANA ISLANDS, AND AMERICAN SAMOA, Subpart J—Eligibility in the States and District of Columbia, Section 435.916—Periodic Redeterminations of Medicaid Eligibility

(a) The agency must redetermine the eligibility of Medicaid recipients, with respect to circumstances that may change, at least every 12 months.

Condition

States are required to operate a Medicaid Eligibility Quality Control (MEQC) system in accordance with requirements established by the Centers for Medicare and Medicaid Services. The MEQC system redetermines eligibility for samples of individual cases of beneficiary eligibility determined by state Medicaid agencies or their designees. The State of California (State) had been granted a waiver from

the traditional MEQC program described in regulation. This program waiver permits the State's system to differ from the traditional MEQC program by allowing for the performance of special studies, targeted reviews, or other activities that are designed to ensure program integrity or improve program administration. Health Care Services' MEQC process reviewed 3,506 cases from July 2008 to June 2009. Health Care Services determined that of the 3,506 cases sampled, 215 cases were ineligible for Medi-Cal, reflecting a 6.13 percent error rate.

We evaluated the accuracy of the MEQC system by obtaining a list of all eligibility case reviews performed during fiscal year 2008–09 and selected 60 cases in 10 different counties to re-perform the MEQC review. Our sample of 60 Medicaid recipients included 52 who were deemed eligible and eight who were deemed ineligible by the MEQC review process. The results of our review of the MEQC review process found that the reviews were appropriately performed and we concurred with the assessments of the 60 samples of MEQC reviews.

Additionally, we selected 60 case files from the general population of the State's Medicaid beneficiaries in 10 different counties to re-perform the counties' eligibility determinations. We noted that one of the 60 cases tested from the general population of Medicaid beneficiaries deemed eligible by the county was actually ineligible for Medi-Cal benefits. We noted that the county failed to perform the annual redetermination of eligibility, which was due in June 2009. Furthermore, according to our inspection of the Interim Statewide Automation Welfare System, the county's consortium system, and the Medicaid Eligibility Database System, the family remained active as Medi-Cal beneficiaries, receiving full-scope benefits during fiscal year 2008–09. We note that no evidence in the family's case file substantiated that a redetermination was performed; therefore, the beneficiaries were ineligible during the month of June 2009.

The total direct federal Medicaid expenditures that the State made for provider payments amounted to $18.6 billion in fiscal year 2008–09.

The American Reinvestment and Recovery Act of 2009 (Recovery Act) granted an additional 11.59 percent as the enhanced Federal Medical Assistance Percentage to the State for medical assistance expenditures. Total Recovery Act expenditures during fiscal year 2008–09 amounted to $2.8 billion. The error percentage noted in the MEQC reviews affects Recovery Act expenditures because it indicates that there is a material risk of noncompliance related to eligibility. As discussed above, approximately 6.13 percent of Medi-Cal beneficiaries sampled were ineligible for Medicaid benefits. If the error rate were applied to the population of total Recovery Act expenditures, a potential exposure of $169 million in erroneous payments might exist.

Questioned Costs

No specific questioned costs were identified.

Recommendation

Health Care Services should strengthen controls over its redetermination requirements for Medi-Cal beneficiaries to ensure that benefits are discontinued when redeterminations are not received within 12 months of the most recent redetermination date.

Department's View and Corrective Action Plan

Health Care Services regularly screens its MEQC database for issues associated with redeterminations. Counties that have demonstrable patterns of redetermination issues are contacted, consulted with, and are subject to focused reviews, as needed. Normally, focused reviews tend to resolve redetermination processing issues. In addition, redeterminations are a component of the County Performance Standards process which requires counties to self-certify performance. These self-certifications are subject to independent State verification and if performance is substandard, fiscal sanctions are available to ensure county compliance.

Medi-Cal Eligibility Quality Control (MEQC) cases are a component of the Geographic Sampling Pilot Project and are randomly selected on a monthly basis from the 25 counties with the largest Medical Assistance Only populations. Each MEQC case is reviewed for compliance with Medi-Cal program policies and procedures and may represent a single beneficiary or a family unit with multiple beneficiaries. The BSA audit cited 215 MEQC case errors as the basis for calculating a potential of $169 million of erroneous Medi-Cal payments. DHCS' Medi-Cal Eligibility Division, Program Review Section has researched each of the 215 cases to assess the monetary loss resulting from the 215 MEQC case errors.

Summary

1. 116 case errors did not result in months of erroneous eligibility
2. 71 case errors resulted in months of erroneous eligibility
3. 24 DRA citizenship case errors resulted in months of erroneous full-scope eligibility vs. restricted-scope eligibility
4 DRA citizenship case errors did not result in months of erroneous full-scope eligibility vs. restricted-scope eligibility

Breakdown of 71 case errors resulting in months of erroneous eligibility

1. 45 case errors were caused by the county eligibility worker
2. 24 case errors were caused by an action or inaction of the beneficiary not within the control of the county eligibility worker
3. 2 case errors were caused by delays in CDSS processing disability evaluations not within the control of the county eligibility worker

FFS payments resulting from case errors caused by county eligibility worker

1. As a result of the 45 case errors, representing 83 beneficiaries:
   - 252 months of erroneous eligibility
   - $61, 983.67 FFS paid claims during the 252 months
2. As a result of the 24 DRA citizenship errors, representing 32 beneficiaries:
   - 48 months of erroneous eligibility
   - $19,613.71 FFS paid claims during the 48 months

Data limitations

1. Months of managed care enrollment for each case has not been assessed or the corresponding capitation rate paid to the plan. This would require a month-by-month analysis of each case, some as far back to April 2008. It is unclear to what extent the FFS paid claims represent claims paid on behalf of beneficiaries in FFS or are carve-out services to managed care enrollees.
2. Identification of the FFS paid claims resulting from the DRA citizenship errors that were restricted-scope which could be deducted from the $19,613.71 in FFS claims was not done. This requires a detailed analysis of each paid claim to determine if the service rendered would be a restricted-scope service or full-scope service.

Total FFS paid claims with limitations applied = $81,597.38

Auditor's Comment on the Department's View

Health Care Services' response to this finding cites the results of its subsequent review of the 215 cases discussed in the finding. Health Care Services provided this information to us on February 22, 2010,which was after the end of our fieldwork. As a result, we did not audit the additional information contained in Health Care Services' response.

Reference Number:	2009-5-6
Federal Catalog Number:	93.778
Federal Program Title:	Medicaid Cluster—Medical Assistance Program (Medi-Cal)
Federal Award Numbers and Years:	0905CAARRA; 2009 05-0905CA5028; 2009 05-0805CA5028; 2008
Category of Finding:	Eligibility
State Administering Department:	Department of Health Care Services (Health Care Services)

Criteria

SOCIAL SECURITY ACT, TITLE XIX—GRANTS TO STATES FOR MEDICAL ASSISTANCE PROGRAMS, Section 1920—Presumptive Eligibility for Pregnant Women

(1) A state plan approved under Section 1902 may provide for making ambulatory prenatal care available to a pregnant woman during a presumptive eligibility period

(c)(1) The state agency shall provide qualified providers with:

(A) such forms as are necessary for a pregnant woman to make application for medical assistance under the state plan, and

(B) information on how to assist such women in completing and filing such forms.

(2) A qualified provider that determines under subsection (b)(1)(A) that a pregnant woman is presumptively eligible for medical assistance under a state plan shall:

(A) notify the state agency of the determination within five working days after the date on which determination is made, and

(B) inform the woman at the time the determination is made that she is required to make application for medical assistance under the state plan by not later than the last day of the month following the month during which the determination is made.

Condition

The presumptive eligibility component of this program provides immediate and temporary Medi-Cal coverage for residents of the State of California (State) who are pregnant but who do not have health insurance or Medi-Cal coverage for prenatal care. Health Care Services grants the right to qualified providers to enroll recipients under this program. Because the program provides immediate and temporary care before the approval of Medi-Cal eligibility, recipients enrolled in presumptive eligibility are not considered Medi-Cal eligible; therefore, these recipients are not entered into Health Care Services' eligibility systems.

Each recipient presumed to be eligible is assigned a prenumbered identification card (obtained from Health Care Services by the provider) that begins with a county identification number and presumptive eligibility aid code. The paper documentation, including the application and presumptive eligibility identification card, are retained by the provider.

The provider is required by the state plan to submit to Health Care Services for retention a weekly enrollment summary of all presumptive eligibility identification numbers issued to Health Care Services. Health Care Services is required to retain the documents for three years. However, the supporting documentation for presumptive eligibility is retained by Health Care Services, and the claim adjudication process is performed by the State's fiscal intermediary, Electronic Data Systems (EDS), which does not perform verification procedures for the presumed eligible recipients. The EDS mainframe processing is set to bypass the eligibility check if it recognizes the special sequencing of the presumptive eligibility identification number.

As we found in our prior-year audit, Health Care Services does not reconcile the presumptive eligibility numbers against the enrollment list filed with Health Care Services because of staffing limitations. However, Health Care Services is pursuing an automated process to post the presumptive eligibility identification numbers to the Medi-Cal eligibility system so that records for these recipients can be accessed to authenticate, reconcile, and prevent duplicate issuances of the presumptive eligibility numbers during the claims adjudication process. Therefore, adequate tracking of presumptive eligibility numbers apparently does not occur, and there is the risk that duplicate issuances of numbers or unauthorized use may occur because the existence of the recipients is not authenticated. Health Care Services did not provide the amount of expenditures paid during fiscal year 2008–09 under presumptive eligibility rules.

The American Reinvestment and Recovery Act of 2009 (Recovery Act) granted an additional 11.59 percent as the enhanced Federal Medical Assistance Percentage to the State for medical assistance expenditures. The State's total Recovery Act expenditures during fiscal year 2008–09 amounted to $2.8 billion. The absence of a reconciliation of presumptive eligibility numbers to the enrollment list may result in the spending of Recovery Act funding on individuals who do not meet Medicaid eligibility requirements.

Questioned Costs

No specific questioned costs were identified.

Recommendations

Health Care Services should strengthen its internal controls process to obtain and track the presumptive eligibility identification numbers issued for Medi-Cal to prevent unauthorized use of identification numbers. Further, Health Care Services should perform procedures to authenticate the existence of the recipients, prevent duplicate issuances, and reconcile the presumptive eligibility numbers against the enrollment list filed at Health Care Services during the claims adjudication process.

Department's View and Corrective Action Plan

Health Care Services lacks the resources—in terms of both staff and budget—necessary to initiate the system modifications recommended without foundation or other funding appropriated by the Legislature. However, Health Care Services will continue to work with the proposed development of the Enrollment Enterprise Portal, which is a single Web-based application process for multiple programs, to incorporate the presumptive eligibility program for pregnant women. In addition, Health Care Services will evaluate how presumptive eligibility for pregnant women will fit within the centralized eligibility program currently being planned under legislation signed by the governor authorizing a centralized eligibility system (Assembly Bill 4X). Under the centralized eligibility program, the departments of Health Care Services and Social Services will develop a statewide eligibility and enrollment determination process for the California Work Opportunities and Responsibility to Kids (CalWORKs) program, the Medi-Cal program, and the Supplemental Nutrition Assistance Program

(SNAP). As part of the functions of the centralized eligibility program, the entity performing the eligibility determinations must make accurate determinations and redeterminations of eligibility for CalWORKs, Medi-Cal, and SNAP. The determination process for the presumptive eligibility program would be incorporated under this centralized eligibility program.

Reference Number:	2009-8-6
Federal Catalog Number:	93.917
Federal Program Title:	HIV Care Formula Grants
Federal Award Numbers and Years:	X07HA12778; 2009 X07HA00041; 2008
Category of Finding:	Period of Availability
State Administering Department:	Department of Public Health (Public Health)

Criteria

TITLE 45—PUBLIC WELFARE, PART 74—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR AWARDS AND SUBAWARDS TO INSTITUTIONS OF HIGHER EDUCATION, HOSPITALS, OTHER NONPROFIT ORGANIZATIONS, AND COMMERCIAL ORGANIZATIONS, Section 74.21—Standards for Financial Management Systems

(b) Recipients' financial management systems shall provide for the following:

(2) Records that identify adequately the source and application of funds for HHS-sponsored activities. These records shall contain information pertaining to federal awards, authorizations, obligations, unobligated balances, assets, outlays, income and interest.

(3) Effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes.

(7) Accounting records, including cost accounting records, that are supported by source documentation.

TITLE 45—PUBLIC WELFARE, PART 74—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR AWARDS AND SUBAWARDS TO INSTITUTIONS OF HIGHER EDUCATION, HOSPITALS, OTHER NONPROFIT ORGANIZATIONS, AND COMMERCIAL ORGANIZATIONS, Section 74.28—Period of Availability of Funds

Where a funding period is specified, a recipient may charge to the award only allowable costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the HHS awarding agency pursuant to Section 74.25(d)(1).

Condition

During our review of Public Health's compliance with federal requirements for using grant funds only during their period of availability, we selected a sample of 60 expenditures to ascertain whether Public Health obligated and liquidated them within the required time frames. For four of the 60 expenditures sampled, Public Health was unable to provide supporting documentation, such as claim schedules, to show that the four expenditures were obligated within the period of availability.

Questioned Costs

$443,000 of the $46.1 million in sampled program disbursements.

Recommendation

Public Health should strengthen its policies and procedures to ensure expenditures charged to the grant award were incurred within the appropriate period of availability.

Department's View and Corrective Action Plan

Public Health agrees with the recommendation to strengthen our policies and procedures to ensure expenditures charged to the grant award are incurred within the appropriate period of availability. Accounting staff that pay invoices to vendors were instructed in November 2009 to enter the project and work phase of the grant period, provided by program staff, into the California State Accounting and Reporting System to ensure that expenditures are charged to the appropriate period of availability. Staff will be regularly reminded of this policy during subsequent staff meetings.

Also presentations were given to program staff in September 2009 and October 2009 that provided an overview of the federal award process. Program staff were instructed to provide project and work phase on all invoices to ensure that the appropriate period of availability would be charged. Continued reminders will be given to program staff.

Reference Number:	2009-12-14
Federal Catalog Number:	93.917
Federal Program Title:	HIV Care Formula Grants
Federal Award Numbers and Years:	X07HA12778; 2009 X07HA00041; 2008
Category of Finding:	Reporting
State Administering Department:	Department of Public Health (Public Health)

Criteria

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

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

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

Condition

We noted that Public Health did not maintain supporting documentation for the annual Final Progress Report that it submitted for 2008. Specifically, Public Health was unable to provide supporting documentation for one of the three sampled line items on the Final Progress Report. The unsupported

line item was reported as $1,087,068 in administrative expenditures from the Care Service Program. Public Health appears not to have implemented policies that require it to maintain documentation for required reporting, which resulted in unsupported information reported on the Final Progress Report.

Questioned Costs

No specific questioned costs were identified.

Recommendation

We recommend that Public Health enhance current policies and procedures to ensure that it retains supporting documents and calculations so that it complies with specified reporting and document retention requirements.

Department's View and Corrective Action Plan

Public Health agrees with this finding and recommendation. The Office of AIDS will institute procedures and a tracking system to maintain documentation for federal reports and to provide future auditors with a format that is readily available. This tracking system will also ensure that all administrative costs associated with the program contractors are easily identifiable and available. This procedure and tracking system will be developed and instituted with the Office of AIDS by April 1, 2010.

Reference Number:	2009-12-15
Federal Catalog Number:	93.767
Federal Program Title:	State Children's Insurance Program
Federal Award Numbers and Years:	05-0905CA5021; 2009 05-0805CA5021; 2008 05-08A5CA5021; 2008 05-0805CAMSEA; 2008
Category of Finding:	Reporting
State Administering Department:	Department of Health Care Services (Health Care Services)

Criteria

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

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

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

Condition

Health Care Services did not ensure that amounts listed on its reports for the Centers for Medicare and Medicaid Services' Quarterly Children's Health Insurance Program Statement of Expenditures for Title XXI (CMS-21) were classified correctly. Health Care Services stated that it does not receive enough information from its fiscal intermediary, Electronic Data Systems (EDS), to be able to reconcile and report program expenditures accurately by category of service, as required. This finding repeats our finding from the prior year.

Health Care Services was able to work with its contractor, EDS, to redesign the CMS-21 Accounting System to include the capability to report accurately all program expenditures by category of service; however, the improvements were not implemented until June 22, 2009.

Questioned Costs

No specific questioned costs were identified.

Recommendation

Health Care Services should continue to monitor the system to ensure that it contains the appropriate information to allow it to report accurately all program expenditures by category of service.

Department's View and Corrective Action Plan

Health Care Services implemented the System Development Notice (SDN) 08041, *Add Federal Financial Participation (FFP) to the Claim Activity Record*, in June 2009. The objective of this SDN was to modify the California Medicaid Management Information System Monitoring and Reporting Subsystem to capture—on the paid claims in the weekly adjudicated claim files only—the FFP funding source for the Medi-Cal and Healthy Families programs. This SDN includes the requirement that all Centers for Medicare and Medicaid Services summary reports produced by accounting have traceability to the original claims. This traceability will provide the needed documentation whenever the summary reports are audited and the traceability of each claim's federal funding percentage is examined.

Reference Number:	2009-12-16
Federal Catalog Number:	93.778
Federal Program Title:	Medicaid Cluster—Medical Assistance Program (Medi-Cal)
Federal Award Numbers and Years:	0905CAARRA; 2009 05-0905CA5028; 2009 05-0805CA5028; 2008
Category of Finding:	Reporting
State Administering Department:	Department of Health Care Services (Health Care Services)

Criteria

TITLE 42—PUBLIC HEALTH, PART 431—STATE ORGANIZATION AND GENERAL ADMINISTRATION, Subpart A—Single State Agency, Section 431.17—Maintenance of Records

(b) *Content of records*. A state plan must provide that the Medicaid agency will maintain or supervise the maintenance of the records necessary for the proper and efficient operation of the plan. The records must include:

(2) Statistical, fiscal, and other records necessary for reporting and accountability as required by the Secretary [of Health and Human Services].

Condition

Health Care Services did not ensure that amounts listed on reports for the Centers for Medicare and Medicaid Services' Quarterly Statement of Expenditures for the Medical Assistance Program (CMS-64) are classified correctly. Health Care Services stated that it does not receive enough information from its fiscal intermediary, Electronic Data Systems (EDS), to be able to reconcile and report program expenditures accurately by category of service, as required. This finding repeats our finding from the prior year.

In June 2009 Health Care Services, in conjunction with EDS, implemented the System Development Notice (SDN) 08041, *Add Federal Financial Participation (FFP) to the Claim Activity Record*, which corrected the issue. However, the corrective action was only implemented for one month (June 2009) out of the entire fiscal year 2008–09.

The American Reinvestment and Recovery Act of 2009 (Recovery Act) granted an additional 11.59 percent as the enhanced Federal Medical Assistance Percentage to the State of California (State) for medical assistance expenditures. The State's total Recovery Act expenditures during fiscal year 2008–09 amounted to $2.8 billion. The lack of claim traceability on fee-for-service claims made us unable to verify the accuracy of the classification of expenditures for individual claims as the claims relate to Recovery Act funding.

Questioned Costs

No specified questioned costs were identified.

Recommendation

Health Care Services should continue to ensure that FFP is traceable to the Claim Activity Record so that classification of expenditures can be traced to individual claims.

Department's View and Corrective Action Plan

Health Care Services submitted SDN 08041 to EDS for action. The objective of this SDN was to modify the California Medicaid Management Information System Monitoring and Reporting Subsystem to capture the FFP funding source—on the paid claims in the weekly adjudicated claim files only—for the Medi-Cal and Healthy Families programs. This SDN includes the requirement that all CMS summary reports produced by accounting have traceability to the original claims. This traceability will provide the needed documentation whenever the summary reports are audited and the traceability of each claim's federal funding percentage is examined.

This SDN was implemented on June 22, 2009.

Reference Number:	2009-13-19
Federal Catalog Number:	93.778
Federal Program Title:	Medicaid Cluster—Medical Assistance Program (Medi-Cal)

Federal Award Numbers and Years:	05-0905CA5028; 2009 05-0805CA5028; 2008
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Health Care Services (Health Care Services)

Criteria

TITLE 31—MONEY AND FINANCE, SUBTITLE V—GENERAL ASSISTANCE ADMINISTRATION, CHAPTER 75—REQUIREMENTS FOR SINGLE AUDITS, Section 7502—Audit Requirements; Exemptions

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

(d) Provide the subrecipient program names (and any identifying numbers) from which such assistance is derived, and the federal requirements, which govern the use of such awards and the requirements of this chapter.

Condition

Health Care Services is required to disclose to its subrecipients the program information (for example, program names and identifying numbers) and to provide them with the federal program regulations with which they must comply. For the sample of 40 agreements passing through federal funds to subrecipients, we noted that 21 of the agreements—all of which were in place before 2008—did not contain the identifying Catalog of Federal Domestic Assistance (CFDA) number of the federal program that Health Care Services passed through to the subrecipients.

As a result, Health Care Services disbursed more than $1.4 billion to subrecipients without communicating complete award information for fiscal year 2008–09, and these omissions increased the risk that subrecipients may not follow federal requirements for the program, which include having an audit performed under Office of Mangement and Budget Circular A-133.

Questioned Costs

No specified questioned costs were identified.

Recommendation

Health Care Services should ensure that the identifying number of the federal program is included in each of its subgrant agreements.

Department's View and Corrective Action Plan

Health Care Services revised contract documents in 2008 to include the CFDA number. Contracts typically span three years. Health Care Services has incorporated the new language into contracts as they come up for renewal. By December 31, 2010, all contracts will contain the CFDA number.

Reference Number:	2009-14-10
Federal Catalog Number:	93.778
Federal Program Title:	Medicaid Cluster—Medical Assistance Program (Medi-Cal)

Federal Award Numbers and Years:	0905CAARRA; 2009 05-0905CA50001; 2009 05-0805CA50001; 2008
Category of Finding:	Special Tests and Provisions— Provider Eligibility
State Administering Department:	Department of Health Care Services (Health Care Services)

Criteria

TITLE 42—PUBLIC HEALTH, PART 431—STATE ORGANIZATION AND ADMINISTRATION, Subpart C—Administrative Requirements: Provider Relations, Section 31.107—Required Provider Agreement

(b) Agreements. A state plan must provide for an agreement between the Medicaid agency and each provider or organization furnishing services under the plan in which the provider or organization agrees to:

(1) Keep any records necessary to disclose the extent of services the provider furnishes to recipients;

(2) On request, furnish to the Medicaid agency, the Secretary [of Health and Human Services], or the state Medicaid fraud control unit (if such a unit has been approved by the Secretary under Section 455.300 of this chapter), any information maintained under paragraph (b)(1) of this section and any information regarding payments claimed by the provider for furnishing services under the plan;

(3) Comply with the disclosure requirements specified in Part 455, Subpart B, of this chapter; and

(4) Comply with the advance directives requirements for hospitals, nursing facilities, providers of home health care and personal care services, hospices, and HMOs specified in Part 489.

Condition

The determination of the eligibility for Medi-Cal providers in the State of California (State) is split between Health Care Services' Provider Enrollment Division (PED) and the Licensing and Certification (L&C) Program of the Department of Public Health (Public Health). The PED enrolls nonfacility providers (including doctors, pharmacies, and medical groups) and the L&C Program is responsible for determining the eligibility of facility providers (such as hospitals and long-term care facilities) within California.

We selected a sample of both facility and nonfacility providers and requested copies of the provider agreements and required disclosure statements from the PED and the L&C Program. We noted that the PED and the L&C Program did not retain federally required provider agreements for 14 of the 50 providers. The breakdown of the providers is as follows:

- One of the 15 nonfacility providers (i.e., optometrist, doctors, and pharmacies) sampled at Health Care Services did not have a provider agreement.

- Thirteen of the 35 facility providers (i.e., hospitals and long-term care facilities) sampled did not have a provider agreement at Public Health.

Total exceptions amounted to $80,294 of the sampled $145,670 in federal Medicaid expenditures for fee-for-service claims. The State's total federal Medicaid expenditures for fee-for-service claims amounted to $9.5 billion for fiscal year 2008–09. Due to the enhanced Federal Medical Assistance

Percentage of 11.59 percent, an additional $18,612 was funded by the American Reinvestment and Recovery Act of 2009 (Recovery Act). Total Recovery Act expenditures for fee-for-service claims amounted to $1.4 billion for fiscal year 2008–09.

Questioned Costs

$80,294 of the $145,670 expenditures sampled and $18,612 in Recovery Act expenditures.

Recommendations

Health Care Services and Public Health should strengthen their controls to retain all provider agreements and continue efforts to ensure that they obtain the appropriate certifications and agreements.

Department's View and Corrective Action Plan

Health Care Services concurs with the recommendation to strengthen its controls to retain all provider agreements and continue efforts to ensure that it obtains the appropriate agreements.

The finding's first bulleted item notes that one nonfacility provider did not have a provider agreement on file at Health Care Services. Research indicates that one provider was enrolled in May 1989, and the other was enrolled in February 1999. Before November 1999, the PED did not require its Medicaid providers to submit a provider agreement with the application package. The PED has since updated its provider enrollment process to require provider agreements, and it maintains its plan to reenroll all Medi-Cal providers as a continuous process as resources are available. In addition, PED continues to work in conjunction with Health Care Services' audits and investigations division to reenroll providers identified as high-risk, including identified pre-1999 providers. To retain eligibility for Medi-Cal, reenrolled providers are required to submit a reenrollment application package updated to current federal standards. The PED has also updated its requirements so that all providers must submit new application packages to report new, additional, or changes of service locations. In addition, state law requires that a new application be submitted when there is a change in business entity. Health Care Services continuously verifies provider information to ensure compliance with state and federal requirements in its ongoing reenrollment efforts. Both of the PED nonfacility providers without provider agreements were drugstore chains that had not made any changes requiring new applications since their effective enrollment dates.

The finding's second bulleted item notes that 13 of the 35 facility providers did not have a provider agreement on file at Public Health. As noted by the auditors, Public Health's L&C Program is responsible for determining the eligibility of facility providers within California. According to Interagency Agreement 07-65492 executed in fiscal year 2007–08, Public Health is to collect, maintain, and store enrolled facility provider records, including provider agreements. In 2008, a new provider agreement for facility providers was jointly developed by Health Care Services and Public Health. Public Health is currently in the process of collecting new provider agreements from facility providers.

Macias, Gini & O'Connell LLP

U.S. DEPARTMENT OF AGRICULTURE

Reference Number:	2009-13-25
Federal Catalog Numbers:	10.553, 10.555, 10.556, 10.559
Federal Program Titles:	Child Nutrition Cluster: School Breakfast Program, National School Lunch Program, Special Milk Program for Children, Summer Food Service Program for Children
Federal Award Number and Year:	58-3198-7430; 1998
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Education (Education)

Criteria

TITLE 7—AGRICULTURE, PART 3016—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS, Subpart C—Post-Award Requirements, Section 3016.37—Subgrants

(a) States. States shall follow state law and procedures when awarding and administering subgrants (whether on a cost reimbursement or fixed amount basis) of financial assistance to local and Indian tribal governments. States shall:

(1) Ensure that every subgrant includes any clauses required by federal statute and executive orders and their implementing regulations;

(2) Ensure that subgrantees are aware of requirements imposed upon them by federal statute and regulation.

TITLE 31—MONEY AND FINANCE, SUBTITLE V—GENERAL ASSISTANCE ADMINISTRATION, CHAPTER 75—REQUIREMENTS FOR SINGLE AUDITS, Section 7502—Audit Requirements, Exemptions

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

(a) provide such subrecipient the program names (and any identifying numbers) from which such assistance is derived, and the federal requirements which govern the use of such awards and the requirements of this chapter;

(d) require each of its subrecipients of federal awards to permit, as a condition of receiving federal awards, the independent auditor of the pass-through entity to have such access to the subrecipient's records and financial statements as may be necessary for the pass-through entity to comply with this chapter.

Condition

This finding repeats an audit finding that we reported for fiscal year 2007–08. Education supplies its local educational agencies (LEAs) with reports of donated commodities received during the fiscal year from Education's commodity distribution unit. However, these reports do not contain award identification information to inform LEAs that commodities received represent federal expenditures of the National School Lunch Program, Catalog of Federal Domestic Assistance (CFDA) Number 10.555. These expenditures are required to be included in LEAs' total federal expenditures that are subject to LEAs' annual Office of Management and Budget (OMB) Circular A-133 single audit (A-133 audit). Without such information, LEAs may fail to subject these federal expenditures to their annual A-133 audits.

Questioned Costs

There are no questioned costs.

Recommendation

Education should implement the new process to communicate the award information for the donated commodities effective immediately.

Department's View and Corrective Action Plan

On February 24, 2009, Education received guidance from the U.S. Department of Agriculture (USDA), Food and Nutrition Service, regarding the reporting requirements for donated commodities. Using this guidance, Education informed LEAs of the designated CFDA number for the Food Distribution Program by including it on the annual USDA Commodity Agency Information Update/Annual Inventory Certification form that is sent to renewing LEAs by March 30 each year and by placing the number on the Agreement For Distribution of Donated Food for new LEAs. For fiscal year 2009–10, the CFDA number will allow LEAs to identify appropriately the correct CFDA number for their commodity entitlements in the LEAs' A-133 audits.

Reference Number:	2009-13-26
Federal Catalog Numbers:	10.553, 10.555, 10.556, 10.559
Federal Program Titles:	Child Nutrition Cluster: School Breakfast Program, National School Lunch Program, Special Milk Program for Children, Summer Food Service Program for Children
Federal Award Number and Year:	58-1398-7430; 1998
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Education (Education)

Criteria

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

The auditee shall:

(b) Maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.

Condition

Of the 60 on-site review files tested, two instances for the Summer Food Service Program for Children lacked the proper management review and approval on the Review Process Transmittal Form (transmittal form). The transmittal form is part of Education's internal control over subrecipient monitoring that calls for management's review and approval of the documentation of site visits conducted by staff. Without proper review and approval of documentation, there is an increased risk that site visits are not accurate or complete.

Questioned Costs

There are no questioned costs.

Recommendation

We recommend that Education adhere to its policy and procedures and ensure that all site visits are properly reviewed and approved by management and that it retains such evidence of review and approval in the site-visit files.

Department's View and Corrective Action Plan

Although the transmittal forms referred to by the auditors were appropriately reviewed and approved, the original transmittal forms inadvertently were not returned to the master file after the approval process. Education will strengthen procedures for processing review files by ensuring that all original documents are retained by appropriate staff. In addition, Education has implemented procedures for maintaining a custodial trail of original documents.

Reference Number:	2009-14-14
Federal Catalog Numbers:	10.553, 10.555, 10.556, 10.559
Federal Program Titles:	Child Nutrition Cluster: School Breakfast Program, National School Lunch Program, Special Milk Program for Children, Summer Food Service Program for Children
Federal Award Number and Year:	58-3198-7430; 1998
Category of Finding:	Special Tests and Provisions— Accountability for Commodities
State Administering Department:	Department of Education (Education)

Criteria

TITLE 7—AGRICULTURE CHAPTER II—FOOD AND NUTRITION SERVICE, DEPARTMENT OF AGRICULTURE, PART 250—DONATION OF FOODS FOR USE IN THE UNITED STATES, ITS TERRITORIES AND POSSESSIONS AND AREAS UNDER ITS JURISDICTION, Subpart B—General Operating Provisions, Section 250.14—Warehousing, Distribution, and Storage of Donated Foods

(e) Physical inventory. During the annual review required by paragraph (c) [Page 533] of this section, distributing agencies and subdistributing agencies shall take a physical inventory of their storage facilities. The physical inventory shall be reconciled with each storage facility's book inventory. The reconciliation records shall be maintained by the agency that contracted for or maintained the storage facility. Food items that have been lost, stolen, or found to be out of condition, shall be identified and recorded. Potential excessive inventory, as described in paragraph (f) of this section, shall be reported by the subdistributing agency to the distributing agency. Corrective action on each deficiency noted during these inventories shall be initiated immediately, and a written report of those corrective actions shall be forwarded to the distributing agency. Where applicable, the distributing agency shall pursue claims in accordance with Section 250.15(c).

Condition

This finding repeats an audit finding that we reported for fiscal year 2007–08. During our testing of accountability for commodities, we noted that Education performs semiannual inventory counts of its commodities on June 30 and December 31 each year, and it reconciles those counts to its perpetual inventory system. One of our procedures is to use the December 31 inventory count and roll forward to the June 30 inventory count using the receiving and shipping documentation to account for the activity. However, for 19 of the 20 commodities, we were unable to reconcile the activity to the June 30 inventory count. Therefore, there is a risk that Education is not properly accounting for commodities, and Education is not in compliance. This problem with accountability is due to the old inventory system's not capturing various manual adjustments made to inventory balances and to the fact that the that new Warehouse Management System (WMS) bar-coding program is still in the process of being implemented.

Questioned Costs

There are no questioned costs.

Recommendation

We recommend that Education ensure that it reconciles the receiving and shipping activity to the perpetual inventory system based on the last inventory count.

Department's View and Corrective Action Plan

Education has installed and is currently testing various software enhancements. For example, Education is currently developing the Food Distribution Program module within its newly developed Child Nutrition Information and Payment System (CNIPS). The CNIPS is a Web-based system for administering federal and state nutrition programs to ensure easier submission and tracking of applications, claims, changes, and commodity requests. Education is also implementing the InveTrak WMS, a new inventory bar-coding system that will track the amount of donated commodities ordered, received, and distributed to recipient agencies. However, the WMS has been delayed due to unexpected software issues. Once the CNIPS and WMS are deemed to be working as intended, Education will integrate the two systems.

U.S. DEPARTMENT OF EDUCATION

Reference Number:	2009-1-16
Federal Catalog Number:	84.010
Federal Program Title:	Title I, Part A Cluster: Title I Grants to Local Educational Agencies
Federal Award Number and Year:	S010A060005A; 2006
Category of Finding:	Activities Allowed; Cash Management
State Administering Department:	Department of Education (Education)

Criteria

TITLE 34—EDUCATION, PART 80—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS FOR STATE AND LOCAL GOVERNMENTS, Section 80.20—Standards for Financial Management Systems

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

Condition

For our testing of disbursements related to eight apportionment schedules, Education could not locate a Summary Cover Memo for the Approved Schedule of Apportionment for federal fiscal year 2006. This resulted in our not being able to verify that the apportionment calculation was approved or that the amount to be paid was approved.

Questioned Costs

There are no questioned costs.

Recommendation

We recommend that the Title I program Administrator retain fully approved copies or originals of each Notice of Apportionment package.

Department's View and Corrective Action Plan

Although Education maintains the Summary Cover Memos to document the approvals of apportionment calculations, the exception noted by the auditors appears to be an isolated incident where the Summary Cover Memo was inadvertently misplaced. Education will remind the appropriate staff to retain all Summary Cover Memos in the future.

Reference Number:	2009-2-8
Federal Catalog Number:	84.048
Federal Program Title:	Career and Technical Education—Basic Grants to States

Federal Award Numbers and Years:	V048A080005; 2008 V048A070005; 2007 V048A060005; 2006
Category of Finding:	Allowable Costs
State Administering Department:	Department of Education (Education)

Criteria

TITLE 34—EDUCATION, PART 75—DIRECT GRANT PROGRAMS, Subpart F—What Are the Administrative Responsibilities of a Grantee? Section 75.702—Fiscal Control and Fund Accounting Procedures

A grantee shall use fiscal control and fund accounting procedures that insure proper disbursement of and accounting for federal funds.

Condition

This finding repeats an audit finding that we reported for fiscal year 2007–08. During our review of state administrative expenditures charged to the program, we examined the process and controls for recording payroll expenditures charged to federal programs. Employees complete a monthly personnel activity report (time sheet) that must account for their total activities. Each time sheet must be signed by the employee and his or her supervisor. The time sheets are processed and entered into the time accounting system by personnel from the Fiscal and Accounting Services Division (FASD). The federal program fiscal analyst is responsible for reviewing the payroll charges to the program for accuracy and completeness and for notifying the FASD of any corrections. However, there is no evidence that the fiscal analyst is performing this control.

During testing of payroll charges, we noted no discrepancies between time charged on the time sheets and time recorded in the time accounting system.

Questioned Costs

There are no questioned costs.

Recommendation

Education should strengthen its policies and procedures to ensure that it maintains evidence of the monthly review of payroll charges to federal programs.

Department's View and Corrective Action Plan

Secondary, Career, and Adult Learning Division (SCALD) unit analysts review Labor Distribution Reports monthly to verify that information contained on personnel time sheets has been accurately keyed in by accounting office staff. If discrepancies are found, the analysts take appropriate action to resolve the discrepancy. As noted by the auditors, there were no discrepancies between time charged per the timesheet and time recorded in the time accounting system.

However, to provide evidence that the monthly review of the Labor Distribution Reports is occurring, a "SCALD Monthly Monitor Report for Labor Distribution" form has been created. Unit analysts will complete the form by verifying that a review has been made and whether or not a discrepancy has been found. In the event a discrepancy has been found, an explanation of the action taken to resolve the discrepancy will be documented. The forms will be completed monthly by each unit analyst, signed by the unit administrator, and submitted to the Program and Administrative Support Office.

Reference Number:	2009-3-5
Federal Catalog Number:	84.027
Federal Program Title:	Special Education Cluster: Special Education—Grants to States
Federal Award Number and Year:	H027A080116; 2008
Category of Finding:	Cash Management
State Administering Department:	Department of Education (Education)

Criteria

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

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

Condition

During our review of Education's payments made to the local educational agencies (LEAs), we noted that Education requests cash advances (drawdowns) from the federal government and then requests that payments be made to LEAs and subgrantee contractors by the State Controller's Office (SCO). The Special Education program falls under the Cash Management Improvement Act (CMIA) with a required funding technique of preissuance for payments to LEAs. The preissuance technique for Catalog of Federal Domestic Assistance (CFDA) 84.027 requires the State to disburse cash advances to LEAs not more than three days after the advance is deposited in the state account.

In our sample of 60 disbursements, 41 had a three-day allowance for preissuance. Of those 41 disbursements, four were paid between four and nine days after the cash was received by the SCO.

Questioned Costs

There are no questioned costs.

Recommendations

Education and other state agencies should review current policies and procedures over the issuance of cash advances to LEAs to ensure that the time elapsing between the transfer of funds from the U.S. Treasury and the State's payout of the funds to LEAs complies with the timelines prescribed by the CMIA.

Department's View and Corrective Action Plan

Education does not concur with this finding. Education did not deviate from CMIA policies and procedures that were established by the Department of Finance (DOF) in agreement with the SCO. Although the CMIA report that was submitted to DOF reflects delays, the delays were under ten days. DOF does not require explanation unless the payment exceeds ten days.

Auditor's Comments on Department's View

The procedures we performed were based on requirements in the Code of Federal Regulations and not based on the procedures established by Finance in agreement with the SCO. Although Education may have complied with the procedures established by Finance in agreement with the SCO, the exception noted was based on tests of compliance with the terms of the CMIA agreement between the State and the U.S. Department of the Treasury, which requires that disbursements be made within three days of receipt of the funds.

Reference Number:	2009-3-7
Category of Finding:	Cash Management
State Administering Department:	Department of Education
Federal Catalog Numbers:	84.010, 84.389
Federal Program Titles:	Title I, Part A Cluster: Title I Grants to Local Educational Agencies, Title I Grants to Local Educational Agencies—Recovery Act
Federal Award Numbers and Years:	S389A090005; 2009 S010A080005A; 2008 S010A070005A; 2007 S010A060005A; 2006

Federal Catalog Number:	84.365
Federal Program Title:	English Language Acquisition Grants
Federal Award Numbers and Years:	T365A080005; 2008 T365A080005A; 2008 T365A070005; 2007 T365A070005A; 2007 T365A060005; 2006

Federal Catalog Number:	84.367
Federal Program Title:	Improving Teacher Quality State Grants
Federal Award Numbers and Years:	S367A080005; 2008 S367A080005A; 2008 S367A070005; 2007 S367A060005; 2006 S367A050005; 2005

Criteria

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

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

(7) Cash Management. Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transaction reports to the awarding agency. When advances are made by letter of credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to ensure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.

Condition

This finding repeats an audit finding that we reported for fiscal year 2007–08. During our review of Education's payments made to the local educational agencies (LEAs), we noted that Education does not have an adequate process in place for assessing the cash needs of its subrecipients.

Education requests advance funds from the federal government and makes three predetermined payment advances to LEAs during the fiscal year. Education receives some expenditure information from its subrecipients reported on its annual two-part consolidated application (CONAPP); however, the expenditure information provided is not timely or frequent enough to provide adequate information to Education to assess the cash needs of its LEAs effectively. Part I of the CONAPP is due on the last day of each fiscal year and provides estimates of total program expenditures for that fiscal year. Part II of the CONAPP contains the actual year-end expenditures but is not due to Education until seven months after the end of the fiscal year. The timing of the advance payments made to LEAs does not adequately take their cash needs into consideration because minimal expenditure data or input was obtained from them during the award year.

Questioned Costs

There are no questioned costs.

Recommendation

Education should revise its current policies and procedures for the issuance of cash advances to LEAs to include a more effective monitoring of their cash needs, with the timing of advance payments that will minimize the time elapsing between advances of federal funds and expenditures by LEAs.

Department's View and Corrective Action Plan

To effectively improve cash management over federal programs, Education has established a cash management task force and implemented a pilot project involving LEAs submitting federal cash balances on a quarterly basis using a Web-based reporting system. Education's cash management improvement project commenced with the Title II-Improving Teacher Quality federal program, for the quarter period ending October 31, 2009. Once the pilot project is deemed to be working as intended, Education plans to expand the new processes to other federal programs. For example, Education expanded its most recent Title II pilot quarterly report to include cash balances of the American Recovery and Reinvestment Act (ARRA) of 2009's State Fiscal Stabilization Funds. In addition, Education has dedicated staff and implemented new cash management fiscal monitoring procedures to verify, on a sample basis, LEAs' reported cash balances and to ensure compliance with federal interest requirements.

In addition, Education has established a Federal Cash Management Data Collection Web page specific to Title I, Part A of the Elementary and Secondary Education Act of 1965 and ARRA Title I, Part A. Education utilizes the reported information in determining allocations for subsequently scheduled Title I apportionments.

Education does not concur that this condition is a material weakness in regard to administering the programs.

Reference Number:	2009-3-8
Category of Finding:	Cash Management
State Administering Department:	Department of Education
Federal Catalog Numbers:	84.010, 84.389
Federal Program Titles:	Title I, Part A Cluster: Title I Grants to Local Educational Agencies, Title I Grants to Local Educational Agencies—Recovery Act
Federal Award Numbers and Years:	S389A090005; 2009 S010A080005A; 2008 S010A070005A; 2007 S010A060005A; 2006

Federal Catalog Number:	84.011
Federal Program Title:	Migrant Education—State Grant Program
Federal Award Numbers and Years:	S011A080005; 2008 S011A080005A; 2008 S011A070005; 2007 S011A070005C; 2007 S011A060005; 2006 S011A060005A; 2006

Federal Catalog Numbers:	84.027, 84.173, 84.391, 84.392
Federal Program Titles:	Special Education Cluster: Special Education—Grants to States, Special Education—Preschool Grants, Special Education—Grants to States—Recovery Act, Special Education—Preschool Grants—Recovery Act
Federal Award Numbers and Years:	H391A090116A; 2009 H392A090120A; 2009 H027A080116; 2008 H173A080120; 2008 H027A070116; 2007 H173A070120; 2007 H027A060116; 2006 H173A060120; 2006

Federal Catalog Number:	84.287
Federal Program Title:	Twenty-First Century Community Learning Centers

Federal Award Numbers and Years:	S287C080005; 2008 S287C080005A; 2008 S287C070005; 2007 S287C060005; 2006

Federal Catalog Number:	84.357
Federal Program Title:	Reading First State Grants
Federal Award Numbers and Years:	S357A080005; 2008 S357A070005; 2007 S357A070005A; 2007 S357A060005; 2006 S357A070005A; 2006

Federal Catalog Number:	84.365
Federal Program Title:	English Language Acquisition Grants
Federal Award Numbers and Years:	T365A080005; 2008 T365A080005A; 2008 T365A070005; 2007 T365A070005A; 2007 T365A060005; 2006

Federal Catalog Number:	84.367
Federal Program Title:	Improving Teacher Quality State Grants
Federal Award Numbers and Years:	S367A080005; 2008 S367A080005A; 2008 S367A070005; 2007 S367A060005; 2006 S367A050005; 2005

Federal Catalog Number:	84.394
Federal Program Title:	State Fiscal Stabilization Fund (SFSF)—Education State Grants, Recovery Act (Education Stabilization Fund)
Federal Award Number and Year:	S394A090005A; 2009

Criteria

TITLE 34—EDUCATION, PART 80—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS, Subpart C—Post Award Requirements, Section 80.21—Payment

(i) Interest earned on advances. Except for interest earned on advances of funds exempt under the Intergovernmental Cooperation Act (31 U.S.C. 6501 et seq.) and the Indian Self-Determination Act (23 U.S.C. 450), grantees and subgrantees shall promptly, but at least quarterly, remit interest earned on advances to the Federal agency. The grantee or subgrantee may keep interest amounts up to $100 per year for administrative expenses.

Condition

This finding repeats an audit finding that we reported for 2007–08. During the procedures performed and inquiries made with Education representatives regarding Cash Management, we noted that Education lacks consistent and formally established policies and procedures for monitoring and tracking the local educational agencies' (LEAs) required submission of interest earnings in excess of $100 from program advances. As part of the application process required for LEAs, Education has included in its assurances form the requirements for LEAs to comply with Code of Federal Regulations Title 34—Education, Part 80—Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments. Education is currently remitting to the federal government the interest earnings received from the LEAs; however, there is no monitoring process established to provide assurance that all of the LEAs are complying with this requirement.

On its Notice of First Apportionment, Education notified the LEAs of the requirement to return interest earned over $100 on program advances, and Education included mailing instructions on how to remit payments. LEAs voluntarily remit earned interest to Education, which then forwards those payments to the U.S. Department of Education. Through our review of the expenditure reporting mechanisms, we noted that the consolidated application is not adequately designed to require LEAs to report the amount of interest earned.

Without a formally established monitoring and tracking process for ensuring that all LEAs are properly submitting, on a quarterly basis, interest earnings in excess of $100 from advanced funds, Education cannot properly determine whether all interest earnings in excess of $100 are being remitted to the federal government or whether LEAs are complying with federal guidelines.

Questioned Costs

There are no questioned costs.

Recommendation

To ensure that all LEAs are submitting excess interest earnings greater than the $100 limit, Education needs to establish and implement policies and control procedures that allow for the efficient tracking and monitoring of excess interest earnings by LEAs so that funds can be remitted promptly to the federal government.

Department's View and Corrective Action Plan

During fiscal year 2008–09, Education received over $4 million in interest from LEAs for remittance to the Federal Treasury. In fiscal year 2009–10, Education implemented new monitoring and tracking processes to facilitate LEAs' compliance with federal interest requirements. In July 2009, Education dedicated one staff person to work on cash management to: (1) follow-up and track known non-compliant LEAs; (2) verify, on a sample basis, the reasonableness of LEAs' interest remittances; and (3) assist LEAs in calculating interest on unspent federal program funds. In addition, Education is in the process of re-designing categorical program monitoring procedures to include new fiscal

monitoring components relating to cash management. As part of the cash management monitoring procedures, staff will assess LEAs' federal cash balances and compliance with federal interest requirements; full implementation is contingent upon identification of sufficient resources.

Education also worked collegially with the U.S. Department of Education's Risk Management Services and the Office of Inspector General in developing explanatory guidance on federal interest requirements. The guidance includes information on the federal interest requirements, and detailed instructions and a sample methodology on calculating interest on federal program funds. The new guidance was sent out to all LEAs and posted on Education's Web sites on January 25, 2010.

Reference Number:	2009-5-7
Federal Catalog Number:	84.048
Federal Program Title:	Career and Technical Education— Basic Grants to States
Federal Award Numbers and Years:	V048A080005; 2008 V048A070005; 2007 V048A060006; 2006
Category of Finding:	Eligibility
State Administering Department:	Department of Education (Education)

Criteria

TITLE 34—EDUCATION, PART 80—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS, Section 80.20—Standards for Financial Management Systems

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

TITLE 20—EDUCATION, CHAPTER 44—CAREER AND TECHNICAL EDUCATION, SUBCHAPTER I—CAREER AND TECHNICAL EDUCATION ASSISTANCE TO THE STATES, Part C—Local Provisions, Section 2352—Distribution of Funds for Postsecondary Education Programs

(a) Allocation

(2) Formula

Each eligible institution or consortium of eligible institutions shall be allocated an amount that bears the same relationship to the portion of funds made available under Section 2322(a)(1) of this title to carry out this section for any fiscal year as the sum of the number of individuals who are Federal Pell Grant recipients and recipients of assistance from the Bureau of Indian Affairs enrolled in programs meeting the requirements of Section 2355 of this title offered by such institution or consortium in the preceding fiscal year bears to the sum of the number of such recipients enrolled in such programs within the State for such year.

Condition

During our review of the process for calculating the grant awards, Education could not immediately determine the source of data used in each award year's calculation. Once an appropriate source of data was determined and provided, we tested the calculation work sheets. During our testing of the calculation to determine subgrants awarded to each local educational agency (LEA), we noted that Education calculated the Section 112 grant awards for the 2007 grant year incorrectly. Education is required to allocate the award proportionately. However, because of the error, Education allocated $11,976 to LEAs incorrectly.

Questioned Costs

There are no questioned costs.

Recommendations

We recommend that Education develop a memo for each calculation that narrates the procedures performed and the source of data used to complete the calculation of grant awards. We also recommend that this memo be approved by the reviewing manager to support that the calculation was performed accurately and that a proper review was performed over the calculation.

Department's View and Corrective Action Plan

Education will develop written policies and procedures specific to LEA Section 112 grant awards. The policies and procedures will include information as to the source of data to be used to determine the allocations and the proper maintenance of supporting documentation. The new policies and procedures will also require two levels of review over the calculation and allocation of funds to ensure accuracy prior to notification to the LEAs.

The $11,976 calculation error noted by the auditors resulted in three LEAs being under-allocated by a total of $11,976 in fiscal year 2007–08. To correct this error, in fiscal year 2010–11, the three LEAs will receive an additional amount of funds equal to the amounts under-allocated in fiscal year 2007–08. Although one LEA was over-allocated in fiscal year 2007–08 because of the error, the LEA was not reimbursed for expenditures that exceeded the corrected allocation; therefore, no further action is required.

Reference Number:	2009-7-9
Federal Catalog Number:	84.048
Federal Program Title:	Career and Technical Education— Basic Grants to States
Federal Award Numbers and Years:	V048A080005; 2008 V048A070005; 2007 V048A060005; 2006
Category of Finding:	Level of Effort—Maintenance of Effort
State Administering Department:	Department of Education (Education)

Criteria

TITLE 34—EDUCATION, PART 75—DIRECT GRANT PROGRAMS, Subpart F—What Are the Administrative Responsibilities of a Grantee? Section 75.702—Fiscal Control and Fund Accounting Procedures

A grantee shall use fiscal control and fund accounting procedures that insure proper disbursement of and accounting for federal funds.

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

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

TITLE 20—EDUCATION, CHAPTER 44—VOCATIONAL AND TECHNICAL EDUCATION, SUBCHAPTER III—GENERAL PROVISIONS, PART A—FEDERAL ADMINISTRATIVE PROVISIONS, Section 2391—Fiscal Requirements

(b) Maintenance of Effort

(1) Determination

(A) In general—Except as provided in subparagraphs (B) and (C), no payments shall be made under this chapter for any fiscal year to a State for vocational and technical education programs or tech-prep programs unless the Secretary determines that the fiscal effort per student or the aggregate expenditures of such State for vocational and technical education programs for the fiscal year preceding the fiscal year for which the determination is made, equaled or exceeded such effort or expenditures for vocational and technical education programs, for the second fiscal year preceding the fiscal year for which the determination is made.

(B) Computation—In computing the fiscal effort or aggregate expenditures pursuant to subparagraph (A), the Secretary shall exclude capital expenditures, special one-time project costs, and the cost of pilot programs.

(C) Decrease in Federal support—If the amount made available for vocational and technical education programs under this chapter for a fiscal year is less than the amount made available for vocational and technical education programs under this chapter for the preceding fiscal year, then the fiscal effort per student or the aggregate expenditures of a State required by subparagraph (B) for such preceding fiscal year shall be decreased by the same percentage as the percentage decrease in the amount so made available.

TITLE 20—EDUCATION, CHAPTER 44—CAREER AND TECHNICAL EDUCATION, SUBCHAPTER III—GENERAL PROVISIONS, PART B—STATE ADMINISTRATIVE PROVISIONS, Section 2413—State Administrative Costs

(a) General rule

Except as provided in subsection (b), for each fiscal year for which an eligible agency receives assistance under this chapter, the eligible agency shall provide, from non-Federal sources for the costs the eligible agency incurs for the administration of programs under this chapter, an amount that is not less than the amount provided by the eligible agency from non-Federal sources for such costs for the preceding fiscal year.

(b) Exception

If the amount made available from Federal sources for the administration of programs under this chapter for a fiscal year (referred to in this section as the "determination year") is less than the amount made available from Federal sources for the administration of programs under this

chapter for the preceding fiscal year, then the amount the eligible agency is required to provide from non-Federal sources for costs the eligible agency incurs for the administration of programs under this chapter for the determination year under subsection (a) shall bear the same ratio to the amount the eligible agency provided from non-Federal sources for such costs for the preceding fiscal year, as the amount made available from Federal sources for the administration of programs under this chapter for the determination year bears to the amount made available from Federal sources for the administration of programs under this chapter for the preceding fiscal year.

Condition

This finding repeats an audit finding that we reported for fiscal year 2007–08. During the review of Education's fiscal year 2008–09 maintenance-of-effort (MOE) requirement for the Career and Technical Education program, we noted that there was no review and approval of the MOE calculation.

In addition, Education performs the MOE calculation based on aggregate expenditures. However, the requirement identifies specific expenditures that are excluded from the calculation, and Education's documentation of the calculation does not have enough detail for us to determine whether these expenditures were excluded or not. Upon further inquiry, Education was unable to provide any additional information to support that these excluded expenditures were not included in its calculation.

Furthermore, there is also an Administration expenditures MOE requirement; however, Education did not provide documentation of the calculation determining whether it met this requirement.

Questioned Costs

There are no questioned costs.

Recommendations

Education should enhance its procedures over documentation of the MOE calculation to ensure that unallowable expenditures are excluded. These procedures should also require detailed documentation of the general requirement as well as the Administration requirement. Furthermore, Education should strengthen its controls over the review and approval of its MOE calculation so that it can ensure the accuracy and completeness of the calculation and ensure compliance with the federal regulations.

Department's View and Corrective Action Plan

Education has developed written procedures for the Career and Technical Education Program describing the processes in detail to calculate the MOE utilizing two different allowable calculation methods; one MOE calculation is based on aggregate expenditures, another MOE calculation is based on per student costs. The procedures include specific information on the data sources, where to access the data, and the MOE calculation timelines. The procedures also explain how the results of the MOE calculations are reported to the federal government. After two staff independently perform the MOE calculations, a supervisor reviews the calculations to further ensure accuracy prior to finalization. In addition, the procedures include instructions on retaining documentation to support the MOE calculations.

Reference Number:	2009-7-10
Federal Catalog Numbers:	84.027, 84.173
Federal Program Titles:	Special Education Cluster: Special Education—Grants to States, Special Education—Preschool Grants

Federal Award Numbers and Years:	H027A060116; 2006 H173A060120; 2006
Category of Finding:	Level of Effort—Maintenance of Effort
State Administering Department:	Department of Education (Education)

Criteria

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

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

Condition

A state may not reduce the amount of state financial support for special education and related services for children with disabilities (or state financial support otherwise made available because of the excess costs of educating those children) below the amount of state financial support provided for the preceding fiscal year. If Education fails to meet the maintenance of effort (MOE) requirement, the requirement.

Although the Special Education Division has a control in place to ensure that the MOE calculation is reviewed and approved by the director of the Special Education Division, audit procedures noted an error in the calculation that was not discovered in the review process. The error in this case did not affect MOE compliance.

Questioned Costs

There are no questioned costs.

Recommendation

We recommend that Education enhance policies and procedures regarding the preparation and review of the MOE calculation to ensure that it is being accurately prepared in compliance with the federal guidelines.

Department's View and Corrective Action Plan

Education's existing policies and procedures ensure compliance with the MOE requirements; the exception noted by the auditors appears to be an isolated incident where an immaterial error occurred but was not timely detected in the review process. Education will remind the appropriate staff to carefully review all the MOE calculations in the future.

Reference Number:	2009-7-11
Federal Catalog Number:	84.048
Federal Program Title:	Career and Technical Education— Basic Grants to States
Federal Award Numbers and Years:	V048A080005; 2008 V048A070007; 2007 V048A060005; 2006

Category of Finding:	Level of Effort—Supplement not Supplant
State Administering Department:	Department of Education (Education)

Criteria

TITLE 34—EDUCATION, PART 75—DIRECT GRANT PROGRAMS, Subpart F—What Are the Administrative Responsibilities of a Grantee? Section 75.702—Fiscal Control and Fund Accounting Procedures

A grantee shall use fiscal control and fund accounting procedures that insure proper disbursement of and accounting for federal funds.

Condition

Although Education has policies and procedures in place for monitoring its compliance with the requirement to use program funds to supplement rather than supplant existing funds for its state activities and operations expenditures, there is no documentation that the procedures have been performed. However, we determined from our testing that Education used program funds to supplement rather than supplant.

Questioned Costs

There are no questioned costs.

Recommendation

We recommend that Education's policies and procedures be enhanced to include documentation of the performance of such procedures to ensure that Education is in compliance with this requirement.

Department's View and Corrective Action Plan

Education does not concur with this finding. Education's budgetary processes include built-in controls to ensure that federal funds are not being used to supplant any reduction or elimination of nonfederal appropriated activities. Education's budgetary processes and controls are effective in preventing supplanting as documented and evidenced in Education's accounting and budgetary records.

Auditor's Comment on Department's View

When we requested the noted documentation from Education, it provided us with Education's policy for the process but not with the actual documentation of the performance of the procedures.

Reference Number:	2009-7-12
Category of Finding:	Level of Effort—Maintenance of Effort
State Administering Department:	Department of Education (Education)
Federal Catalog Numbers:	84.010, 84.389
Federal Program Titles:	Title I, Part A Cluster: Title I Grants to Local Educational Agencies, Title I Grants to Local Educational Agencies—Recovery Act
Federal Award Numbers and Years:	S389A090005; 2009 S010A080005A; 2008 S010A070005A; 2007 S010A060005A; 2006

Federal Catalog Number:	84.287
Federal Program Title:	Twenty-First Century Community Learning Centers
Federal Award Numbers and Years:	S287C080005; 2008 S287C080005A; 2008 S287C070005; 2007 S287C060005; 2006

Federal Catalog Number:	84.365
Federal Program Title:	English Language Acquisition Grants
Federal Award Numbers and Years:	T365A080005; 2008 T365A080005A; 2008 T365A070005; 2007 T365A070005A; 2007 T365A060005; 2006

Federal Catalog Number:	84.367
Federal Program Title:	Improving Teacher Quality State Grants
Federal Award Numbers and Years:	S367A080005; 2008 S367A080005A; 2008 S367A070005; 2007 S367A060005; 2006 S367A050005; 2005

Criteria

TITLE 34—EDUCATION, PART 299—GENERAL PROVISIONS, Subpart D—Fiscal Requirements, Section 299.5—What Maintenance of Effort Requirements Apply to ESEA Programs?

(a) General. A LEA receiving funds under an applicable program listed in paragraph (b) of this section may receive its full allocation of funds only if the State Educational Agency (SEA) finds that either the combined fiscal effort per student or the aggregate expenditures of state and local funds with respect to the provision of free public Education in the LEA for the preceding fiscal year was not less than 90 percent of the combined fiscal effort per student or the aggregate expenditures for the second preceding fiscal year.

(d) Expenditures

(1) In determining an LEA's compliance with paragraph (a) of this section, the SEA shall consider only the LEA's expenditures from state and local funds for free public education. These include expenditures for administration, instruction, attendance and health services, pupil transportation services, operation and maintenance of plant, fixed charges, and net expenditures to cover deficits for food services and student body activities.

(2) The SEA may not consider the following expenditures in determining an LEA's compliance with the requirements in paragraph (a) of this section:

(i) Any expenditures for community services, capital outlay, debt service, or supplemental expenses made as a result of a Presidentially declared disaster.

(ii) Any expenditures made from funds provided by the federal government.

U.S. OFFICE OF MANAGEMENT AND BUDGET (OMB) *CIRCULAR A-133 COMPLIANCE SUPPLEMENT* (A-133 COMPLIANCE SUPPLEMENT), PART 3—COMPLIANCE REQUIREMENTS, Suggested Audit Procedures—Compliance

Level of Effort—Maintenance of Effort

2.1(c) Perform procedures to verify that the amounts used in the computation were derived from the books and records from which the audited financial statements were prepared.

Condition

Similar to an issue we reported for fiscal year 2007–08, Education was using unaudited local educational agency (LEA) expenditure figures to calculate compliance with the maintenance-of-effort (MOE) requirements instead of using the final audited expenditures. Upon further inquiry, we noted that LEAs are required to submit their unaudited financial trial balances electronically in the state-required format, Standard Account Code Structure (SACS), to Education by October 15th of each year. These SACS trial balances are then used for all LEA financial measurement calculations (such as level of effort) performed by Education. The final audited financial statements are submitted in hard copy or electronically to Education through the State Controller's Office by December 15th; however, there is not a required follow-up submission of the final SACS trial balance to Education. The financial statements submitted are not at the level of detail that would allow Education to prepare these fiscal effort calculations. There is no policy or procedure in place to review and reconcile the unaudited SACS trial balance to the final audited financial statement or to review the subsequent year's SACS trial balance submission in the following October for any material adjustments to the fund balance for prior-year audit adjustments.

For fiscal year 2008–09, the MOE is based on LEA expenditures for July 1, 2006, through June 30, 2007, which have since been audited and for which the audit reports have been completed and available since December 31, 2007. Education's position is that it will not require LEAs to submit audited data during the 21 months between the audit date and the MOE date of December 2009. Education states that it cannot require LEAs to make an additional submission of the final audited expenditure data used to make these fiscal-effort calculations due to state law. However, by using the unaudited figures, there is a risk that material adjustments or omissions may not be adequately reflected and computed in the MOE calculation.

Questioned Costs

There are no questioned costs.

Recommendation

Education should enhance its current MOE policies and procedures to ensure that they comply with required federal guidelines.

Department's View and Corrective Action Plan

Education sends final MOE calculations back to LEAs if final calculations differ from the preliminary calculations. LEAs are well aware of preliminary calculations because: (1) Form NCMOE, the No Child Left Behind MOE calculation, is a required part of the LEA's submission (LEAs must open and save this

form before they can officially export their data); (2) LEAs must certify certain key values within their submission, including values from Form NCMOE; and (3) the calculation of MOE is well documented in the software user guide.

Education concurs that, by using unaudited amounts, there is a risk that material adjustments or omissions may not adequately be reflected or computed in MOE calculations; however, Education considers this risk minimal. Education initially proposed an addition to the Audit Guide requiring that auditors quantify the impact of audit adjustments in sufficient detail to enable Education to take the adjustment into account when calculating MOE. However, the proposal was not implemented because the Audit Guide Committee determined that, in many cases, it was not practical to identify audit adjustments beyond a summary level. For example, where a sampling of AP indicates that AP is understated, the imputed adjustment to AP in the financial statements is never identified to the resource, function, and object level that would be necessary to assess the impact on the calculation of MOE.

Auditor's Comment on the Department's View

If Education believes that its current approach for calculating MOE complies with federal requirements, it should obtain approval from the U.S. Department of Education. Otherwise, Education should take steps to ensure that the amounts it uses in its MOE calculation were derived from the books and records from which the audited financial statements were prepared.

Reference Number:	2009-8-7
Federal Catalog Number:	84.010
Federal Program Title:	Title I, Part A Cluster: Title I Grants to Local Educational Agencies
Federal Award Number and Year:	S010A070005A: 2007
Category of Finding:	Period of Availability
State Administering Department:	Department of Education (Education)

Criteria

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

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

Condition

In 1988 Congress grew concerned that some local educational agencies (LEAs) were holding on to excessive amounts of Title I funds. As such, the Legislature placed a 15 percent ceiling on the amount of Title I funds that an LEA may carry over from year to year. LEAs receiving less than $50,000 in grants are exempt from the 15 percent limit. States may grant LEAs a waiver of the excess carryover provision for "reasonable and necessary" causes once every three years.

Each year when an LEA applies for Title I funding through completion of the consolidated application (CONAPP), the LEA is required to enter the prior-year actual expenditures on Part I of the CONAPP. The CONAPP calculates any carryover amount over the 15 percent allowed on Part II of

the CONAPP. If there is additional carryover, the school can apply for a waiver. The waiver must be approved by Education's division director in order for the school to carry over more than 15 percent. If a waiver is not allowed, the LEA will be invoiced for the excess carryover, and the amounts will be remitted to Education.

Of the excess carryover for the fiscal year 2007–08 award, 32 waivers were granted to LEAs. Evidence of waiver approval could not be located for nine of the 32 waivers granted.

Questioned Costs

There are no questioned costs.

Recommendation

We recommend that the Title I Programs and Partnerships Office maintain copies of the approved waiver letters as evidence that waiver applications are reviewed and properly approved.

Department's View and Corrective Action Plan

Education will retain the approval waiver letters to document the review and approval of waiver applications.

Reference Number:	2009-12-17
Federal Catalog Number:	84.011
Federal Program Title:	Migrant Education—State Grant Program
Federal Award Numbers and Years:	S011A080005; 2008 S011A080005A; 2008 S011A070005; 2007 S011A070005C; 2007 S011A060005; 2006 S011A060005A; 2006
Category of Finding:	Reporting
State Administering Department:	Department of Education (Education)

Criteria

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

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

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

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

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

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

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

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

Condition

This finding repeats an audit finding that we reported for fiscal year 2007–08. During our review of program reporting requirements, Education's processes and controls over the reporting of information on the Consolidated State Performance Report (CSPR), Part I and II, Migrant Child Counts, were reviewed. We noted that an outside subcontractor gathers the data used to prepare these required reports. Education relies upon the work performed by the outside subcontractor and does not perform any monitoring to ensure that the subcontractor's controls for gathering and compiling the information are effectively helping to ensure the accuracy and completeness of the data supplied to Education. The absence of appropriate monitoring of subcontractors increases the risk that inaccuracies will go undetected. However, we noted during our follow-up of prior-year findings that Education has a proposed plan to enhance its monitoring of its subcontractor.

When we asked to determine the accuracy of the information reported, Education was able to obtain information from the outside subcontractor for the samples selected. For CSPR data submitted on December 19, 2008, and on February 27, 2009, we noted no discrepancies when tracing the amounts reported to supporting documentation provided by the subcontractor.

Our review also noted no evidence that an authorized, knowledgeable individual associated with the program had reviewed the CSPR data before its submission.

Questioned Costs

There are no questioned costs.

Recommendations

Education should enhance its current policies and procedures to include that a detailed review be performed and evidenced as part of its reporting approval. In addition, Education should continue with its planned implementation of enhanced monitoring of its subcontractor to ensure accuracy and completeness of the data compiled and provided to it, which is then reported to the federal awarding agency.

Department's View and Corrective Action Plan

In December 2008, Education established a policy requiring Education program offices to provide detailed documentation supporting CSPR information. In May 2009, Education further enhanced this policy by establishing criteria for the supporting documentation to ensure that it was complete and understandable. Program offices now submit copies of their supporting documentation to Education's CSPR coordinator within 10 days of completing the CSPR; upon reviewing the supporting documentation, the CSPR coordinator will initial and retain the documentation as evidence of review.

Reference Number:	2009-12-18
Federal Catalog Number:	84.048
Federal Program Title:	Career and Technical Education—Basic Grants to States
Federal Award Number and Years:	V048A080005; 2008 V048A070005; 2007 V048A060005; 2006
Category of Finding:	Reporting
State Administering Department:	Department of Education (Education)

Criteria

TITLE 20—EDUCATION, CHAPTER 44—CAREER AND TECHNICAL EDUCATION, SUBCHAPTER I—CAREER AND TECHNICAL EDUCATION ASSISTANCE TO THE STATES, PART A—Allotment and Allocation, Section 2323—Accountability

(c) Report

(1) In general

Each eligible agency that receives an allotment under section 2321 of this title shall annually prepare and submit to the Secretary [of Education] a report regarding—(A) the progress of the state in achieving the state-adjusted levels of performance on the core indicators of performance; and (B) information on the levels of performance achieved by the state with respect to the additional indicators of performance, including the levels of performance for special populations.

(2) Data

Except as provided in paragraphs (3) and (4), each eligible agency that receives an allotment under Section 2321 or Section 2371 of this title shall—(A) disaggregate data for each of the indicators of performance under subsection (b)(2) for the categories of students described in section 6311(h)(1)(C)(i) of this title and Section 2302(29) of this title that are served under this chapter; and (B) identify and quantify any disparities or gaps in performance between any such category of students and the performance of all students served by the eligible agency under this chapter, which shall include a quantifiable description of the progress each such category of students served by the eligible agency under this chapter has made in meeting the state-adjusted levels of performance.

(3) Nonduplication

The secretary shall ensure that each eligible agency does not report duplicative information under this section.

(4) Rules for reporting of data

The disaggregation of data under paragraph (2) shall not be required when the number of students in a category is insufficient to yield statistically reliable information or when the results would reveal personally identifiable information about an individual student.

Condition

During the review of the processes and controls over the Consolidated Annual Performance, Accountability, and Financial Status Report (CAR), we noted that the Perkins data collection system is used to prepare the CAR; however, Education lacks internal controls over this system to ensure that data reported by local educational agencies (LEAs) are complete, accurate, and reliable.

LEAs are required to submit electronically their performance data to Education via the Perkins database system and to give assurances that supporting documentation for this data is maintained. An Education program assistant performs limited data checks by reviewing the data entered by LEAs for obvious outliers and compares the data entered by each LEA to the data entered the previous year. If outliers are noticed, the assistant will follow up with the LEAs regarding the data. Education contracts with the technical support division to program and maintain the Perkins database system. The database system performs some limited data checks for such criteria as the submission deadline, completion, and data incongruity and will not allow LEAs to submit data until all data checks are resolved. There are no procedures for performing samplings of LEA records to ensure completeness and accuracy of data entered.

Questioned Costs

There are no questioned costs.

Recommendation

We recommend that Education develop policies or procedures to validate LEAs' performance data for accuracy and completeness.

Department's View and Corrective Action Plan

Education continues to seek and implement viable changes in its data collection system for Career and Technical Education student performance to improve the quality of the data received from recipients of Perkins funds and to ensure that the aggregated data provided in the annual CAR are complete, accurate, and reliable. Recent system improvements include the following: (1) the development and continued refinement of two Web-based materials designed to inform and assist LEAs with Perkins accountability reporting, and (2) an online state-level data collection system that ensures data consistency and accuracy in reporting, identifies LEAs that failed to file required reports, aggregates performance data required for the annual CAR report, and facilitates the preparation of individual LEA performance-level reports for monitoring individual LEA performance levels.

In addition, Education has implemented new procedures that include withholding approval of LEAs' use of Perkins funds until required annual performance data have been received and have been determined to be complete, accurate, and reliable. The new procedures include the use of the new reporting systems noted above, electronic checks of responses in selected data cells, staff reviews for completeness and consistency of the data provided in each received E-1 and E-2 report, and the withholding of the final approval of an LEA's annual application for funds until the formal review has been completed.

Furthermore, Education plans to enhance existing monitoring processes. For example, Education will require LEAs to conduct self-reviews, including reviews of data collected for the E-1 and E-2 reports. Education will also conduct site-monitoring visits based on suspected inaccuracies in data reporting. During the selected site visits, Education will analyze raw data to ascertain accuracy and reliability of reported data.

Reference Number:	2009-13-20
Federal Catalog Numbers:	84.027, 84.173, 84.391, 84.392
Federal Program Titles:	Special Education Cluster: Special Education—Grants to States, Special Education—Preschool Grants, Special Education—Grants to States—Recovery Act, Special Education—Preschool Grants—Recovery Act
Federal Award Numbers and Years:	H391A090116; 2009 H392A090120A; 2009 H027A080116; 2008 H173A080120; 2008 H027A070116; 2007 H173A070120; 2007 H027A060116; 2006 H173A060120; 2006
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Education (Education)

Criteria

TITLE 31—MONEY AND FINANCE, SUBTITLE V—GENERAL ASSISTANCE ADMINISTRATION, CHAPTER 75—REQUIREMENTS FOR SINGLE AUDITS, Section 7502—Audit Requirements; Exemptions

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

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

(C) review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the director, pertaining to federal awards provided to the subrecipient by the pass-through entity.

TITLE 34—EDUCATION, PART 80—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS, Subpart C—Post-Award Requirements—Financial Administration, Section 80.40—Monitoring and Reporting Program Performance

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

Condition

This finding repeats an audit finding that we reported for fiscal year 2007–08. During our review of subrecipient monitoring, we noted that the program is monitored by Education's Focused Monitoring and Technical Assistance Unit (FMTA), which conducts site visits of the Special Education Local Plan Area Agencies (SELPAs). During fiscal year 2008–09, Education did not perform FMTA visits due to a travel freeze mandated by Education's chief executive, the State Superintendent of Public Instruction.

Through review of Education's policies and procedures regarding its FMTA visits, the following was noted:

- These monitoring site visits consisted of programmatic procedures and did not include procedures over fiscal matters to gain assurance on compliance with fiscal requirements of the program.

- Education requires the school districts to respond—in the majority of instances—with evidence of corrective actions within approximately one year of receiving their notifications of audit results. Allowing such an extended length of time to respond with support for corrective action increases the length of time for the school districts to enact corrective actions, thus extending the period of noncompliance.

Questioned Costs

There are no questioned costs.

Recommendations

Education should enhance its current policies and procedures for subrecipient monitoring, specifically during-the-award monitoring (such as monitoring visits), to ensure that all material program elements, including fiscal matters, are covered and that resolution of corrective actions on deficiencies noted during the award monitoring is performed promptly.

Department's View and Corrective Action Plan

Education's FMTA has developed the following: (1) protocols for monitoring fiscal components; (2) procedures to follow up promptly on outstanding instances of noncompliance; and (3) written assurances to gain assurance on compliance with program fiscal requirements. Implementation of these enhanced monitoring processes and procedures were implemented for the 2009–10 school year and are included as part of the Special Education self-review process.

Reference Number:	2009-13-21
Federal Catalog Number:	84.357
Federal Program Title:	Reading First State Grants
Federal Award Numbers and Years:	S357A08005; 2008 S357A070005; 2007 S357A070005A; 2007 S357A060005; 2006 S357A070005A; 2006
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Education (Education)

Criteria

TITLE 31—MONEY AND FINANCE, SUBTITLE V—GENERAL ASSISTANCE ADMINISTRATION, CHAPTER 75—REQUIREMENTS FOR SINGLE AUDITS, Section 7502—Audit Requirements; Exemptions

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

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

(C) review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the director, pertaining to federal awards provided to the subrecipient by the pass-through entity.

TITLE 34—EDUCATION, PART 80—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS, Subpart C—Post-Award Requirements—Financial Administration, Section 80.40—Monitoring and Reporting Program Performance

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

Condition

During our review of subrecipient monitoring, we noted that Education outsources its monitoring to California Technical Assistance Centers (C-TAC). C-TAC performs program monitoring site reviews of the local educational agencies (LEAs). According to its contract with Education, C-TAC is required to perform three site visits per school district a year. We noted the following compliance issues with Education's monitoring process:

1. We obtained a copy of Education's contract with C-TAC and noted that the responsibilities listed in the contract refer to program implementation and not to program or fiscal subrecipient monitoring. C-TAC uses a standardized monitoring instrument similar to a checklist that details the areas required to be reviewed during a visit. We noted that this monitoring instrument focuses on assisting with program implementation, but it does not contain procedures to ensure that LEAs comply with laws, regulations, and the provisions of contracts or grant agreements; achieve performance goals; or comply with fiscal requirements.
2. C-TAC does not have any type of summary reports of findings that it can provide LEAs or Education to document any issues noted or to convey deadlines to resolve any issues. C-TAC follows up on any implementation issues noted at a site review during its next scheduled site visit, and C-TAC provides Education with a new monitoring instrument completed during the next visit.
3. Education requires that LEAs submit summarized final expenditure reports and program reports. Education reviews the summarized narratives in these reports as its evidence that LEAs are spending funds in accordance with federal guidelines. It has no processes in place to review any details of reported expenditures on a sample basis to ensure that federal funds were spent in accordance with U.S. Office of Management and Budget's *Cost Principles for State and Local Governments* (OMB Circular A-87).

Questioned Costs

There are no questioned costs.

Recommendations

Education should enhance its current maintenance-of-effort policies and procedures to ensure that they comply with required federal guidelines. In addition, we recommend that a formalized process be established to follow up and resolve issues promptly. We also recommend that Education enhance its procedures to include a review of the expenditure reports to ensure program funds are used in accordance with authorized purposes.

Department's View and Corrective Action Plan

The Reading First program will end in FY 2009-10. However, Education will continue to work effectively with the C-TAC and with Reading First Regional Technical Assistance Centers to oversee and improve the monitoring of LEAs involved in the Reading First program and to follow up promptly on known outstanding issues.

Reference Number:	2009-13-22
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Education (Education)

Federal Catalog Numbers:	84.010, 84.389
Federal Program Titles:	Title I, Part A Cluster: Title I Grants to Local Educational Agencies, Title I Grants to Local Educational Agencies—Recovery Act
Federal Award Numbers and Years:	S389A090005; 2009 S010A080005A; 2008 S010A070005A; 2007 S010A060005A; 2006

Federal Catalog Number:	84.011
Federal Program Title:	Migrant Education—State Grant Program
Federal Award Numbers and Years:	S011A080005; 2008 S011A080005A; 2008 S011A070005; 2007 S011A070005C; 2007 S011A060005; 2006 S011A060005A; 2006

Federal Catalog Number:	84.048
Federal Program Title:	Career and Technical Education—Basic Grants to States (Perkins IV)
Federal Award Numbers and Years:	V048A080005; 2008 V048A070005; 2007 V048A060005; 2006

Federal Catalog Number:	84.287
Federal Program Title:	Twenty-First Century Community Learning Centers
Federal Award Numbers and Years:	S287C080005; 2008 S287C080005A; 2008 S287C070005; 2007 S287C060005; 2006

Federal Catalog Number:	84.365
Federal Program Title:	English Language Acquisition Grants
Federal Award Numbers and Years:	T365A080005; 2008 T365A080005A; 2008 T365A070005; 2007 T365A070005A; 2007 T365A060005; 2006

Federal Catalog Number:	84.367
Federal Program Title:	Improving Teacher Quality State Grants
Federal Award Numbers and Years:	S367A080005; 2008 S367A080005A; 2008 S367A070005; 2007 S367A060005; 2006 S367A050005; 2005

Criteria

TITLE 31—MONEY AND FINANCE, SUBTITLE V—GENERAL ASSISTANCE ADMINISTRATION, CHAPTER 75—REQUIREMENTS FOR SINGLE AUDITS, Section 7502—Audit Requirements; Exemptions

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

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

(C) review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the director, pertaining to federal awards provided to the subrecipient by the pass-through entity.

TITLE 34—EDUCATION, PART 80—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS, Subpart C—Post-Award Requirements—Financial Administration, Section 80.40—Monitoring and Reporting Program Performance

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

Condition

As in the case of an issue we reported for fiscal year 2007–08, we reviewed the support for the follow-up by the Categorical Program Monitoring Unit (Categorical Monitoring) to ensure corrective actions on deficiencies noted during Categorical Monitoring's site visits of local educational agencies (LEAs). We tested 11 of the 45 Categorical Monitoring site visits completed during the year and noted the number of days between the notifications of findings issued to the LEAs and the receipt of the final proposed resolution forms that resulted in Education's resolving all deficiencies. Education requires LEAs to resolve all deficiencies within 225 days after they receive their notifications of findings. For three of the 11 site visits tested, the LEAs were significantly late with their final proposed resolution form. For an additional three of the 11 site visits tested, the LEAs were prompt in submitting their final proposed resolution forms, but Education was not prompt in resolving the corrective actions. (Indeed, resolutions exceeded 285 days.)

The delayed resolutions of outstanding Categorical Monitoring deficiencies appear to be due to a combination of delayed follow-up and ineffective sanctions imposed by Education on its LEAs for belated implementation of corrective action plans. Without effective consequences for the delays, LEAs do not have an incentive to implement corrective actions in a timely manner.

Questioned Costs

There are no questioned costs.

Recommendations

Education should enhance its current monitoring policies and procedures to ensure that LEAs implement promptly the proposed corrective actions on deficiencies noted during monitoring visits and that consequences for delayed resolutions are effective for deterring such noncompliance. In addition, once it receives proposed resolution forms from LEAs, Education should be more prompt in resolving corrective actions.

Department's View and Corrective Action Plan

To strengthen existing controls, Education conducted the following actions:

(1) During internal training conducted on September 19, 2008, Education's on-site program monitors (educational program consultants) were given copies of recently revised Categorical Monitoring protocols that provide specific information about the preparation of the notification of findings. The Categorical Monitoring protocols emphasize that findings must include the following components: (1) a statement of the legal requirements, (2) evidence supporting the findings, and (3) a clear statement that describes what the LEA must do to meet legal requirements.

(2) Categorical Monitoring reviews the notification of findings for each monitoring visit. An internal review is conducted by educational program consultants and the Categorical Monitoring administrator to ensure that all required components are documented following an on-site visit.

(3) During the 2008–09 Categorical Monitoring cycle, a pilot of a Web-based compliance tracking system was conducted., In collaboration with the California Comprehensive Center at WestEd, Education launched a pilot of the Web-based compliance tracking system. LEAs in Categorical Monitoring regions 4 and 10 participated in the pilot, which allows LEAs to prepare for Categorical Monitoring on-site visits by submitting program instruments online and allows for uploading documents as evidence of compliance. The system also facilitates timely resolution

of correction actions and reduces the risk of documentation loss. Using the results of the pilot year, Education is in the process of expanding this Web-based compliance tracking system as a component of its overall Categorical Monitoring process.

Reference Number:	2009-13-24
Federal Catalog Number:	84.048
Federal Program Title:	Career and Technical Education— Basic Grants to States
Federal Award Numbers and Years:	V048A080005; 2008 V048A070005; 2007 V048A060005; 2006
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Education (Education)

Criteria

TITLE 20—EDUCATION, CHAPTER 44—CAREER AND TECHNICAL EDUCATION, SUBCHAPTER I—CAREER AND TECHNICAL EDUCATION ASSISTANCE TO THE STATES, PART A—ALLOTMENT AND ALLOCATION, Section 2323—Accountability

(b) State performance measures

(4) Local levels of performance

(C) Local report—

(ii) Data—Except as provided in clauses (iii) and (iv), each eligible recipient that receives an allocation described in Section 2322 of this title shall—

(l) disaggregate data for each of the indicators of performance under paragraph (2) for the categories of students described in section 6311(h)(1)(C)(i) of this title and Section 2302(29) of this title that are served under this chapter; and

(ll) identify and quantify any disparities or gaps in performance between any such category of students and the performance of all students served by the eligible recipient under this chapter.

TITLE 20—EDUCATION, CHAPTER 44—CAREER AND TECHNICAL EDUCATION, SUBCHAPTER I—CAREER AND TECHNICAL EDUCATION ASSISTANCE TO THE STATES, PART B—STATE PROVISIONS, Section 2342—State Plan

(c) Plan contents—The state plan shall include information that—

(13) describes how the eligible agency will report data relating to students participating in career and technical education in order to adequately measure the progress of the students, including special populations, and how the eligible agency will ensure that the data reported to the eligible agency from local educational agencies and eligible institutions under this subchapter and the data the eligible agency reports to the Secretary [of Education] are complete, accurate, and reliable.

Condition

According to the testing performed by the Categorical Program Monitoring Unit (Categorical Monitoring) and inquiry with Education staff, we determined that Education's monitoring system fails to address or analyze local performance data and the degree to which eligible recipients address performance shortfalls of special population categories, as required by federal regulations.

Questioned Costs

There are no questioned costs.

Recommendation

We recommend that Education revise its monitoring system to provide for a more comprehensive review of special populations' performance data and achievement levels, as required by federal regulations.

Department's View and Corrective Action Plan

To strengthen existing controls, Education conducted the following actions:

(1) During internal training conducted on September 19, 2008, Education's on-site program monitors (educational program consultants) were given copies of recently revised Categorical Monitoring protocols that provide specific information about the preparation of the notification of findings. The Categorical Monitoring protocols emphasize that findings must include the following components: (1) a statement of the legal requirements; (2) evidence supporting the findings; and (3) a clear statement that describes what the local educational agency (LEA) must do to meet legal requirements.

(2) Categorical Monitoring reviews the notification of findings for each monitoring visit. An internal review is conducted by educational program consultants and the Categorical Monitoring administrator to ensure that all required components are documented following an on-site visit.

(3) During the 2008–09 Categorical Monitoring cycle, a pilot of a Web-based compliance tracking system was conducted. In collaboration with the California Comprehensive Center at WestEd, Education launched a pilot of the Web-based compliance tracking system. LEAs in Categorical Monitoring regions four and 10 participated in the pilot that allows LEAs to prepare for Categorical Monitoring on-site visits by submitting program instruments online and allows for uploading documents as evidence of compliance. The system also facilitates timely resolution of correction actions and reduces the risk of documentation loss. Using the results of the pilot year, Education is in the process of expanding this Web-based compliance tracking system as a component of its overall Categorical Monitoring process.

Reference Number:	2009-14-11
Federal Catalog Number:	84.011
Federal Program Title:	Migrant Education—State Grant Program
Federal Award Numbers and Years:	S011A080005; 2008 S011A080005A; 2008 S011A070005; 2007 S011A070005C; 2007 S011A060005; 2006 S011A060005A; 2006

Category of Finding:	Special Tests and Provisions—Child Counts
State Administering Department:	Department of Education (Education)

Criteria

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

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

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

Condition

This finding repeats an audit finding that we reported for fiscal year 2007–08. During our evaluation of the review of the Consolidated State Performance Report (CSPR), Part I, Migrant Child Counts, we reviewed the description of the quality control process to ascertain whether Education had carried out the quality control process as described in the report.

The quality control process description indicated that "the State Categorical Program Monitoring (CPM) process includes random sampling and review of Certificates of Eligibility (COEs)." However, when we reviewed the monitoring instrument used by Education titled *No Child Left Behind, Title I, Part C: Education of Migrant Children and California Migrant Education Instrument for CPM: An Ongoing Monitoring Process (Revision 9/19/07*), we noted that it did not contain any planned procedures regarding sampling or review of participant COEs, as was indicated in the quality control process description in the CSPR.

Questioned Costs

There are no questioned costs.

Recommendation

Education should update its CPM instrument to include its planned quality control procedures for participants' COEs to ensure that all quality control processes reported are carried out as described.

Department's View and Corrective Action Plan

To enhance planned quality control procedures over COEs, Education contracted with the Kern County Superintendent of Schools to conduct random prospective reinterviews to validate child eligibility determinations. The reinterviews for fiscal year 2008–09 were completed by September 30, 2009. Any children found ineligible through this validation process were removed from the migrant student database before Education submitted through the CSPR the 2008–09 child count report to the U.S. Department of Education in December 2009.

Reference Number:	2009-14-12
Federal Catalog Number:	84.011
Federal Program Title:	Migrant Education—State Grant Program

Federal Award Numbers and Years:	S011A080005; 2008 S011A080005A; 2008 S011A070005; 2007 S011A070005C; 2007 S011A060005; 2006 S011A060005A; 2006
Category of Finding:	Special Tests and Provisions—Subgrant Process
State Administering Department:	Department of Education (Education)

Criteria

TITLE 34—EDUCATION, PART 75—DIRECT GRANT PROGRAMS, Subpart F—What Are the Administrative Responsibilities of a Grantee? Section 75.702—Fiscal Control and Fund Accounting Procedures.

A grantee shall use fiscal control and fund accounting procedures that insure proper disbursement of and accounting for federal funds.

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

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

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

Condition

This finding repeats an audit finding that we reported for fiscal year 2007–08. During our review of Education's subgrant process, we evaluated Education's processes and controls to ensure that the amounts awarded were accurate and that the calculations took into account the numbers and needs of migratory children, priority for services, and availability of other funding. In completing these procedures, we noted that an outside subcontractor prepares the funding formula. Education relies upon the work performed by the outside subcontractor and does not perform any monitoring to ensure that the subcontractor's processes are in place and effective in helping to ensure the accuracy of the funding formula that the subcontractor supplies to Education.

Education does not have a policy in place to monitor the outside subcontractor or to test the information that the subcontractor provided during the fiscal year under audit. The absence of appropriate monitoring increases the risk that inaccuracies will go undetected. However, we noted during our follow-up on prior-year findings that Education has a proposed plan to enhance its monitoring of its subcontractor.

During testing of the subgrant formula, the student counts were traced to the database and appeared up to date. The formula was recalculated and noted to be mathematically accurate.

Questioned Costs

There are no questioned costs.

Recommendation

Education should implement its proposed plan to enhance its current policies and procedures to ensure that all quality control processes reported are carried out as described.

Department's View and Corrective Action Plan

To strengthen quality control processes, Education has been conducting the following actions as of December 2008: (1) maintaining electronic and hard copies of the Consolidated State Performance Report and supporting documents to validate its child counts, (2) meeting with subcontractors to review the preliminary child count reports for accuracy by comparing reports with data from other regional report submissions, (3) reviewing a limited sample of data submissions by region to check for accuracy and completeness, and (4) retaining all documents pertaining to the monitoring of its subcontractors.

Reference Number:	2009-14-13
Category of Finding:	Special Tests and Provisions—Comparability
State Administering Department:	Department of Education (Education)
Federal Catalog Numbers:	84.010, 84.389
Federal Program Titles:	Title I, Part A Cluster:Title I Grants to Local Educational Agencies, Title I Grants to Local Educational Agencies—Recovery Act
Federal Award Numbers and Years:	S389A090005; 2009 S010A080005A; 2008 S010A070005A; 2007 S010A060005A; 2006

Federal Catalog Number:	84.011
Federal Program Title:	Migrant Education—State Grant Program (MEP)
Federal Award Numbers and Years:	S011A080005; 2008 S011A080005A; 2008 S011A070005; 2007 S011A070005C; 2007 S011A060005; 2006 S011A060005A; 2006

Criteria

TITLE 20—EDUCATION, CHAPTER 70—STRENGTHENING AND IMPROVEMENT OF ELEMENTARY AND SECONDARY SCHOOLS, SUBCHAPTER I—IMPROVING THE ACADEMIC ACHIEVEMENT OF THE DISADVANTAGED, PART A—IMPROVING BASIC PROGRAMS OPERATED BY LOCAL EDUCATIONAL AGENCIES, Subpart 1—Basic Program Requirements, Section 6321—Fiscal Requirements

(c) Comparability of services

> An LEA [local educational agency] may receive funds under Title I, Part A, and the MEP (Title I, Part C) only if state and local funds will be used in participating schools to provide services that, taken as a whole, are at least comparable to services that the LEA is providing in schools not receiving Title I, Part A, or MEP funds. An LEA is considered to have met the statutory comparability requirements if it filed with the SEA [State Educational Agency] a written assurance that such LEA has 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.
>
> An LEA may also use other measures to determine comparability, such as comparing the average number of students per instructional staff or the average staff salary per student in each school receiving Title I, Part A, or MEP funds with those in schools that do not receive Title I, Part A, or MEP funds. If all schools are served by Title I, Part A, or MEP, an LEA must use state and local funds to provide services that, taken as a whole, are substantially comparable in each school. Determinations may be made on either a districtwide or grade-span basis.

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

(b) Maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.

Condition

There is insufficient documentation that comparability reports have been properly reviewed for accuracy, completeness, and compliance. Education uses an Excel workbook to track the local educational agencies (LEAs) required to submit comparability reports, and it also uses the workbook to track reports received and finalized. The tracking sheet does not document that reports were reviewed for required elements or that LEAs are complying with required assurances. The sheet does not provide evidence that proper actions (such as sanctions, penalties, delays in disbursement of award payments, and so forth) were taken for LEAs determined not to be in compliance. Also, the tracking sheet does not provide any evidence (such as printing and signatures) showing review and approval by appropriate management.

Questioned Costs

There are no questioned costs.

Recommendation

We recommend that Education develop an internal control system that sufficiently documents the review of comparability reports for required elements and assurances, that allows for documentation of any actions taken for LEAs' noncompliance, and that allows for managers' review and approval.

Department's View and Corrective Action Plan

To enhance the comparability reporting documentation process, Education will implement a comparability checklist in fiscal year 2010–11 to document the following: (1) the procedures performed to review the comparability reports, (2) the actions taken for LEAs' noncompliance, and (3) the appropriate review-and-approval signatures.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Reference Number:	2009-1-18
Federal Catalog Numbers:	93.575, 93.596
Federal Program Titles:	Child Care Development Fund Cluster: Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fund
Federal Award Number and Year:	G0801CACCDF; 2008
Category of Finding:	Activities Allowed
State Administering Department:	Department of Education (Education)

Criteria

TITLE 45—PUBLIC WELFARE, PART 92—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE, LOCAL, AND TRIBAL GOVERNMENTS, Section 92.42—Retention and Access Requirements for Records

(b) Length of retention period.

(1) Except as otherwise provided, records must be retained for three years from the starting date specified in paragraph (c) of this section.

Condition

The Application for Continued Funding (CFA) is submitted annually by the contractor and is reviewed and approved by appropriate Education staff before any funds are distributed to the contractor. Evidence of the appropriate review and approval is reflected on the CFA Cover Sheet. As part of our testing of activities allowed or unallowed, we reviewed 62 CFAs to verify that they had been reviewed and approved by appropriate Education personnel. We noted three instances in which the signed CFA Cover Sheet could not be located by Education staff. According to our discussion with management, the absence of these sheets is due mainly to the misfiling of the original documents. Therefore, there is risk that Education may pay contractors before Education's approval of the CFA.

Questioned Costs

There are no questioned costs.

Recommendation

Education should enhance current procedures relating to records retention and maintain all signed CFA Cover Sheets in order to ascertain and to demonstrate that contractors are not paid before approval of CFA.

Department's View and Corrective Action Plan

Education's review and approval processes, not the CFAs, mitigate the risk that contractors can be inappropriately paid. Although the contractors referred to by the auditors were appropriately reviewed and approved, the CFA cover sheets were inadvertently not returned to the master file after the approval process. However, Education will strengthen procedures for processing CFAs by ensuring all original documents are retained by appropriate staff. In addition, Education will remind staff of procedures for maintaining a custodial trail of original documents removed from the master file.

Reference Number:	2009-3-6
Federal Catalog Numbers:	93.575, 93.596
Federal Program Titles:	Child Care Development Fund Cluster: Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fund
Federal Award Number and Year:	G0801CACCDF; 2008
Category of Finding:	Cash Management
State Administering Department:	Department of Education (Education)

Criteria

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

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

CASH MANAGEMENT IMPROVEMENT ACT (CMIA) Agreement between the State of California and the Secretary of the Treasury, United States Department of the Treasury

Section 6.2.4, State Unique Funding Techniques—Reimbursement

> The State departments will request Federal funds after it has made payments for program purposes with State funds. The request shall be made in accordance with the appropriate Federal agency cut-off time specified in Exhibit 1 (of the CMIA agreement). The State agrees that the Federal government will not incur any interest liability for this funding technique. This funding technique is not interest neutral.

Condition

This finding repeats an audit finding that we reported for fiscal year 2007–08. As part of our review of cash management, we verified that payments made to local educational agencies (LEAs) met the requirements under the CMIA agreement. In testing 62 samples, we noted 10 instances in which Education requested cash advances (drawdowns) from the federal government before making the payments to the LEAs with state funds. According to our discussion with management, this is primarily due to the state budget crisis in fiscal year 2008–09, as such drawdowns from the federal government were requested prior to payments to the LEAs, which totaled approximately $3.2 million of the approximately $50 million drawdowns sampled. As a result, Education did not comply with the CMIA agreement's unique funding techniques.

Questioned Costs

There are no questioned costs.

Recommendation

Education should request federal funds after it has made payments for program purposes with state funds in order to be in compliance with the CMIA agreement.

Department's View and Corrective Action Plan

The state funding fiscal crisis that occurred during fiscal year 2008–09 resulted in claims being held for payment by the State Controller's Office regardless of funding source, including the Federal Trust Fund. Alternatively, to ease any burden on the LEAs, Education submitted Plan of Financial Adjustment Letters that would ideally charge federal funds concurrently with payment issuance. The 10 payment issuances noted by the auditors were made two to three days after the receipt of federal funds and as a result, Education has discontinued this alternate payment practice.

Reference Number:	2009-8-8
Federal Catalog Numbers:	93.575, 93.596
Federal Program Titles:	Child Care Development Fund Cluster: Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fund
Federal Award Numbers and Years:	G0801CACCDF; 2008 G0701CACCDF; 2007
Category of Finding:	Period of Availability
State Administering Department:	Department of Education (Education)

Criteria

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

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contacts or grant agreements that could have a material effect on each of its Federal programs.

Condition

This finding repeats an audit finding that we reported for fiscal year 2007–08. During our testing of period of availability, we selected a sample of 60 journal entries posted in the accounting system to determine whether the entries were adequately supported, whether the underlying obligations for each entry corresponded to a proper period, and whether there is segregation of duties with respect to the preparation and approval functions of the journal entries. Education allocates expenditures among multiple grant award years by using first-in-first-out (FIFO) entries. Our testing of journal entries included FIFO entries. For the sample tested, we noted that two FIFO entries lacked the review and approval of management. Without the designed controls in place, there is risk that Education could incorrectly adjust expenditures among grant award years.

Questioned Costs

There are no questioned costs.

Recommendation

Education should ensure that appropriate management review and approve the FIFO entries prior to posting to the accounting system in order to adhere to the designed controls.

Department's View and Corrective Action Plan

Education contends that appropriate segregation of duties and approval processes related to FIFO transactions are already in place. The two instances noted by the auditors were entries that occurred outside of Education's existing FIFO processes which will now be expanded to include all FIFO entries.

Reference Number:	2009-13-23
Federal Catalog Numbers:	93.575, 93.596
Federal Program Titles:	Child Care and Development Fund CCDF Cluster: Child Care Development Block Grant and Child Care Mandatory and Matching Funds of the Child Care Development Fund
Federal Award Number and Year:	G0801CACCDF; 2008
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Education (Education)

Criteria

TITLE 31—MONEY AND FINANCE, SUBTITLE V—GENERAL ASSISTANCE ADMINISTRATION, CHAPTER 75—REQUIREMENTS FOR SINGLE AUDITS, Section 7502—Audit Requirements; Exemptions

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

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

(C) review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the director, pertaining to federal awards provided to the subrecipient by the pass-through entity.

TITLE 34—EDUCATION, PART 80—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS, Subpart C—Post-Award Requirements—Financial Administration, Section 80.40—Monitoring and Reporting Program Performance

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

Condition

We reviewed the support for follow-up by the Categorical Program Monitoring Unit (Categorical Monitoring) to ensure corrective actions on deficiencies noted during Categorical Monitoring's site visits of Local Educational Agencies (LEAs). We tested 11 of the 45 Categorical Monitoring site visits completed during the year and noted the number of days between the notifications of findings issued to the LEAs and the receipt of the final proposed resolution forms that resulted in Education's resolving all deficiencies. Education requires LEAs to resolve all deficiencies within 225 days after

they receive their notifications of findings. We determined that for three of the 11 site visits tested, Education received the final proposed resolution forms from the respective LEAs between 260 and 319 days after those LEAs received their notification of findings, resulting in the ultimate resolution by Education taking between 260 and 350 days after those LEAs received their notifications of findings. In addition, we determined that for another three of the 11 site visits tested, although Education received the final proposed resolution forms from the respective LEAs between 56 and 176 days after those LEAs received their notification of findings, Education's ultimate resolutions occurred between 287 and 308 days after those LEAs received their notifications of findings.

The delayed resolutions of outstanding Categorical Monitoring deficiencies appear to be due to a combination of delayed follow-up and ineffective sanctions imposed by Education on its LEAs for belated implementation of corrective action plans. Without effective consequences for the delays, LEAs do not have an incentive to implement corrective actions in a timely manner.

Questioned Costs

There are no questioned costs.

Recommendations

We recommend that Education enhance its current policies and procedures to ensure that LEAs' implement promptly the proposed corrective actions on deficiencies noted during Categorical Monitoring site visits and that consequences for delayed resolutions are effective for deterring such noncompliance. In addition, once it receives proposed resolution forms from LEAs, Education should be more prompt in resolving corrective actions.

Department's View and Corrective Action Plan

To strengthen existing controls, Education conducted the following actions:

(1) During internal training conducted on September 19, 2008, Education's on-site program monitors (educational program consultants) were given copies of recently revised Categorical Monitoring protocols that provide specific information about the preparation of the notification of findings. The Categorical Monitoring protocols emphasize that findings must include the following components: (1) a statement of the legal requirements, (2) evidence supporting the findings, and (3) a clear statement that describes what the LEA must do to meet legal requirements.

(2) Categorical Monitoring reviews the notification of findings for each monitoring visit. An internal review is conducted by educational program consultants and the Categorical Monitoring administrator to ensure that all required components are documented following an on-site visit.

(3) During the 2008–09 Categorical Monitoring cycle, a pilot of a Web-based compliance tracking system was conducted. In collaboration with the California Comprehensive Center at WestEd, Education launched a pilot of the Web-based compliance tracking system. LEAs in Categorical Monitoring regions four and 10 participated in the pilot that allows LEAs to prepare for Categorical Monitoring on-site visits by submitting program instruments online and allows for uploading documents as evidence of compliance. The system also facilitates timely resolution of correction actions and reduces the risk of documentation loss. Using the results of the pilot year, Education is in the process of expanding this Web-based compliance tracking system as a component of its overall Categorical Monitoring process.

U.S. DEPARTMENT OF HOMELAND SECURITY

Reference Number:	2009-13-27
Federal Catalog Number:	97.036
Federal Program Title:	Disaster Grants—Public Assistance (Presidentially Declared Disasters)
Federal Award Numbers and Years:	FEMA-3287-DR; 2008 FEMA-1810-DR; 2008 FEMA-1731-DR; 2007 FEMA-1646-DR; 2006 FEMA-1628-DR; 2006 FEMA-1585-DR; 2005 FEMA-1577-DR; 2005 FEMA-1529-DR; 2004 FEMA-1505-DR; 2004 FEMA-1498-DR; 2003 FEMA-1203-DR; 1998 FEMA-1155-DR; 1996 FEMA-1008-DR; 1994
Category of Finding:	Subrecipient Monitoring
State Administering Department:	California Emergency Management Agency (CalEMA)

Criteria

TITLE 31—MONEY AND FINANCE, SUBTITLE V—GENERAL ASSISTANCE ADMINISTRATION, CHAPTER 75—REQUIREMENTS FOR SINGLE AUDITS, Section 7502—Audit Requirements; Exemptions

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

(b) Monitor the subrecipient's use of federal awards through site visits, limited scope audits, or other means.

TITLE 44—EMERGENCY MANAGEMENT AND ASSISTANCE, PART 13—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS, Subpart C—Post-Award Requirements, Section 13.40—Monitoring and Reporting Program Performance

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

Condition

CalEMA conducts during-the-award monitoring of its subrecipients by performing the following: (1) distributing programmatic checklists and schedules to its subrecipients to gather pertinent financial and programmatic information related to critical compliance requirements, (2) conducting desk and field reviews, (3) preparing and submitting quarterly project status reports to the Federal Emergency Management Agency, and (4) reviewing and analyzing subrecipient documentation during the project

close-out process. Collectively, the monitoring activities performed by CalEMA are designed to provide reasonable assurance that subrecipients comply with applicable program requirements, performance goals are achieved, and subrecipients' uses of federal funds are for authorized purposes.

During fiscal year 2008–09, CalEMA dealt with 13 disasters and 225 active applicants or subrecipients. CalEMA performed either a desk or a field review of 66 subrecipients that received funding under the Disaster Grants—Public Assistance program. As part of its during-the-award subrecipient monitoring process, CalEMA developed and implemented monitoring schedules (schedules) in fiscal year 2008–09 for distribution and completion by its subrecipients. These schedules are self-certification surveys that ask subrecipients to answer specific questions regarding critical compliance and administrative requirements covering such areas as procurement and contracts, indirect costs, and internal controls. After receiving the monitoring schedules from the subrecipients, CalEMA performs reviews of the completed schedules and determines the necessity for follow-up, such as further communication, on-site monitoring reviews, desk reviews, or corrective actions.

We reviewed 27 of the 66 monitoring reviews conducted during fiscal year 2008–09 for the Disaster Grants—Public Assistance program. In our sample of 27 subrecipients, we noted five instances in which the subrecipients properly completed and returned to CalEMA their monitoring schedules. CalEMA identified the subrecipients' completed schedules as requiring follow-up or corrective action; however, as of January 22, 2010, CalEMA had not performed follow-up procedures to communicate the necessary corrective actions required of the subrecipients. For the five subrecipients for which CalEMA did not perform timely follow-up procedures, two of the completed monitoring schedules were received from the subrecipients in April 2009, two completed schedules were received in May 2009, and one completed schedule was received in June 2009.

Questioned Costs

There are no questioned costs.

Recommendation

When it conducts during-the-award monitoring of its subrecipients, CalEMA should ensure that follow-up procedures are performed on a timely basis to maximize the effectiveness and relevance of the monitoring and to ensure that any necessary corrective actions required by the subrecipients are implemented. Doing so will provide reasonable assurance that subrecipients are administering federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements.

Department's View and Corrective Action Plan

CalEMA agrees with this finding but notes that the instances of delayed follow-up were related to limited-scope desk reviews that were initiated during the initial piloting of a survey instrument. The delay in initiating follow-up requests for additional information or corrective action was due to staff turnover in the division. Since the time the subject survey instrument was piloted, follow-up response templates have been developed to ensure timely resolution of any compliance deficiencies discovered through this review process.

The division has also developed and implemented an annual planning process for monitoring subrecipients that not only identifies subrecipients for monitoring based on risk but also considers staff work flow and capabilities. The monitoring plan assumes an organized approach to monitoring activities that occur on a planned basis throughout the year. Through the development of a standardized monitoring process and monitoring tools, this finding will not be repeated in the future.

AUDITEE'S SECTION

Schedule of Federal Assistance

Prepared by Department of Finance

STATE OF CALIFORNIA
SCHEDULE OF FEDERAL ASSISTANCE
FISCAL YEAR ENDED JUNE 30, 2009

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received	ARRA Amount Received See Note 5
Department of Agriculture			
Plant and Animal Disease, Pest Control, and Animal Care	10.025	$ 58,625	
Wildlife Services	10.028	89,065	
Market Protection and Promotion	10.163	629,656	
Farm Labor Housing Loans and Grants	10.405	2,000,000	
Food Safety Cooperative Agreements	10.479	169,954	
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	1,041,327,234	
Child and Adult Care Food Program	10.558	281,312,972	
State Administrative Expenses for Child Nutrition	10.560	22,051,114	
Commodity Supplemental Food Program	10.565	15,526,180 *	
WIC Farmers' Market Nutrition Program (FMNP)	10.572	1,911,199	
Team Nutrition Grants	10.574	299,757	
Senior Farmers Market Nutrition Program	10.576	691,612	
Child Nutrition Discretionary Grants Limited Availability	10.579	76,990	
Fresh Fruit and Vegetable Program	10.582	773,976	
Cooperative Forestry Assistance	10.664	2,569,849	
Schools and Roads - Grants to States	10.665	57,976,841	
National Forest - Dependent Rural Communities	10.670	158,759	
Urban and Community Forestry Program	10.675	80,281	
Forest Legacy Program	10.676	268,658	
Forest Land Enhancement Program	10.677	136,228	
Forest Stewardship Program	10.678	246,340	
Long Term Standing Agreements for Storage, Transportation And Lease	10.999	47,920,814	
Total Excluding Clusters		1,476,276,105	
SNAP Cluster			
Supplemental Nutrition Assistance Program (SNAP)	10.551	3,893,143,704 *	
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	505,484,543	
Total SNAP Cluster		4,398,628,247	
Child Nutrition Cluster			
School Breakfast Program	10.553	352,915,656	
National School Lunch Program	10.555	1,434,678,235 *	
Special Milk Program for Children	10.556	623,652	
Summer Food Service Program for Children	10.559	21,529,510	
Total Child Nutrition Cluster		1,809,747,053	
Emergency Food Assistance Cluster			
Emergency Food Assistance Program (Administrative Costs)	10.568	6,346,552	
Emergency Food Assistance Program (Food Commodities)	10.569	59,286,377 *	
Total Emergency Food Assistance Cluster		65,632,929	
Total U.S. Department of Agriculture		7,750,284,335	
Department of Commerce			
Anadromous Fish Conservation Act Program	11.405	284,884	
Interjurisdictional Fisheries Act of 1986	11.407	117,462	
Coastal Zone Management Administration Awards	11.419	2,582,402	
Coastal Zone Management Estuarine Research Reserves	11.420	367,162	
Pacific Coast Salmon Recovery-Pacific Salmon Treaty Program	11.438	6,208,377	
Unallied Management Projects	11.454	875,000	
Habitat Conservation	11.463	234,000	
Public Safety Interoperable Communications Grant Program	11.555	3,151,982	
Other - U.S. Department of Commerce	11.999	380,885	
Unallied Management Projects	11.454	4,890,224	See Note 4b
Total Excluding Cluster		19,092,377	

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received	ARRA Amount Received See Note 5
Public Works and Economic Development Cluster			
Economic Adjustment Assistance	11.307	424,652 **	
Research & Development Cluster			
Coastal Zone Management Estuarine Research Reserves	11.420	134,156	
Habitat Conservation	11.463	32,363	
Total Research & Development Cluster		166,519	
Total U.S. Department of Commerce		19,683,549	
Department of Defense			
Planning Assistance to States	12.110	1,518,212	
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113	14,714,430	
ARRA-National Guard Military Operations and Maintenance (O&M) Projects	12.401	57,467,887	
National Guard Civilian Youth Opportunities	12.404	4,160,626	
Community Economic Adjustment Assistance for Establishment, Expansion, Realignment or Closure of a Military Installation	12.607	296,935	
Air Force Defense Research Sciences Program	12.800	31,328	
Other - U.S. Department of Defense	12.999	2,166,988	
Total U.S. Department of Defense		80,356,405	
Department of Housing and Urban Development			
Manufactured Home Construction and Safety Standards	14.171	121,115	
Emergency Shelter Grants Program	14.231	7,218,755	
Supportive Housing Program	14.235	2,473,074 **	
HOME Investment Partnerships Program	14.239	130,709,323 **	
Housing Opportunities for Persons with AIDS	14.241	3,664,360	
Equal Opportunity in Housing	14.400	2,407,785	
Section 8 Housing Choice Vouchers	14.871	4,019,239	
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	1,666,053	
Total Excluding Cluster		152,279,703	
CDBG - State-Administered Small Cities Program Cluster			
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	47,979,739	
Total U.S. Department of Housing and Urban Development		200,259,442	
Department of Interior			
Distribution of Receipts to State and Local Governments	15.227	61,140,784	
Water 2025	15.507	598,483	
Fish and Wildlife Coordination Act	15.517	587,211	
Central Valley Project, Trinity River Division, Trinity River Fish and Wildlife Management	15.532	926,042	
Fish and Wildlife Management Assistance	15.608	36,507	
Cooperative Endangered Species Conservation Fund	15.615	25,076,778	
Clean Vessel Act	15.616	1,862,776	
Sportfishing and Boating Safety Act	15.622	5,202,464	
Wildlife Conservation and Restoration	15.625	272,856	
Landowner Incentive Program	15.633	596,499	
State Wildlife Grants	15.634	2,137,735	
Migratory Bird Conservation	15.647	266,865	
Central Valley Project Improvement (CVPI) Anadromous Fish Restoration Program (AFRP)	15.648	371,533	
Research Grants (Generic)	15.650	36,874	
Earthquake Hazards Reduction Program	15.807	57,810	

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received	ARRA Amount Received See Note 5
U.S. Geological Survey-Research and Data Acquisition	15.808	83,501	
National Cooperative Geologic Mapping Program	15.810	130,847	
Historic Preservation Fund Grants-In - Aid	15.904	962,418	
Outdoor Recreation-Acquisition, Development and Planning	15.916	2,590,072	
Other - U.S. Department of the Interior	15.999	13,808,201	
Total Excluding Clusters		116,746,255	
Fish and Wildlife Cluster			
Sport Fish Restoration Program	15.605	10,896,342	
Wildlife Restoration	15.611	9,666,005	
Total Fish and Wildlife Cluster		20,562,347	
Research & Development Cluster			
Wildlife Restoration	15.611	100,394	
Coastal Wetlands Planning, Protection and Restoration Act	15.614	1,200,837	
Total Research & Development Cluster		1,301,231	
Total U.S. Department of Interior		138,609,834	
Department of Justice			
Law Enforcement Assistance-Narcotics and Dangerous Drugs-Laboratory Analysis	16.001	50,000	
Prisoner Reentry Initiative Demonstration (Offender Reentry)	16.202	267,303	
Juvenile Accountability Block Grants	16.523	4,161,938	
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540	9,729,225	
Title V - Delinquency Prevention Program	16.548	297,108	
National Criminal History Improvement Program (NCHIP)	16.554	773,819	
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	1,079,090	
Crime Victim Assistance	16.575	44,037,281	
Crime Victim Compensation	16.576	44,203,951	
Edward Byrne Memorial Formula Grant Program	16.579	1,794,958	
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	1,820,270	
Crime Victim Assistance/Discretionary Grants	16.582	22,877	
Drug Court Discretionary Grant Program	16.585	29,758	
Violence Against Women Formula Grants	16.588	10,868,548	
Rural Domestic Violence, Dating Violence, Sexual Assault, and Stalking Grant Program	16.589	11,784	
Residential Substance Abuse Treatment for State Prisoners	16.593	3,419,452	
State Criminal Alien Assistance Program	16.606	118,030,160	
Community Prosecution and Project Safe Neighborhoods	16.609	1,796,635	
Regional Information Sharing Systems	16.610	5,573,093	
Public Safety Partnership and Community Policing Grants	16.710	1,221,806	
Enforcing Underage Drinking Laws Program	16.727	790,074	
Protecting Inmates and Safeguarding Communities	16.735	43,856	
Edward Byrne Memorial Justice Assistance Grant Program	16.738	16,529,567	
Forensic DNA Backlog Reduction Program	16.741	549,059	
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	1,850,924	
Anti-Gang Initiative	16.744	3,763,811	
Other - U.S. Department of Justice	16.999	170,566	
Total U.S. Department of Justice		272,886,914	
Department of Labor			
Labor Force Statistics	17.002	7,491,701	
Compensation and Working Conditions	17.005	518,517	
Unemployment Insurance	17.225	15,320,726,081 **	See Note 5
ARRA-Unemployment Insurance	17.225		471,865,162 See Note 5

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received	ARRA Amount Received See Note 5
Senior Community Service Employment Program	17.235	9,556,836	
ARRA-Senior Community Service Employment Program	17.235		24,957
Trade Adjustment Assistance	17.245	9,353,030	
WIA Pilots, Demonstrations, and Research Projects	17.261	711,732	
Work Incentive Grants	17.266	1,954,095	
H-1B Job Training Grants	17.268	6,831,533	
Community Based Job Training Grants	17.269	846,093	
Reintegration of Ex-Offenders	17.270	31,178	
Work Opportunity Tax Credit Program (WOTC)	17.271	1,162,052	
Temporary Labor Certification for Foreign Workers	17.273	1,463,755	
Occupational Safety and Health-State Program	17.503	20,474,142	
Consultation Agreements	17.504	5,214,984	
Mine Health and Safety Grants	17.600	85,097	
Total Excluding Clusters		15,386,420,825	471,890,119
Employment Services Cluster			
Employment Service/Wagner-Peyser Funded Activities	17.207	74,619,109	
ARRA-Employment Service/Wagner-Peyser Funded Activities	17.207		864,667
Disabled Veterans' Outreach Program (DVOP)	17.801	10,247,116	
Local Veterans' Employment Representative Program	17.804	6,076,179	
Total Employment Services Cluster		90,942,404	864,667
WIA Cluster			
WIA Adult Program	17.258	113,798,520	
ARRA-WIA Adult Program	17.258		1,134,020
WIA Youth Activities	17.259	121,460,749	
ARRA-WIA Youth Activities	17.259		6,941,007
WIA Dislocated Workers	17.260	177,722,950	
ARRA-WIA Dislocated Workers	17.260		2,320,344
Total WIA Cluster		412,982,219	10,395,371
Total U.S. Department of Labor		15,890,345,448	483,150,157
Department of Transportation			
Airport Improvement Program	20.106	14,533	
National Motor Carrier Safety	20.218	14,184,515	
Performance and Registration Information Systems Management	20.231	248,904	
Commercial Driver License State Programs	20.232	473,295	
Border Enforcement Grants	20.233	59,815	
Fuel Tax Evasion-Intergovernmental Enforcement Effort	20.240	3,781	
Federal Transit - Metropolitan Planning Grants	20.505	59,326,654	
Formula Grants for Other Than Urbanized Areas	20.509	21,746,947	
Pipelin Safety Program Base Grants	20.700	1,759,729	
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	546,023	
Others-Department of Transportation	20.999	252,517	
Total Excluding Clusters		98,616,712	
Highway Planning and Construction Cluster			
Highway Planning and Construction	20.205	2,881,136,520	
ARRA-Highway Planning and Construction	20.205		1,206,516
		2,881,136,520	1,206,516
Federal Transit Cluster			
Federal Transit - Capital Investment Grants	20.500	10,281,319	
Highway Safety Cluster			
State and Community Highway Safety	20.600	96,594,588	
Research & Development Cluster			
Highway Planning and Construction	20.205	15,519,169	
Formula Grants for Other Than Urbanized Areas	20.509	261,199	
Total Research & Development Cluster		15,780,368	
Total U.S. Department of Transportation		3,102,409,508	1,206,516

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received	ARRA Amount Received See Note 5
Equal Employment Opportunity Commission			
Employment Discrimination - State and Local Fair Employment Practices Agency Contracts	30.002	2,258,700	
General Services Administration			
Donation of Federal Surplus Personal Property	39.003	24,244,842	
National Endowment for the Arts			
Promotion of the Arts-Partnership Agreements	45.025	1,118,700	
Institute of Museum and Library Services			
Grants to States	45.310	16,750,393	
Small Business Administration			
Small Manufacturers Training Program	59.000	10,184	
Department of Veterans Affairs			
Grants to States for Construction of State Home Facilities	64.005	103,177,266	
Veterans State Domiciliary Care	64.014	1,643,202	
Veterans State Nursing Home Care	64.015	2,333,577	
Veterans State Hospital Care	64.016	8,785	
Burial Expenses Allowance for Veterans	64.101	79,800	
Veterans Housing-Guaranteed and Insured Loans	64.114	118,068,014 ***	
Other-U.S. Department of Veterans Affairs	64.999	1,400,521	
Total U.S. Department of Veteran's Affairs		226,711,165	
Environmental Protection Agency			
Air Pollution Control Program Support	66.001	11,684,630	
State Indoor Radon Grants	66.032	305,299	
ARRA-State Clean Diesel Grant Program	66.040		1,730,000
Water Pollution Control State, Interstate, and Tribal Program Support	66.419	3,360,373	
State Public Water System Supervision	66.432	5,495,738	
State Underground Water Source Protection	66.433	312,412	
Surveys, Studies, Demonstrations, and Special Purpose Grants - Section 1442 of the Safe Drinking Water Act	66.436	175,320	
Targeted Watersheds Grants	66.439	218,944	
Water Quality Management Planning	66.454	431,812	
Capitalization Grants for Clean Water State Revolving Funds	66.458	54,528,609	
ARRA-Capitalization Grants for Clean Water State Revolving Funds	66.458		4,086,899
Nonpoint Source Implementation Grants	66.460	13,271,935	
Regional Wetland Program Development Grants	66.461	245,223	
Water Quality Cooperative Agreements	66.463	134,644	
Capitalization Grants for Drinking Water State Revolving Fund	66.468	69,711,525	
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	66.471	508,691	
Beach Monitoring and Notification Program Implementation Grants	66.472	494,373	
Water Protection Grants to the States	66.474	524,424	
Environmental Information Exchange Network Grant Program and Related Assistance	66.608	311,593	
Consolidated Pesticide Enforcement Cooperative Agreements	66.700	1,371,644	

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received	ARRA Amount Received See Note 5
Toxic Substances Compliance Monitoring Cooperative Agreements	66.701	4	
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707	728,490	
Hazardous Waste Management State Program Support	66.801	7,096,777	
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.802	1,100,124	
State and Tribal Underground Storage Tanks Program	66.804	673,736	
Leaking Underground Storage Tank Trust Fund Program	66.805	2,114,097	
Solid Waste Management Assistance Grants	66.808	4,521	
Brownfields Training, Research, and Technical Assistance Grants and Cooperative Agreements	66.814	8,601	
State and Tribal Response Program Grants	66.817	1,132,144	
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	1,285,946	
Environmental Education Grants	66.951	40,581	
Total Excluding Cluster		177,272,211	5,816,899
Research & Development Cluster			
Regional Wetland Program Development Grants	66.461	58,854	
Research, Development, Monitoring, Public Education, Training, Demonstrations, and Studies	66.716	9,173	
Total Research & Development Cluster		68,027	
Total U.S. Environmental Protection Agency		177,340,238	5,816,899
Nuclear Regulatory Commission			
Radiation Control-Training Assistance and Advisory Counseling	77.001	5,880	
Department of Energy			
State Energy Program	81.041	3,909,822	
Weatherization Assistance for Low-Income Persons	81.042	5,177,727	
ARRA-Weatherization Assistance for Low-Income Persons	81.042		1,632
Office of Science Financial Assistance Program	81.049	164,532	
Office of Technology Development and Deployment for Environmental Management	81.104	149,198	
Long-Term Surveillance and Maintenance	81.136	46,428	
Other - U.S. Department of Energy	81.999	1,286,825	
Total U.S. Department of Energy		10,734,532	1,632
Department of Education			
Adult Education - Basic Grants to States	84.002	77,045,274	
Migrant Education-State Grant Program	84.011	124,985,291	
Title I Program for Neglected and Delinquent Children	84.013	2,565,671	
Federal Family Education Loans	84.032	36,336,318,521 **	
Career and Technical Education -- Basic Grants to States	84.048	119,534,154	
Leveraging Educational Assistance Partnership	84.069	10,623,338	
Rehabilitation Services-Service Projects	84.128	827,430	
Independent Living-State Grants	84.169	1,722,532	
Rehabilitation Services-Independent Living Services for Older Individuals Who are Blind	84.177	3,232,679	
Byrd Honors Scholarships	84.185	5,997,667	
Safe and Drug-Free Schools and Communities-State Grants	84.186	39,289,353	
Supported Employment Services for Individuals with Significant Disabilities	84.187	4,177,967	
Education for Homeless Children and Youth	84.196	8,250,048	
Even Start-State Educational Agencies	84.213	12,296,456	
Assistive Technology	84.224	1,693,441	
Rehabilitation Services Demonstration and Training Programs	84.235	197,258	

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received	ARRA Amount Received See Note 5
Tech-Prep Education	84.243	12,122,066	
Rehabilitation Training-State Vocational Rehabilitation Unit In-Service Training	84.265	153,568	
Charter Schools	84.282	42,279,844	
Twenty-First Century Community Learning Centers	84.287	146,206,697	
State Grants for Innovative Programs	84.298	21,713,574	
Education Technology State Grants	84.318	24,627,665	
Special Education-State Personnel Development	84.323	1,627,269	
Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	84.330	3,507,966	
Grants to States for Incarcerated Youth Offenders	84.331	1,138,627	
Comprehensive School Reform Demonstration	84.332	11,770	
Reading First State Grants	84.357	105,621,419	
Rural Education	84.358	1,239,088	
English Language Acquisition Grants	84.365	188,054,695	
Mathematics and Science Partnerships	84.366	28,022,890	
Improving Teacher Quality State Grants	84.367	499,005,168	
Grants for State Assessments and Related Activities	84.369	43,141,527	
Statewide Data Systems	84.372	2,984,311	
School Improvement Grants	84.377	44,412	
College Access Challenge Grant Program	84.378	1,896,294	
Total Excluding Cluster		37,872,155,929	
Title I, Part A Cluster			
Title I Grants to Local Educational Agencies	84.010	1,129,741,596	
ARRA-Title I Grants to Local Educational Agencies, Recovery Act	84.389		450,284,592
Total Title I, Part A Cluster		1,129,741,596	450,284,592
Special Education Cluster (IDEA)			
Special Education -Grants to States	84.027	1,170,242,693	
Special Education - Preschool Grants	84.173	38,841,365	
ARRA-Special Education Grants to States, Recovery Act	84.391		245,388,811
ARRA-Special Education - Preschool Grants, Recovery Act	84.392		8,205,642
Total Special Education Cluster		1,209,084,058	253,594,453
Vocational Rehabilitation Cluster			
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	257,237,227	
Early Intervention Services (IDEA) Cluster			
Special Education-Grants for Infants and Families	84.181	112,270,946	
ARRA-Special Education-Grants for Infants and Families	84.393		0 (z)
		112,270,946	
State Fiscal Stabilization Fund			
ARRA-State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394		2,140,997,114
ARRA-State Fiscal Stablilization Fund (SFSF) - Government Services, Recovery Act	84.397		726,795,000
Total State Fiscal Stabilization Fund			2,867,792,114
Total U.S. Department of Education		40,580,489,755	3,571,671,159
Department of Health and Human Services			
Public Health and Social Services Emergency Fund	93.003	1,686,672	
State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	93.006	158,449	
Strengthening Public Health Services at the Outreach Offices of the U.S.-Mexico Border Health Commission	93.018	394,534	
Special Programs for the Aging - Title VII, Chapter 3 - Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041	608,400	
Special Programs for the Aging - Title VII, Chapter 2 - Long Term Care Ombudsman Services for Older Individuals	93.042	1,577,908	

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received	ARRA Amount Received See Note 5
Special Programs for the Aging - Title III, Part D - Disease Prevention and Health Promotion Services	93.043	2,382,031	
Special Programs for the Aging - Title IV - and Title II - Discretionary Projects	93.048	1,219,906	
National Family Caregiver Support, Title III, Part E	93.052	15,624,251	
Food and Drug Administration - Research	93.103	1,163,281	
Maternal and Child Health Federal Consolidated Programs	93.110	310,032	
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	8,171,816	
Emergency Medical Services for Children	93.127	84,548	
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	93.130	190,006	
Injury Prevention and Control Research and State and Community Based Programs	93.136	4,710,341	
Projects for Assistance in Transition from Homelessness (PATH)	93.150	7,176,687	
Health Program for Toxic Substances and Disease Registry	93.161	650,355	
Grants to States for Loan Repayment Program	93.165	922,006	
Disabilities Prevention	93.184	258,278	
Consolidated Knowledge Development and Application (KD&A) Program	93.230	1,295,552	
Traumatic Brain Injury State Demonstration Grant Program	93.234	94,236	
Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	93.238	69,914	
State Rural Hospital Flexibility Program	93.241	764,621	
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	10,591	
Universal Newborn Hearing Screening	93.251	102,529	
Substance Abuse and Mental Health Services - Access to Recovery	93.275	5,715,089	
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	83,612,273	
Small Rural Hospital Improvement Grant Program	93.301	392,635	
Food Safety and Security Monitoring Project	93.448	42,695	
Promoting Safe and Stable Families	93.556	33,438,331	
Child Support Enforcement	93.563	551,317,607	
ARRA-Child Support Enforcement	93.563		28,900,561
Child Support Enforcement Research	93.564	11,643	
Refugee and Entrant Assistance - State Administered Programs	93.566	35,386,845	
Low-Income Home Energy Assistance	93.568	132,980,553	
Refugee and Entrant Assistance - Discretionary Grants	93.576	2,081,376	
U.S. Repatriation Program	93.579	33,725	
Refugee and Entrant Assistance - Targeted Assistance Grants	93.584	5,156,711	
State Court Improvement Program	93.586	2,820,067	
Community-Based Child Abuse Prevention Grants	93.590	2,251,434	
Grants to States for Access and Visitation Programs	93.597	1,118,348	
Chafee Education and Training Vouchers Program (ETV)	93.599	5,939,918	
Voting Access for Individuals with Disabilities - Grants to States	93.617	733,524	
Developmental Disabilities Basic Support and Advocacy Grants	93.630	6,850,000	
Children's Justice Grants to States	93.643	1,781,328	
Child Welfare Services - State Grants	93.645	32,233,981	
Adoption Opportunities	93.652	87,498	
Foster Care - Title IV-E	93.658	1,185,541,033	
ARRA-Foster Care - Title IV-E	93.658		0 (z)
Adoption Assistance	93.659	393,976,508	
ARRA-Adoption Assistance	93.659		0 (z)
Social Services Block Grant	93.667	549,764,787	
Child Abuse and Neglect State Grants	93.669	2,628,247	
Family Violence Prevention and Services/Grants for Battered Women's Shelters - Grants to States and Indian Tribes	93.671	7,277,074	
Chafee Foster Care Independence Program	93.674	20,244,564	
State Children's Insurance Program	93.767	1,228,494,773	

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received	ARRA Amount Received See Note 5
Health Insurance for the Aged - Supplementary Medical Insurance	93.774	1,039,332	
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	3,940,679	
Money Follows the Person Rebalancing Demonstration	93.791	293,851	
National Bioterrorism Hospital Preparedness Program	93.889	35,955,198	
Grants to States for Operation of Offices of Rural Health	93.913	318,076	
HIV Care Formula Grants	93.917	132,964,694	
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	847,053	
HIV Prevention Activities - Health Department Based	93.940	15,512,154	
HIV Demonstration, Research, Public and Professional Education Projects	93.941	341,330	
Human Immunodeficiency Virus (HIV) / Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944	2,727,739	
Tuberculosis Demonstration, Research, Public and Professional Education	93.947	18,615	
Block Grants for Community Mental Health Services	93.958	61,693,676	
Block Grants for Prevention and Treatment of Substance Abuse	93.959	233,560,508	
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977	4,650,970	
Preventive Health Services - Sexually Transmitted Diseases Research, Demonstrations, and Public Information and Education Grants	93.978	946,081	
Mental Health Disaster Assistance and Emergency Mental Health	93.982	1,617,126	
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988	799,642	
Preventive Health and Health Services Block Grant	93.991	6,545,665	
Maternal and Child Health Services Block Grant to the States	93.994	51,582,518	
Other-Department of Health and Human Services	93.999	17,604,656	
Total Excluding Clusters		4,914,499,073	28,900,561
Aging Cluster			
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	38,555,374	
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045	57,331,476	
Nutrition Services Incentive Program	93.053	11,351,558	
ARRA-Aging Home-Delivered Nutrition Services for States	93.705		176,333
ARRA-Aging Congregate Nutrition Services for States	93.707		358,183
Total Aging Cluster		107,238,408	534,516
Immunization Cluster			
Immunization Grants	93.268	347,427,622	
TANF Cluster			
Temporary Assistance for Needy Families	93.558	3,363,084,907	
CSBG Cluster			
Community Services Block Grant	93.569	47,877,233	
CCDF Cluster			
Child Care and Development Block Grant	93.575	235,042,259	
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	299,348,830	
Total CCDF Cluster		534,391,089	
Head Start Cluster			
Head Start	93.600	153,944	
Medicaid Cluster			
State Medicaid Fraud Control Units	93.775	24,124,013	
State Survey and Certification of Health Care Providers and Suppliers	93.777	27,159,873	
Medical Assistance Program	93.778	22,160,158,327	
ARRA-Medical Assistance Program	93.778		2,753,245,248
Total Medicaid Cluster		22,211,442,213	2,753,245,248

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received	ARRA Amount Received See Note 5
Research & Development Cluster			
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	142,200	
Total U.S. Department of Health and Human Services		31,526,256,690	2,782,680,325
Corporation for National and Community Service			
State Commissions	94.003	1,289,814	
Learn and Serve America - School and Community Based Programs	94.004	2,182,335	
AmeriCorps	94.006	23,924,223	
Volunteers in Service to America	94.013	200,368	
Total Excluding Clusters		27,596,740	
Foster Grandparent/Senior Companion Cluster			
Foster Grandparent Program	94.011	1,325,751	
Total U.S. Corporation for National and Community Service		28,922,490	
Social Security Administration			
Social Security - Work Incentives Planning and Assistance Program	96.008	257,565	
Disability Insurance/SSI Cluster			
Social Security - Disability Insurance	96.001	196,004,793	
Total Social Security Administration		196,262,358	
Department of Homeland Security			
Pilot Demonstration or Earmarked Projects	97.001	39,920	
Urban Areas Security Initiative	97.008	3,575,906	
Boating Safety Financial Assistance	97.012	4,575,316	
Community Assistance Program-State Support Services Element (CAP-SSSE)	97.023	766,035	
Flood Mitigation Assistance	97.029	996,142	
Crisis Counseling	97.032	85,460	
Disaster Unemployment Assistance	97.034	21,142	
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	200,695,830	
Hazard Mitigation Grant	97.039	13,600,039	
National Dam Safety Program	97.041	16,659	
Emergency Management Performance Grants	97.042	17,421,875	
Fire Management Assistance Grant	97.046	5,443,494	
Pre-Disaster Mitigation	97.047	17,449,340	
Map Modernization Management Support	97.070	225,689	
Rail and Transit Security Grant Program	97.075	9,269,172	
Buffer Zone Protection Program (BZPP)	97.078	4,668,141	
Commercial Equipment Direct Assistance Program (CEDAP)	97.096	14,000	
Total Excluding Cluster		278,864,159	
Homeland Security Cluster:			
Homeland Security Grant Program	97.067	180,386,539	
Total Department of Homeland Security		459,250,698	
Office of National Drug Control Policy			
High Intensity Drug Trafficking Area	See Note 4a	5,299,649	

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received	ARRA Amount Received See Note 5
Miscellaneous Grants and Contracts			
Shared Revenue-Flood Control Lands	99.002	141,276	
Shared Revenue-Grazing Land	99.004	129,515	
U.S. Department of the Interior- Fire Prevention/Suppression Agreement	99.014	560,325	
U.S. Department of Agriculture and Various Other U.S. Department-Fire Prevention/Suppression	99.016	31,409,351	
Miscellaneous Federal Receipts	99.099	13,124	
Miscellaneous Federal Receipts	99.999	2,631,053	
Total Miscellaneous		34,884,643	
Total Federal Awards Received		**$ 100,745,376,352**	**$ 6,844,526,688**

* Amount includes value of commodities or food stamps.
** Amount includes loans and/or loan guarantees outstanding as of June 30, 2009.
*** Amount includes insurance in-force as of June 30, 2009.
[z] The State received federal funds under the American Recovery and Reinvestment Act of 2009 (Recovery Act) during fiscal year 2009-10, which it applied to expenditures during our audit period covering fiscal year 2008-09.

NOTES TO THE SCHEDULE OF FEDERAL ASSISTANCE

FISCAL YEAR ENDED JUNE 30, 2009

1. GENERAL

The accompanying State of California Schedule of Federal Assistance presents the total amount of federal financial assistance received by the State of California for the fiscal year ended June 30, 2009. This schedule does not include expenditures of federal awards received by the University of California, the California State University system, and the California Housing Finance Agency, a component unit of the State. These entities engaged other auditors to perform an audit in accordance with the U.S. Office of Management and Budget, Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133).

The $107,589,903,039 in total federal awards consists of the following:

Cash assistance received	$ 64,687,182,060
Non-cash federal awards	4,419,225,690
Loans and/or loan guarantees outstanding	38,365,427,275
Insurance in force	118,068,014
Total	$107,589,903,039

2. BASIS OF ACCOUNTING

OMB Circular A-133 requires the auditee to prepare a schedule of expenditures of federal awards for the period covered by the auditee's financial statements. Further, at a minimum, the schedule shall provide total federal awards expended for each individual federal program and Catalog of Federal Domestic Assistance (CFDA) number or other identifying number when the CFDA information is not available.

However, although the state accounting system separately identifies revenues for each federal award, it does not separately identify expenditures. As a result, the State prepares its Schedule of Federal Assistance on a cash receipts basis. The schedule shows the amount of cash and non-cash federal assistance received, loans and loan guarantees outstanding, and insurance in force for the year ended June 30, 2009.

3. UNEMPLOYMENT INSURANCE

Of the $15,792,591,242 in total unemployment insurance funds (federal catalog number 17.225) received by the Employment Development Department during fiscal year 2008-09, $13,414,603,235 was State Unemployment Insurance funds that were drawn down from the Unemployment Trust Fund in the U.S. Treasury.

4. OTHER

a. The California Department of Justice (Justice) receives cash reimbursements from local law enforcement agencies under the Office of National Drug Control Policy's High Intensity Drug Trafficking Area program. During the period July 1, 2008 through June 30, 2009, the Justice received the following cash reimbursements from pass-through entities:

Federal Agency/Program	Pass-Through Entity	Grant Number	Amount
LA Clear/LA Police Chief's Association/City of Monrovia		I7PLAP538	$146,506
LA Clear/LA Police Chief's Association/City of Monrovia		18PLAP538	1,256,454
LA Clear/LA Police Chief's Association/City of Monrovia		G09LA0006A	232,813
NC HIDTA/LA Police Chief's Association		I8PSFP501Z	388,068
NC HIDTA/LA Police Chief's Association		G09SF0001A	151,398
CV HIDTA/LA Police Chief's Association/Sacramento County		I6PCVP501Z	146,797
CV HIDTA/LA Police Chief's Association/Sacramento County		17PCVP501Z	25,671
CV HIDTA/LA Police Chief's Association/Sacramento County		I7PCVP502Z	384,341
CV HIDTA/LA Police Chief's Association/Sacramento County		I8PCVP502Z	96,110
CV HIDTA/LA Police Chief's Association/Sacramento County		18PSCP504Z	66,554
INCH/LA Police Chief's Association/Riverside County		I7PLAP538	65,782
INCH/LA Police Chief's Association/Riverside County		18PLAP538	19,454
NV HIDTA/LA Police Chief's Association/Las Vegas Metro PD		I6PNVP501Z	46,125
NV HIDTA/LA Police Chief's Association/Las Vegas Metro PD		I7PNVP501Z	12,286
NV HIDTA/LA Police Chief's Association/Las Vegas Metro PD		I8PNVP501Z	112,247
CA Border Alliance Group/City of San Diego/San Diego Police Dept (BNE)		17PSCP501-503Z	71,159
CA Border Alliance Group/City of San Diego/San Diego Police Dept (BNE)		18PSCP501-503Z	133,383
CA Border Alliance Group/City of San Diego/San Diego Police Dept (BNE)		G09Sc0001A	22,875
CA Border Alliance Group/City of San Diego/San Diego Police Dept (SDNIN)		17PSCP501Z	127,699
CA Border Alliance Group/City of San Diego/San Diego Police Dept (SDNIN)		18PSCP501Z	1,527,530
CA Border Alliance Group/City of San Diego/San Diego Police Dept (SDNIN)		G09Sc0001A	229,996
Northwest HIDTA/Washington State		18PNWP505Z	19,375
Clallum Co Sheriff's Office		2008CKWX0392	12,648
Clallum Co Sheriff's Office		2009CKWX0392	4,377
		Total	$5,299,649

b. The California Department of Fish and Game (DFG) received federal award from the Pacific States Marine Fisheries Commission. During the period July 1, 2008 through June 30, 2009, the DFG received the following award:

Program	Pass-through Entity	CFDA#	Amount
Unallied Management Projects	Pacific State Marine Fisheries Commission	11.454	$4,890,224
		Total	$4,890,224

5. PRESENTATION OF FEDERAL ASSISTANCE RECEIVED UNDER THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009

On April 23, 2009, OMB issued guidance in the Federal Register (74 FR 18449) requiring recipients to separately report federal assistance received under the American Recovery and Reinvestment Act of 2009 (Recovery Act). Specifically, OMB added Section 176.210 to Title 2 of the Code of Federal Regulations which states, "recipients agree to separately identify the expenditures for Federal awards under the [Recovery Act] on the Schedule of Expenditures of Federal Awards…" As described in Note 2, the State prepares a Schedule of Federal Assistance on a cash receipts basis.

The State's ability to prepare an accurate schedule partially relies upon cash-receipts data collected by the State Controller's Office (SCO). The SCO records cash receipt information by federal catalog number after state departments and agencies draw down federal funds and advise the SCO of the applicable federal programs pertaining to these receipts. However, in some cases, the Recovery Act provided funding to existing federal programs under one federal catalog number, resulting in some state departments and agencies reporting Recovery Act funds and non-Recovery Act funds in the same federal catalog number account. The State acted to correct this problem for next year's schedule (fiscal year 2009-10) by advising state departments and agencies—on August 26, 2009—to establish specific Recovery Act accounts with the SCO.

However, when preparing its Schedule of Federal Assistance for fiscal year 2008-09, the State relied upon assertions—as opposed to accounting records— from its various state departments and agencies to identify the Recovery Act amounts shown on the schedule. The State took steps to verify such assertions when the amounts reported appeared to be inaccurate. The State also considered adjustments to certain amounts pertaining to major federal programs that were provided by its external auditor. Nevertheless, even though the State believes the amounts shown on the schedule are materially accurate and complete, the user of the schedule should consider the heightened risk that the Recovery Act amounts shown for certain federal programs—those for which the federal government did not establish separate federal catalog numbers—may be inaccurate given the manner in which the State compiled this information.

Unemployment Insurance

The Employment Development Department (EDD) administers the Unemployment Insurance program (federal catalog number 17.225). EDD was not able to differentiate all federal funds received under the Recovery Act for this program. The Recovery Act amounts shown on the Schedule of Federal Assistance only include amounts pertaining to Federal Additional Compensation (FAC) benefits. EDD could not differentiate Recovery Act amounts for Emergency Unemployment Compensation and Federal-State Extended Benefits.

Summary Schedule of Prior Audit Findings

Prepared by Department of Finance

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Reference Number:	**2008-12-17**
Federal Program:	All programs
State Administering Department:	Department of Finance (Finance)
Fiscal Year Initially Reported:	1995-96
Audit Finding:	Reporting. Because of limitations in its automated accounting systems, the State has not complied with the provisions of the U.S. Office of Management and Budget (OMB) Circular A-133 requiring auditees to prepare a schedule of expenditures of federal awards that includes the total federal awards expended for each individual federal program.
Status of Corrective Action:	Remains uncorrected/agree with finding. The State's accounting system will require substantial modification to comply with federal and state requirements. Finance received approval for a new integrated statewide financial management system, the Financial Information System for California (FI$Cal). The new system is anticipated to have the capability to provide total expenditures for each federal program as required by OMB Circular A-133.[1]

Reference Number:	**2008-3-14**
Federal Program:	All Programs Subject to the Treasury-State Agreement
State Administering Department:	Department of Finance (Finance)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Cash Management. Finance lacks adequate written policies and procedures instructing staff on how to calculate the state and federal interest liabilities by program. Finance incorrectly calculated the federal interest liability, the interest liability related to disbursements without warrants, and the Medi-Cal refund interest liability. Also, Finance does not review the methodology used by the State Controller's Office (SCO) to develop clearance patterns to ensure it is consistent with the Treasury-State Agreement (TSA).
Status of Corrective Action:	Medi-Cal Refund Interest Liability: Fully corrected. Revisions to Sections 8.2.2, 8.4.6 and 8.4.7 of the

Treasury-State Agreement (TSA) required to clarify the appropriate method of calculating the federal and Medi-Cal refund interest liabilities were completed in June 2009 and approved by the federal Financial Management Service (FMS) for the 2009-10 TSA.

Lack of Written Procedures: Partially corrected. The recommended written policies and procedures instructing staff on how to calculate the state and federal interest liabilities by program are in development and expected to be completed by October 2009.

Federal Interest Liability: Remains uncorrected. Revisions to Section 8.7.6 of the TSA to clarify the appropriate method of calculating the liability are still required; completion of the revised language is anticipated by October 2009, and Finance will request the 2009-10 TSA be amended at that time. If FMS will not allow the 2009-10 TSA to be amended, Finance will include the revised language in the 2010-11 TSA.

Clearance Patterns: Remains uncorrected. The methodology used by the State Controller's Office (SCO) to develop clearance patterns still requires review to ensure it is consistent with the TSA; a plan has been developed for Finance information technology staff to review the computer programming and verify that it is consistent with the methodology contained in the TSA, but implementation of the plan has been delayed due to unforeseen technical difficulties; a new completion date has not yet been determined.[2]

Reference Number:	**2008-2-12**
Federal Program:	All Programs
State Administering Department:	Department of Finance (Finance)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Allowable Costs. The Access database used to calculate the statewide cost allocation plan is not adequately documented and the programming is difficult to understand. Also, Finance did not submit required information such as an organization chart and did not ensure that one department responsible for an internal service fund function submitted its balance sheet in its annual report. Thus, Finance is not ensuring that it and the departments responsible for internal service funds are complying with federal regulations and providing the U.S.

	Health and Human Services with complete information to render its approval of the statewide cost allocation plan.
Status of Corrective Action:	Partially corrected. Finance has developed an Excel spreadsheet to address the difficulty identifying, explaining, and correcting errors. Finance plans to begin testing and running the new spreadsheet parallel to the existing database for the 2010-11 cost allocation. Additionally, Finance has assigned additional staff to assist with collecting and compiling documentation to ensure all required information is submitted, and intends to expand procedures and assign additional staff in future.[3]

Reference Number:	**2008-13-24**
Federal Program:	All programs subject to OMB Circular A-133
State Administering Department:	State Controller's Office (SCO)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Subrecipient Monitoring. Some state departments are not issuing management decisions on audit findings within six months after the state receives the local governments' audit reports. The state has established a process that requires local governments such as counties to submit their audit reports to the SCO. After reviewing and certifying these audit reports, the SCO forwards them to the appropriate state agencies to follow up on audit findings pertaining to federal programs they administer. We found that, for 26 of the 58 counties, the SCO took between 1.2 months and 9 months to certify reports before sending them to the appropriate state agencies. Additionally, as of December 2008, the SCO had not certified the audit reports for 29 counties because these reports were rejected or pending rejection. These reports have been held by the SCO and not forwarded to the appropriate state agencies for roughly 7.6 months. The SCO's decision to certify the audit reports before forwarding them to the state agencies prevents the State from meeting the six-month requirement for issuing management decisions.
Status of Corrective Action:	Fully corrected. In July 2009, SCO received a final decision from the Department of Health and Human Services (DHHS) regarding when the six month time period begins for state agencies to follow up on audit findings. DHHS's final decision was that the six month time period begins when SCO receives the audit reports

and not when SCO certifies the reports.

As a result, beginning on July 7, 2009, after SCO received the final word form DHHS, SCO met with state agencies to discuss the decision and let them know they will have six months from the date SCO receives the report to follow-up on audit findings. SCO also gave a cover letter and a copy of the audit report for fiscal year 2007-08 rejected audit reports with audit findings to the state agencies. At that point in time all other audit reports with audit findings (certified reports) had already been distributed to the state agencies.

For fiscal year 2008-09 single audit reports, when SCO receives audit reports with findings we will send the report to the state agencies along with a cover letter notifying them of the six month period due date. SCO is currently adapting our automated Audits Management System (AMS) database to accommodate this change in processing.

This change will include the following. When 2008-09 reports are received, SCO will input the findings in AMS and flag the report as one that needs a Management Decision Cover Letter. The system will generate a Management Decision Cover Letter that will indicate the management decision due date (the system will automatically calculate it as 180 days from the date SCO receives the report). SCO will send the letter along with a copy of the unreviewed report and findings to the appropriate state agency.

SCO will only distribute complete reporting packages. A complete reporting package consists of a Comprehensive Annual Financial Report (CAFR) or Financial Statement Report, a Single Audit Report, and if applicable, a Management Letter.[4]

Reference Number:	**2008-1-9**
Federal Program:	12.401
State Administering Department:	Military Department (Military)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Activities Allowed/ Allowable Costs. Military lacks internal controls that would allow it to prevent and/or detect instances when personnel costs are being inappropriately charged to this federal program. Further, Military does not

	have adequate documentation to support personnel costs it charged to the federal fiscal year 2007 and 2008 awards.
Status of Corrective Action:	Fully corrected. Annually on March 1 and October 1, Military will send out a certification to federally funded employees to attach to their timesheets that states they are performing duties of an authorized position as approved under the Master Cooperative Agreement.[5]

Reference Number:	**2008-8-7**
Federal Program:	12.401
State Administering Department:	Military Department (Military)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Period of Availability. Military did not include estimated liquidation dates for uncleared obligations on its report of outstanding obligations to the United States Property and Fiscal Officer for the federal fiscal year 2006 and 2007 grants.
Status of Corrective Action:	Fully corrected. Annually, Military will include the projected liquidation dates on the open obligation report. The report was revised in 2008 and re-submitted after this was discovered during the audit.

Reference Number:	**2008-1-6**
Federal Program:	84.181
State Administering Department:	Department of Developmental Services (Developmental Services)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Activities Allowed/Allowable Costs. Developmental Services does not have an adequate internal control process in place to assure that the expenses incurred by regional centers are only for allowable activities and costs.
Status of Corrective Action:	Fully corrected. Developmental Services has received a program determination letter from the U.S. Office of Special Education Programs (OSEP) dated April 23, 2009 confirming that OSEP considers the similar prior year finding 2007-1-6 to be “resolved and closed.”[6]

Reference Number:	**2008-1-7**
Federal Program:	84.181
State Administering Department:	Department of Developmental Services (Developmental Services)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Activities Allowed/Allowable Costs. Developmental Services does not have an adequate internal control process in place to assure expenses incurred by one of its vendors, WestEd, are only for allowable activities and costs. Developmental Services paid WestEd $2.7 million during fiscal year 2007-08. However, WestEd did not submit supporting documentation with its invoices that would allow Developmental Services to make an informed assessment about whether the costs claimed were for allowable activities.
Status of Corrective Action:	Fully corrected. The WestEd contract was amended to provide adequate internal controls to assure expenses incurred by WestEd are only for allowable activities and costs.

Reference Number:	**2008-1-10**
Federal Program:	84.186
State Administering Department:	Department of Alcohol and Drug Programs (ADP)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Activities Allowed/Allowable Costs, Subrecipient Monitoring. ADP does not ensure the Safe and Drug-Free Schools and Communities expenditures are made only for allowable activities and costs. Our review of 45 claims and invoices from subgrantees found only 18 that had adequate documentation to support a portion of the subgrantee's expenditures. Also, ADP did not conduct any site visits during fiscal year 2007–08.
Status of Corrective Action:	Remains uncorrected/disagree with finding. It is ADP's position that it monitors its subrecipients in compliance with Title 34, CFR 80.20, and Title 34, CFR 80.40. ADP meets (and exceeds) these standards. As with last year's similar finding, ADP will resolve these issues with the U.S. Department of Education.[7]

Reference Number:	**2008-2-6**
Federal Program:	84.186
State Administering Department:	Department of Alcohol and Drug Programs (ADP)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Activities Allowed/Allowable Costs, Earmarking. ADP needs to improve its controls to ensure its accounting records match the hours recorded on its employees' time sheets. Our review of 10 employee time sheets found two instances in which ADP's accounting records did not agree with the time reported on the employees' time sheets.
Status of Corrective Action:	Partially corrected. The Accounting Office is reviewing late timesheets and entering adjusted timesheets, when necessary. ADP will begin testing an automated timesheet in the Summer of 2009.

Reference Number:	**2008-7-11**
Federal Program:	84.181
State Administering Department:	Department of Developmental Services (Developmental Services)
Fiscal Year Initially Reported:	2005-06
Audit Finding:	Level of Effort—Maintenance of Effort. Developmental Services does not have controls in place to prevent or detect the supplanting of state and local funds with federal funds for the Early Start program. Further, Developmental Services did not provide sufficient information to demonstrate its compliance with the Early Start program's Maintenance of Effort requirement.
Status of Corrective Action:	Fully corrected. Developmental Services made changes to the claims process. It issued a technical bulletin #396 and a memorandum dated March 26, 2009 to Regional Center Administrators and Chief Financial Officers providing detailed instructions for claiming purchase of service.[8]

Reference Number:	**2008-8-8**
Federal Program:	84.186

State Administering Department:	Department of Alcohol and Drug Programs (ADP)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Period of Availability. ADP lacks written procedures to ensure it uses Safe and Drug-Free Schools and Communities (SDFSC) funds only during the authorized period of availability. Moreover, ADP did not consistently follow the procedures it described to us for ensuring the federal funds for the SDFSC grant are in compliance with the period of availability requirement. Further, ADP liquidated two obligations outside of the allotted time period. Specifically, the liquidation period for the 2005 grant ended on December 31, 2007. However, ADP made two payments totaling $6,060 on January 9, 2008.
Status of Corrective Action:	Remains uncorrected/disagree with finding. This is a similar finding to one in fiscal year 2006-07. ADP does not agree that two claims were liquidated outside the period of availability. ADP will resolve theses issue with its federal entity.

Reference Number:	**2008-13-17**
Federal Program:	84.181
State Administering Department:	Department of Developmental Services (Developmental Services)
Fiscal Year Initially Reported:	2003-04
Audit Finding:	Subrecipient Monitoring. Developmental Services does not have an adequate internal control in place to assure that federal award identification information such as the Catalog of Federal Domestic Assistance (CFDA) title, CFDA number, award name, and federal agency name are communicated to subrecipients.
Status of Corrective Action:	Fully corrected. Developmental Services' Customer Support Section has implemented a new process in fiscal year 2008-09 that requires its program staff to complete a contract request form that contains the federal award information.

Reference Number:	**2008-13-18**
Federal Program:	84.181

State Administering Department:	Department of Developmental Services (Developmental Services)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Subrecipient Monitoring. Developmental Services incorrectly stated the threshold for its family resource centers to have an audit in accordance with U.S. Office of Management and Budget (OMB) Circular A-133. Developmental Services incorrectly stated that audit threshold was $300,000 instead of $500,000.
Status of Corrective Action:	Fully corrected. Developmental Services has revised its contracts to reflect the $500,000 threshold for an audit in accordance with OMB Circular A-133.[9]

Reference Number:	**2008-13-21**
Federal Program:	84.186
State Administering Department:	Department of Alcohol and Drug Programs (ADP)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Subrecipient Monitoring. ADP used an incorrect Catalog of Federal Domestic Assistance (CFDA) title for five of its subgrantees. Further, ADP did not follow its procedures for initiating written and verbal contact with those counties that had delinquent U.S. Office of Management and Budget Circular A-133 audits.
Status of Corrective Action:	Remains uncorrected/disagree with finding. ADP is working with its federal agency to resolve these findings.[10]

Reference Number:	**2008-14-7**
Federal Program:	84.032
State Administering Department:	California Student Aid Commission (Student Aid)
Fiscal Year Initially Reported:	2001-02
Audit Finding:	Special Tests and Provisions. EDFUND, Student Aid's auxiliary organization, has not developed adequate internal controls over its information systems to provide reasonable assurance it keeps current, complete, and accurate records of each loan. Further, EDFUND has not located its tape library in a separate, secure area and some tapes are stored on open shelves and racks that do

	not lock. Finally, we previously reported that EDFUND allows a limited number of employees to make changes to sensitive data, even though these changes are not subject to the normal edits of its information system. In October 2007, EDFUND implemented a project designed to create an audit trail of such changes. However, the resulting audit trail still does not track certain types of transactions related to collections and accounting.
Status of Corrective Action:	Fully corrected. As of June 30, 2009, EDFUND has implemented the remaining high-risk and moderately high risk findings from the 2005 risk assessment. In May 2009, EDFUND implemented a project designed to create an audit trail of changes made in the Financial Aid Processing System for all files that can be changed through the data maintenance process, and did not previously have this functionality. EDFUND's tape library is located within a self-contained storage unit (Gemtrac) within a secured cage at EDFUND's co-location data center. All tapes are now contained within the tape storage unit, and keyed locking devices secure the tape storage unit. The locks were installed on April 29, 2009.[11]

Reference Number:	**2008-14-8**
Federal Program:	84.181
State Administering Department:	Department of Developmental Services (Developmental Services)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Special Tests and Provisions. Developmental Services lacks an internal control process to ensure the documents describing the program include information on the percentage of the total cost of the project that will be financed with federal funds and the percentage and dollar amount of the total cost of the project that will be financed by non-governmental sources.
Status of Corrective Action:	Fully corrected. Developmental Services Customer Support Section has added new language to the Family Resource Center (FRC) contracts that states the funding source is 100 percent federal funds. This can be seen in the fiscal year 2009-12 contracts.[12]

Reference Number:	**2008-1-11**
Federal Program:	93.959

State Administering Department:	Department of Alcohol and Drug Programs (ADP)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Activities Allowed/Allowable Costs. ADP does not ensure subgrantees expend Block Grants for Prevention and Treatment of Substance Abuse (SAPT) funds only for allowable activities. ADP staff do not review the subgrantees' financial records during its on-site audits and desk audits to determine whether they spent SAPT funds on only allowable activities and costs.
Status of Corrective Action:	Remains uncorrected/disagree with finding. ADP meets the requirement, as established in Title 45 CFR 96.31 (b).[13]

Reference Number:	**2008-1-12**
Federal Program:	93.958
State Administering Department:	Department of Mental Health (Mental Health)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Activities Allowed/Allowable Costs. Mental Health does not ensure subgrantees' expenditures are only for allowable activities and costs. Specifically, Mental Health does not require the counties to submit invoices, receipts, or payroll information to verify amounts they reported as expenditures.
Status of Corrective Action:	Partially corrected. Mental Health added clarifying language to the draft state fiscal year 2009-10 Planning Estimate and Renewal Application Instructions requiring all line item expenditures, including services provided by a subcontractor, be described in the narrative. In addition, Mental Health plans to consult with the Center for Mental Health Services to determine if the U.S. Office of Management and Budget Circular A-133 audits submitted by the counties would meet the federal requirement.[14]

Reference Number:	**2008-1-13**
Federal Program:	93.558 93.658 93.659
State Administering Department:	Department of Social Services (Social Services)

Fiscal Year Initially Reported:	2006-07
Audit Finding:	Activities Allowed/Allowable Costs. Social Services' processes for reviewing and authorizing the counties' expense and assistance claims do not provide reasonable assurance that federal funds were expended only for allowable activities and costs. Without procedures such as reviewing the supporting documentation for the counties' expense and assistance claims prior to payment or conducting on-site visits to review the claims during the award period, Social Services has no way of assuring that counties are spending federal funds only on allowable activities and costs.
Status of Corrective Action:	Remains uncorrected/disagree with finding.[15]

Reference Number:	**2008-2-4**
Federal Program:	93.563
State Administering Department:	Department of Child Support Services (Child Support Services)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Allowable Costs/Cost Principles. Child Support Services lacks adequate written policies and procedures to ensure its expenditures meet the requirements of the U.S. Office of Management and Budget (OMB) Circular A-87, Cost Principles for State and Local Governments, and the federal requirements for the Child Support Enforcement program. Child Support Services' current process increases the difficulty of resolving unallowable costs by delaying their identification until invoices or purchase orders reach accounting (late in the approval process) rather than determining their allowability in the contracts or purchasing units (early in the approval process).
Status of Corrective Action:	Fully corrected. Child Support Services developed a plan to train staff to ensure all payments being submitted for payment fall within the approved OMB Circular A-87 requirements.[16]

Reference Number:	**2008-2-5**
Federal Program:	93.778

State Administering Department:	Department of Health Care Services (Health Care Services)
Fiscal Year Initially Reported:	2005-06
Audit Finding:	Allowable Costs/Cost Principles. A Health Care Services contractor implemented a special processing guideline to discontinue overriding suspended claims, updated its procedures, and started to identify all skilled nursing facilities that received duplicate Medi-Cal payments to begin efforts to recoup those funds. However, subsequent to the audit, we found the special guideline instructs examiners in certain situations to continue to follow the flawed procedure, which could result in the contractor continuing to pay duplicate claims.
Status of Corrective Action:	Partially corrected. Correction of the flawed special processing guidelines that caused duplicate payment authorizations was completely implemented in September 2007. Complete implementation of the recommendations related to this finding will occur with implementation of the new Fiscal Intermediary (FI) contract and the replacement California Medicaid Management Information System (CA-MMIS). Implementation of the new contract is scheduled for October 2009, while phased implementation of the replacement CA-MMIS is scheduled to begin in July 2010. These dates are subject to change depending on the outcome of the FI contract re-procurement, which at the time of reporting is in the evaluation phase.

Reference Number:	**2008-2-7**
Federal Program:	93.959
State Administering Department:	Department of Alcohol and Drug Programs (ADP)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Activities Allowed/ Allowable Costs. Our review of 45 employee time sheets found 14 instances in which ADP's accounting records did not substantially agree with the hours reported by the employee. Generally, the differences arose because accounting staff did not key in the hours reported on the time sheet, and the labor distribution system defaulted to base program cost accounts on the employee's profile. Without an adequate control process, ADP cannot assure that it is accurately charging payroll costs to the program.

Status of Corrective Action:	Partially corrected. The Accounting Office is reviewing late time sheets and entering adjusted time sheets, when necessary. ADP will begin testing an automated time sheet in the Summer of 2009.[17]

Reference Number:	**2008-2-9**
Federal Program:	93.566
State Administering Department:	Department of Social Services (Social Services)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Allowable Costs/Cost Principles. Social Services did not require the requisite staff to submit personnel activity reports or equivalent documentation to support the actual amount of time they spent working on activities related to the Refugee Program. Instead, it continued to rely on an outdated time study or time studies to charge payroll expenditures to this program.
Status of Corrective Action:	Fully corrected. The Refugee Programs Bureau (RPB) required staff to complete time studies on a monthly basis from March 2008 to February 2009 and continues to conduct ongoing studies to keep current numbers.

Reference Number:	**2008-2-10**
Federal Program:	93.658 93.659
State Administering Department:	Department of Social Services (Social Services)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Allowable Costs/Cost Principles. Social Services does not have adequate internal controls in place to ensure county welfare departments are claiming costs according to the cost allocation plan (CAP) for local agencies. Further, Social Services does not have a process in place to ensure the costs that are reflected on the county expense claims are calculated in accordance with the local agency CAP.
Status of Corrective Action:	Remains uncorrected/disagree with finding.[18]

Reference Number:	**2008-2-11**
Federal Program:	93.659
State Administering Department:	Department of Social Services (Social Services)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Allowable Costs/Cost Principles. Social Services' Adoptions Services Bureau (Adoptions Services) did not comply with its public assistance cost allocation plan. Specifically, the percentages for Adoptions Services' Sacramento district office that were submitted for the first quarter of fiscal year 2007–08 contained an error in the Group Activity Percentage Time Reporting Summary.
Status of Corrective Action:	Fully corrected. Adoption Services Central Office has instructed all Adoptions District Managers to review all completed time study reports. Furthermore, the managers will closely supervise the clerical staff to ensure accuracy of calculations and will review all completed time studies prior to being submitted on a bimonthly basis.

Reference Number:	**2008-3-10**
Federal Program:	93.563
State Administering Department:	Department of Child Support Services (Child Support Services)
Fiscal Year Initially Reported:	2005-06
Audit Finding:	Cash Management. Child Support Services lacks adequate policies and procedures to provide reasonable assurance that cash management requirements are met for drawing federal funds for the Child Support Enforcement program administrative costs. Specifically, Child Support Services failed to consistently follow the funding technique specified in the Treasury-State Agreement (TSA) during state fiscal year 2007–08.
Status of Corrective Action:	Fully corrected. Child Support Services has revised cash management procedures to use historical expenditure data as the basis for monthly expenditure estimates. Child Support Services has also worked with the Department of Finance to incorporate new methodology in the state fiscal year 2009-10 TSA.[19]

Reference Number:	**2008-3-11**
Federal Program:	93.959
State Administering Department:	Department of Alcohol and Drug Programs (ADP)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Cash Management. The Treasury-State Agreement for fiscal year 2007-08 requires ADP to use the pre-issuance funding technique to make payments to counties. This funding technique requires the State to request federal funds such that they are deposited in a state account not more than three business days prior to the day the State makes a disbursement. We tested 45 advance payments ADP made to counties and found three in which the State disbursed funds to counties four business days after the funds were deposited in the State's account. These delays occurred because the State Controller's Office identified an insufficient balance remaining on the contract for one of the payments submitted on the claim schedule or noted there were insufficient funds to pay the claim schedule.
Status of Corrective Action:	The Prevention and Treatment of Substance Abuse (SAPT) block grant is not part of the 2008-09 Treasury-State Agreement; therefore, ADP is unable to implement a corrective action plan specific to the Cash Management Improvement Act. However, ADP will continue to use its existing procedures to ensure disbursement of federal funds occurs in a timely manner.

Reference Number:	**2008-3-13**
Federal Program:	93.958
State Administering Department:	Department of Mental Health (Mental Health)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Cash Management. Mental Health's procedures for monitoring the Substance Abuse and Mental Health Services Administration's Block Grants for Community Mental Health Services (SAMHSA CMHS) do not adequately ensure the advances made to counties are appropriate.

Status of Corrective Action:	Partially corrected. Mental Health has established and implemented procedures to accurately monitor county CMHS cash balances. Mental Health's practice of providing advances to counties has been discontinued. Mental Health will also document any exceptions and require supervisory review of payment authorizations prior to submitting the authorizations to the accounting unit.[20]

Reference Number:	**2008-5-1**
Federal Program:	93.044 93.045 93.053
State Administering Department:	Department of Aging (Aging)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Eligibility. Aging did not always maintain supporting documentation for certain amounts used in its calculation of awards to its subgrantees.
Status of Corrective Action:	Fully corrected. The support documentation cited by the audit was subsequently located. Aging has validated the sources and Data Team staff have written procedures which describe the steps and how to retain documentation to support each year's calculation.[21]

Reference Number:	**2008-5-6**
Federal Program:	93.568
State Administering Department:	Department of Community Services and Development (CSD)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Eligibility. CSD contracts with local agencies to make eligibility determinations and to provide assistance under the Low-Income Home Energy Assistance Program (LIHEAP) to eligible participants residing in their service areas. However, local agencies do not always maintain sufficient documentation such as applicants' monthly income or citizenship status to substantiate their eligibility determinations.

Status of Corrective Action:	Remains uncorrected/agree with finding. CSD will release updated guidelines in time for the American Recovery and Reinvestment Act to resolve issues on how income is calculated and supported.[22]

Reference Number:	**2008-5-7**
Federal Program:	93.659
State Administering Department:	Department of Social Services (Social Services)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Eligibility. Social Services can improve the operating effectiveness of its internal controls over eligibility. Social Services should establish a quality control process to ensure staff in its Adoption Services are retaining the appropriate documentation to demonstrate it is following established internal control procedures and complying with federal laws and regulations.
Status of Corrective Action:	Fully corrected. The Adoptions Services Central Office has standardized the Adoption District Offices' closing case summary checklist. Prior to closing the case file, a supervisor is to review and sign all case closing review/summary sheets. In addition, Adoption Services has provided training to all Adoption District Office managers and supervisors to ensure awareness of the new form and protocol.[23]

Reference Number:	**2008-7-3**
Federal Program:	93.044 93.045 93.053
State Administering Department:	Department of Aging (Aging)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Matching, Level of Effort, Earmarking. Aging lacks adequate policies and procedures to provide reasonable assurance that matching, level of effort, and earmarking requirements are met for the programs it administers using only allowable funds or costs that are properly calculated and valued.

Status of Corrective Action:	Partially corrected. Finding regarding Level of Effort has been corrected. Payment procedures that include checks for allowable costs, matching and earmarking are being reviewed, updated, and consolidated into one procedure manual by a cross-divisional workgroup. These procedures will incorporate the whole process including the pre-grant, during, and post-grant periods and will include levels of review to ensure requirements are met and errors are avoided.[24]

Reference Number:	**2008-7-12**
Federal Program:	93.568
State Administering Department:	Department of Community Services and Development (CSD)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Earmarking. CSD lacks evidence of a review and approval process to ensure its subgrantees do not exceed earmarks.
Status of Corrective Action:	Fully corrected. CSD administration created a new form that addresses and completes this finding.

Reference Number:	**2008-7-13**
Federal Program:	93.958
State Administering Department:	Department of Mental Health (Mental Health)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Earmarking. Mental Health does not have an official written policy or procedures in place to ensure its administrative costs are consistently and appropriately applied to the Substance Abuse and Mental Health Services Administration's Block Grants for Community Mental Health Services (SAMHSA CMHS).
Status of Corrective Action:	Partially corrected. Mental Health has updated its procedures and they are under review and pending the approval of its management. Mental Health also plans to conduct a review of the current process and will develop a written policy and processes to ensure only allowable costs are used to meet the earmarking requirement.[25]

Reference Number:	**2008-7-14**
Federal Program:	93.958
State Administering Department:	Department of Mental Health (Mental Health)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Level of Effort—Maintenance of Effort. Mental Health lacks processes and procedures to ensure it complies with the Maintenance of Effort (MOE) requirement for the Substance Abuse and Mental Health Services Administration's Block Grants for Community Mental Health Services Program.
Status of Corrective Action:	Partially corrected. Mental Health has conducted an evaluation of the current processes and procedures to ensure only allowable expenditures are included. Currently, Mental Health is in the process of updating its processes and procedures based on the results of the evaluation. Mental Health will retain supporting documentation for the future.[26]

Reference Number:	**2008-8-9**
Federal Program:	93.959
State Administering Department:	Department of Alcohol and Drug Programs (ADP)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Period of Availability. ADP does not follow its procedures for ensuring its county subgrantees expend all funds awarded to them before the period of availability for the grant expires.
Status of Corrective Action:	Remains uncorrected/disagree with finding. ADP followed its procedures for settling cost reports. ADP will resolve this issue with its federal entity.

Reference Number:	**2008-8-11**
Federal Program:	93.958
State Administering Department:	Department of Mental Health (Mental Health)
Fiscal Year Initially Reported:	2006-07

Audit Finding:	Period of Availability. Mental Health did not revise its accounting procedures to instruct staff on how to charge expenditures to each Community Mental Health Services (CMHS) grant so it could ensure the two-year period of availability requirement is met.
Status of Corrective Action:	Fully corrected. Mental Health has implemented its recently revised accounting procedures to ensure CMHS grant funds are used within the two-year period of availability.[27]

Reference Number:	**2008-8-12**
Federal Program:	93.658 93.659
State Administering Department:	Department of Social Services (Social Services)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Period of Availability. Social Services' processes for reviewing and authorizing the counties' administrative and assistance claims do not provide reasonable assurance that adjustments included on the claims are for expenditures made within two years after the calendar quarter in which the expenditures were initially paid.
Status of Corrective Action:	Remains uncorrected/disagree with finding.[28]

Reference Number:	**2008-9-2**
Federal Program:	93.958
State Administering Department:	Department of Mental Health (Mental Health)
Fiscal Year Initially Reported:	2005-06
Audit Finding:	Procurement, Suspension and Debarment. Mental Health did not require counties, as part of their suspension and debarment certifications to the State, to ensure lower-tier entities with which they entered into covered transactions were not suspended or debarred. Mental Health also did not require counties to pass the requirements down to each person with whom they entered into a covered transaction.
Status of Corrective Action:	Fully corrected. Mental Health has included the federal requirements in the draft state fiscal year 2009-10 Planning Estimate and Renewal Application.[29]

Reference Number:	**2008-9-3**
Federal Program:	93.556 93.566
State Administering Department:	Department of Social Services (Social Services)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Procurement, Suspension and Debarment. Social Services did not comply with either of the suspension and debarment requirements included in the Administration for Children and Families (ACF) grants' terms and conditions. Further, the Social Services staff did not consult the federal Excluded Parties List System (EPLS) website prior to issuing subawards or contracts to noncounty subrecipients as required by the ACF terms and conditions.
Status of Corrective Action:	Fully corrected. Social Services added the need to consult the EPLS website prior to entering into a contract to its contract checklist for all contracts. Additionally, Social Services has modified its suspension and debarment certification language to eliminate the monetary threshold and incorporate the appropriate language to address the suspension and debarment clearance requirement for any subcontractor.[30]

Reference Number:	**2008-9-4**
Federal Program:	93.558 93.658 93.659 93.566 93.556 93.645
State Administering Department:	Department of Social Services (Social Services)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Procurement, Suspension and Debarment. Social Services did not comply with either of the suspension and debarment requirements included in the Administration for Children and Families (ACF) grants' terms and conditions. Social Services did not adequately notify the counties of the suspension and debarment terms articulated in the terms and conditions. Social Services did not consult the federal Excluded Parties List System (EPLS) prior to

	disbursing funds to the counties.
Status of Corrective Action:	Partially corrected. Social Services will be issuing an annual County Fiscal Letter (CFL) that will address the suspension and debarment requirements and procedures for sub-recipients of federal funds. Prior to releasing the proposed CFL, Social Services will ensure the definitions used by the federal government in the U.S. Office of Management and Budget (OMB) Circular A-133 for recipients and vendors are understood and correctly applied to Social Services' business partners.[31]

Reference Number:	**2008-12-2**
Federal Program:	93.044 93.045 93.053
State Administering Department:	Department of Aging (Aging)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Reporting. Aging lacks adequate policies and procedures to provide reasonable assurance that the Financial Status Report and Administration on Aging Supplemental Form (SF-269) and the Federal Cash Transaction Report (PSC-272) it submits to the federal government include all activities, are supported by accounting records, and are fairly presented. Aging does not have an official written policy that establishes responsibility for reporting, provides the procedures for periodic monitoring of due dates, and verifies the report content. We noted various errors on the SF-269 and PSC-272 reports since the information reported did not agree with the departments accounting records.
Status of Corrective Action:	Fully corrected. Aging has developed written procedures to ensure the SF-269s and PSC-272s are accurate, tied to accounting documents, have appropriate levels of review, and are submitted timely. Aging has devoted extensive time into determining the source of the errors identified in the audit and has corrected and resubmitted reports. New templates and procedures have been created to prevent future errors.[32]

Reference Number:	**2008-12-13**
Federal Program:	93.568

State Administering Department:	Department of Community Services and Development (CSD)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Reporting. CSD lacks adequate internal controls to ensure proper federal reporting requirements are met. Further, CSD's "Carryover and Reallotment Report" did not include all required information, such as a description of the types of assistance to be provided with the funds to be carried over or evidence that the report had been reviewed and approved prior to CSD submitting it to the U.S. Department of Health and Human Services Agency.
Status of Corrective Action:	Remains uncorrected/agree with finding. Desk procedures will be made a priority once ongoing vacancies are filled and year-end has been completed.[33]

Reference Number:	**2008-12-15**
Federal Program:	93.958
State Administering Department:	Department of Mental Health (Mental Health)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Reporting. Mental Health's accounting procedures do not specifically identify the segregation of duties related to the preparation and approval of the annual Standard Form SF-269A.
Status of Corrective Action:	Fully corrected. Mental Health has implemented procedures to ensure segregation of duties for approval and preparation of the SF-269A.[34]

Reference Number:	**2008-12-16**
Federal Program:	93.566
State Administering Department:	Department of Social Services (Social Services)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Reporting. Social Services does not currently ensure the reports it submits to the federal Office of Refugee Resettlement (ORR) are accurate and complete.
Status of Corrective Action:	Fully corrected. The Refugee Programs Bureau (RPB) thrice reviewed federal ORR-6 reporting instructions with

	staff and provided guidance on reviewing the report content. The RPB twice issued reporting instructions to all counties. The RPB corrected errors identified in the federal ORR-6 reports for all trimesters of fiscal year 2007-08 and submitted an amended report to the federal Office of Refugee Resettlement.

Reference Number:	**2008-13-2**
Federal Program:	93.044 93.045 93.053
State Administering Department:	Department of Aging (Aging)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Subrecipient Monitoring. Aging lacks internal controls to ensure it identifies the federal agency name to its subgrantees at the time of the award. Further, Aging lacks adequate procedures that require staff to document the specific procedures they performed during site visits or the documents they reviewed to support their conclusions.
Status of Corrective Action:	Fully corrected. All contracts now include the name of the federal grantee agency as recommended by the Bureau of State Audits. The monitoring team has updated procedures with instructions to staff to retain backup documents to support their findings in the permanent monitoring file.[35]

Reference Number:	**2008-13-19**
Federal Program:	93.568
State Administering Department:	Department of Community Services and Development (CSD)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Subrecipient Monitoring. CSD's contract review and approval process lacks internal controls to ensure the federal awarding agency and all laws and regulations are identified at the time of the award. Further, CSD's audit services unit lacks sufficient internal controls to ensure it receives and follows up on all subgrantee audits timely.
Status of Corrective Action:	Fully corrected. The department revised sections of the

	Exhibit A boiler plate contract language to include new section "compliance" offering a reference to all applicable federal and state laws and regulations; and the new section "catalog of federal domestic assistance number" whereby the reference to the appropriate funding catalog and funding agency are offered. During the auditor's fieldwork, new procedures were provided to correct this finding. These procedures are currently being followed.[36]

Reference Number:	**2008-13-20**
Federal Program:	93.563
State Administering Department:	Department of Child Support Services (Child Support Services)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Subrecipient Monitoring. Child Support Services did not completely fulfill its subrecipient monitoring responsibilities for the Child Support Enforcement program. Child Support Services did not include the required award identification information in the agreement it executes with each local child support agency (LCSA). Further, Child Support Services did not effectively monitor the LCSAs' use of federal funds through site visits, limited scope audits, or other means. In addition, Child Support Services did not issue management decisions related to subrecipients' U.S. Office of Management and Budget (OMB) Circular A-133 audit findings within the required six-month time frame.
Status of Corrective Action:	Partially corrected. Child Support Services will include the Catalog of Federal Domestic Assistance (CFDA) title and number, award name and number, award year, and name of the federal agency when the next Plan of Cooperation is issued in September. Child Support Services has implemented a new 356 claim audit process to ensure more counties are reviewed annually. Child Support Services has been working with the State Controller's Office to ensure county single audits are submitted timely to the department, and Child Support Services has implemented a new process to ensure these responses are collected timely.[37]

Reference Number:	**2008-13-22**
Federal Program:	93.959

State Administering Department:	Department of Alcohol and Drug Programs (ADP)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Subrecipient Monitoring. ADP did not follow its procedures for initiating written and verbal contact with those counties that had delinquent U.S. Office of Management and Budget (OMB) Circular A-133 audits. Additionally, ADP does not have any written policies or procedures in place regarding the OMB Circular A-133 requirement to issue management decisions.
Status of Corrective Action:	Remains uncorrected/disagree with finding. ADP will resolve this issue finding with its federal entity.[38]

Reference Number:	**2008-13-23**
Federal Program:	93.958
State Administering Department:	Department of Mental Health (Mental Health)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Subrecipient Monitoring. Mental Health does not use the correct Catalog of Federal Domestic Assistance (CFDA) title in its correspondence to the counties. Further, Mental Health lacks a procedure for following up with counties that have delinquent U.S. Office of Management and Budget (OMB) Circular A-133 audits.
Status of Corrective Action:	Fully corrected. Mental Health has revised the title in the draft state fiscal year 2009-10 Planning Estimate and Renewal Application Instructions to reference the CFDA title Block Grants for Community Mental Health Services (known as the Community Mental Health Block Grant). Mental Health has implemented procedures to follow-up with counties that have not submitted their OMB Circular A-133 audits, and take appropriate actions.[39]

Reference Number:	**2008-13-25**
Federal Program:	93.556
State Administering Department:	Department of Social Services (Social Services)
Fiscal Year Initially Reported:	2006-07

Audit Finding:	Subrecipient Monitoring. Social Services did not have processes and procedures to ensure its noncounty subrecipients have met the U.S. Office of Management and Budget (OMB) Circular A-133 audit requirements. Specifically, Social Services did not have a process in place to collect and review the OMB Circular A-133 audits, nor to ensure it issues management decisions within six months after receiving the audit.
Status of Corrective Action:	Fully corrected. New policies and procedures have been implemented and continue to be modified as needs are identified.[40]

Reference Number:	**2008-13-26**
Federal Program:	93.558 93.658 93.659 93.566 93.556 93.645
State Administering Department:	Department of Social Services (Social Services)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Subrecipient Monitoring. Social Services did not identify federal award information, such as the Catalog of Federal Domestic Assistance (CFDA) title and number, when issuing subawards to the counties for the programs listed above, excluding the Refugee Program. Additionally, Social Services does not send any notification to the counties regarding their subawards for the administrative expenses and the assistance payments they make to program beneficiaries. Further, Social Services did not provide all of the required federal award information in its contracts with its noncounty subrecipients.
Status of Corrective Action:	Partially corrected. Social Services will release an annual County Fiscal Letter that will provide the counties with the CFDA number as well as the federal grant terms and conditions, instructions for meeting the suspension and debarment requirements, and other applicable instructions from U.S. Office of Management and Budget (OMB) Circular A-133.[41]

Reference Number:	**2008-13-27**
Federal Program:	93.658

State Administering Department:	Department of Social Services (Social Services)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Subrecipient Monitoring. Social Services did not adequately monitor the activities of its contractor. Specifically, Social Services did not follow up on the recommendations made by its contractor to the counties.
Status of Corrective Action:	Fully corrected. The Foster Care Audits and Rates Branch (FCARB) has assigned staff in the Funding and Eligibility Unit to review the recommendations submitted in the Administrative Office of the Courts reports. FCARB has developed procedures for this activity and a template letter that identifies the Judicial Review and Technical Assistance recommendations. To date, FCARB is following the procedures developed as a result of this finding.

Reference Number:	**2008-13-28**
Federal Program:	93.558 93.658 93.659
State Administering Department:	Department of Social Services (Social Services)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Subrecipient Monitoring. Social Services lacks adequate policies and procedures to ensure it issues management decisions on audit findings within six months after the State receives the counties' U.S. Office of Management and Budget (OMB) Circular A-133 audit reports. Social Services did not take any action, including imposing sanctions, for two of the three counties that continue to either be unwilling or unable to have an audit conducted and submitted to the State Controller's Office (SCO) in a timely manner in accordance with OMB Circular A-133.
Status of Corrective Action:	Partially corrected. Social Services is currently implementing the corrective action plan. By the end of 2009, Social Services will organize the Single County Audit information from the previous two years, develop a tracking system for the corrective action plans, update and organize the desk procedures, and establish appropriate OMB A-133 implementation policies and procedures. Additionally, the SCO is working with all state agencies to determine the subject of audit finding

	resolution decisions and the six month time frame for which these resolutions are due.[42]

Reference Number:	**2008-13-29**
Federal Program:	93.659
State Administering Department:	Department of Social Services (Social Services)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Subrecipient Monitoring. Social Services lacks formal processes to ensure it fulfills its pass-through responsibility to monitor the counties during the award period.
Status of Corrective Action:	Partially corrected. Social Services establishes Adoption Assistance Program (AAP) requirements under statute, regulations, and all county letters to counties and adoption district offices. Like the state, counties are audited under Single Audit standards that include review of the AAP, among other programs. Additionally, claims for AAP administrative and assistance costs are "desk audited" by Social Services and certified correct and accurate by county welfare directors. Finally, the state has a federally-approved AAP Program Improvement Plan which will guide Social Services' federal compliance for the coming two years, effective January 2009.[43]

Reference Number:	**2008-14-1**
Federal Program:	93.053
State Administering Department:	Department of Aging (Aging)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Special Tests and Provisions. Aging lacks adequate procedures to provide reasonable assurance that cash received in lieu of commodities is distributed equitably.
Status of Corrective Action:	Partially corrected. The procedures were immediately updated to be consistent with Aging's current methodology and to avoid potential confusion and error. The only corrective action remaining is for Aging to issue a refresher Program Memo to area agencies on aging (AAAs). Aging knows that AAAs understand the methodology but wants to ensure the methodology is clearly conveyed in writing.[44]

Reference Number:	**2008-14-9**
Federal Program:	93.563
State Administering Department:	Department of Child Support Services (Child Support Services)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Special Tests and Provisions. Child Support Services did not adequately fulfill its responsibility to respond to interstate case requests and status review requests within the time required. In addition, Child Support Services has not ensured it acts upon all case requests or that it notifies initiating jurisdictions when it rejects electronically submitted cases. Child Support Services also does not have ready access to critical data regarding its activities and workload. Further, Child Support Services has weak procedures for recording status request activities within the new system, and staff are not consistently following these procedures.
Status of Corrective Action:	Fully corrected. The California Central Registry has developed new business processes, procedures, and controls to ensure it adheres to the federal compliance time requirements for processing interstate referrals. In addition, Child Support Services has implemented additional management controls to monitor and document activities and workload as well as ensuring staff is consistently following these procedures.[45]

Reference Number:	**2008-14-10**
Federal Program:	93.958
State Administering Department:	Department of Mental Health (Mental Health)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Special Tests and Provisions. Mental Health does not facilitate peer reviews.
Status of Corrective Action:	Partially corrected. Mental Health has consulted with the California Mental Health Planning Council (MHPC) on this issue. As a result, the MHPC has agreed to conduct the independent peer reviews as required by federal law. The MHPC is in the process of planning the independent peer reviews.[46]

Reference Number:	**2008-14-11**
Federal Program:	93.659
State Administering Department:	Department of Social Services (Social Services)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Special Tests and Provisions. Social Services does not have controls in place to ensure state laws, regulations, and policies and procedures are regularly updated to align with federal rules and regulations.
Status of Corrective Action:	Partially corrected. Adoption Services submitted a revised Program Improvement Plan on April 17, 2009 and is awaiting formal approval from the U.S. Department of Health and Human Services. Social Services is in the process of reviewing and revising statutes and regulations specific to the Adoption Assistance Program. Proposed statutory language was submitted to the department's legislative office in September 2008 and is currently in the legislative review process. Additionally, Adoption Services has drafted an All-County Letter, which is also in the approval process.

Reference Number:	**2008-1-14**
Federal Program:	14.228
State Administering Department:	Department of Housing and Community Development (Housing)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Activities Allowed/Allowable Costs, Subrecipient Monitoring. Housing's process for reviewing subrecipient fund requests does not provide reasonable assurance that its subrecipients' expenditures are only for allowable activities and costs.
Status of Corrective Action:	Partially corrected. Housing has implemented a requirement that subrecipients provide source documentation when requesting grant funds. In addition, Housing requires subrecipients to submit signature cards authorizing which officials may sign funds requests before submitting them to the State of California. Furthermore, Housing will adhere to its monitoring policies and procedures to identify subrecipients at high risk of noncompliance with program requirements by annually

adopting the monitoring plan, training its staff to conduct risk assessments and on-site visits of the high-risk grantees, developing a three-month schedule of on-site visits based on the availability of resources, and supplementing the on-site visits with additional monitoring techniques, such as desk monitoring.[47]

Reference Number:	**2008-7-15**
Federal Program:	14.228
State Administering Department:	Department of Housing and Community Development (Housing)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Earmarking. Housing does not have adequate documentation to demonstrate it had reviewed their projects to ensure they met the national objective. Because of the lack of evidence of its review, Housing could not sufficiently demonstrate that the activities included in the applications were serving low- and moderate-income persons as intended.
Status of Corrective Action:	Fully corrected. Housing implemented a comprehensive application review sheet during the 2008 funding cycle. As part of this implementation, Housing revised the activity review sheet, which the program staff use to document that the activity is eligible and meets the Community Development Block Grant (CDBG) national objective. Housing conducts this review for eligibility and documentation of the CDBG national objective as part of the threshold review it performs when it receives the application for funding.

Reference Number:	**2008-7-16**
Federal Program:	14.228
State Administering Department:	Department of Housing and Community Development (Housing)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Earmarking (Public Services). Housing could not provide sufficient supporting documentation to demonstrate it did not allocate more than 15 percent of its 2007 Community Development Block Grant (CDBG) award for the provision of public services.

Status of Corrective Action:	Fully corrected. Housing's CDBG staff will continue to document public services funds requested when reviewing applications. In addition, the CDBG staff has developed a more comprehensive tracking system to ensure the allocations do not exceed the 15 percent cap. The CDBG staff has added the executed contract numbers to the preliminary funding list to document the percentage of the allocation that was obligated through contracts towards public services, established the maximum allowable Public Services amount, and inserted the formula to track the actual amounts allocated to the activities. For future funding years, CDBG will use the same tool to determine and track allocation to public services activities to ensure the 15 percent cap is not exceeded. All records will be kept in a Public Services Monitoring file.

Reference Number:	**2008-7-17**
Federal Program:	14.239
State Administering Department:	Department of Housing and Community Development (Housing)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Matching. Housing lacks adequate internal controls to ensure it reports accurate matching information to the U.S. Department of Housing and Urban Development. Further, Housing at times lacked supporting documentation for some of the amounts used in its matching determinations.
Status of Corrective Action:	Partially corrected. Housing has selected a random sample of subrecipients to ensure the data provided in the Project Completion Report is accurately portrayed in the match report, and tested the computer that generates the match reports before the report is generated to make sure that the computer program produces an accurate report with the data in the system at the time. Housing has started training enough staff to prepare the report so in the event of staff absences, the report will be generated by staff, with the fiscal manager responsible to ensure its accuracy. Training will be completed by August 31, 2009.[48]

Reference Number:	**2008-9-5**
Federal Program:	14.228
State Administering Department:	Department of Housing and Community Development (Housing)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Suspension and Debarment. Housing does not require its subrecipients to certify that neither they nor their principals are currently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from participation in federal assistance programs.
Status of Corrective Action:	Fully corrected. Beginning with the 2009-10 funding round, Housing has included language in the Notice of Funding Availability explicitly instructing applicants to verify and document their status on the Excluded Party List System, and Revised in its Application Statement of Assurance to include a certification that neither the applicant nor its principals are debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from participating in federal assistance programs.

Reference Number:	**2008-12-18**
Federal Program:	14.228
State Administering Department:	Department of Housing and Community Development (Housing)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Reporting. Housing lacks adequate internal controls to ensure the completeness of the Section 3 Summary Report that it submits to the U.S. Department of Housing and Urban Development (HUD). Further, Housing could not demonstrate how it arrived at the amount of total resources available that it reported to HUD in the performance report for fiscal year 2006–07.
Status of Corrective Action:	Fully corrected. Housing used its centralized database and reporting system (CAPES) to create a report that lists all grantees and the funded activities. Procedures have been written that instruct staff to use this list to identify grants of $200,000 or more for Section 3 reportable activities such as housing rehabilitation, housing

	construction, public facilities, or community facilities. Staff have been instructed to either make sure that the Section 3 report is filed, or determine by contacting the grantee that circumstances do not warrant filing the report. Procedures also require that receipt of the reports, or the reason why the report is not required, be entered into the centrally maintained list.[49]

Reference Number:	**2008-12-19**
Federal Program:	14.239
State Administering Department:	Department of Housing and Community Development (Housing)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Reporting. Housing lacks adequate internal controls to ensure the accuracy of the data in and the completeness of the annual Section 3 Summary Report it is required to submit to the U.S. Department of Housing and Urban Development (HUD).
Status of Corrective Action:	Partially corrected. Housing has developed procedures to obtain and report to the maximum extent practicable the Section 3 activity from its subrecipients that meet the requirements to report Section 3 activity. In addition, to ensure the report accurately reflects the State's Section 3 activities reported by subrecipients, Housing has selected a random sample of subrecipients to ensure the data provided in their Section 3 report is accurately portrayed in the Section 3 Summary Report; and tested the computer program that generates the Section 3 report before the report is generated to make sure the computer program produces an accurate report with the data in the system at the time. Housing has started training enough staff to prepare the report so that in the event of staff absences, the report will be generated by staff, with a HOME Investment Partnerships Program manager or specialist responsible to ensure its accuracy. Training will be completed by August 31, 2009.[50]

Reference Number:	**2008-12-20**
Federal Program:	14.239
State Administering Department:	Department of Housing and Community Development (Housing)

Fiscal Year Initially Reported:	2007-08
Audit Finding:	Reporting. Housing did not report to the Department of Finance for inclusion in the Schedule of Federal Assistance the correct amount of its outstanding loans of HOME Investment Partnership Program funds for which affordability requirements continue for five to 20 years.
Status of Corrective Action:	Remains uncorrected/agree with finding. By December 31, 2009, Housing will reconcile the California State Accounting and Reporting System (CALSTARS) S01 report to the centralized database and reporting system (CAPES) and City Software list of state loans to ensure all information in CALSTARS is correct, submit appropriate forms/documentation to the Accounting Branch to make any required changes; and develop procedures to ensure new awards to community housing development organizations continue to be correctly coded in CALSTARS.[51]

Reference Number:	**2008-13-30**
Federal Program:	14.228
State Administering Department:	Department of Housing and Community Development (Housing)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Subrecipient Monitoring. Housing did not completely fulfill its subrecipient monitoring responsibilities for the Community Development Block Grant (CDBG) program. Specifically, award information did not properly include the Catalog of Federal Domestic Assistance (CFDA) number for the CDBG program.
Status of Corrective Action:	Fully corrected. In January 2009, Housing implemented procedures to include the CFDA number of the CDBG program in the contracts entered into with subrecipients.

Reference Number:	**2008-13-31**
Federal Program:	14.228 14.239
State Administering Department:	Department of Housing and Community Development (Housing)
Fiscal Year Initially Reported:	2007-08

Audit Finding:	Subrecipient Monitoring. Housing did not issue management decisions related to subrecipients' Office of Management and Budget (OMB) Circular A-133 audit findings within the required six-month time frame.
Status of Corrective Action:	Fully corrected. The condition that resulted in the Audit Division's untimely direction of the OMB Circular A-133 audits to program staff was that the key Audit Division staff person was not available to complete the task and, at that time, backup staff was neither identified nor trained to accomplish that responsibility. Since this issue was identified, backup staff have both been identified and trained. Further, the Audit Division's written procedures, entitled "Single Audit Desktop Procedures for Audit Division," were issued on February 25, 2009, and the backup staff was trained on these procedures on March 13, 2009. The Audit Division also will annually review the "Single Audit Desktop Procedures" and update it for applicable changes. The Home Investment Partnerships Program and Community Development Block Grant Program staff will work with Housing's Audit Division to ensure delays in issuing management decisions regarding audit findings are minimized. To assist in this effort, the program staff has developed written procedures for routing and tracking the audit findings and has designated an OMB Circular A-133 audit-finding coordinator to expeditiously address the resolution of any findings.[52]

Reference Number:	**2008-13-32**
Federal Program:	14.239
State Administering Department:	Department of Housing and Community Development (Housing)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Subrecipient Monitoring, Special Tests and Provisions. Housing did not consistently meet its subrecipient monitoring responsibilities related to conducting inspections of rental projects for compliance with housing quality standards.
Status of Corrective Action:	Partially corrected. Required on-site monitoring is underway. For the period July 2008 through June 2009, Housing has inspected 37 of 82 projects, a rate of approximately 5 per month. At this rate, Housing will have inspected all projects as planned by June 30, 2010.[53]

Reference Number:	**2008-1-8**
Federal Program:	16.606
State Administering Department:	Department of Corrections and Rehabilitation (Corrections)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Activities Allowed/Allowable Costs. Corrections submitted ineligible inmates in its fiscal year 2007 State Criminal Alien Assistance Program (SCAAP) application. The process Corrections uses to compile the inmate data file may inappropriately include ineligible inmates.
Status of Corrective Action:	Partially corrected. In March 2009, the Office of Legislation (OOL) spoke with staff from the U.S. Department of Immigration and Customs Enforcement (US ICE) and Bureau of Justice Assistance related to assumptions made in Corrections' programming for the inclusion of inmate records in the SCAAP application. Based upon information received, changes were made in the SCAAP programming so that an inmate's place of birth (POB) will not be erroneously changed to an incorrect POB. Inmates who have a valid US ICE alien number with contradictory POB information in inmate file are changed to POB "unknown". In April 2009 and ongoing, OOL staff and Offender Information Services Branch staff began ongoing meetings to review the programming used as it corresponds to each section of the SCAAP guidelines to determine if changes to logic are necessary based on the interpretation /information of the SCAAP guidelines.[54]

Reference Number:	**2008-1-5**
Federal Program:	17.245
State Administering Department:	Employment Development Department (EDD)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Activities Allowed/Allowable Costs, Eligibility. EDD lacks adequate controls to ensure its field offices make appropriate eligibility determinations for the Trade Adjustment Assistance (TAA) program.
Status of Corrective Action:	Fully corrected. On December 22, 2008, the Unemployment Insurance Policy and Coordination

	Division submitted to Audit & Evaluation a corrective action plan and corresponding documents as confirmation EDD has established appropriate controls and guidelines to ensure its field offices made appropriate determinations for the TAA program.[55]

Reference Number:	**2008-2-8**
Federal Program:	17.503
State Administering Department:	Department of Industrial Relations (Industrial Relations)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Allowable Costs/Cost Principles. Industrial Relations lacks adequate controls to ensure the personal services costs it charges to the California Occupational Safety and Health program are allowable. Industrial Relations does not ensure it prepares semiannual certifications for its employees who work solely on that program.
Status of Corrective Action:	Fully corrected. Industrial Relations will conduct its initial semiannual certification (October 1, 2008 through March 31, 2009) as recommended. A memo to managers of employees who work solely on this program was issued on August 7, 2009 to certify federal grant participation.

Reference Number:	**2008-3-12**
Federal Program:	17.503
State Administering Department:	Department of Industrial Relations (Industrial Relations)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Cash Management. Industrial Relations did not obtain written authorization prior to requesting an advance.
Status of Corrective Action:	Fully corrected. For fiscal year 2008-09, there was no advance requested. If an advance is necessary, it is now Accounting Unit's policy and procedure to prepare and submit a Request for Advance or Reimbursement, SF-270, to the federal Department of Health and Human Services Division, to be approved by the accounting administrator.

Reference Number:	**2008-8-10**
Federal Program:	17.503
State Administering Department:	Department of Industrial Relations (Industrial Relations)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Period of Availability. Industrial Relations obligated program funds outside the period of availability for one of its purchase orders that was paid under its 2007 federal award. Industrial Relations made this obligation on October 10, 2007. Since the obligation took place after September 30, 2007, a valid obligation did not exist during the funding period for this award. Further, Industrial Relations liquidated one of its obligations under the 2007 federal award in April 2008, which is after the December 3, 2007 deadline. Thus, it appears that Industrial Relations is not in compliance with the federal regulations regarding period of availability.
Status of Corrective Action:	Fully corrected. Industrial Relations' California Division of Occupational Safety and Health (Cal/OSHA) unit routes all invoices to Accounting/Federal Grants Unit for proper work phase and program cost account coding to ensure no invoice is paid with federal fund after closeout.[56]

Reference Number:	**2008-9-1**
Federal Program:	17.207 17.801 17.804
State Administering Department:	Employment Development Department (EDD)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Procurement, Suspension and Debarment. EDD does not have adequate policies or procedures in place to comply with federal suspension and debarment requirements. Further, EDD does not check the Excluded Parties List System (EPLS) to verify that entities it purchases goods from are not suspended or debarred.
Status of Corrective Action:	Fully corrected. On April 14, 2009, EDD updated the desk procedures for buyers to include querying the EPLS and printing a copy of the results for the procurement file for all purchases over $25,000. The buyers were verbally instructed as to the procedures on February 13, 2009.[57]

Reference Number:	**2008-12-9**
Federal Program:	17.801 17.804
State Administering Department:	Employment Development Department (EDD)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Reporting. EDD lacks adequate procedures for calculating indirect costs and reviewing U.S. Office of Management and Budget Financial Status Report (SF-269A) reports. Further, EDD erroneously calculated its indirect costs for both programs.
Status of Corrective Action:	Fully corrected. As of April 2008, EDD has implemented updated written procedures to ensure the SF-269A documents are prepared accurately.

Reference Number:	**2008-12-10**
Federal Program:	17.245
State Administering Department:	Employment Development Department (EDD)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Reporting. EDD lacks controls to ensure the accuracy of the data in the Employment and Training Administration (ETA-563) report that it submits to the U.S. Department of Labor (Federal Labor).
Status of Corrective Action:	Partially corrected. The Unemployment Insurance Policy and Coordination Division (UIPCD) currently submits the ETA-563 report to Federal Labor. Specifications are currently being developed by the Information Technology Branch (with coordination with the Workforce Services Branch (WSB) Information Technology Services Group) to incorporate the ETA-563 report into the Job Training Automation System (JTA). After the specifications are completed, the WSB will begin to submit the report to the Federal Labor. WSB is scheduled to submit their first report (for the October-December 2009 quarter) to the Federal Labor in February 2010.[58]

Reference Number:	**2008-12-11**
Federal Program:	17.245
State Administering Department:	Employment Development Department (EDD)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Reporting. EDD has not established adequate controls to ensure it uses the appropriate data to prepare the Trade Act Participant Report (TAPR).
Status of Corrective Action:	Fully corrected. The TAPR was incorporated into the Job Training Automation System (JTA) in July 2008. Using the new TAPR/JTA report procedures, the October through December 2008 TAPR report was successfully transmitted to the U.S. Department of Labor in February of 2009.[59]

Reference Number:	**2008-12-12**
Federal Program:	17.260
State Administering Department:	Employment Development Department (EDD)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Reporting. EDD did not report Dislocated Worker funds it transferred to the Workforce Investment Act (WIA) Adult Program.
Status of Corrective Action:	Fully corrected. The Workforce Services Branch contacted the U.S. Department of Labor (Federal Labor) to enter the "transfer" amount ($785,243) omitted from the report. Federal Labor did acknowledge the omission of the amount and noted it in their records. When trying to update the actual expenditure report EDD was told by Federal Labor that the report could not be unlocked. A trail of email confirming the fact that Federal Labor could not open the report has been supplied for documentation purposes.

Reference Number:	**2008-12-14**
Federal Program:	17.503
State Administering Department:	Department of Industrial Relations (Industrial Relations)

Fiscal Year Initially Reported:	2006-07
Audit Finding:	Reporting. Industrial Relations submitted an inaccurate closeout report for the 2007 federal award associated with the California Occupational Safety and Health Program (Cal/OSHA) and did not provide accounting records to demonstrate that unliquidated obligations were paid with state funds.
Status of Corrective Action:	Partially corrected. For the 2008 federal award associated with Cal/OSHA that closed on December 31, 2008, Industrial Relations will provide accounting records which will show that unliquidated obligations on December 31, 2008 were paid with state funds after December 31, 2008.[60]

Reference Number:	**2008-13-16**
Federal Program:	17.258 17.259 17.260
State Administering Department:	Employment Development Department (EDD)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Subrecipient Monitoring. EDD's Compliance Monitoring Section did not conduct reviews of any Community Based Organizations (CBOs) during fiscal year 2007–2008. In addition, EDD did not issue the management decision on audit findings within six months after receipt of a subrecipient's audit report.
Status of Corrective Action:	Remains uncorrected/agree with finding. The Compliance Monitoring Section is currently recruiting for staff to conduct monitoring of the CBOs. The EDD does not receive a copy of single audits from the State Controller's Office (SCO) on a timely basis. As a result, the six month period in which to issue a management decision on audit findings cannot be met in cases where EDD has not received a copy of the audit. To address this issue, EDD attended the Single Audit Conference to discuss and identify options that can be implemented in order to minimize the amount of time it takes for SCO to provide a copy of the audit to EDD. The result was that SCO would try to expedite their single audit certification process and send the audits as soon as possible. The SCO will look at downloading the audits onto their website in order for departments to have quicker access to the audits. Knowing that the time delay is with the SCO, EDD will

	initiate follow-up calls to SCO to determine the status of an audit. If an audit has been received, EDD will obtain the necessary information on any finding requiring management response from EDD. This will reduce the amount of time between SCO sending the audit and EDD receiving the audit and allow EDD to issue the management response much quicker.[61]

Reference Number:	**2008-7-2**
Federal Program:	20.505
State Administering Department:	Department of Transportation (Caltrans)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Matching. Caltrans does not have policies and procedures that require its district offices to periodically review the metropolitan planning organizations' invoices and supporting financial records that detail the source of funds used to meet their local match obligation.
Status of Corrective Action:	Fully corrected. Policies and procedures have been established and implemented. Invoices are not being paid if they do not follow the proper format, which requires matching fund disclosure.

Reference Number:	**2008-12-8**
Federal Program:	64.114
State Administering Department:	Department of Veteran's Affairs (Veteran's Affairs)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Reporting. Veterans Affairs did not notify the U.S. Department of Veteran's Affairs (VA) of a 60-day delinquency on a department-guaranteed loan as required. Further, Veterans Affairs did not submit to the VA a notice of intent to foreclose on a homeowner.
Status of Corrective Action:	Fully corrected. Veteran's Affairs has implemented a policy to continue to file loan delinquency status updates with the VA Administration for VA home insurance claims, even if the VA has notified Veteran's Affairs that they will not pay on the claim.

Reference Number:	**2008-7-9**
Federal Program:	94.006
State Administering Department:	CaliforniaVolunteers
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Earmarking. CaliforniaVolunteers inappropriately included the "subgrantees' administrative costs" in its calculation, thus overstating its share of the administrative costs.
Status of Corrective Action:	Fully corrected. CaliforniaVolunteers implemented a revised and correct calculation methodology for these expenditures and verified the incorrect calculation did not result in any over-draw of federal funds allowed.

Reference Number:	**2008-7-10**
Federal Program:	94.006
State Administering Department:	CaliforniaVolunteers
Fiscal Year Initially Reported:	2003-04
Audit Finding:	Matching. CaliforniaVolunteers did not review the subgrantees' underlying documentation that supports the expenses used to meet the matching requirements to ensure they are from allowable sources.
Status of Corrective Action:	Fully corrected. CaliforniaVolunteers updated its policies for the fiscal desk review process to ensure the collection and review of source documents associated with the receipt and deposit of matching funds. These policies are being used to conduct desk reviews for grantees reviewed beginning with the 2007-08 program year.[62]

Reference Number:	**2008-13-15**
Federal Program:	94.006
State Administering Department:	CaliforniaVolunteers
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Subrecipient Monitoring. CaliforniaVolunteers does not have updated policies and procedures related to the review and documentation of fiscal information obtained

	during site visits.
Status of Corrective Action:	Partially corrected. CaliforniaVolunteers contracted with the Department of Finance, Office of State Audits and Evaluations to perform specific tasks that would provide the foundation for updating and improving the policies and procedures for Subrecipient Monitoring, particularly as it relates to the fiscal monitoring aspects of this process. This project took longer than initially anticipated. A draft report for the final deliverable for this project was received on September 1, 2009. CaliforniaVolunteers is in the process of using the information from this project to update and improve the risk-based system used to monitor subrecipients. CaliforniaVolunteers anticipates completion and implementation of these policies by January 2010.[63]

Reference Number:	**2008-7-1**
Federal Program:	90.401
State Administering Department:	Office of the Secretary of State (Secretary of State)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Level of Effort—Maintenance of Effort. Secretary of State lacks adequate internal controls to ensure it calculates and reports properly the Help America Vote Act Maintenance of Effort (MOE) requirement.
Status of Corrective Action:	Fully corrected. To date, the U.S. Elections Assistance Commission (EAC) has not adopted a new MOE policy. The requirement to report county cost data is still suspended. The Secretary of State continues to monitor EAC fund advisory opinions and guidance, public meetings, and hearing proceedings for any change in policy direction or new actions regarding MOE policy or any revised federal mandates.

Reference Number:	**2008-12-1**
Federal Program:	90.401
State Administering Department:	Office of the Secretary of State (Secretary of State)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Reporting. Secretary of State does not accurately report some amounts in its annual Financial Status Report. The

	process used to review and approve the report is ineffective for ensuring the accuracy of the report because staff preparing and approving the report do not have the knowledge and experience necessary to complete it.
Status of Corrective Action:	Fully corrected. The Secretary of State is developing a training plan in order to increase knowledge and proficiency in the preparation and assessment of the required financial reporting form. Furthermore, the U.S. Elections Assistance Commission (EAC) notified the Secretary of State that the Office and Management and Budget (OMB) consolidated and replaced the existing financial reporting forms, including 269, which is replaced with a new form, the SF-425 Federal Financial Report (FFR). The EAC has provided training material and additional information to ensure the Secretary of State follows the new reporting requirements. As an additional measure, the Secretary of State will continue to preserve all documentation used to support and prepare the new FFR. Finally, the Secretary of State continues to reassess the financial reports used while completing the new FFR to ensure the reports are valid, reliable, and accurate. These additional oversight measures will ensure the Secretary of State is compliant with the Federal Funding Accountability and Transparency Act of 2006.

Reference Number:	**2008-13-1**
Federal Program:	90.401
State Administering Department:	Office of the Secretary of State (Secretary of State)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Subrecipient Monitoring. Secretary of State did not include all required federal award information pertaining to the Help America Vote Act (HAVA) when it awarded funds to its subrecipients.
Status of Corrective Action:	Fully corrected. The Secretary of State has implemented policies and procedures, which will ensure all current and future HAVA county contracts have and will contain the Catalog of Federal Domestic Assistance title and number. In addition, the U.S. Office of Management and Budget Circular A-133 audit requirements are also included as standard contract language.

Reference Number:	**2008-3-1**
Federal Program:	10.557
State Administering Department:	California Department of Public Health (Public Health)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Cash Management. Public Health did not ensure payments to contractors were issued within the three-day timing requirement.
Status of Corrective Action:	Fully corrected. Public Health has been and continues to follow the policies and procedures that have been in place for many years to issue warrants within three days of the drawdown of federal funds. This was a unique situation where claim schedule 2170885 was not processed by the State Controller's Office and Public Health was not notified until a much later date.[64]

Reference Number:	**2008-3-2**
Federal Program:	10.557
State Administering Department:	California Department of Public Health (Public Health)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Cash Management. Public Health lacks internal controls to ensure someone other than the preparer reviews and approves the federal draw request.
Status of Corrective Action:	Fully corrected. Public Health has enhanced its policies and procedures to ensure a supervisor or manager reviews each federal draw request.

Reference Number:	**2008-13-3**
Federal Program:	10.553 10.555 10.556 10.559
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2007-08

Audit Finding:	Subrecipient Monitoring. Education supplies its Local educational agencies (LEAs) with reports of donated commodities received during the fiscal year from its commodity distribution unit. However, this information does not contain award identification information to inform its LEAs that these are additional program awards of the National School Lunch Program, Catalog of Federal Domestic Assistance (CFDA) Number 10.555, which are required to be included in the LEAs' total federal award expenditures that are subject to annual federal audit.
Status of Corrective Action:	Partially corrected. Upon receiving additional guidance from the U.S. Department of Agriculture (USDA), Food and Nutrition Service on February 24, 2009, Education informed LEAs of the CFDA number 10.555 for the Food Distribution Program by including it on the annual "USDA Commodity Agency Information Update/Annual Inventory Certification" form that is sent to renewing LEAs by March 30 each year, and on the "Agreement For Distribution of Donated Food" for new LEAs. The CFDA number requirement will allow LEAs to appropriately identify the correct CFDA number for their commodity entitlements in the LEA's annual U.S. Office of Management and Budget Circular A-133 audit.[65]

Reference Number:	**2008-13-4**
Federal Program:	10.557
State Administering Department:	California Department of Public Health (Public Health)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Subrecipient Monitoring. Public Health does not have properly designed processes and controls in place to notify, obtain, and review the required U.S. Office of Management and Budget Circular A-133 audits and corrective action plans from subrecipients.
Status of Corrective Action:	Partially corrected. The Women, Infants, and Children (WIC) Program's contract with the State Controller's Office (SCO) now includes provisions related to audit follow-up responsibilities. A new WIC lead coordinator has been assigned to meet regularly with WIC program integrity staff and the SCO staff to monitor the status and completion of audit related activities within the required timeframes. Draft internal coordination procedures have been developed and are expected to be approved by November 2009.[66]

Reference Number:	**2008-14-2**
Federal Program:	10.553 10.555 10.556 10.559
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Special Tests and Provisions—Accountability for Commodities. Education had instances where the physical quantity of commodities did not reconcile to the adjusted quantity in its inventory tracking system.
Status of Corrective Action:	Partially corrected. Since March 2009, Education encountered software problems with the testing of the IndeTrak Warehouse Management System (WMS) bar-coding program. The software problems have delayed Education's implementation of the WMS. Recently, Education installed software enhancements to rectify the software problems. Once the enhanced WMS testing is complete and the system is deemed to be working properly, the WMS will track all donated commodities that are ordered, received, and distributed to recipient agencies. The WMS will be integrated with Education's Child Nutrition Information and Payment System by December 31, 2009.[67]

Reference Number:	**2008-1-1**
Federal Program:	84.048
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Activities Allowed. Education did not provide evidence of review and approval of applications for subgrant awards.
Status of Corrective Action:	Fully corrected. Beginning in fiscal year 2008-09, a new unit was formed to process, approve, and monitor the Carl D. Perkins (Perkins) applications for funding. Prior to that time, the applications were distributed to consultants throughout the division for review and approval. The applications now remain within the new unit and are distributed to seven consultants. The consultants are teamed with three analysts who work collaboratively

	throughout the approval process. Following review and approval of Perkins applications, unit consultants have been instructed to sign and date each application to indicate its approval. A unit analyst then reviews each application to verify the signature and date prior to data entry, funding, and filing of the application.

Reference Number:	**2008-1-2**
Federal Program:	84.287
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Activities Allowed. Education did not retain all the score sheets for the subgrant awards as evidence of review and approval of the applications.
Status of Corrective Action:	Fully corrected. Education has developed a Reader's Conference Plan that requires documentation of application approvals to be maintained. Education will retain these documents for three years as evidence of reviews and approvals.

Reference Number:	**2008-2-1**
Federal Program:	84.002 84.048
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Allowable Costs. Education incorrectly recorded payroll expenditures to the Adult Education Program. In addition, Education lacks internal controls that would have prevented or detected this error.
Status of Corrective Action:	Fully corrected. Education's Secondary, Career, and Adult Learning Division budget analysts have been instructed to review Labor Distribution Reports monthly to verify that information contained on personnel time sheets has been accurately keyed in by accounting office staff. If discrepancies are found, the analysts will take appropriate action to resolve the discrepancy.[68]

Reference Number:	**2008-3-3**
Federal Program:	84.002 84.010 84.186 84.287 84.365 84.367
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2001-02
Audit Finding:	Cash Management. Education does not have an adequate process in place for assessing the cash needs of its subrecipients.
Status of Corrective Action:	Partially corrected. Education established a task force to effectively improve cash management over federal programs. Education has implemented a pilot project involving local educational agencies (LEAs) reporting federal cash balances on a quarterly basis using a Web-based reporting system. In addition, Education has developed cash management fiscal monitoring procedures to verify LEAs' reported cash balances and to ensure compliance with federal interest requirements. Education's cash management improvement project will commence with the Title II-Improving Teacher Quality federal program, for the quarter period ending October 31, 2009. Education has informed LEAs that cash management procedures apply to the American Recovery and Reinvestment Act (ARRA) funds. In this regard, Education has established a Federal Cash Management Data Collection Web page specific to Title I, Part A of the Elementary and Secondary Education Act of 1965 and Title I, Part A ARRA. Based on the information reported by the LEAs, Education determined the allocations for following scheduled Title I apportionments.[69]

Reference Number:	**2008-3-4**
Federal Program:	84.002 84.010 84.011 84.186 84.287 84.357 84.365 84.367

State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2005-06
Audit Finding:	Cash Management. Education has inconsistent policies and procedures in place to ensure its local educational agencies (LEAs) are properly notified of their requirement to return interest earned over $100 on program advances, and to ensure this interest was returned on at least a quarterly basis.
Status of Corrective Action:	Fully corrected. On December 24, 2008, Education sent a letter notifying all LEAs of the federal interest requirement. Education has redirected staff to monitor LEAs' quarterly federal interest remittances, including interest earned on unspent American Recovery and Reinvestment Act funds. Education is also following up with LEA accounting staff, on a selected basis, to assess the reasonableness of reported cash balances and the federal interest calculations. In addition, Education staff is working with LEAs and providing guidance in calculating federal interest utilizing average daily cash balances or other acceptable alternative methodologies. Furthermore, Education is verifying, on a select basis, federal interest remittances to Education's accounting records.[70]

Reference Number:	**2008-3-5**
Federal Program:	84.010
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Cash Management. This program falls under the Cash Management Improvement Act (CMIA) with a required funding technique of preissuance for payments to local agencies. The preissuance technique requires the State to disburse cash advances to local educational agencies (LEAs) not more than three days after the advance is deposited in the State's account. In our sample of 60 drawdowns, we noted that one of Education's draws was for $187,000, which was paid four days after the cash was received by the State Controller's Office.
Status of Corrective Action:	Remains uncorrected/disagree with finding. Education did not deviate from Cash Management Improvement Act (CMIA) policies and procedures that were established by the Department of Finance (Finance) in agreement with

the State Controller's Office. Although the CMIA report that was submitted to Finance reflects delays, the delays were under ten days. Finance does not require explanation unless the payment exceeds ten days.

Reference Number:	**2008-5-2**
Federal Program:	84.357
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Eligibility. Education determines whether local educational agencies (LEAs) meet the "reading below grade level requirement" based on whether the LEA had the highest percentages or numbers of students reading below or far below basic as reported on the Standardized Testing and Reporting (STAR) results. However, we noted that STAR results only include second and third grade students and does not include kindergarten and first grade students. Since the eligible program participants include kindergarten through third grade, using the STAR results alone for its assessment would not be sufficient evaluation criteria.
Status of Corrective Action:	Remains uncorrected/disagree with finding. To be eligible for Reading First State Grants Program funding, a local educational agency (LEA) must be a program improvement school or have 50 percent or more of its students counted for allocation of Title I, Part A, funding. Although California requires only second graders and higher be tested through the STAR, once LEAs become eligible for the Reading First State Grants Program, they are then required to administer formative assessments every six weeks to monitor the reading skills of students in kindergarten through the third grade.

Reference Number:	**2008-7-4**
Federal Program:	84.002
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Matching, Level of Effort—Maintenance of Effort. Education lacks sufficient policies and procedures to ensure appropriate documentation is maintained to

	support matching contributions.
Status of Corrective Action:	Fully corrected. Education established procedures to maintain documentation to support the revised feasibility study report, which will also support the state match contributions.

Reference Number:	**2008-7-5**
Federal Program:	84.010 84.186 84.287 84.365 84.367
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2005-06
Audit Finding:	Level of Effort—Maintenance of Effort. Education's current Maintenance of Effort (MOE) policies and procedures are insufficient to ensure they are compliant with required federal guidelines. Further, Education lacks controls to ensure all required reductions for MOE failures are promptly processed.
Status of Corrective Action:	Remains uncorrected/disagree with finding. Education concurs that, by using unaudited amounts, there is a risk material adjustments or omissions may not adequately be reflected or computed in MOE calculations; however, Education still considers this risk minimal. Although Education initially proposed an addition to the audit guide requiring auditors quantify the impact of audit adjustments in sufficient detail to enable Education to take the adjustment into account when calculating MOE, it was subsequently determined, in many cases, it is not practicable to identify audit adjustments beyond a summary level. Education sends the final MOE calculation back to LEAs if final calculations differ from the preliminary calculations. LEAs are well aware of preliminary calculations because: (1) Form NCMOE, the MOE calculation, is a required part of the LEA's submission (LEAs must open and save this form before they can officially export their data); (2) LEAs must certify certain key values within their submission, including values from Form NCMOE; and (3) the calculation of MOE is well documented in the software user guide. Education has strengthened processes to ensure 21st Century Community Learning Centers grants are reduced

for grantees that fail to meet MOE requirements.[71]

Reference Number:	**2008-7-6**
Federal Program:	84.048
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Level of Effort—Maintenance of Effort. Education lacks sufficient controls over the review and approval of its Maintenance of Effort calculation so it can ensure the accuracy and completeness of the calculation and ensure compliance with the federal regulations.
Status of Corrective Action:	Remains uncorrected/disagree with finding. This finding was based on preliminary calculations prior to review, approval, and submittal to the federal government.[72]

Reference Number:	**2008-7-7**
Federal Program:	84.048
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Level of Effort—Supplement not Supplant. Education does not have a system in place for monitoring its compliance with its requirement to use program funds to supplement rather than supplant existing funds for its state activities and operations expenditures.
Status of Corrective Action:	Remains uncorrected/disagree with finding. By capturing the federal and state appropriation changes upfront and the controls in place for budget processes, Education ensures federal funds are not being used to supplant any reduction or elimination of nonfederal appropriated activities.

Reference Number:	**2008-7-8**
Federal Program:	84.010 84.011 84.027 84.173 84.186 84.287 84.357 84.365 84.367
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2005-06
Audit Finding:	Earmarking. Education does not have appropriately designed controls in place to monitor program earmarking requirements. In addition, it does not perform actual calculations on required earmarks to ascertain if it has complied with required limitations.
Status of Corrective Action:	Fully corrected. Education added a section to its grant budget memorandums that identifies the appropriate percentages used to meet earmarking requirements. This information is used by the Accounting Office to calculate and verify grant award earmarking allocations. If there are significant differences in a subgrantee's actual expenditures as related to the budget, follow-up will be done to verify that the earmarking requirements have been met.

Reference Number:	**2008-8-1**
Federal Program:	84.002 84.010 84.011 84.027 84.173 84.048 84.186 84.287 84.357 84.365 84.367
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2005-06

Audit Finding:	Period of Availability. Education's policies do not require journal entries to be independently reviewed and approved, nor does it require segregation of duties between the preparer and the recorder of the entry. Education's current policies and procedures do not require that documentation be maintained to identify which specific local educational agencies' or state educational agencies' expenditures are being adjusted within the first-in-first-out (FIFO) adjustment.
Status of Corrective Action:	Fully corrected. Education believes that appropriate segregation of duties and approval processes related to FIFO transactions are in place; however, Education has further strengthened procedures related to the adjusting of FIFO entries by maintaining supporting documentation of the specific transactions with the claim schedules.

Reference Number:	**2008-12-3**
Federal Program:	84.010 84.365
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Reporting. Education does not maintain supporting documentation for its submitted Consolidated State Performance Report (CSPR).
Status of Corrective Action:	Fully corrected. In December 2008, Education established a policy requiring Education program offices to provide detailed documentation supporting CSPR information. In May 2009, Education further enhanced this policy by establishing criteria for the supporting documentation to ensure it was complete and understandable. Program offices now submit copies of their supporting documentation to Education's CSPR coordinator within 10 days of completing the CSPR. Education will retain the supporting documentation for three years.

Reference Number:	**2008-12-4**
Federal Program:	84.011
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2005-06

Audit Finding:	Reporting. Education relies upon the work performed by an outside subcontractor and does not perform any monitoring to gain any assurance that the information provided to Education is accurate. Further, Education does not maintain supporting documentation for its "Consolidated State Performance Report."
Status of Corrective Action:	Fully corrected. Education maintains electronic and hard copies of the Consolidated State Performance Report and supporting documents to validate its child counts. Education reviewed a limited sample of reports submitted by the subcontractor to check for accuracy by comparing subgrant reports with data from other student count information submitted by each region. Education maintains all documents pertaining to the monitoring of its subcontractor.[73]

Reference Number:	**2008-13-5**
Federal Program:	84.011 84.027 84.173 84.287 84.357 84.365 84.367
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2005-06
Audit Finding:	Subrecipient Monitoring. Education lacks sufficient policies and procedures to ensure complete award information is properly communicated to its subrecipient local educational agencies.
Status of Corrective Action:	Fully corrected. Education revised its Grant Award Notification form (AO-400) and Notice of Apportionment to more clearly identify the sections of the Elementary and Secondary Education Act and Title 34 Code of Federal Regulations that apply to federal programs.

Reference Number:	**2008-13-6**
Federal Program:	84.002 84.010 84.011 84.048 84.186 84.287 84.365 84.367
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2005-06
Audit Finding:	Subrecipient Monitoring. By not maintaining adequate documentation of the procedures performed or ensuring that appropriate reviews and approvals are performed, Education is not able to adequately support conclusions reached during its monitoring visits. Additionally, Education does not appear to impose effective sanctions on local educational agencies (LEAs) for untimely receipt or implementation of their corrective action plans.
Status of Corrective Action:	Partially corrected. During internal training conducted on September 19, 2008, Education's on-site program monitors (program consultants) were given copies of recently revised Categorical Program Monitoring (CPM) protocols that provide specific information about the preparation of the Notification of Findings. The CPM protocols emphasize that findings must include a statement of the legal requirements, evidence used to conclude LEA is not meeting legal requirements and a clear statement that describes what the LEA must do to meet legal requirements. An internal review is conducted by educational program consultants and the CPM Office Administrator to ensure these three components are included in the documentation maintained following an on-site visit. Discrepancies are noted in review documentation and become a source of information for training content. Additionally Education, in collaboration with the California Comprehensive Center at WestEd, has launched the pilot of a Web-based compliance tracking system; LEAs in CPM regions 4 and 10 participated in the pilot of the system that allows LEAs to prepare for CPM on-site visits by completing program instruments online, and uploading documents as evidence of compliance. This system facilitates timely resolution of correction actions, and based on the results of the pilot year, Education is in the process of expanding this Web-based

	compliance tracking system as a component of its overall monitoring system.[74]

Reference Number:	**2008-13-7**
Federal Program:	84.027 84.173
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2005-06
Audit Finding:	Subrecipient Monitoring. Education lacks sufficient policies and procedures over during-the-award monitoring of its subrecipients. For example, Education's monitoring process did not include procedures to gain assurance on compliance with fiscal matters. Further, we noted that Education did not ensure that its subrecipients took timely corrective action when problems were identified. We reviewed a sample of 18 school districts that had compliance findings resulting from Education's monitoring reviews; however, six school districts had findings that were still outstanding 13 to 19 months following Education's visit.
Status of Corrective Action:	Partially corrected. Education's Focused Monitoring and Technical Assistance Unit is in the process of developing the protocols for the fiscal components and a written assurance document. Implementation of the enhanced monitoring process will be for the 2009-10 school year and will be included as part of the Special Education Self-Review process. In regard to issues concerning statewide standardized testing for developmental center students, Education surveyed other state agencies on their implementation of Individuals with Disabilities Education Act requirements and drafted a Memorandum of Understanding with the California Department of Developmental Services.[75]

Reference Number:	**2008-13-8**
Federal Program:	84.357
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2007-08

Audit Finding:	Subrecipient Monitoring. Education disbursed more than $101 million out of the total $102 million of program expenditures to local educational agencies (LEAs) without adequately ensuring LEAs were expending funds in accordance with federal guidelines for the fiscal year ended June 30, 2008. Education outsources its subrecipient monitoring to a contractor; however, the contractor's monitoring procedures focus on assisting LEAs with program implementation, as opposed to assessing their compliance with federal requirements.
Status of Corrective Action:	Remains uncorrected/agree with finding. Education's program monitoring processes are being restructured and revamped. Education plans to enhance monitoring procedures to help ensure federal funds are appropriately expended.[76]

Reference Number:	**2008-13-9**
Federal Program:	84.002 84.010 84.011 84.027 84.173 84.048 84.186 84.287 84.357 84.365 84.367
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2005-06
Audit Finding:	Subrecipient Monitoring. Education lacks sufficient policies and procedures for identifying and encouraging timely and appropriate corrective action for its local educational agencies (LEAs) and Special Education Local Plan Areas that demonstrate continued uncorrected material noncompliance or other high-risk behaviors.
Status of Corrective Action:	Fully corrected. Education's School Fiscal Services Division has enhanced the A-133 audit tracking system by adding an additional element in the database to identify those LEAs with repeat audit findings and the number of times the findings have been reported. The repeat findings information will be included in the information being communicated to the program staff so it can be utilized when assessing risk with regard to the affected

	LEAs.

Reference Number:	**2008-14-3**
Federal Program:	84.011
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2005-06
Audit Finding:	Special Tests and Provisions—Subgrant Process. Education relies upon the work performed by an outside subcontractor and does not perform any monitoring to ensure the subcontractor's controls are in place and effective to help ensure the accuracy of the funding formula supplied to Education.
Status of Corrective Action:	Fully corrected. Education maintains electronic and hard copies of the Consolidated State Performance Report and supporting documents to validate its child counts. Education meets with subcontractors to review the preliminary child count reports for accuracy by comparing reports with data from other regional report submissions. Education reviewed a limited sample of data submissions by regions to check for accuracy and completeness, and Education maintains all documents pertaining to the monitoring of its subcontractor.[77]

Reference Number:	**2008-14-4**
Federal Program:	84.011
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Special Tests and Provisions—Child Counts. Education's "State Categorical Monitoring Program" does not include procedures regarding the sampling or review of child eligibility determinations.
Status of Corrective Action:	Partially corrected. Education has contracted with Kern County Superintendant of Schools to conduct random prospective re-interviews. The re-interviews are currently being conducted and should be completed by September 30, 2009. Any children found to be ineligible through this validation process will be removed from the migrant student data base prior to submitting the 2008-09 child count reports. A final report will be submitted to the U.S.

Department of Education by December 30, 2009.[78]

Reference Number:	**2008-1-3**
Federal Program:	93.778
State Administering Department:	Department of Health Care Services (Health Care Services)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Activities Allowed/ Allowable Costs. Health Care Services does not ensure drug utilization data are provided to drug manufacturers/labelers on a timely basis.
Status of Corrective Action:	Fully corrected. Health Care Services implemented changes on April 1, 2009, which are expected to substantially reduce the amount of manual review time needed for all claims, including the blood factor claims which previously required significant manual review. Successful determination of these system changes will not be recognized until the second quarter. The 2009 invoices are produced and mailed to the drug manufacturer labelers at the end of August 2009. These system changes should eliminate the bulk of the manual review processes needed, especially for blood factor invoices, resulting in timely mailing of all invoices.[79]

Reference Number:	**2008-1-4**
Federal Program:	93.778
State Administering Department:	Department of Health Care Services (Health Care Services)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Activities Allowed/Allowable Costs. Health Care Services lacks sufficient internal controls to ensure only medically necessary claims and eligible providers are paid.
Status of Corrective Action:	Partially corrected. Exceptions were noted for six claims. Letters requesting the recovery of the four claims determined not to be medically necessary or insufficiently documented will be sent to the providers. Exceptions involving two hospital claims will be recovered during the annual cost report review. Recovery letters will be sent during the week of August 13, 2009. Recovery for the institutional providers will take place during production

year 2009-10.[80]

Reference Number:	**2008-2-2**
Federal Program:	93.778
State Administering Department:	Department of Health Care Services (Health Care Services)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Allowable Costs/Cost Principles. Health Care Services lacks sufficient internal controls to ensure it signs a Computer Media Claims (CMC) agreement with providers.
Status of Corrective Action:	Fully corrected. The Provider Enrollment Division has developed and implemented new procedures and trained staff to review thoroughly all CMC Agreements and make sure all pages of the CMC Agreements are scanned. These combined efforts will ensure the scanning of all CMC agreements.

Reference Number:	**2008-2-3**
Federal Program:	93.778
State Administering Department:	Department of Health Care Services (Health Care Services)
Fiscal Year Initially Reported:	2005-06
Audit Finding:	Allowable Costs/Cost Principles. Health Care Services lacks sufficient internal controls to ensure only medically necessary claims are paid and to detect providers in violation of record retention requirements.
Status of Corrective Action:	Partially corrected. Health Care Services continues to work on implementing the corrective action steps outlined in the Medi-Cal Payment Error Study (MPES) of 2005-06. Through these continuous efforts Health Care Services is able to identify areas in the program that are the most susceptible and take additional steps to curtail any activity that may compromise the Medi-Cal program.[81]

Reference Number:	**2008-3-6**
Federal Program:	93.917 93.283 93.889
State Administering Department:	California Department of Public Health (Public Health)
Fiscal Year Initially Reported:	2004-05
Audit Finding:	Cash Management. Public Health does not have adequate policies and procedures in place to minimize the time between the receipt of undisputed payment requests and the disbursement of funds. Further, Public Health does not have adequate policies and procedures to minimize the time between drawdown of federal funds and their subsequent disbursement.
Status of Corrective Action:	Partially corrected. Public Health has adequate policies in place to pay vendors within 45 days of receipt of a valid invoice. There will continue to be issues with paying vendors within the 45 days required by law due to the furlough days and position restrictions. The Office of AIDS (OA) has created a tracking mechanism that provides actual and projected expenditures and encumbrances. OA staff meet twice a month with the Department's Accounting Section to identify and resolve any issues.[82]

Reference Number:	**2008-3-7**
Federal Program:	93.575 93.596
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Cash Management. Education lacks adequate policies and procedures to minimize the time lapsing between its drawdown of federal funds and its payments to local educational agencies.
Status of Corrective Action:	Remains uncorrected/disagree with finding. Education did not deviate from the Cash Management Improvement Act (CMIA) policies and procedures that were established by the Department of Finance (Finance) in agreement with the State Controller's Office. Although the CMIA report that was submitted to Finance reflects delays as cited by

	the auditors, the delays were under ten days. Finance does not require Education to explain delays unless payment exceeds ten days from time of deposit.[83]

Reference Number:	**2008-3-8**
Federal Program:	93.575 93.596
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Cash Management. Education lacks effective policies and procedures to minimize time between the expenditure of program funds and subsequent reimbursement.
Status of Corrective Action:	Fully corrected. Education will ensure appropriate monitoring and certification requirements are met by: (1) reducing the total time for staff review and certification following receipt of invoices to complete the certification and payment process within 45 days; (2) recording communication regarding disputed invoices with a brief explanation of the reason for delays; (3) maintaining documentation and recording the date corrections were received ; and (4) returning invoices with serious discrepancies back to the contractor for resubmission.

Reference Number:	**2008-5-3**
Federal Program:	93.917
State Administering Department:	California Department of Public Health (Public Health)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Eligibility. Public Health lacks sufficient internal controls over the eligibility process to ensure payments are only made to eligible recipients and that all required documentation to verify eligibility is maintained in the recipient's file.
Status of Corrective Action:	Fully corrected. All AIDS Drug Assistant Program (ADAP) enrollment workers must attend initial (live participation) and annual refresher eligibility training (webinar) and receive certification in order to conduct ADAP enrollment. Identification numbers are assigned to each individual, annual training dates/certification are linked to that identification number and maintained/monitored by the

ADAP pharmacy benefits management service provider.[84]

Reference Number:	**2008-5-4**
Federal Program:	93.778
State Administering Department:	Department of Health Care Services (Health Care Services)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Eligibility. Health Care Services does not sufficiently monitor citizenship documentation and take appropriate corrective action on all eligibility cases for which individuals cannot produce the appropriate citizenship documentation. Audit procedures also revealed an inconsistency with one beneficiary's eligibility status in two different information systems.
Status of Corrective Action:	Partially corrected. Health Care Services has reviewed the cases with citizenship verification that was questioned during the audit. All but three of the cases at issue currently have citizenship documentation noted in the MEDS record. Counties have been notified to correct the record in two cases and Health Care Services is still researching one record in MEDS. Health Care Services expects to complete their review by the end of August 2009. Health Care Services has reviewed the citizenship/immigration status data on several cases since implementation of the Deficit Reduction Act requirements and has not identified any interface problems. Incorrect citizenship data is most often the result of data entry errors.

Reference Number:	**2008-5-5**
Federal Program:	93.778
State Administering Department:	Department of Health Care Services (Health Care Services)
Fiscal Year Initially Reported:	2005-06
Audit Finding:	Eligibility. Health Care Services lacks sufficient internal controls to obtain and track the enrollment presumptive eligibility identification numbers issued to prevent unauthorized use of identification numbers. Further, Health Care Services does not perform procedures to authenticate the existence of the recipient, prevent

	duplicate issuances, and reconcile the presumptive eligibility numbers with the recipient enrollment listing filed during the claims adjudication process.
Status of Corrective Action:	Remains uncorrected/agree with finding. Health Care Services is unable to reconcile the presumptive eligibility number against the enrollment listing filed with it at this time without an automated system. Health Care Services is participating in an Enterprise Enrollment Portal (EEP) Feasibility Study Report (FSR) on a web-based application process to allow individuals to apply for health care and other public assistance programs through an electronic application. The EEP FSR will include the Presumptive Eligibility program for pregnant women. The EEP will automate the enrollment process for the Presumptive Eligibility programs and eliminate the problems associated with the current paper process. The timeline for EEP includes Acquisition and Design, Development and Implementation beginning in July 2012.[85]

Reference Number:	**2008-8-2**
Federal Program:	93.283
State Administering Department:	California Department of Public Health (Public Health)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Period of Availability. Public Health does not ensure all program funds are liquidated within the required time frames.
Status of Corrective Action:	Fully corrected. Public Health has established a spreadsheet to track invoice status and has changed procedures to return an unacceptable invoice rather than waiting for correction from the vendor.

Reference Number:	**2008-8-3**
Federal Program:	93.575 93.596
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2005-06
Audit Finding:	Period of Availability. Education does not require journal entries to be reviewed and approved, nor does it require

segregation of duties between the preparer and the recorder of the entry. Education's current policies and procedures do not require that detailed transaction supporting documentation be maintained to support first-in-first-out (FIFO) amounts adjusted.

Status of Corrective Action: Fully corrected. Education believes that appropriate segregation of duties and approval processes related to FIFO transactions are in place; however, Education has further strengthened procedures related to the adjusting of FIFO entries by maintaining supporting documentation of the specific transactions with the claim schedules.[86]

Reference Number: **2008-8-4**

Federal Program: 93.575
93.596

State Administering Department: Department of Education (Education)

Fiscal Year Initially Reported: 2006-07

Audit Finding: Period of Availability. Education obligated eight payments prior to the period of availability and liquidated one obligation after the liquidation deadline had passed.

Status of Corrective Action: Remains uncorrected/disagree with finding. Per California Education Code, Section 8447(b), contracts and funding terms and conditions shall be issued to child care contractors no later than June 1 of each year. This requirement ensures continuity of the program and reflects availability of both current and prior-year federal funds to fulfill the obligations. The contracts are for the state fiscal year starting July 1 and ending June 30; therefore, all of the contracts referenced in this condition were mailed in June. Child Care and Development program service contracts are obligations to the State at the time they are mailed to the providers and include a condition regarding the availability of funding. The obligation for the October through June portion of the contract would not be an obligation to the State until federal funds are available for obligation.

Reference Number: **2008-8-5**

Federal Program: 93.917

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

Fiscal Year Initially Reported:	2007-08
Audit Finding:	Period of Availability. Public Health lacks adequate policies and procedures to ensure expenditures charged to the grant award are obligated within the appropriate period of availability.
Status of Corrective Action:	Fully corrected. The Division of Office of AIDS (OA) has created a tracking mechanism that provides actual and projected expenditures and encumbrances. OA staff meet twice a month with Public Health's Accounting Section to identify and resolve any issues.[87]

Reference Number:	**2008-12-5**
Federal Program:	93.767
State Administering Department:	Department of Health Care Services (Health Care Services)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Reporting. Health Care Services does not ensure amounts reported on its quarterly Children's Health Insurance Program Statement of Expenditures for Title XXI (CMS-21) report are classified correctly.
Status of Corrective Action:	Fully corrected. This work was originally scheduled to be done under System Development Notice (SDN) 07040, but was consolidated into one project (SDN 08041). SDN 08041 - Add Federal Financial Participation (FFP) To The Claim Activity Record, was implemented on June 22, 2009. This provides the changes necessary to allow the FFP percentage to be determined for paid claims.[88]

Reference Number:	**2008-12-6**
Federal Program:	93.778
State Administering Department:	Department of Health Care Services (Health Care Services)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Reporting. The federal expenditures noted in the quarterly CMS-64, Quarterly Statement of Expenditures for the Medical Assistance Program, are not directly traceable to individual claims.

Status of Corrective Action:	Fully corrected. System Development Notice 08041 - Add Federal Financial Participation (FFP) To The Claim Activity Record, was implemented on June 22, 2009. This provides the changes necessary to allow the FFP percentage to be determined for paid claims.[89]

Reference Number:	**2008-12-7**
Federal Program:	93.283 93.889
State Administering Department:	California Department of Public Health (Public Health)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Reporting. Public Health lacks adequately designed controls to ensure accuracy and completeness of required program reporting. Public Health also underreported program expenditures for fiscal year ended June 30, 2008.
Status of Corrective Action:	Fully corrected. Public Health has enhanced its controls to ensure the accurate completion of the federal reports. A supervisor or manager now reviews and approves the Federal Cash Transactions reports (SF-272, PSC-272) and financial status reports before submitting them to the federal government.

Reference Number:	**2008-13-10**
Federal Program:	93.917
State Administering Department:	California Department of Public Health (Public Health)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Subrecipient Monitoring. Public Health does not ensure management collects and verifies the completeness of subrecipients' U.S. Office of Management and Budget Circular A-133 audit reports.
Status of Corrective Action:	Remains uncorrected/agree with finding. The Health Resources and Services Administration (HRSA, the federal Ryan White Part B funder) is working with colleagues to develop further guidance on the process. The Division of Office of AIDS will develop a policy and procedure to comply with the requirement as soon as Public Health receives the guidance from HRSA.

Reference Number:	**2008-13-11**
Federal Program:	93.575 93.596
State Administering Department:	Department of Education (Education)
Fiscal Year Initially Reported:	2003-04
Audit Finding:	Subrecipient Monitoring. Education does not ensure adequate evidence is maintained for monitoring visits performed and that contractors' and local educational agencies' (LEAs) proposed corrective actions from those visits are implemented promptly. Further, Education lacks sufficient policies and procedures to require its LEAs and contractors to implement corrective action for issues noted during its Alternative Payment Monitoring Unit (AMPU) visits.
Status of Corrective Action:	Fully corrected. Education updated the Contract Monitoring Review processes by requiring documentation to be maintained as evidence of obtaining appropriate review and approvals of the written Summary of Findings. Education has strengthened procedures to ensure corrective action plans are completed within the appropriate time period. Education has also implemented the process of conducting follow-up AMPU reviews, using a risk management analysis, of LEAs previously reviewed. However, based on budget bill language during fiscal year 2008-09, a baseline review of all LEAs had to be completed. Education will report to both the Administration and Legislature regarding the results of follow-up AMPU reviews.

Reference Number:	**2008-13-12**
Federal Program:	93.778
State Administering Department:	Department of Health Care Services (Health Care Services)
Fiscal Year Initially Reported:	2007-08
Audit Finding:	Subrecipient Monitoring. Health Care Services does not ensure the identifying number of the federal program is included in each of its subrecipient agreements.
Status of Corrective Action:	Fully corrected. Language was added to each contract to address this issue.[90]

Reference Number:	**2008-13-13**
Federal Program:	93.778
State Administering Department:	Department of Health Care Services (Health Care Services)
Fiscal Year Initially Reported:	2005-06
Audit Finding:	Subrecipient Monitoring. Health Care Services does not ensure management collects and verifies the completeness of the subrecipient's U.S. Office of Management and Budget (OMB) Circular A-133 audit reports nor ensure it issues management decisions within six months of the State's receipt of the audit reports.
Status of Corrective Action:	Fully corrected. Health Care Services maintains an annual list of counties and local government agency subrecipients subject to OMB Circular A-133 to ensure all required reports are received and logged in timely and verified for completeness. Formal written procedures have been developed to ensure management decisions are issued within six months of the State's receipt of the A-133 audit report.

Reference Number:	**2008-14-5**
Federal Program:	93.778
State Administering Department:	Department of Health Care Services (Health Care Services)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Special Tests and Provisions—Provider Eligibility. Health Care Services' Provider Enrollment Division (PED) does not retain federally required provider agreements for non-facility providers (for example, doctors, pharmacies, and medical groups). In addition, Public Health's Licensing and Certification Program (L&C) does not always retain federally required provider agreements for facility providers (such as, hospitals and long-term care facilities).
Status of Corrective Action:	Partially corrected. The (PED) continues to re-enroll providers on continuing basis in accordance with all federal and state statutes and regulations to ensure all providers have Medi-Cal Disclosure Statements and Provider Agreements on file. The PED is working continuously with Public Health to ensure all health

	facilities obtain the proper licensing for participation in Medi-Cal including the Medi-Cal Provider Agreement.[91]

Reference Number:	**2008-14-6**
Federal Program:	93.778
State Administering Department:	Department of Health Care Services (Health Care Services)
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Special Tests and Provisions—Provider Eligibility. Health Care Services lacks controls to verify provider licenses are current and active.
Status of Corrective Action:	Partially corrected. The Provider Enrollment Division (PED) is currently working with Department of Social Services to develop and interface with their database used for the In-Home Support Services program to complete file matches with the department's suspended and ineligible list. The PED will continue to work with other state and federal agencies to develop database interfaces that will improve the ability to monitor the licensure status of enrolled providers.

Reference Number:	**2008-3-9**
Federal Program:	97.036 97.067
State Administering Department:	California Emergency Management Agency (Emergency Management) – *formerly known as the Governor's Office of Emergency Services*
Fiscal Year Initially Reported:	2006-07
Audit Finding:	Cash Management. Emergency Management lacks adequate policies and procedures to minimize the time between the receipt of reimbursement requests and disbursement of federal funds.
Status of Corrective Action:	Fully corrected. Emergency Management has developed and implemented a log, as part of the Automated Leger System (ALS), to track and monitor the timing of processing of reimbursement requests from the date of receipt of the request to the date payment requests are forwarded to the State Controller's Office for processing. While this does not preclude extenuating circumstances

	from occurring, as is the nature of Emergency Operations, the Agency considers the steps it has taken, with the auditors' guidance, to be a reasonable plan of action to assist in reducing potential noncompliance with federal guidelines.
Reference Number:	**2008-13-14**
Federal Program:	97.036 97.046
State Administering Department:	California Emergency Management Agency (Emergency Management) – *formerly known as the Governor's Office of Emergency Services*
Fiscal Year Initially Reported:	2001-02
Audit Finding:	Subrecipient Monitoring. Emergency Services did not perform during-the-award monitoring for certain subrecipients and lacks internal controls to ensure that subrecipients submit OMB Circular A-133 audit reports.
Status of Corrective Action:	Fully corrected. As a result of the audit finding, Emergency Management implemented procedures to conduct desk reviews based on statistical sampling for all grant payments, including small projects. Emergency Management has also implemented procedures requiring sub-recipients who expend less than $500,000 in funds administered by Emergency Management, to self-certify if they have expended more than $500,000 in federal awards from all sources in a year.

Endnotes—Auditor's Comments

1. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-12-9.
2. This finding is no longer valid. The U.S. Department of the Treasury confirmed that Finance's methodology for calculating the federal interest liability, the interest liability related to disbursements without warrants, and the Medi-Cal refund interest liability is appropriate and consistent with the Treasury-State Agreement (TSA). Further, we verified that Finance adequately reviewed the methodology used by the State Controller's Office to develop clearance patterns to ensure it is consistent with the TSA.
3. This finding is fully corrected. We verified that Finance's calculation of the statewide cost allocation plan was accurate and based on supporting documentation. Further, we verified that it submitted all documentation required for the statewide cost allocation plan.
4. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-13-13.
5. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-1-6.
6. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-1-1.
7. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-1-12.
8. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-7-1.
9. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-13-2.
10. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-13-15.
11. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-14-8.
12. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-14-1.
13. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-1-10.
14. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-1-7.
15. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-1-4.
16. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-2-4.
17. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-1-11.
18. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-2-2.
19. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-3-2.

20. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-3-1.
21. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-5-3.
22. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-5-8.
23. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-5-1.
24. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-7-6.
25. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-7-3.
26. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-7-4.
27. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-8-3.
28. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-8-1.
29. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-9-5.
30. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-9-2.
31. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-9-1.
32. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-12-7.
33. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-12-19.
34. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-12-5.
35. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-13-11.
36. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-13-28.
37. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-13-10.
38. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-13-14.
39. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-13-8.
40. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-13-6.
41. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-13-3.
42. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-13-5.
43. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-13-4.

44. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-14-5.
45. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-14-4.
46. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-14-3.
47. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-1-13.
48. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-7-8.
49. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-12-13.
50. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-12-12.
51. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-12-11.
52. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-13-16 and 2009-13-17.
53. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-14-7.
54. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-1-19.
55. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-1-5.
56. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-8-2.
57. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-9-4.
58. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-12-3.
59. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-12-4.
60. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-12-2.
61. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-13-7.
62. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-7-5.
63. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-13-9.
64. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-3-3.
65. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-13-25.
66. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-13-18.
67. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-14-14.

68. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-2-8.
69. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-3-7.
70. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-3-8.
71. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-7-12.
72. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-7-9.
73. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-12-17.
74. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-13-22.
75. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-13-20.
76. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-13-21.
77. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-14-12.
78. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-14-11.
79. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-2-6.
80. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-1-14.
81. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-1-15.
82. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-3-4.
83. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-3-6.
84. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-5-4.
85. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-5-6.
86. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-8-8.
87. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-8-6.
88. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-12-15.
89. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-12-16.
90. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-13-19.
91. We reported a similar finding in our audit of fiscal year 2008-09. Please refer to reference number 2009-14-10.

We conducted this audit to comply with Section 8546.3 of the California Government Code. The Independent Auditor's Report provides the opinions we expressed on the State of California's internal control and on compliance and other matters.

Respectfully submitted,

ELAINE M. HOWLE, CPA
State Auditor

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(Agency response provided as text only.)

Department of Finance
State Capitol
Room 1145
Sacramento, CA 95814-4998

May 12, 2010

Ms. Elaine M. Howle, State Auditor
Bureau of State Audits
555 Capitol Mall, Suite 300
Sacramento, CA 95814

Dear Ms. Howle:

Thank you for the opportunity to respond to the internal control and state and federal compliance audit report for the fiscal year ended June 30, 2009. 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, 2009, and will be part of the Single Audit Report covering this period. We accept the reported findings and recommendations and recognize that the compliance findings resulted in 28 unqualified and 9 qualified opinions for the 37 major programs audited. We also recognize that there are areas where internal controls and administration of federal awards needs to be improved.

California provides its citizens with numerous state and federal programs and activities and is much more complex and vast than most economic entities in the world. Moreover, such operations must exist within a system of internal and administrative control that safeguards assets and resources and produces reliable financial information. Attaining these objectives and overseeing the financial and business practices of the state continues to be an important part of the Department of Finance's (Finance) leadership.

In meeting our responsibility for financial leadership and oversight, Finance provides internal audit related education and training to departments as well as oversight of departmental internal audit units by issuing audit guidelines and conducting quality assurance reviews. Further, we have an ongoing process of issuing audit memos to departments that establish statewide policy and provide technical advice on various audit related issues. This year, we have heightened our fiscal leadership to include oversight of the American Reinvestment and Recovery Act (ARRA) funds. Several advisory and monitoring systems including the California Recovery Task Force and California Inspector General's Office have been established this year. The California Recovery Task Force issues ARRA direction and guidance while the California Inspector General, together with existing control agencies, ensures appropriate monitoring of the funds. An audit memo concerning the results of the fiscal year 2008-09 Single Audit will be issued to remind all departments of their responsibility for implementing corrective action plans for their single audit findings.

The head of each state department is responsible for establishing and maintaining a system of internal accounting and administrative control within their department. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified for changing conditions.

Moreover, all levels of state management must be involved in assessing and strengthening their systems of internal accounting and administrative controls to minimize fraud, errors, abuse, and waste of government funds. The Financial Integrity and State Manager's Accountability Act (FISMA) requires each agency to conduct an internal review of its controls and report on their results. Finance will continue to provide education and guidance to assist agencies in meeting the FISMA requirements. The state is committed to sound and effective fiscal oversight.

Individual departments have separately responded to the report's findings and recommendations. Accordingly, their viewpoints and corrective action plans are included in the report. We will monitor the findings and reported corrective actions to identify potential changes in statewide fiscal procedures.

Finance is committed to ensuring the proper financial operations and business practices of the state, as well as ensuring that internal controls exist for the safeguarding and effective use of assets and resources. We will take the single audit findings into consideration during the performance of audit work in those departments that received a qualified opinion on a major program.

If you have any questions concerning this letter, please contact David Botelho, Chief, Office of State Audits and Evaluations, at (916) 322-2985.

Sincerely,

(Signed by: Fred Klass for)

ANA J. MATOSANTOS
Director

cc: Members of the Legislature
Office of the Lieutenant Governor
Milton Marks Commission on California State Government Organization and Economy
Department of Finance
Attorney General
State Controller
State Treasurer
Legislative Analyst
Senate Office of Research
California Research Bureau
Capitol Press