

# CALIFORNIA STATE AUDITOR

## Interim Reporting: Fiscal Year 2010–11 Single Audit

Community Services and Development  
Education  
Health Care Services  
Treasurer

January 2012 Report 2011-002.2



Independent NONPARTISAN  
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# CALIFORNIA STATE AUDITOR

## Bureau of State Audits

January 26, 2012

2011-002.2

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

Dear Governor and Legislative Leaders:

Pursuant to guidance issued by the U.S. Office of Management and Budget (OMB), the California State Auditor's Office (State Auditor's Office) presents its interim report concerning various state departments' administration of federal programs during fiscal year 2010–11. With the passage of the American Recovery and Reinvestment Act of 2009 (Recovery Act) comes a renewed emphasis on accountability and public transparency to ensure federal funds are spent properly. A key component of such accountability and transparency is the annual report from the State Auditor's Office on internal control and compliance with federal laws and regulations. OMB's March 2011 guidance stresses the importance of auditors communicating promptly any identified internal control deficiencies to management and those charged with governance. In addition, the guidance states that it is imperative that deficiencies in internal control be corrected by management as soon as possible to ensure proper accountability and transparency for expenditures of Recovery Act awards.

This interim report summarizes audit results pertaining to 12 federal programs administered by four departments. All four departments received Recovery Act funding through seven programs during fiscal year 2010–11. The State Auditor's Office has currently identified nine findings regarding the four departments' administration of these federal programs during fiscal year 2010–11. In some cases the findings are recurring issues we identified in past audits. The findings focused on various federal requirements including those regarding cash management, eligibility, and monitoring subrecipients—such as counties’—use of funds. We also reported that one department fully corrected two findings that we included in last year's annual audit report. The specific federal programs, and their administering state departments, are listed in the table of contents.

Respectfully submitted,



ELAINE M. HOWLE, CPA  
State Auditor

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# Summary

## Results in Brief

On February 17, 2009, the federal government enacted the American Recovery and Reinvestment Act of 2009 (Recovery Act) to help fight the negative effects of the United States' economic recession. California expects that over time its state departments and other entities located within the State will receive \$85 billion in Recovery Act funding. With this increased funding comes a strong emphasis on accountability and public transparency to ensure federal funds are spent properly. A key component of such accountability and public transparency is the California State Auditor's Office (State Auditor's Office) annual report on the State's compliance with federal requirements, such as those identified in the Recovery Act.

The State Auditor's Office prepares its annual report in accordance with the requirements described in the U.S. Office of Management and Budget's (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. In March 2011 OMB encouraged auditors to communicate promptly any identified internal control deficiencies to management and those charged with governance. By encouraging prompt communication, OMB intends for recipients, including states, to correct these findings as soon as possible to ensure proper accountability and transparency for expenditures of Recovery Act awards. Based on OMB's March 2011 guidance, the State Auditor's Office presents its interim report concerning the State's administration of selected federal programs. Although OMB's guidance regarding prompt communication focused on Recovery Act programs, we have also included audit results for certain departments that did not receive Recovery Act funding in the interests of maximizing the benefits of prompt communication.

This interim report summarizes audit results pertaining to 12 federal programs administered by four departments. All four departments received Recovery Act funding through seven programs during fiscal year 2010–11. The State Auditor's Office has currently identified nine findings regarding the four departments' administration of these federal programs during fiscal year 2010–11. In many cases the findings are recurring issues we identified in past audits. The findings focused on various federal requirements including those regarding cash management, eligibility, and monitoring subrecipients—such as counties’—use of funds. We also reported that one department fully corrected two findings that we included in last year's annual audit report. Finally, we made numerous recommendations to the respective departments.

**The Department of Community Services and Development (Community Services)** administers the Weatherization Assistance Program for Low-Income Persons (Weatherization) program. The State reported receiving \$89.1 million in federal funds for the Weatherization program for fiscal year 2010–11, including Recovery Act funds totaling \$78.3 million. Community Services distributes the Weatherization program funds to nonprofit organizations and local governments that provide weatherization services to improve home energy efficiency for low-income families. The State Auditor's Office identified two findings that pertain to Community Services' internal controls over cash management and subrecipient monitoring. Specifically, we found that Community Services does not always ensure adequate separation of duties when providing advance payments to its subrecipients and does not verify that subrecipients deposit cash advances in interest-bearing accounts and return to the federal government the interest earned on the advances. Additionally, Community Services did not always adhere to its policies related to monitoring subrecipients.

**The Department of Education (Education)** administers the Title I, Part A Cluster of programs and the Child Care and Development Fund cluster of programs. Education also administers the State Fiscal Stabilization Fund—Education State Grants. During fiscal year 2010–11, Education received nearly \$3.1 billion for these programs, including about \$1.3 billion in Recovery Act funds. The State Auditor’s Office identified two findings as of November 1, 2011, that pertain to Education’s administration of these programs. Specifically, Education has not adequately pursued corrective action from local educational agencies and it does not maintain adequate internal controls over an application used for monitoring subrecipients.

**The Department of Health Care Services (Health Care Services)** administers the Medicaid Cluster of federal programs, which is commonly referred to as Medi-Cal in California. The objective of Medi-Cal is to pay for medical assistance to low-income persons who are age 65 or over, as well as others that meet certain criteria. In fiscal year 2010–11, Health Care Services received \$34.4 billion for these programs, including \$5 billion in Recovery Act funds. The State Auditor’s Office identified four findings as of November 1, 2011, that pertain to Health Care Services’ administration of Medi-Cal. Although Health Care Services has taken steps to address some of the issues we reported in last year’s annual report, it still needs to do more to fully correct them. For example, we found that Health Care Services continued to submit drug rebate information after federally prescribed deadlines, thus limiting the State’s ability to promptly obtain rebates and earn interest on these funds. On a positive note, our testing also revealed that Health Care Services fully corrected two findings from last year’s annual audit report.

**The Office of the State Treasurer (Treasurer)** administers the ARRA—Tax Credit Assistance Program (TCAP), funded by the Recovery Act. The TCAP provides funds to state housing credit agencies for capital investments in rental projects that received or will receive an award of Low-Income Housing Tax Credits. The State reported receiving just over \$222 million in federal funds for this program during fiscal year 2010–11, all of which were Recovery Act funds. We identified one finding as of November 2011 that pertains to the Treasurer’s administration of the TCAP. Our testing found that the Treasurer did not obtain copies of certified payrolls from participants in the TCAP as required by federal law.

### Agency Comments

We summarized the departments’ responses. In general, the departments concurred with the audit findings discussed in this interim report and plan to take corrective action.

# Department of Community Services and Development

## WEATHERIZATION ASSISTANCE FOR LOW-INCOME PERSONS FEDERAL CATALOG NUMBER 81.042

Based on the U.S. Office of Management and Budget's (OMB) March 2011 guidance, the California State Auditor's Office (State Auditor's Office) presents its interim report concerning the Department of Community Services and Development's (Community Services) administration of the Weatherization Assistance Program for Low-Income Persons (Weatherization) program during fiscal year 2010–11. The State reported receiving \$89.1 million in federal funds for this program for fiscal year 2010–11, which included \$78.3 million in American Recovery and Reinvestment Act of 2009 (Recovery Act) funds. Community Services distributes funds for the Weatherization program to nonprofit organizations and local governments that provide weatherization services to improve home energy efficiency for low-income families. The issues discussed in this interim report resulted from our internal control and compliance audit completed as of December 16, 2011, and requires Community Services' corrective action. The State Auditor's Office identified two findings that pertain to Community Services' administration of this program.

### Community Services Lacks Sufficient Internal Controls to Ensure It Adheres to Cash Management Requirements

Federal regulations require that Community Services maintain effective internal controls and accountability over federal funds to ensure compliance with federal regulations. Federal regulations further require that Community Services ensure that subrecipients deposit cash advances into interest-bearing accounts and remit interest earnings to the federal government.

Community Services does not always follow its policies when advancing cash to subrecipients using federal funds. A fundamental element of internal control is the separation of duties so that one individual cannot perpetuate and conceal errors and irregularities in the normal course of his or her duties. Strong internal controls require the segregation of responsibilities for authorizing transactions, for the physical custody of assets, and for the related record keeping. Community Services' policies require accounting staff to process payment requests and to prepare requests for drawdown of federal funds and for the accounting administrator to review and approve the payment and drawdown documents. However, for one of 16 cash advance payments to subrecipients that we reviewed, the same individual had approved all phases of the payment process, including the subrecipient's request for an advance, the claim schedule to pay the advance, the drawdown of federal funds, and the remittance advice to the State Controller's Office. Community Services indicated that this occurred because of demands placed on its resources while it was developing procedures to implement a new policy for advancing cash to its subrecipients.

We also found that Community Services' controls over its cash advances to subrecipients are not adequate to ensure that it complies with federal requirements. Specifically, during fiscal year 2010–11, Community Services provided \$17 million in cash advances to Weatherization program subrecipients. Although Community Services' contracts with its subrecipients contain clauses requiring them to deposit advances in interest-bearing accounts, Community Services does not verify whether its subrecipients comply with this requirement. Additionally, although Community Services indicated that when a contract expires it requires subrecipients to submit a closeout report that includes a summary of the interest they have earned, Community Services does not verify whether its subrecipients returned the interest to the federal government as required by federal regulations.

We recommend that Community Services ensure that its staff follow policies that are in place to provide adequate separation of duties. Additionally, Community Services should develop and implement procedures to verify that subrecipients are depositing cash advances into interest-bearing accounts and are returning the interest they earn from Weatherization program cash advances to the federal government. In its corrective action plan, Community Services stated that it will remind accounting staff of the importance of adhering to the separation of duties policy when advancing cash to subrecipients and will implement a supervisory review of the cash advance payment process. Additionally, Community Services stated that it will develop and implement procedures as part of the on-site monitoring reviews to verify that subrecipients deposit cash advances into interest-bearing accounts and comply with the federal requirements for returning excess interest earnings.

### **Community Services Did Not Always Comply With Its Procedures for Monitoring Subrecipients**

Federal regulation makes award recipients, such as Community Services, responsible for monitoring its subrecipients to ensure compliance with applicable federal requirements and to ensure that performance goals are being achieved.

Community Services did not always follow the monitoring policies it has in place to ensure its subrecipients are spending the Weatherization program funds appropriately. Community Services' policy requires that its staff perform an Agency Quarterly Assessment (assessment) for its Weatherization program subrecipients. During the assessment, Community Services is required to review a subrecipient's expenditures to evaluate if the subrecipient is in compliance with certain requirements, including whether it is spending federal funds for allowable purposes by established deadlines. If Community Services identifies any issues during these assessments, it then takes steps to resolve the issues with the subrecipient. Upon completion of the assessment, a supervisor reviews the assessment and signs a routing slip indicating supervisory review has occurred.

We found that Community Services failed to include a review of the Weatherization program for four of 18 assessments we selected to review for this program. We also found that it performed one of the remaining 14 assessments nine months late and it could not provide evidence that it had taken steps to work with the subrecipient to resolve the issues it identified during this assessment. Finally, two of the completed assessments lacked evidence of supervisory review.

According to Community Services, those oversights occurred as the result of staff turnover and the hiring of new staff. Nevertheless, by not completing all of its monitoring activities in accordance with its policies, Community Services is unable to ensure that its subrecipients are properly expending Weatherization program funds.

We recommend that Community Services ensure that it performs all assessments in a timely manner as required by its policies and that it takes steps to resolve issues it finds when it performs these assessments. Further, Community Services should ensure that all assessments are reviewed by a supervisor. In its corrective action plan, Community Services stated that it will develop and implement a tracking system to ensure assessments are done in a timely manner. Additionally, Community Services stated that it will implement changes in the assessment review and documentation procedures to ensure timely resolution of issues and that all assessments are reviewed by a supervisor.

# California Department of Education

Based on the U.S. Office of Management and Budget's (OMB) March 2011 guidance, the California State Auditor's Office (State Auditor's Office) presents its interim report concerning the California Department of Education's (Education) administration of the programs listed in the text box. Collectively, Education received almost \$3.1 billion for these programs for fiscal year 2010–11, which included American Recovery and Reinvestment Act of 2009 funds totaling \$1.3 billion for three of these programs. The issues contained in this interim report represents the results of our internal control and compliance audit that require Education's corrective action. The State Auditor's Office identified two findings as of November 2011 that pertain to Education's administration of these federal programs. Of these two findings, one is a repeat finding we have disclosed in the previous annual audit report.

## Name of Federal Programs Audited and Federal Catalog Number

### Title I, Part A Cluster

- Title I Grants to Local Educational Agencies (84.010)
- ARRA—Title I Grants to Local Educational Agencies (84.389)

### CCDF Cluster

- Child Care and Development Block Grant (93.575)
- Child Care Mandatory and Matching Funds of the Child Care and Development Fund (93.596)
- ARRA—Child Care and Development Block Grant (93.713)

### Other Programs

- ARRA—State Fiscal Stabilization Fund—Education State Grants (84.394)

## Education Did Not Comply With Its Monitoring Procedures

Federal regulations makes award recipients, such as Education, responsible for monitoring grant- and subgrant-supported activities to ensure compliance with applicable federal requirements and to ensure that performance goals are being achieved.

As we reported in our annual audit for fiscal year 2009–10, Education is not ensuring that its local educational agencies (LEAs) promptly address deficiencies identified during its reviews of LEAs. Education requires its LEAs to submit a Proposed Resolution of Findings of Noncompliance (corrective actions) within 45-days of the date it provides them with the notice of findings. Our review of 45 on-site and online reviews Education conducted during fiscal year 2010–11 found that three LEAs submitted their corrective actions between nine and 82 days beyond the 45 days following the date of the notice of findings. During that time, Education failed to follow up with these LEAs to remind them of their responsibility to submit their corrective actions.

Additionally, Education requires that LEAs resolve deficiencies identified during its reviews within 225 days of the date of the notice of findings. Of the 45 reviews that we tested, we found that four LEAs still had an unresolved status more than 225 days after the date of the notice of findings. Upon further review of those four LEAs, one had not yet submitted its corrective actions and another had submitted insufficient corrective actions for all deficiencies noted during the review. The two remaining LEAs had submitted corrective actions for the deficiencies noted during reviews within the 225-day period; however, Education had not yet made a determination that the two LEAs' corrective actions resolved the deficiencies. When Education does not ensure that its LEAs submit proposed corrective actions on time or does not ensure that resolution of the deficiencies take place within the required deadlines, it cannot ensure that LEAs promptly address the issues identified during its reviews.

Education's delay in resolving deficiencies appears to be due to a combination of its failure to promptly follow-up with the LEAs whose proposed corrective actions were submitted late and its failure to impose effective sanctions on the LEAs when they were not prompt in implementing their corrective actions. Without effective follow-up and consequences for the delays, LEAs do not have an incentive to implement corrective actions in a timely manner.

We recommend that Education enhance its current monitoring policies and procedures to ensure that LEAs submit their proposed corrective actions on time and, once they are approved, promptly implement those actions to correct deficiencies noted during monitoring reviews. In addition, once it receives corrective action documents from LEAs, Education should be more prompt in determining if such actions are effective in resolving deficiencies. In its corrective action plan, Education stated that, among other things, it is implementing new electronic functionalities to its web-based online California Accountability and Improvement System (CAIS) that will replace paper-based processes to increase the effectiveness of monitoring the LEAs' resolution of findings. As part of this improvement process, Education indicated that it is refining the monitoring protocols to include providing program managers monthly updates on the resolution of findings.

### **CAIS Lacks Sufficient Controls Related to Application Change Management**

Federal regulations make award recipients, such as Education, responsible for monitoring grant- and subgrant-supported activities to ensure compliance with applicable federal requirements and to ensure that performance goals are being achieved.

Education uses a third-party database application called WestEd Tracker (Tracker) that was designed and is maintained by WestED—a nonprofit public research and development agency. Within Tracker, Education uses the CAIS program monitoring module to facilitate its federal and state program monitoring. CAIS was implemented in fiscal year 2009–10 when Education transitioned from a paper-based monitoring system to an electronic-based system. Since implementation, WestEd has made multiple changes to the program code as functionality was enhanced and customized for use in subrecipient monitoring. We assessed the controls over application change management and noted several issues. Specifically, Education does not have a contract or service agreement with WestEd over the management of Tracker and it has little to say in the management or functionality of Tracker. Additionally, WestEd seldom informs Education of pending changes and updates its plans to make to Tracker and it does not provide sufficient lead time for Education to test any changes before WestEd applies such changes to Tracker. As such, when WestEd makes changes to Tracker, Education has no control over how these changes might affect the accuracy, integrity, and availability of the CAIS module. Thus, the current change controls over Tracker and by extension over CAIS increase the risk that they do not comply with established subrecipient monitoring protocols, which can affect Education's ability to properly monitor subrecipients in accordance with federal regulations.

We recommend that Education enhance its controls over CAIS program change management to lower the risk that inappropriate changes are made affecting Education's ability to properly monitor subrecipients in accordance with federal regulations. For example, Education should work to establish a service agreement with WestEd over the management of Tracker that includes protocols regarding any changes made to Tracker. In its corrective action plan, Education indicated that it is taking a number of actions to address the conditions noted in the finding. For example, Education stated that to enhance existing controls, in the spring of 2011, it created a CAIS Steering Committee to monitor and provide direction related to the use of the CAIS within Tracker. It also stated that the CAIS

Steering Committee has engaged internal information technology resources to assist in mitigating the risk that changes made to Tracker may negatively impact CAIS, and plans to resolve production system change issues through the establishment of a technical advisory committee to create protocols in December 2011.



## Department of Health Care Services

Based on the U.S. Office of Management and Budget's (OMB) March 2011 guidance, the California State Auditor's Office (State Auditor's Office) presents its interim report concerning the Department of Health Care Services' (Health Care Services) administration of the Medicaid Cluster of federal programs for fiscal year 2010–11, as listed in the text box. The Medicaid Cluster is commonly referred to as Medi-Cal in California. The State received \$34.4 billion in federal funds during this period, of which \$5 billion was received under the American Recovery and Reinvestment Act of 2009 (Recovery Act).

The issues contained in this interim report represent the interim results of our internal control and compliance audit that require Health Care Services' corrective action. As of November 1, 2010, the State Auditor's Office identified four findings that we included in our previous annual audit that pertain to Health Care Services' administration of Medi-Cal. Our testing this year also confirmed that Health Care Services corrected two other findings we included in last year's annual audit report.

### Name of Federal Programs Audited and Federal Catalog Number

#### Medicaid Cluster:

- ARRA—Survey and Certification Ambulatory Surgical Center Healthcare Associated Infection (ASC-HAI) Prevention Initiative (93.720)
- State Medicaid Fraud Control Units (93.775)
- State Survey and Certification of Health Care Providers and Suppliers (93.777)
- Medical Assistance Program (93.778)

### Health Care Services Does Not Adequately Track Information Related to Presumptive Eligibility

Pregnant women who are California residents without health insurance for prenatal care, can access Medi-Cal benefits on a temporary basis upon a medical provider's determination that the patient is presumptively eligible for Medi-Cal. Since presumptively eligible women access Medi-Cal benefits before their eligibility is formally determined, these women are not entered into Health Care Services' eligibility systems. Instead, medical providers assign pre-numbered Medi-Cal identification cards—which providers obtain from Health Care Services—to presumptively eligible women. When submitting claims for payment under Medi-Cal, medical providers use the information on the pre-numbered identification cards to identify the patient served when requesting reimbursement.

Under the State's plan for Medi-Cal, medical providers are required to submit to Health Care Services a weekly enrollment summary of all presumptively eligible identification numbers issued. Health Care Services is required to maintain this documentation for three years. However, since the State's fiscal intermediary, Hewlett-Packard, is responsible for processing Medi-Cal payments and lacks information on presumptively eligible identification numbers maintained by Health Care Services, Hewlett-Packard does not perform eligibility audit procedures over expenditure claims pertaining to beneficiaries who are presumed eligible for Medi-Cal. Instead, Hewlett-Packard has set its payment processing system to bypass an eligibility check of a Medi-Cal beneficiary if the system recognizes the presumptive eligibility identification number.

Consistent with the finding we reported for the previous two fiscal years, Health Care Services does not reconcile the presumptive eligibility numbers shown on the expenditure claims processed by Hewlett-Packard with the summary enrollment listings submitted by medical providers. As a result,

Health Care Services does not know whether Medi-Cal payments being made for presumptively eligible women are for women actually enrolled by medical providers. Further, Health Care Services is at risk of making duplicate payments for women who may have been issued multiple identification numbers.

We recommend that Health Care Services strengthen its internal controls process to obtain and track the presumptive eligibility identification numbers issued to prevent their unauthorized use. Further, we recommend that it perform procedures to authenticate the existence of the beneficiary and reconcile identification numbers shown on claims for payment with the summary enrollment listings submitted by medical providers. In its corrective action plan, Health Care Services indicated that it lacked the necessary resources to develop and implement automated systems to address this finding. However, Health Care Services believes the Patient Protection and Affordable Care Act of 2010 provides an opportunity to implement a solution to this problem. As California moves towards creating a Health Benefits Exchange (exchange), a component of this exchange will be the ability to screen for and enroll eligible individuals into the Medi-Cal program using a web-based enrollment portal. Health Care Services explained that the exchange will provide an opportunity to providers who are qualified to allow presumptive eligibility, to complete enrollment for eligible pregnant women using an internet-based application that will provide real-time validation with the Statewide Medi-Cal Eligibility Data System. It also indicated that it is working in collaboration with the Health Benefits Exchange Board in the development of the exchange, which is required to be operational in 2014. However, as an interim measure, Health Care Services stated that it will begin using a new print vendor as of November 15, 2011. The new vendor will automate the ordering process to validate presumptive eligibility identification numbers issued to providers, which Health Care Services believes will reduce the chance of duplicating the presumptive eligibility identification numbers issued.

#### **Health Care Services Does Not Provide Drug Rebate Information to Drug Manufacturers Within the Required Time Frame**

Federal regulations require Health Care Services to report to each drug manufacturer, no later than 60 days after the end of each rebate period, information on outpatient drugs for which payments were made during the period.

The drug rebate process begins when drug manufacturers provide a listing to the federal Centers for Medicare and Medicaid Services (CMS) of all covered outpatient drugs and who, on a quarterly basis, are required to provide their average manufacturer's price and their best prices for each covered outpatient drug. Based upon this data, CMS calculates the rebate amount for each drug and provides this rebate information to the states. In California, Health Care Services is required to send the drug utilization data to manufacturers no later than 60 days after the end of the quarter. Once the utilization data is received, drug manufacturers have 30 days to pay the State the required rebate or dispute the claim.

Health Care Services was late in providing drug manufacturers with utilization data for drugs dispensed to Medi-Cal patients. We tested 40 rebate invoices related to the third and fourth quarters of 2010 and the first and second quarters of 2011, and noted that Health Care Services did not provide the drug manufacturers with utilization data until three days after the 60-day deadline for the third quarter in 2010 and one day after the 60-day deadline for the first quarter in 2011. As a result, the state and federal government were at risk of not obtaining rebates in a timely manner and potentially missed an opportunity to earn interest on these funds. Although Health Care Services was more

prompt in reporting this data to drug manufacturers during the current fiscal year when compared to the time it took in prior years, this is a repeat issue first identified in our annual audit report for fiscal year 2006–07. For context, the combined federal and state drug rebates for the third quarter of 2010 and the first quarter of 2011 amounted to more than \$586 million.

We recommend that Health Care Services ensure that drug utilization data are promptly provided to drug manufacturers and that it proactively monitor the receipt of rebate payments. Health Care Services indicated that it proactively monitors and diligently works towards ensuring that drug utilization reports are mailed to the drug manufacturers within 60 days after the end of each quarter. It also indicated that it has modified the Rebate Accounting Information System to allow the invoicing process to be more efficient and require less manual reviewing, thus allowing for the timely mailing of data to drug manufacturers. However, Health Care Services stated that employee furloughs and a national holiday contributed to the late submissions of drug utilization data.

### **Health Care Services Does Not Ensure That Providers Retain Documentation That Would Show Compliance With Federal Requirements**

Federal regulations require Health Care Services to enter into agreements with providers furnishing services under the state's plan in which the provider agrees to maintain certain documentation. This documentation includes any records necessary to disclose the extent of services provided to recipients and any information regarding payments claimed by the providers furnishing such services.

The determination of whether a medical provider can be approved under the Medi-Cal program is a split responsibility between Health Care Services' Provider Enrollment Division (PED) and the Department of Public Health's Licensing and Certification (L&C) program. PED enrolls nonfacility providers, such as doctors, pharmacies, and medical groups. L&C is responsible for determining the eligibility of facility providers, such as hospitals and long-term care facilities. Prior to November 1999, PED did not require its Medi-Cal providers to submit a provider agreement with the application package. As a result, although our testing of a sample of 50 providers found that they all had the required provider agreements on file with PED, those providers who enrolled before 1999 and have not submitted a re-enrollment package do not have the required provider agreement on file with PED.

We recommend that Health Care Services complete its efforts to re-enroll all active providers in order to ensure that all providers have a provider agreement in place. In its corrective action plan, Health Care Services agreed with the recommendation and stated that it plans to re-enroll all Medi-Cal providers as a continuous process as resources become available.

### **Health Care Services Did Not Perform Enough Site Visits of Local Government Agencies Based on Its Agreement With CMS**

Health Care Services' County-based and School-based Medi-Cal Administrative Activities Units (CMAA and SMAA) are required to monitor Local Government Agencies (LGAs) and Local Education Consortiums (LECs) that receive federal funding for the reimbursement of expenditures for Medi-Cal services and administration costs. This monitoring process is conducted through site visits and desk reviews. The CMAA and SMAA units have internal policies that require every LGA or

LEC to be visited once every four years for those that are county-based or once every three years for those that are school-based from the date of the previous visit. The internal policies of the CMAA and SMAA are guided by agreements with CMS.

In April 2011 Health Care Services imposed travel restrictions on its employees. As a result, analysts in the CMAA and SMAA units were unable to perform all planned site visits. Although the SMAA unit performs desk reviews when unable to travel, which are equivalent in scope to the site reviews, the CMAA unit currently does not have a similar process in place. As such, the CMMA unit had not performed site visits of 13 LGAs within the last four years. Additionally, the SMAA unit had not performed site visits of five LGAs or LECs within the last three years.

We recommend that Health Care Services ensure that it performs the necessary site visits of its LGAs and LECs. In its corrective action plan, Health Care Services agreed with the recommendation and indicated that the SMAA unit reinstated its desk review process and will be in compliance with the monitoring requirements by June 30, 2012. Additionally, Health Care Services stated that the CMAA unit plans to develop a desk review schedule and will be in compliance with the monitoring requirements by January 1, 2013.

### **Health Care Services Took Steps to Correct Two Findings Reported for Fiscal Year 2009–10**

During the current audit, we determined that Health Care Services had fully corrected two of the six findings we reported for fiscal year 2009–10. The Table below presents a listing of the corrected findings and a reference to the finding description as it was reported in the State Auditor's Office annual report titled *State of California: Internal Control and State and Federal Compliance Audit Report for the Fiscal Year Ended June 30, 2010* (report number 2010-002, dated March 2011).

**Table**

**Findings Reported for Fiscal Year 2009–10 That the Department of Health Care Services Has Corrected**

<b>FEDERAL PROGRAM TITLE</b>	<b>FEDERAL CATALOG NUMBER</b>	<b>CATEGORY OF FINDING</b>	<b>REPORT 2010-002, ISSUED MARCH 2011: REFERENCE NUMBER/ PAGE NUMBER</b>	<b>RECEIVED RECOVERY ACT FUNDS DURING FISCAL YEAR</b>		
				<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>
Medicaid Cluster—Medical Assistance Program	93.778	Allowable Costs	2011-2-3/page 131	Yes	Yes	Yes
Medicaid Cluster—Medical Assistance Program	93.778	Special Tests & Provisions-Managed Care	2011-14-3/page 151	Yes	Yes	Yes

Source: California State Auditor's Office analysis of corrective action taken by the Department of Health Care Services on prior-year findings.

## Office of the State Treasurer

### ARRA—Tax Credit Assistance Program Federal Catalog Number 14.258

Based on the U.S. Office of Management and Budget's (OMB) March 2011 guidance, the California State Auditor's Office (State Auditor's Office) presents its interim report concerning the Office of the State Treasurer's (Treasurer) administration of the ARRA—Tax Credit Assistance Program (TCAP) (Federal Catalog Number 14.258) for fiscal year 2010–11. The State reported receiving \$222 million in federal funds during this period, all of which were American Recovery and Reinvestment Act of 2009 funds. The issue discussed in this interim report resulted from our internal control and compliance audit completed as of November 1, 2011, and requires the Treasurer's corrective action. The State Auditor's Office identified one finding that pertains to the Treasurer's administration of the TCAP.

#### The Treasurer Did Not Obtain Certified Payrolls From Participants in the TCAP as Federal Regulations Require

The Davis-Bacon Act (Davis-Bacon) requires all contractors and subcontractors performing work on federally assisted contracts in excess of \$2,000 to pay their laborers and mechanics not less than the prevailing wage rate and fringe benefits for corresponding classes of laborers and mechanics employed on similar projects in the area. The prevailing wage rates and fringe benefits are determined by the U.S. Secretary of Labor. Federal regulations also require that included in construction contracts is the requirement that contractors submit copies of their payrolls on a weekly basis as well as a signed statement that certifies prevailing wages were paid.

During our review of the Treasurer's compliance with Davis-Bacon, we found that the Treasurer does not require participants receiving federal assistance under the TCAP to submit certified payrolls, rather it allows them to keep their payrolls on file for on-site monitoring. Although the Treasurer has contracted with a Davis-Bacon expert to review the certified payrolls on-site, the federal requirement expressly states that the certified payrolls are to be submitted to the agency, in this case the Treasurer, on a weekly basis. Because the Treasurer is not collecting the payroll documents that demonstrate that the participants in the TCAP are meeting the Davis-Bacon requirements, it risks incurring costs that the U.S. Department of Housing and Urban Development may not reimburse.

We recommend that the Treasurer revise its current practice to require that participants in the TCAP submit certified payrolls on a weekly basis as required by Davis-Bacon. In its corrective action plan, the Treasurer stated that it agrees that it should have been collecting the payroll reports. As such, it indicated that it has collected the payrolls from most of the project owners and it has revised its current practice and is now collecting payroll reports on a weekly basis.

We conducted this review under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code and according to generally accepted government auditing standards.

Respectfully submitted,



ELAINE M. HOWLE, CPA  
State Auditor

Date: January 26, 2012

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

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Legislative Analyst  
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