

# California State Auditor

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

## State of California:

*Internal Control and State and  
Federal Compliance Audit Report  
for the Fiscal Year Ended June 30, 1999*



March 2000  
99002

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**California State Auditor  
Bureau of State Audits  
555 Capitol Mall, Suite 300  
Sacramento, California 95814  
(916) 445-0255 or TDD (916) 445-0255, Ext. 248**

**OR**

This report is available on our website:

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You can obtain a copy of the State's Single Audit Report, which includes this report, the State's audited financial statements, and an overview of the State's economy, from the website of the Department of Finance:

<http://www.dof.ca.gov/>



# CALIFORNIA STATE AUDITOR

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MARY P. NOBLE  
ACTING STATE AUDITOR

STEVEN M. HENDRICKSON  
CHIEF DEPUTY STATE AUDITOR

March 21, 2000

99002

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

Dear Governor and Legislative Leaders:

As required by the California Government Code, Section 8542, et. seq., the Bureau of State Audits presents its audit report concerning our review of the State of California's internal controls and compliance with state and federal laws and regulations for the year ended June 30, 1999.

This report shows that in some instances the State has not established an effective system of internal control over financial reporting and compliance with federal requirements. Additionally, it does not always adhere to established control procedures. These problems result in noncompliance with some state and federal regulations. Although none of the problems we identified is significant to the State's financial statements or the federal programs it administers, weaknesses in the State's internal control system could adversely affect its ability to provide accurate financial information and to administer federal programs in compliance with applicable requirements.

Respectfully submitted,

MARY P. NOBLE  
Acting State Auditor

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BUREAU OF STATE AUDITS

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# **State of California:**

*Internal Control and State and  
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for the Fiscal Year Ended June 30, 1999*

**CALIFORNIA STATE AUDITOR**

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# AUDITOR'S SECTION

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

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# CALIFORNIA STATE AUDITOR

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MARY P. NOBLE  
ACTING STATE AUDITOR

STEVEN M. HENDRICKSON  
CHIEF DEPUTY STATE AUDITOR

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

The Governor and the Legislature of  
the State of California

We have audited the general purpose financial statements of the State of California as of and for the year ended June 30, 1999, and have issued our report thereon dated November 19, 1999. We did not audit the financial statements of the pension trust funds, which reflect total assets constituting 87 percent of the fiduciary funds. We also did not audit the financial statements of certain enterprise funds, including those of the California State University, which reflect total assets and revenues, constituting 90 percent and 91 percent, respectively, of the enterprise funds. In addition, we did not audit the University of California funds. Finally, we did not audit the financial statements of certain component unit authorities, which reflect total assets and revenues, constituting 97 percent and 93 percent, respectively, of the component unit authorities. The financial statements of the pension trust funds, certain enterprise funds, the University of California funds, and certain component unit authorities referred to above were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these funds and entities, is based solely upon the reports of the other auditors. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

## COMPLIANCE

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

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## INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the State of California's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State of California's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 99-19-1, 99-19-2, and 99-20-1.

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

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

BUREAU OF STATE AUDITS



PHILIP J. JELICICH, CPA  
Deputy State Auditor

November 19, 1999



# CALIFORNIA STATE AUDITOR

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MARY P. NOBLE  
ACTING STATE AUDITOR

STEVEN M. HENDRICKSON  
CHIEF DEPUTY STATE AUDITOR

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

The Governor and the Legislature of  
the State of California

### **COMPLIANCE**

We have audited the compliance of the State of California with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 1999. 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.

The State of California's general purpose financial statements include the operations of the University of California and the California State University systems; 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, 1999. The University of California and the California State University systems, which reported expenditures of federal awards totaling \$2.2 billion and \$937.6 million, respectively, engaged other auditors to perform an audit in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133).

We conducted our audit of compliance in accordance with generally accepted auditing standards; 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

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### **BUREAU OF STATE AUDITS**

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a test basis, evidence about the State of California's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the State of California's compliance with those requirements.

In our opinion, 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, 1999. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs. See the attachment for a list of these issues.

## **INTERNAL CONTROL OVER COMPLIANCE**

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

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

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

## SCHEDULE OF FEDERAL ASSISTANCE

We have audited the general purpose financial statements of the State of California as of and for the year ended June 30, 1999, and have issued our report thereon dated November 19, 1999. We did not audit the financial statements of the pension trust funds, which reflect total assets constituting 87 percent of the fiduciary funds. We also did not audit the financial statements of certain enterprise funds, including those of the California State University, which reflect total assets and revenues, constituting 90 percent and 91 percent, respectively, of the enterprise funds. In addition, we did not audit the University of California funds. Finally, we did not audit the financial statements of certain component unit authorities, which reflect total assets and revenues, constituting 97 percent and 93 percent, respectively, of the component unit authorities. The financial statements of the pension trust funds, certain enterprise funds, the University of California funds, and certain component unit authorities referred to above were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these funds and entities, is based solely upon the reports of the other auditors.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying schedule of federal assistance is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general purpose financial statements. OMB Circular A-133 requires the schedule of federal assistance to present total expenditures for each federal assistance program. However, although the State's automated accounting system separately identifies receipts for each federal assistance program, it does not separately identify expenditures for each program. As a result, the State presents the schedule of federal assistance on a revenue basis. In addition, the schedule of federal assistance does not include expenditures of federal awards received by the University of California or the California State University systems. 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 general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

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

BUREAU OF STATE AUDITS



PHILIP J. JELICICH, CPA  
Deputy State Auditor

November 19, 1999

Attachment

## ATTACHMENT

The compliance issues are:

99-1-1	99-13-1
99-2-1	99-13-2
99-2-3	99-13-3
99-3-1	99-13-4
99-3-2	99-13-5
99-3-3	99-13-6
99-3-5	99-13-8
99-5-1	99-13-10
99-5-2	99-14-1
99-7-1	99-14-2
99-8-1	99-14-3
99-9-1	99-14-4
99-9-4	99-14-5
99-12-5	99-14-6
99-12-6	99-14-7

The internal control over compliance issues are:

99-3-4	99-12-4
99-3-5	99-12-5
99-7-2	99-13-6
99-7-3	99-13-7
99-9-2	99-13-9
99-9-3	99-13-10
99-10-1	99-13-11
99-12-1	99-14-2
99-12-2	99-14-7
99-12-3	99-14-8

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

**STATE OF CALIFORNIA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

**Summary of Auditor's Results**

**Financial Statements**

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

**FEDERAL AWARDS**

Internal control over major programs:	
Material weaknesses identified?	No
Reportable conditions identified that are not considered to be material weaknesses?	Yes
Type of report the auditor issued on compliance for major programs	Unqualified
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	\$50.54 million
Auditee qualified as low-risk auditee?	No

*Identification of major programs:*

<b>CFDA Number</b>	<b>Name of Federal Program or Cluster of Programs</b>
	Food Stamp Cluster
	Child Nutrition Cluster
	Fish and Wildlife Cluster
	Employment Services Cluster
	JTPA Cluster
	Special Education Cluster
	Child Care Cluster
	Medicaid Cluster
	Disability Insurance/SSI Cluster
10.550	Food Distribution
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
10.558	Child and Adult Care Food Program
16.579	Byrne Formula Grant Program
16.606	State Criminal Alien Assistance Program
17.225	Unemployment Insurance
20.205	Highway Planning and Construction
66.458	Capitalization Grants for State Revolving Funds
83.544	Public Assistance Grants
83.548	Hazard Mitigation Grant
84.002	Adult Education—State Grant Program
84.011	Migrant Education—Basic State Grant Program
84.032	Federal Family Education Loans
84.048	Vocational Education—Basic Grants to States
84.126	Rehabilitation Services—Vocational Rehabilitation Grants to States
84.181	Special Education—Grants for Infants and Families with Disabilities
84.243	Tech-Prep Education
84.276	Goals 2000—State and Local Education Systemic Improvement Grants
84.318	Technology Literacy Challenge Fund Grants
93.558	Temporary Assistance for Needy Families
93.563	Child Support Enforcement
93.674	Independent Living
93.767	State Children’s Insurance Program
93.917	HIV Care Formula Grants
93.940	HIV Prevention Activities—Health Department Based
94.006	AmeriCorps

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

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## **VARIOUS STATE DEPARTMENTS**

Reference Number: 99-19-1

### **CRITERIA**

In our review of the State's General Fixed Assets, we determined that the following compliance requirements relate to the Department of General Services (General Services), the California Youth Authority (Youth Authority), and the Department of Parks and Recreation (Parks and Recreation):

The California Government Code, Section 11011.15, requires General Services to maintain a complete and accurate inventory of all real property held by the State. It also requires all state agencies to furnish General Services with a record of each parcel of real property that they own and to update their real property holdings by July 1 each year. General Services includes this information in the Statewide Real Property Inventory.

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

Further, the Department of Finance (Finance) issued directives in November 1998 and August 1999 requiring agencies to evaluate the risk of an incomplete inventory. If an agency determined there was a high risk, it was to reconcile the amounts reported in the Statewide Real Property Inventory with its Statement of Changes in General Fixed Assets. Finance also required agencies to periodically reconcile their real property inventories to ensure the inventories are complete and accurate.

### **CONDITION**

General Services plays an important role in maintaining complete and accurate inventory records. As a control agency, General Services maintains the Statewide Real Property Inventory for all state agencies. Similar to other agencies, it also buys and sells property that must be recorded in the Statewide Real Property Inventory and reported to the Controller's Office. During our review, however, we found that General Services does not have adequate procedures to ensure property it buys or sells is completely and accurately reported in the Statewide Real Property Inventory or the Statement of Changes in General Fixed Assets.

Specifically, General Services designated the Statewide Real Property Unit (Inventory Unit), a unit within one of its Real Estate Services Branches, as the primary contact for collecting and reporting information on the State's property assets. However, the Inventory Unit does not always receive property information from all of General Services' branches that initiate property transactions. Additionally, General Services does not require the branches to verify that the information in the Statewide Real Property Inventory is complete and accurate. For example, we found that neither the Project Management Branch nor the Asset Planning and Enhancement Branch is required to communicate or verify that asset information is completely and accurately reported to the Inventory Unit. Without adequate reporting procedures, General Services cannot ensure that it maintains a complete and accurate inventory of its real property holdings and all real property owned by the State.

Additionally, for two years, General Services has not reconciled its real property, as reported to the Controller's Office on the Statement of Changes in General Fixed Assets, to the amount reported in the Statewide Real Property Inventory. For fiscal year 1998-99, we also identified \$7.9 million in property additions and \$1.1 million in property deductions that General Services did not include in the Statement of Changes in General Fixed Assets. Unless agencies report complete and accurate information to the Controller's Office and the Inventory Unit, the State's financial statements will be misstated and the Statewide Real Property Inventory will be incomplete and inaccurate.

We reported similar concerns in previous years for other agencies. Two agencies we reported on, the Youth Authority and Parks and Recreation, have developed corrective action plans to comply with Finance's directives. Specifically, for fiscal year 1997-98, we reported that the Youth Authority and Parks and Recreation had inadequate procedures to ensure that General Services' Statewide Real Property Inventory and their financial statements incorporated all real property transactions. Both departments must inform Finance of their progress through status reports submitted every six months.

In its September 1999 status report to Finance, the Youth Authority reported its plans to carry out a corrective action plan and its completion date. The Youth Authority stated that, among other actions, it would complete an inventory of its structures, obtain policies and procedures from General Services for updating the Statewide Real Property Inventory, and obtain guidelines from Finance for determining the costs that it should record as real property. Likewise, in September 1999, Parks and Recreation submitted its corrective action plan to Finance stating that it intended to start a comprehensive inventory of its real property and to develop a process allowing for timely and accurate reporting to General Services of all building and improvement changes.

## RECOMMENDATIONS

We recommend that General Services annually reconcile its real property inventory and its Statement of Changes in General Fixed Assets. It should also ensure that the Statement of Changes in General Fixed Assets it reports to the Controller's Office includes all additions and deductions during the fiscal year. Further, General Services should implement procedures to ensure that the Inventory Unit receives accurate and timely information on property transactions.

We further recommend that Finance monitor the progress of the Youth Authority and Parks and Recreation to ensure that their financial statements incorporate all real property transactions and that they reconcile their financial statements to their real property records. Further, Finance should ensure that the State's interest in maintaining a complete and accurate Statewide Real Property Inventory is met and that all fixed asset transactions have been properly included in the State's financial statements.

## DEPARTMENTS' VIEWS AND CORRECTIVE ACTION PLANS

General Services agrees that it should establish procedures to ensure its branches report property transactions to the Inventory Unit accurately and in a timely manner. Additionally, General Services plans to annually reconcile its internal real property inventory to the Statewide Real Property Inventory and the Statement of Changes in General Fixed Assets and will take steps to ensure that property additions and deductions are accurately reported to the Controller's Office.

Finance continues to address this matter and in August 1999 issued a directive similar to the directives issued in prior years. In addition, Finance required the Youth Authority and Parks and Recreation to periodically report on the status of their corrective action plans. Finally, in June 1999, Finance reissued its *Audit Guide for the Evaluation of Internal Control*, which includes new audit procedures for reconciling a department's real property reported on the Statement of Changes in General Fixed Assets with the amount reported to General Services on the Statewide Real Property Inventory. It will continue to monitor the corrective action plans for the Youth Authority and Parks and Recreation. Furthermore, Finance will issue another directive reminding all internal auditors of the previous directive and require them to report to Finance on actions their departments have taken to assess the risk of unreconciled real property inventories.

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## **VARIOUS STATE DEPARTMENTS**

Reference Number: 99-19-2

### **CONDITION**

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

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

Despite these requirements, some departments have not implemented procedures to report their employees' taxable benefits or taxable business expense reimbursements. We reviewed the procedures for reporting employee taxable benefits and reimbursements at nine state departments and three state universities for fiscal year 1998-99. We reviewed from 180 to 540 travel expense claims at each entity to verify that employee taxable reimbursements were properly reported. We found some state departments did not have adequate procedures to ensure that they were properly reporting taxable employee fringe benefits and reimbursed business expenses to the Controller's Office. Additionally, we found instances when departments and universities with procedures in place did not report taxable business expense reimbursements to the Controller's Office because of oversights by their personnel.

We found that the Air Resources Board and the State Water Resources Control Board did not have procedures to report to the Controller's Office employees' personal use of state vehicles while the Department of Transportation lacked consistent reporting procedures. The Air Resources Board lacked procedures requiring it to report its

employees' personal commuting miles between home and office when using state vehicles. It commented that the State Administrative Manual requires employees, rather than the employers as instructed by the Controller's Office Payroll and Procedures Manual, to report personal use of state vehicles to the Controller's Office. As a result, it was uncertain of this reporting requirement. In addition, the State Water Resources Control Board did not have procedures in place even though six regional employees that are authorized to take vehicles home may have used state vehicles for personal commuting between home and office. Finally, the Department of Transportation states that it has a policy in place, but it was not consistently followed by one of its district offices. As a result, these agencies did not report taxable employee benefits for all their employees.

We also found that the California Youth Authority's Heman G. Stark Youth Correctional Facility (facility) and the Department of Mental Health's Patton State Hospital (hospital) were not completely reporting reimbursements for overtime call-back mileage. We found 27 and 14 travel expense claims, respectively, for which overtime call-back mileage reimbursements were not reported to the Controller's Office. According to the Controller's Office Payroll Procedures Manual, reimbursing employees for daily commuting expenses, such as expenses arising from commuting or personal travel between home and office, is considered taxable income. Both the facility and hospital were unclear as to the interpretation of the guidance from the Controller's Office.

In addition, we found that three departments were delayed in implementing procedures to report meal reimbursements for less than 24-hour travel without lodging. According to the Controller's Office, this requirement came into effect on January 1, 1999. However, we found that the Department of Mental Health's hospital, the State Water Resources Control Board, and the Department of Corrections' Regional Accounting Office Central Coast did not have procedures in place on January 1, 1999, to report these reimbursements. The Department of Corrections' Regional Accounting Office did not have procedures in place until the end of March 1999. In our review of the January 1, 1999, through March 31, 1999, travel expense claims, we found 13 in which meal reimbursements were not reported. The State Water Resources Control Board did not have procedures in place until November 1999 and we found 7 claims for which meal reimbursements were not reported from January 1, 1999, through June 30, 1999. We also found 19 claims that were not reported from January 1, 1999, through June 30, 1999, at the hospital; the hospital is still in the process of establishing procedures.

Finally, we found that, due to employee turnover, one agency did not fully report reimbursements for overtime meals. The Payroll Procedures Manual from the Controller's Office states that overtime meal compensation is reportable and taxable income. According to the Air Resources Board, one employee left and while the new employee was training for the position, there was a period of about four months when five claim payments for overtime meal reimbursements were not reported to the Controller's Office.

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

## **CRITERIA**

The Controller's Office Payroll and Procedures Manual, sections 120 through 163, provides procedures for reporting to the Controller's Office taxable fringe benefits and business expense reimbursements provided to state employees. These procedures are based on federal and state tax laws. The following benefits and payments included in this manual relate to our testing of agency compliance:

- Section 129.1 states that the value of personal use of state-owned or leased vehicles for nonbusiness commuting or personal travel between home and office is a taxable benefit.
- Section 130.1.2 states that reimbursements to employees for daily commuting expenses, such as for expenses arising from commuting or personal travel between home and office, is considered taxable income. This would include call-back and overtime mileage.
- Overtime meal compensation, as stated in Section 143.3, including arduous work meals, is reportable and taxable income.
- Section 145.2 states that meal reimbursement for less than 24-hour travel without lodging is taxable income. Simply stated, if an employee receives reimbursement for meals during travel in which there was no overnight stay, this reimbursement is taxable income.

## **RECOMMENDATION**

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

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

The Air Resources Board agrees with our findings. It claims it has trained its new employees to properly report taxable employee business expenses to the Controller's Office. It is also establishing procedures to report employees' personal use of state vehicles.

The State Water Resources Control Board agrees with our finding. It claims that, as of November 1999, it has implemented procedures to report meal reimbursements for less than 24-hour travel without lodging. Also, it is in the process of establishing procedures to ensure the taxable amounts for personal use of state vehicles are properly reported.

The Department of Mental Health agrees with our findings at Patton State Hospital. The department plans to implement procedures to report reimbursements for overtime call-back mileage and meal reimbursement for less than 24-hour travel without lodging. The department will implement the procedures in all of their hospitals.

The Department of Corrections agrees with our finding at the Regional Accounting Office Central Coast. According to the Department of Corrections, as of March 1999, the Regional Accounting Office Central Coast has implemented procedures to report meal reimbursement for less than 24-hour travel without lodging.

The California Youth Authority agrees with our finding at the Heman G. Stark Youth Correctional Facility. According to the California Youth Authority, the facility is now clear on the requirement for reporting overtime call-back mileage and has established procedures to ensure that it is reported to the Controller's Office.

The Department of Transportation agrees with our finding. The department is updating its procedures to include instructions on how to report personal use of state vehicles.

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## **HEALTH AND HUMAN SERVICES AGENCY DATA CENTER**

Reference Number: 99-20-1

### **CONDITION**

The Health and Human Services Agency Data Center (data center) demonstrated a misunderstanding regarding the preparation of its fiscal year 1998-99 financial statements in accordance with generally accepted accounting principles (GAAP). We noted numerous instances that raised concerns over the data center's ability to accurately present its financial position and results of operations. For example, we found the following:

- During the preparation of its fiscal year 1998-99 statement of cash flows, the data center made a \$22.9 million entry to record capital lease obligations in order to reconcile cash, despite the lack of any documentation to support the amount. The data center used this amount, an incorrect number carried over from the prior year, because it could not find any other support for the entry. We directed the data center to the correct account balance for the prior year, as reported in

the State's Comprehensive Annual Financial Report (CAFR), and to the correct account balance per its capital lease amortization schedule. The data center revised its statement of cash flows and adjusted its capital lease obligation down to \$16.2 million, the correct fiscal year 1998-99 balance.

- The data center understated its accounts payable liability because it was unclear as to what constituted a liability for GAAP reporting purposes. After we brought this matter to its attention, the data center analyzed its accounts and determined that it understated accounts payable by about \$9.5 million. It then adjusted the balance accordingly.
- When the data center submitted to the State Controller's Office a list of new installment payment contracts that it entered into during fiscal year 1998-99, it incorrectly included all of the existing installment payment contracts that it had entered into in prior fiscal years. After we brought this error to its attention, the data center revised its listing of \$21.6 million to the correct figure of \$13.5 million for these new contracts.

We also noted that the data center did not adequately review the financial statements that it prepared or directed a consultant to prepare. Consequently, even after the data center informed us that it had reviewed the financial statements, we identified errors such as adjusting journal entries posted to the wrong accounts and in the wrong direction and transposed account balances.

## **CRITERIA**

The California Government Code, sections 13401 and 13403, requires state agencies to maintain an effective system of internal accounting controls. Such a system includes accurate record-keeping procedures and an effective system of internal review.

## **RECOMMENDATION**

The data center should ensure that it correctly reports its financial position and results of operations and reviews its financial statements for accuracy.

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

The data center concurs with the above comments and states that it has taken steps to correct the identified conditions. It installed a newer, more stable computerized financial application and hired a consultant to draft on-line procedures. According to the data center, these procedures will enable it to automatically generate data for its year-end financial statements and thus reduce the potential for human error.

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

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## IDENTIFYING PROGRAM EXPENDITURES

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Reference Number: 99-12-6  
Federal Program: All Programs  
Category of Finding: Reporting Requirements

### CRITERIA

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

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

### CONDITION

Because of limitations in its automated accounting systems, the State has not complied with the provision of OMB Circular A-133 requiring a schedule showing total expenditures for each federal program. As a result, the schedule (beginning on page 117) shows total receipts, rather than expenditures, by program. Expenditure information is necessary to identify Type A programs. To ensure that we identified and audited all high-risk Type A programs, we reviewed accrual basis expenditures, which are identified manually, for all programs that we did not already plan to audit and that had cash receipts within 10 percent of the Type A program threshold. We identified three such programs. Our review of the expenditures of these programs showed that two of them exceeded the Type A threshold. However, only one of the two was high risk and required an audit.

### RECOMMENDATION

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

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

We have previously reported on the inadequacies of the State's financial reporting. Finance has responded that the State's accounting system will require substantial modification to meet all federal and state requirements, and it will address changes in relation to other priorities and costs.

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

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# U.S. DEPARTMENT OF AGRICULTURE

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Reference Number: 99-3-3  
Federal Catalog Number: 10.558  
Federal Program Title: Child and Adult Care Food Program  
Federal Award Number and Calendar Year Awarded: 7N1019; 1998  
Category of Finding: Cash Management  
State Administering Department: Department of Education

## CRITERIA

In our review of the Child and Adult Care Food Program (food program), we determined that the following compliance requirements pertain to cash management:

The Code of Federal Regulations, Title 7, sections 226.7(i) and 226.7(j), requires the Department of Education (Education) to establish procedures for issuing advance payments and to recover outstanding advances from institutions that will not be able to earn these payments.

## CONDITION

Education does not have adequate procedures for recovering cash advances from participants of the food program who are no longer entitled to these funds. Specifically, as of May 1999, Education's records showed 19 participants owed it advances totaling \$421,000. Of these 19, 9 were on hold status and 10 were no longer eligible. Our review of 3 of these participants revealed that Education had not updated its computer system to reflect the cancellation status and, therefore, had not billed to recover advances totaling \$166,000, or 39 percent of the amount outstanding. In one of these three cases, Education had not initiated procedures to collect the advances even though more than eight years had passed.

Additionally, our review of 10 other participants that had outstanding advances when they were canceled from the food program showed that in seven cases, Education took more than six months to generate invoices to recover the funds. When Education does not promptly bill to collect outstanding advances, the likelihood increases that these funds will become uncollectable.

## RECOMMENDATION

Education should improve its procedures for collecting outstanding advances of federal funds from participants no longer eligible to participate in the program.

## DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Education has billed the three participants in the food program identified in this audit finding. In addition, Education has instituted a process for ensuring that canceled participants are promptly billed for outstanding advances. As soon as a participant is canceled, Education staff in the Nutrition Services Division (Nutrition Services) will notify in writing Education staff in the Child Nutrition Fiscal Services Unit of the Fiscal and Administrative Services Division (Fiscal Services). Fiscal Services staff will immediately take action to recover the advance balance through the automated payment system for the food program (i.e., ACCESS) or to invoice the participant. Fiscal Services staff will confirm with Nutrition Services staff the recovery or invoice action to be taken.

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Reference Number:	99-5-1
Federal Catalog Number:	10.558
Federal Program Title:	Child and Adult Care Food Program
Federal Award Number and Calendar Year Awarded:	7N1019; 1998
Category of Finding:	Eligibility
State Administering Department:	Department of Education

## CRITERIA

The Code of Federal Regulations, Title 7, sections 226.6(d)(1) and 226.6(e), requires the Department of Education (Education) to establish procedures to annually ensure that institutions and facilities (sites) participating in the Child and Adult Care Food Program (food program) meet applicable licensing or approval requirements.

Additionally, in November 1995, the U.S. Department of Agriculture issued *All-Points Bulletin* No. CACFP-96-04, which outlines federal policy for the revised application and renewal requirements for institutions participating in the food program. This policy allows Education to establish documentation procedures that will allow it to fulfill its responsibilities and make its administration of the program more efficient. The policy

indicates that such procedures might include obtaining the license status of sites directly from licensing agencies or maintaining a current computer checklist of licensed sites in the State. The policy does not require Education to obtain a copy of the actual license annually.

## **CONDITION**

Education needs to improve its process for ensuring that institutions participating in the food program meet the applicable licensing or approval requirements. It could not demonstrate that it confirms the license status of sites annually. According to Education, it verifies the eligibility of sites during its audits and administrative reviews. In addition, participating institutions verify site licenses during their monitoring visits. Further, to complete the confirmation process, Education requires participating institutions to attest annually to the validity of their sites' licenses. Education stated that these three steps were its safeguard to ensure that the sites have valid and current licenses.

However, Education does not conduct annual audits and administrative reviews of all participating institutions. Additionally, the reviews participating institutions conduct do not provide Education an independent confirmation that sites are licensed. Further, the annual attestations by participating institutions are not reliable and, therefore, do not confirm the license status of all sites participating in the food program. For example, the files for 6 of the 40 participants we tested contained attestation documents on licensing status that are out of date. Participating institutions are certifying their sites have valid licenses even though the information in the certification documents indicate that the licenses for one or more have expired.

We reported a similar finding in our audit of fiscal years 1996-97 and 1997-98. Education has since established a direct electronic link to the state licensing agency's database. Because it indicated that verifying the licensing status of every site was not administratively feasible, the state licensing agency provided Education with one electronic version of its license revocation list in August 1999. However, as of November 1999, Education had not obtained any updates.

## **RECOMMENDATION**

Education should improve its process for ensuring that institutions participating in the food program meet the applicable licensing or approval requirements.

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

Over the past two years, Education has been working with the Department of Social Services (Social Services) to obtain access to its licensing information to verify the license status of subrecipients participating in the food program. In January 2000,

Education received the first of the monthly Social Services' revocation list, identifying which facility licenses have been revoked. Education staff are using the list to verify the license status of subrecipients participating in the food program.

Education continues to work with Social Services to identify alternative electronic data-sharing mechanisms to reduce the administrative burden of the manual verification process. Education shares your concern for ensuring that all child care agencies are licensed and establishing an efficient, effective process for license verification is a high priority.

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Reference Number:	99-7-3
Federal Catalog Number:	10.555
Federal Program Title:	National School Lunch Program
Federal Award Number and Calendar Year Awarded:	7F8073; 1997
Category of Finding:	Matching, Reporting
State Administering Department:	Department of Education

## **CRITERIA**

The following are among the compliance requirements related to matching and reporting for the National School Lunch Program:

The Code of Federal Regulations, Title 7, Section 210.17(a), states that for each school year, the amount of qualified state revenues appropriated or used specifically by the State for program purposes shall not be less than 30 percent of the funds received by the State under Section 4 of the National School Lunch Act during the school year beginning July 1980.

In addition, Section 210.17(g) states that within 120 days after the end of each school year, the State shall submit to the U.S. Department of Agriculture an Annual Report of Revenues identifying the state revenues counted toward the state revenue matching requirement (state match). Section 210.17(h) further requires the State to establish a system to properly document and account for all expended state revenues counted toward meeting the matching requirements. Finally, Section 210.20(b) requires the State to maintain records to support the amount used for the state match.

## **CONDITION**

The Department of Education (Education) lacked adequate controls and documentation to support its reported state match. For fiscal year 1997-98, Education reported that it spent \$61 million in state funds for the National School Lunch Program, more than three times its required \$18 million state match. However, because Education did not separately track the qualified state funds it counted toward the state match, it could not provide information from its accounting records to support the amount reported in its Annual Report of State Revenue Matching. Although Education believes it met the state match, it cannot be certain without adequate controls and documentation.

## **RECOMMENDATION**

Education should implement procedures to separately track and maintain adequate support for qualified state revenues to ensure that it complies with the state matching and reporting requirements.

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

The state match is not reported through the California State Accounting and Reporting System (CALSTARS) because CALSTARS does not include a cost account to capture state matching fund expenditures by program. Education uses the information reported by the ANSWER system for preparing its financial status reports. However, ANSWER records the state match for the National School Lunch and School Breakfast programs together in one account. Education is not able to make changes to the ANSWER system to identify only lunches served because the ANSWER system is quite antiquated. However, Education is in the process of obtaining approval to replace the ANSWER system. When the new system is developed, Education will ensure that the system will track state matching funds by program.

In the interim, Education will obtain, through the ANSWER system, the number of state reimbursed lunches by school type. The number of reimbursed lunches will be multiplied by the appropriate state meal rate to obtain the total state match of the National School Lunch program. This number will be reported on the financial status report as the state match amount.

At this time and in the foreseeable future, there is no risk that California will fail to meet the state matching requirement.

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Reference Number:	99-12-7
Federal Catalog Number:	10.557
Federal Program Title:	Special Supplemental Nutrition Program for Women, Infants, and Children
Federal Award Number and Calendar Year Awarded:	7F8003; 1997
Category of Finding:	Reporting
State Administering Department:	Department of Health Services

## **CRITERIA**

In our review of the federal regulations related to the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC Program), we identified the following requirements related to financial reporting:

The Code of Federal Regulations, Title 7, Section 246.13(a), requires the Department of Health Services (Health Services) to maintain a financial system that provides accurate, current, and complete disclosure of the financial status of the WIC Program. This includes accounting for all program funds received and expended each fiscal year. The State Administrative Manual, Section 20014, requires state agencies receiving federal funds to reconcile their federal financial reports with their official accounting records.

## **CONDITION**

Health Services did not prepare and submit accurate federal financial reports for the WIC Program. Specifically, in its final financial report for federal fiscal year 1997-98, Health Services underreported its administrative expenditures by \$150,744. As a result, the amount available for expenditure in the ensuing federal fiscal year, known as the spend-forward amount, was overstated. This reporting error occurred because Health Services made mistakes on the reconciliation worksheets it used to prepare the federal financial reports.

## RECOMMENDATIONS

Health Services should submit a corrected final federal financial report for the WIC Program for federal fiscal year 1997-98. In the future, Health Services should ensure that it uses correct figures from the official accounting records and that it accurately reflects all adjustments on the reconciliation worksheets it uses to prepare the federal financial reports.

## DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Health Services concurs with our finding and states that it has submitted the corrected WIC Program financial reports to the federal agency. Further, Health Services plans to establish procedures to more thoroughly reconcile its federal financial reports with its accounting records to ensure that it reports accurate figures to the federal agency.

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Reference Number:	99-13-10
Federal Catalog Number:	10.557
Federal Program Title:	Special Supplemental Nutrition Program for Women, Infants, and Children
Federal Award Number and Calendar Year Awarded:	7F8003; 1997
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Health Services

## CRITERIA

In our review of federal programs, we found the following compliance requirements related to subrecipient monitoring:

The U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133), Section 400(d), requires the State to ensure that subrecipients spending \$300,000 or more annually in federal awards have met the audit requirements of the circular. In addition, the State is required to issue a management decision on audit findings within 6 months of receiving the required audit reports and to ensure that the subrecipient proceeds with appropriate corrective action as rapidly as possible. Section 320 requires subrecipients to submit the audit reports to the State when the reports disclose findings or the status of prior findings related to the federal funds provided by the

State. For subrecipients whose fiscal years began before July 1, 1998, the reports are due within 13 months after the end of the audit period; otherwise, the reports are due within 9 months after the end of the audit period.

## **CONDITION**

The Department of Health Services (Health Services) lacks an adequate system to ensure that it promptly receives all audit reports required by OMB Circular A-133 from nonprofit subrecipients of the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC Program) as well as a system to ensure that it issues timely management decisions on reported findings. According to its log of audit reports that were due by July 31, 1999, 4 out of 45 nonprofit subrecipients submitted their audit reports from 8 to 45 days late. Another 8 had not yet submitted an audit report, although the reports were from 11 days to 9 months overdue. However, because Health Services lacks procedures to identify the nonprofit subrecipients that spend more than \$300,000 in federally awarded funds annually, it cannot be sure that audits are even required for these 8 subrecipients.

Four of the 13 audit reports we reviewed included findings for which no management decision was on file, even though Health Services had received the reports more than six months earlier. Moreover, Health Services has no assurance that it is issuing the required management decisions on all reported findings, because its Audits and Investigations Branch does not always review reports from subrecipients if the reports from the prior two years contained no findings.

Without an effective system to ensure that nonprofit subrecipients submit the audit reports required by OMB Circular A-133, as well as a system to ensure prompt resolution of findings, Health Services cannot be sure that all subrecipients are complying with the federal laws and regulations applicable to the WIC Program.

## **RECOMMENDATIONS**

Health Services should establish a process to identify all nonprofit subrecipients that are required to submit audit reports. It should also ensure that these subrecipients submit the audit reports in a timely manner. Finally, Health Services should review all reported audit findings and issue the required management decisions within six months of receiving the audit reports.

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

Health Services concurs with our finding and states that it has revised its process to identify and track all nonprofit subrecipients that are required to submit audit reports. Health Services will review the audit reports and issue management decisions within six months of receiving the reports. Health Services also states that it will document the subrecipients' progress in resolving the findings.

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Reference Number:	99-14-4
Federal Catalog Number:	10.550
Federal Program Title:	Food Distribution
Year Awarded:	State fiscal year 1998-99
Category of Finding:	Special Tests and Provisions
State Administering Department:	Department of Education

## **CRITERIA**

In our review of the Food Distribution program, we found the following requirements related to special tests and provisions:

The Code of Federal Regulations, Title 7, Section 250.16, requires the Department of Education (Education) to maintain accurate and complete records with respect to the receipt, distribution, use, and inventory of donated foods. In addition, Section 250.16(a)(6) specifies that failure to maintain required records shall be considered prima facie evidence of improper distribution or loss of donated foods, including end products processed from donated foods.

Section 250.14(c) requires storage facilities to be reviewed on an annual basis. As part of this review, Section 250.14(e) requires Education to perform an annual physical count and reconciliation. This section further requires Education to identify and report to the U.S. Department of Agriculture (USDA) food items that have been lost, stolen, or found to be out-of-condition, as well as potential excess inventory. Finally, Section 250.15(c) requires Education to replace the donated food in its distribution program in-kind or to pay to the USDA the value of the donated food as determined by the USDA if Education improperly distributes or uses any donated foods or causes loss of or damage to a donated food through its failure to provide proper storage, care, or handling.

## **CONDITION**

Education did not properly account for its donated foods, nor did it report losses or excess inventory to the USDA as required. Specifically, during our observation of its August 1999 physical inventory of donated foods stored in the Sacramento warehouse, we found that Education did not reconcile differences that were sometimes significant between the physical count and perpetual records. It also did

not adjust perpetual inventory records for these differences. In addition, Education did not include processed foods in the physical inventory count. We also found that it did not explain losses and identify them separately from the other adjustments it made to the inventory records during the fiscal year. As a result, Education did not notify the USDA of any losses, nor did it report any excess inventory.

Because Education asserted that unusual circumstances during the August 1999 inventory count caused the problems we identified, we also reviewed its reconciliation of the March and September 1999 inventory records. We found the problems to be endemic to the warehouse's inventory reconciliation process.

## **RECOMMENDATIONS**

Education should make sure that it properly accounts for donated foods. Specifically, it should investigate and reconcile differences between the physical count and perpetual records and make sure that the adjustments made to the perpetual records are correct. It should also include processed foods in the count and properly identify losses. Finally, it should notify the USDA as required.

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

Education concurs with the recommendations to ensure that differences between the physical count and perpetual records are reconciled and that adjustments made to the perpetual records are accurate. Education's Sacramento warehouse experienced inventory problems during the seven-month period covered in the audit. Staff vacancies, accompanied by a transfer of approximately 25 truckloads of frozen commodities from commercial storage to Education's new state warehouse freezer, resulted in an inaccurate reconciliation during this period. Education staff in the Sacramento warehouse are now maintaining an accurate reconciliation between the physical inventory and the perpetual record. Effective February 1, 2000, Education staff are reconciling the perpetual record as soon as the physical inventory is completed.

In the past, Sacramento warehouse staff maintained two separate inventory records: one for processed commodities and one for raw commodities. Effective February 1, 2000, Sacramento warehouse staff are maintaining one inventory record that includes both processed and raw commodities.

Federal regulations require that Education report excess inventories to the USDA twice a year, using the FNS-155 form. Commodity losses of less than \$250 do not require a report to the USDA (FNS Instruction 410-1). When a loss of over \$250 occurs, Education will immediately report the loss to the USDA. Education warehouse staff will adjust inventory records to reflect all losses.

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Reference Number:	99-14-6
Federal Catalog Number:	10.557
Federal Program Title:	Special Supplemental Nutrition Program for Women, Infants, and Children
Federal Award Numbers and Calendar Years Awarded:	7F8003; 1997 7F9003; 1998
Category of Finding:	Special Tests and Provisions
State Administering Department:	Department of Health Services

## **CRITERIA**

In our review of the federal regulations related to the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC Program), we identified the following requirements related to the monitoring of local agencies:

The Code of Federal Regulations, Title 7, Section 246.19(b), requires the Department of Health Services (Health Services) to conduct monitoring reviews of each local agency at least once every two fiscal years. These reviews, which focus on the areas of management, certification, nutrition education, civil rights compliance, accountability, financial management systems, and food delivery systems, are to include on-site reviews of at least 20 percent of the clinics in each local agency or of one clinic, whichever is greater. Furthermore, Health Services must have a corrective action process to promptly address any deficiencies noted during these reviews.

## **CONDITION**

For the two-year period we reviewed, state fiscal years 1997-98 and 1998-99, Health Services did not perform all the monitoring reviews of local agencies as required and did not always promptly address the deficiencies identified during the reviews. Specifically, it conducts its monitoring reviews of local agencies in two parts consisting of a program evaluation performed by Health Services staff and a fiscal review conducted by staff of the State Controller's Office. Of the 83 local agencies to be reviewed during state fiscal years 1997-98 and 1998-99, 17 received only a partial review—9 had no program evaluation and 8 had no fiscal review—and 1 was not reviewed at all. In addition, because the documentation was insufficient, we were unable to determine whether Health Services performed the required number of

site visits for five of the six program evaluation files we reviewed. Our review of these six files also revealed that in one instance Health Services had not ensured that the local agency had taken adequate steps to correct a deficiency even though 11 months had passed since it had reported the deficiency to the local agency.

Because it is not completing the monitoring reviews as required or ensuring that local agencies promptly correct reported deficiencies, Health Services cannot assure that all local agencies are properly administering the WIC Program and meeting its objectives.

## **RECOMMENDATIONS**

Health Services should complete the required local agency reviews within the allotted two-year period. It should also document in its review files how it determined that it had reviewed the minimum number of clinics required in each local agency. Finally, Health Services should ensure that the local agencies adequately address and promptly resolve deficiencies.

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

Health Services concurs with our finding and states that it has already changed its documentation to include the number of clinics reviewed during the on-site visits. To determine the number of clinics required to be reviewed, Health Services states that it follows the standard policy of reviewing at least 20 percent of the local agency's clinics that are open three or more days per week. In order to successfully complete the required local agency program reviews within the allotted two years, Health Services states that additional reviews have been scheduled for the remainder of the state fiscal year 1999-2000. Therefore, by June 30, 2000, it states that all local agencies will have had a program evaluation within the last 24-month period.

To ensure that local agencies adequately address and resolve deficiencies in a timely manner, Health Services plans to establish procedures utilizing a systematic approach. Health Services states that this approach will include, but not be limited to, the provision of technical assistance, approval or denial of the local agency's corrective action plan; additional technical assistance as appropriate; and collaboration with WIC Program management to clarify policy, support, and reiterate policies and procedures to infracting local agencies.

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

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Reference Number: 99-13-3  
Category of Finding: Subrecipient Monitoring  
State Administering Department: Department of Education

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

**CRITERIA**

In our review of federal programs, we identified the following requirements related to subrecipient monitoring:

The U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133), sections 200(a) and 320(a), requires subrecipients spending \$300,000 or more annually in federal awards to submit audit reports to the State within 13 months after the audit period ending before June 30, 1998. Further, Section 400(d) requires the State to ensure subrecipients meet this audit requirement and issue a management decision on audit findings within 6 months of receiving audit reports. It must also make sure subrecipients take appropriate and timely corrective action.

**CONDITION**

The Department of Education (Education) did not sufficiently monitor the audit reports of the nonprofit subrecipients. Specifically, for seven of the nine programs we reviewed, Education identified nonprofit subrecipients that spent more than \$300,000 in federal funds annually; however, it did not ensure that these subrecipients submitted the required audit reports. As of August 1999, Education had not received reports for the fiscal year 1997-98 audit period from 33 of 201 subrecipients. In addition, Education did not review 47 of the 168 reports it received within six months, as required. As a result, Education could not issue management decisions or ensure timely corrective action on audit findings that could affect federal program funds.

Furthermore, because Education's tracking system does not contain adequate information for nonprofit subrecipients of the Child Care and Development Block Grant program or of the Child Care Mandatory and Matching Funds of the Child Care and Development Fund program, we could not determine which of these subrecipients were required to submit OMB Circular A-133 reports or whether they submitted them

on time. When it does not have an adequate system to monitor audit reports, Education lacks the assurance that nonprofit subrecipients are complying with federal laws and regulations.

## **RECOMMENDATIONS**

Education should ensure it has an adequate system to identify nonprofit subrecipients required to submit audit reports. Further, Education should make sure subrecipients submit timely reports. Finally, Education should review the audit reports and issue management decisions as required.

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

Over the past year and a half, Education's Audits and Investigations Division has been diligently working to improve their systems and processes for ensuring that subrecipients promptly submit audit reports and that the audit reports are reviewed within six months. However, some audit work remains incomplete. As of January 1, 2000, Education had received 21 of the 33 audit reports identified as not received by the auditors as of August 1, 1999. Education is continuing to take action to obtain the remaining 12 audit reports and has notified nutrition and adult education program staff that the subrecipients have not submitted their audit reports as required. Nutrition and adult education are taking action to withhold funding until the required audit reports are received.

As explained to the auditors in the past, Education requires all nonprofit subrecipients receiving child development funds in excess of \$25,000 to submit an audit report, pursuant to Education Code, Section 8448(g). For the purpose of determining whether or not an audit is due, it is not important for Education to know whether the subrecipient received federal or state child development funds.

Nevertheless, to facilitate the auditor's identification of child development agencies that receive federal funds in excess of \$300,000, Education has modified its audit report tracking system to specifically identify the allocation of federal funds.

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

Federal Catalog Number:	10.550
Federal Program Title:	Food Distribution
Year Awarded:	State fiscal year 1997-98

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Federal Catalog Number: 10.553  
Federal Program Title: School Breakfast Program  
Federal Award Number and  
Calendar Year Awarded: 7N1030; 1997

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Federal Catalog Number: 10.555  
Federal Program Title: National School Lunch Program  
Federal Award Number and  
Calendar Year Awarded: 7N1005; 1997

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Federal Catalog Number: 10.556  
Federal Program Title: Special Milk Program for Children  
Federal Award Number and  
Calendar Year Awarded: 7N1039; 1997

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Federal Catalog Number: 10.558  
Federal Program Title: Child and Adult Care Food Program  
Federal Award Numbers and  
Calendar Year Awarded: 7N1015, 7N1018, 7N1019, 7N1020,  
7N1042, 7N2014; 1997

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Federal Catalog Number: 10.559  
Federal Program Title: Summer Food Service Program for Children  
Federal Award Numbers and  
Calendar Year Awarded: 7N1032, 7N1033, 7N1034, 7N1038; 1997

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

Federal Catalog Number: 84.002  
Federal Program Title: Adult Education—State Grant Program  
Federal Award Number and  
Calendar Year Awarded: V002A70006; 1997

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

Federal Catalog Number: 93.575  
Federal Program Title: Child Care and Development Block Grant  
Federal Award Number and  
Calendar Year Awarded: 8G996005; 1997

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Federal Catalog Number: 93.596  
Federal Program Title: Child Care Mandatory and Matching Funds of  
the Child Care and Development Fund  
Federal Award Numbers and  
Calendar Year Awarded: 8G999004, 8G999005; 1997

## U.S. DEPARTMENT OF INTERIOR

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Reference Number: 99-7-2  
Federal Catalog Number: 15.605  
Federal Program Title: Sport Fish Restoration  
Federal Award Number and  
Calendar Year Awarded: F-49-AE-11; 1997  
Category of Finding: Matching, Reporting  
State Administering Department: Department of Fish and Game

### CRITERIA

The following are among the compliance requirements related to matching and reporting for the Sport Fish Restoration program:

The Code of Federal Regulations, Title 50, Section 80.12, states that federal participation is limited to either 75 percent of the eligible costs of approved projects or to the share specified in project agreements. Title 43, Section 12.64(b), of the same code states that third-party, in-kind contributions satisfying a cost-sharing or matching requirement must be supported with verifiable records. The section further requires that donated volunteer services be valued at rates equivalent to wages for similar work and, to the extent feasible, supported by the same methods used to document allocations of regular personnel costs. Additionally, the Code of Federal Regulations, Title 43, Section 12.60(b), requires grantees to maintain a financial management system that provides accurate, current, and complete financial reports of grant activities

### CONDITION

The Department of Fish and Game (Fish and Game) lacked adequate documentation to support the shared costs it reported for a sport fish restoration project under a federal grant. To demonstrate it met its cost-sharing requirements for one of the eight projects completed during fiscal year 1998-99, Fish and Game reported in its financial status report the costs it incurred as well as in-kind contributions from third parties. However, it did not have required documentation to support these in-kind contributions of \$279,870. Specifically, it could not provide verifiable records of the donated volunteer services used to meet its cost-sharing requirements for this project. Without adequate support for its cost-sharing requirements, Fish and Game cannot be certain its financial participation in projects meets federal requirements.

## **RECOMMENDATION**

Fish and Game should implement procedures to maintain verifiable records of the third-party contributions it uses to meet project cost-sharing requirements.

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

Fish and Game agrees with our finding and is developing procedures to take corrective action. It intends to implement a standard records system to record, summarize, and maintain verifiable records of in-kind matching. Specifically, Fish and Game has drafted two new forms designed to track volunteer hours and donations of materials. Implementation of these forms is pending the forms' final approval.

## U.S. DEPARTMENT OF LABOR

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Reference Number: 99-2-1  
Category of Finding: Allowable Costs and Cost Principles  
State Administering Department: Employment Development Department

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

### CRITERIA

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

The U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Tribal Governments*, Attachment B, Section 11.h(5)(e), states that budget estimates or other distribution percentages determined before the services performed do not qualify as support for charges to a federal grant unless the system for establishing the estimates produces reasonable approximations of the activity actually performed. Further, at least quarterly, costs should be adjusted to reflect actual activity and the budget estimates or other distribution percentages should be revised to reflect changed circumstances.

### CONDITION

EDD lacked documentation to support some of its payroll and operating costs allocated to federal programs. For 7 of the 30 payroll transactions we reviewed, EDD allocated the payroll costs to federal programs based on estimates of the time staff spend administering the various federal programs instead of using actual time worked. EDD also allocated 4 of 10 operating costs we reviewed among various federal programs based on similar estimates. Although EDD indicated that it based the percentages it used to allocate the payroll and operating costs on workload analyses, it could not provide us with these analyses.

Furthermore, EDD could not produce evidence that it adjusted the percentages quarterly to reflect more current circumstances. As a result, we could not determine whether EDD appropriately allocated seven payroll transactions and four operating costs totaling \$26,000 among various state programs and five federal programs—Employment Service, Unemployment Insurance, Disabled Veterans' Outreach Program, Local Veterans' Employment Representative Program, and Job

Training Partnership Act. We were unable to determine the full impact of this issue because EDD was unable to provide us with the total amount it allocated using estimates for fiscal year 1998-99.

## **RECOMMENDATION**

To ensure that charges to federal programs are accurate, EDD should develop an allocation system that bases charges on actual hours worked. If EDD chooses to allocate costs based on estimates, it should ensure that the estimates are supported by the appropriate analyses and are revised at least quarterly to reflect any changes.

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

EDD concurs with our finding and states that it will analyze and document the percentages for any allocation codes that it does not eliminate. In addition, it will document the percentages for new allocation codes. EDD also stated that, currently, it performs periodic reviews of the allocation codes; however, in the future it will perform a quarterly review to determine if changes in the business environment would result in a change to any of the allocation codes.

### **U.S. DEPARTMENT OF LABOR**

Federal Catalog Number: 17.207

Federal Program Title: Employment Service

Calendar Year Awarded: 1998

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Federal Catalog Number: 17.225

Federal Program Title: Unemployment Insurance

Calendar Year Awarded: 1998

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Federal Catalog Number: 17.250

Federal Program Title: Job Training Partnership Act

Federal Award Number and  
Calendar Year Awarded: A-6688-8-00-87-50; 1998

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Federal Catalog Number: 17.801  
Federal Program Title: Disabled Veterans' Outreach Program  
Calendar Year Awarded: 1998

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Federal Catalog Number: 17.804  
Federal Program Title: Local Veterans' Employment  
Representative Program  
Calendar Year Awarded: 1998

# FEDERAL EMERGENCY MANAGEMENT AGENCY

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Reference Number: 99-3-1  
Federal Catalog Number: 83.544  
Federal Program Title: Public Assistance Grants  
Year Awarded: State fiscal year 1998-99  
Category of Finding: Cash Management  
State Administering Department: Office of Emergency Services

## CRITERIA

We determined that the following requirements relate to compliance with the Cash Management Improvement Act Agreement (CMIA agreement) between the U.S. Department of the Treasury and the State of California: CMIA agreement, sections 9.4.1 and 9.6.1, establish requirements for calculating state interest liabilities. Sections 9.4.3 and 9.6.2 provide the methods for calculating these interest liabilities.

## CONDITION

The Department of Finance (Finance) requires state departments to report information related to the receipt and disbursement of federal funds so that it can calculate interest liabilities under the CMIA agreement. However, during fiscal year 1998-99, the Office of Emergency Services (Emergency Services) omitted 23 transactions totaling \$8,960,000 from its quarterly reports for the Public Assistance Grants. Specifically, Emergency Services did not report two receipts of federal funds totaling \$2,299,000 and 21 refunds of federal funds totaling \$6,661,000. In addition, Emergency Services twice reported one receipt for \$595,000, reported \$1,947,000 of state administrative allowances that should not have been included, and incorrectly reported the deposit dates for 19 refunds totaling \$25,986,000. As a result of these errors and omissions, Finance calculates that it understated the State's interest liability for this program by \$610,000.

## RECOMMENDATION

Emergency Services should provide complete and accurate receipt and refund information to Finance for the calculation of interest charges.

## DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Emergency Services agrees with this finding and has revised its procedures to comply with the recommendation.

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Reference Number:	99-12-1
Federal Catalog Number:	83.544
Federal Program Title:	Public Assistance Grants
Year Awarded:	State fiscal year 1998-99
Category of Finding:	Reporting
State Administering Department:	Office of Emergency Services

### CRITERIA

The following compliance requirement is related to Public Assistance Grants reporting: The Code of Federal Regulations, Title 44, Section 206.204(f), requires the State to submit quarterly progress reports to the Federal Emergency Management Agency (FEMA) describing the status of those Public Assistance Grants projects on which the State has not received final payment of the federal share.

### CONDITION

The Office of Emergency Services (Emergency Services) did not ensure that it obtained all required quarterly progress reports from subrecipients in fiscal year 1998-99. For the subrecipients we reviewed, Emergency Services failed to obtain 56 of 72 quarterly reports required. FEMA uses these reports to monitor projects funded with Public Assistance Grants money. These reports address the status of funded projects and identify changes in project costs, schedules, and scope of work. Without these reports, Emergency Services and FEMA cannot fully monitor the projects.

### RECOMMENDATION

Emergency Services should ensure that its quarterly progress reports contain complete information on the status of ongoing projects.

## DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Emergency Services agrees with our findings and provides the following comments. Until now, FEMA has not provided guidance on what should be included in the quarterly reports. Emergency Services consequently sought to obtain project status, workload forecast, and financial status information from subrecipients for quarterly submission to FEMA. The level and complexity of the required information led to poor compliance by subrecipients. In December 1999, Emergency Services met with FEMA and agreed to provide reports summarizing projects exceeding standard time limits, subrecipients requesting supplemental funding, and disaster close-out status, beginning in calendar year 2000. Emergency Services also agreed to implement a Large Project Monitoring Program to report on selected large projects by disaster. These reports should provide accurate project status data for a significant portion of federal funds allocated to post 1993 disasters, but the level of large project monitoring will vary with the availability of staff time to conduct site inspections.

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Reference Number: 99-12-2  
Category of Finding: Reporting  
State Administering Department: Office of Emergency Services

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

### CRITERIA

In our review of federal programs, we determined that the Code of Federal Regulations, Title 44, Section 13.20, requires the State to maintain accurate accounting records and to properly track and report financial activities related to federal grants. In addition, the State Administrative Manual, Section 20014, requires agencies receiving federal funds to reconcile federal financial reports to the official accounting records.

### CONDITION

In fiscal year 1998-99, the Office of Emergency Services (Emergency Services) did not reconcile the receipts and disbursements reported in its federal cash transaction reports to the receipts and disbursements recorded in its official accounting records. As a result, we could not determine whether the receipts and disbursements reported in the quarterly federal cash transaction reports agreed with the department's accounting records.

## RECOMMENDATION

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

## DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Emergency Services plans to develop a method for identifying relevant receipts and disbursements contained in its accounting records and for reconciling these receipts and disbursements to those reported in the federal cash transaction reports.

### FEDERAL EMERGENCY MANAGEMENT AGENCY

Federal Catalog Number:	83.544
Federal Program Title:	Public Assistance Grants
Year Awarded:	State fiscal year 1998-99

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Federal Catalog Number:	83.548
Federal Program Title:	Hazard Mitigation Grant
Year Awarded:	State fiscal year 1998-99

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Reference Number:	99-12-3
Category of Finding:	Reporting
State Administering Department:	Office of Emergency Services

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

## CRITERIA

The following compliance requirement is related to Public Assistance Grants and Hazard Mitigation Grant reporting: The Code of Federal Regulations, Title 44, Section 13.41(b), requires the State to report the status of funds for all nonconstruction grants. In January 1999, the Federal Emergency Management Agency (FEMA) began requiring the Office of Emergency Services

(Emergency Services) to submit quarterly financial status reports (status reports) for each disaster grant. Previously, FEMA required a status report only upon closure of a disaster grant. According to FEMA's directive, the status reports are to include total federal expenditures, total federal expenditures for administrative allowances, and total recipient expenditures to date.

## **CONDITION**

Emergency Services' status reports contain incomplete and erroneous expenditure information. Its accounting system accumulates federal expenditures by disaster and grant program. Expenditures in the system are not, however, reduced when subrecipients make refunds related to reverted appropriations. Appropriations revert when they lapse after having been in existence for the period allowed by law. As a result of its treatment of refunds, the accounting system overstates total federal expenditures. Because Emergency Services reports accounting system data on its status reports without making appropriate adjustments for refunds, the information on its status reports is erroneous. In fiscal year 1998-99, refunds related to reverted appropriations totaled \$44.2 million compared to expenditures of \$529.1 million.

In addition, Emergency Services underreports the level of recipient expenditures. In fiscal year 1998-99, it reported only state expenditures for Public Assistance Grants projects, even though local agencies also pay project costs. It also used a faulty equation to calculate the recipient share of expenditures for the Hazard Mitigation Grant program. For example, Emergency Services may have underreported recipient expenditures for the Loma Prieta earthquake by as much as 40 percent for the Public Assistance Grants program and by as much as 50 percent for the Hazard Mitigation Grant program. Finally, Emergency Services failed to report federal expenditures for administrative allowances for either program. When Emergency Services provides erroneous data and submits incomplete reports, FEMA cannot rely on the reports to provide an accurate picture of program status.

Emergency Services states that it cannot be expected to report complete information on recipient expenditures because local agencies are not required to provide it with complete expenditure data. In addition, it says that it cannot be expected to report totals for administrative allowances because FEMA has not required it to maintain expenditure data at this level of detail in the past.

## **RECOMMENDATIONS**

Emergency Services should ensure accurate financial status reports by adjusting its reported total federal expenditures to account for refunds related to reverted appropriations. It should also negotiate with FEMA regarding the reporting of recipient expenditures and administrative allowances and modify its future status reports accordingly.

## DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Emergency Services agrees with our recommendations. It is developing a method for adjusting reported expenditures to account for refunds related to reverted appropriations. It is also discussing with FEMA the reporting requirements for recipient expenditures and administrative allowances.

### FEDERAL EMERGENCY MANAGEMENT AGENCY

Federal Catalog Number: 83.544  
Federal Program Title: Public Assistance Grants  
Year Awarded: State fiscal year 1998-99

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Federal Catalog Number: 83.548  
Federal Program Title: Hazard Mitigation Grant  
Year Awarded: State fiscal year 1998-99

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Reference Number: 99-13-5  
Federal Catalog Number: 83.544  
Federal Program Title: Public Assistance Grants  
Years Awarded: State fiscal years 1995-96, 1996-97,  
and 1997-98  
Category of Finding: Subrecipient Monitoring  
State Administering Department: Office of Emergency Services

### CRITERIA

In our review of federal programs, we found that the following were among the compliance requirements related to subrecipient monitoring:

For fiscal year 1995-96, the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133), required subrecipients receiving more than \$25,000 in federal assistance to

submit audit reports to the State within 13 months of the end of their fiscal year. For fiscal years 1996-97 and 1997-98, the funding level at which audit reports are required rose to \$300,000, although the date for submission of the reports remained unchanged. If an audit finds that a subrecipient has failed to comply with federal laws and regulations, OMB Circular A-133 also requires the State to make a management decision regarding the resolution of the audit finding within 6 months of receiving the audit report and to proceed with corrective action as rapidly as possible.

## **CONDITION**

The Office of Emergency Services (Emergency Services) does not ensure that a management decision regarding the resolution of audit findings is made within six months after it receives an audit report. During fiscal year 1998-99, the State Controller's Office reviewed the annual audit reports of Emergency Services' subrecipients and forwarded 14 findings to Emergency Services for resolution. These findings included \$1 million in questioned costs. Emergency Services did not follow up on any of the findings. In addition, Emergency Services did not follow up on \$212,000 of questioned costs related to annual audits as we reported in fiscal year 1997-98. Without an effective system to ensure prompt resolution of audit findings, Emergency Services cannot ensure that subrecipients are complying with federal laws and regulations.

## **RECOMMENDATIONS**

Emergency Services should follow up on all reported audit findings and ensure that management decisions regarding the resolution of audit findings are made within six months.

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

In July 1999, the Department of Finance rejected a budget change proposal that included staff to ensure follow-up and resolution of audit report findings. Emergency Services will submit a new budget change proposal to address this issue in the coming fiscal year.

## U.S. DEPARTMENT OF EDUCATION

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Reference Number: 99-1-1

Federal Catalog Number: 84.181

Federal Program Title: Special Education—Grants for Infants and Families with Disabilities

Federal Award Number and Calendar Year Awarded: H181A970032; 1997

Category of Finding: Activities Allowed

State Administering Department: Department of Developmental Services

### CRITERIA

In our review of federal programs, we found the following compliance requirements related to activities allowed:

The Code of Federal Regulations, Title 34, Section 303.3, describes the activities that can be funded by Special Education—Grants for Infants and Families with Disabilities program (Early Intervention) grants. In addition, Section 80.20 requires that the State follow adequate procedures when expending and accounting for grant funds to ensure that they are used in accordance with applicable statutes.

### CONDITION

The Department of Developmental Services (Developmental Services) has not developed and implemented sufficient procedures to ensure that it disburses Early Intervention funds for allowable purposes. Of the 40 disbursements we reviewed, 3 lacked sufficient information and approvals to assure that the expenditures were proper charges to the Early Intervention program. Developmental Services paid a subrecipient \$20,100 for an invoice that lacked the subrecipient's signature. This is contrary to Developmental Services' own procedures. It also paid two invoices to the State Office of Administrative Hearings (OAH), totaling \$66,900, without ensuring that the charges were related to the program. These invoices lacked sufficient information for Developmental Services to verify which program, if any, had received the mediation and hearing services for which it was billed. Nonetheless, Developmental Services paid the invoices without requiring OAH to provide the needed information.

## RECOMMENDATIONS

Developmental Services should ensure that no invoices are paid without the appropriate authorizing signatures of the subrecipient. In addition, Developmental Services should obtain sufficient information from the OAH to ensure that charges to the Early Intervention program are proper.

## DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Developmental Services concurs with the audit finding and will evaluate, and if needed, strengthen the existing review procedures to ensure that no invoices are paid without the appropriate authorizing signatures of the subgrantee and the program liaison. The Prevention and Children Services Branch and the Accounting Section will work together to ensure that all required reviews are performed and evidenced by appropriate signatures. The assistant chiefs of the System Automation Section and the Community Program Section will be responsible to ensure that claims are not submitted for payment without appropriate review and signatures. In addition, the OAH has agreed to send, on a monthly basis, documentation that will support their monthly invoices. Since invoices from OAH are directly charged by the State Controller's Office against Developmental Services' appropriation, the monthly documentation supporting these charges will be reviewed in arrears. Any incorrect charges will be identified to OAH for correction on subsequent invoices. This procedure will assure Developmental Services that OAH charges are proper. OAH has also agreed to send Developmental Services the information for the entire fiscal year 1998-99 and the monthly information from July 1999 to the current month by February 2000.

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Reference Number:	99-2-2
Federal Catalog Number:	84.027
Federal Program Title:	Special Education—Grants to States
Federal Award Number and Calendar Year Awarded:	H027A980116; 1998
Category of Finding:	Allowable Costs and Cost Principles
State Administering Department:	Department of Education

## CRITERIA

In our review of the federal Special Education—Grants to States (Special Education) program administered by the Department of Education (Education), we determined that the following are among the compliance requirements related to allowable costs:

The U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Tribal Governments* (OMB Circular A-87), Attachment A, establishes the principles for determining allowable costs under grants with the federal government. Section (C) of this attachment states that for a cost to be allowable under a federal award, the goods or services involved must be chargeable or assignable to the cost objective. Additionally, Section (E) states that direct costs are identified specifically with a particular final cost objective. Further, Section (B) defines a cost objective as a function, organizational subdivision, contract, grant, or other activity requiring cost data or incurring costs. Examples of chargeable direct costs include compensation of employees' time, as well as expenses for materials, equipment, and travel incurred specifically to carry out the federal grant.

## CONDITION

Education charges costs to the Special Education program that are not specific to the federal grant. Specifically, in fiscal year 1998-99, Education charged the Special Education grant award approximately \$733,000 for costs incurred by its School Fiscal Services Division (formerly called Education Finance Division) when allocating state funds. When Education uses federal funds to pay the cost of allocating state funds, it does not ensure it complies with federal regulations for allowable costs.

We reported a similar finding in our audit of fiscal years 1996-97 and 1997-98. At that time, Education stated that to comply fully with the federal mandates governing the Special Education program, it must allocate both state and federal funds to local education agencies that implement the federal special education programs. Education stated that its Education Finance Division (now called School Fiscal Services Division) is responsible for allocating state funds and for providing technical assistance to local educational agencies on a wide range of fiscal matters pertaining to federal special education mandates.

However, the allocation of state funds is not an activity specifically identified with allowable program costs. Education's Special Education Division is responsible for allocating program funds, whereas its School Fiscal Services Division only allocates state funds to local educational agencies. Because the activities are distinct, and separate divisions perform them, the costs of allocating state funds are not specifically identified with the program. Consequently, they are not allowable direct costs.

## RECOMMENDATION

Education should obtain advance written approval or authorization from the U.S. Department of Education before using program funds for activities not specifically identified with the federal grant.

## DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

This finding relates to Education's use of federal grant funds to administer the federal Special Education program, including the disbursing of state funds and providing technical assistance and guidance to local agencies on fiscal matters relating to special education. These expenditures are appropriate charges to the federal Special Education grant. Special Education is a mandated federal program, one that the State is required to support because the program is not fully funded at the federal level. The disbursement of state funds is necessary to comply with the federal mandates underlying special education and, therefore, activities related to disbursement of state funds can be specifically identified as necessary to the State's performance of the federal Special Education program.

Consistent with the way Education charges all administrative costs associated with the federal Special Education program, Education appropriately charges to the administrative component of the federal grant the costs associated with disbursing state funds. The costs associated with administering the federal grant include those associated with disbursing federal local assistance funding, providing technical assistance and fiscal guidance, monitoring compliance, and resolving complaints. Education charges the cost of all administrative activities associated with the federal Special Education program to the federal program, regardless of where the activities physically take place or the source of funding.

Education believes that it is fully complying with the rules and regulations governing the Special Education program including charging the federal grant for the costs of allocating state funds in support of the federal program. Education does not believe that it is necessary to obtain advance approval from the U.S. Department of Education to continue this practice.

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Reference Number:	99-3-5
Category of Finding:	Cash Management, Subrecipient Monitoring
State Administering Department:	California Community Colleges, Chancellor's Office

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

## **CRITERIA**

In our review of federal programs, we identified the following requirements for cash management and subrecipient monitoring:

The Code of Federal Regulations, Title 34, Section 80.20(b)(7), requires the California Community Colleges, Chancellor's Office (Chancellor's Office) and its subrecipients to have procedures for minimizing the time between the receipt and disbursement of federal funds whenever subrecipients receive advance payments. Further, Section 74.51(a) makes the Chancellor's Office responsible for managing and monitoring subrecipient activities supported by federal program funds.

## **CONDITION**

The Chancellor's Office lacks adequate procedures to ensure subrecipients of the Vocational Education—Basic Grants to States (Vocational Education) and the Tech-Prep Education (Tech-Prep) programs minimize the time elapsing between the receipt and use of federal program funds. Additionally, it does not sufficiently monitor these subrecipients' use of the funds.

Using the expenditure information from the subrecipients' quarterly year-to-date expenditure and progress reports (expenditure reports), the Chancellor's Office compares the percentage of the grant award spent with the time that has elapsed. If it determines that spending appears reasonable, the Chancellor's Office authorizes further payments; otherwise, it may deny payment or contact the subrecipient to obtain an explanation of expenses. However, the written procedures the Chancellor's Office has for conducting the reviews do not specify or provide guidance on what percentage it considers reasonable. Moreover, the procedures do not compare the reported expenditures with the amounts advanced to determine if additional advances are warranted.

Our review of payments to subrecipients of the Vocational Education program and the reported expenditures found that 12 of the 29 subrecipients we reviewed maintained high ending cash balances ranging from \$5,200 to \$78,800 for one or more quarters. We considered balances high when they exceeded 10 percent of the subrecipients' award. Similarly, our review of the payments and expenditures reported by subrecipients of the Tech-Prep program found that 14 of the 17 subrecipients we reviewed had high ending cash balances ranging from \$11,400 to \$198,500 for one or more quarters.

According to the Chancellor's Office, because subrecipients experience delays in posting expenditures to their accounting records, they underreport the program funds spent during the interim quarters. The Chancellor's Office asserts that most subrecipients spend all the program funds they receive by the last quarter. However, for 5 of the 29 Vocational Education subrecipients and 5 of the 17 Tech-Prep subrecipients we reviewed, we could not confirm that they had spent all the funds advanced because the fourth quarter expenditure reports were missing from the files

the Chancellor's Office maintains. Furthermore, the Chancellor's Office is responsible for ensuring that subrecipients minimize the time between the subrecipients' receipt and use of federal funds throughout the year.

Additionally, the Chancellor's Office could not always demonstrate that it sufficiently monitored the subrecipients' use of the funds. The Chancellor's Office uses these same expenditure reports to monitor the Vocational Education and Tech-Prep subrecipients and completes a transmittal checklist (review document) to record its assessment. However, for 22 of the 29 Vocational Education and 7 of the 17 Tech-Prep subrecipients we reviewed, we could not confirm that the Chancellor's Office had assessed their use of the funds because its files were missing one or more of the required quarterly reports or review documents.

## **RECOMMENDATIONS**

The Chancellor's Office should ensure its subrecipients promptly post and report their actual expenditures of program funds. Additionally, the Chancellor's Office should ensure it receives and reviews all subrecipient expenditure reports. Further, it should ensure that it maintains the reports and review documents in its files. Finally, to minimize the time between the receipt and use of federal program funds, the Chancellor's Office should adjust its payments to more closely reflect the subrecipients' reported use of the federal program funds.

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

The Chancellor's Office agrees with the finding. The Chancellor's Office commented that it believed it had adequate procedures to ensure subrecipients minimize the time elapsing between their receipt and use these funds. Nonetheless, the Chancellor's Office states that it will alter its review process to ensure that it takes into account the amount of cash already advanced to subrecipients before it advances more funds instead of disbursing funds based on the amount of time that has elapsed. Additionally, the Chancellor's Office states that it will ensure it receives and reviews all subrecipient reports and maintains appropriate documentation in its files.

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

Federal Catalog Number:	84.048
Federal Program Title:	Vocational Education—Basic Grants to States
Federal Award Number and Calendar Year Awarded:	V048A980005; 1998

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Federal Catalog Number: 84.243  
Federal Program Title: Tech-Prep Education  
Federal Award Number and  
Calendar Year Awarded: V243A980076; 1998

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Reference Number: 99-5-2  
Federal Catalog Number: 84.126  
Federal Program Title: Rehabilitation Services—Vocational  
Rehabilitation Grants to States  
Federal Award Number and  
Calendar Year Awarded: H126A990005; 1998  
Category of Finding: Eligibility  
State Administering Department: Department of Rehabilitation

## **CRITERIA**

In our review of the Rehabilitation Services—Vocational Rehabilitation Grants to States program, we determined that the following were among the compliance requirements for eligibility:

The Code of Federal Regulations, Title 34, Section 361.41, requires that the State establish standards for promptly and equitably referring individuals for vocational rehabilitation services. In addition, the State must determine eligibility for services within 60 days of receiving an application, with certain exceptions.

## **CONDITION**

The Department of Rehabilitation (Rehabilitation) does not always determine applicant eligibility within the required 60 days. For 3 of the 40 case files we reviewed, Rehabilitation took 67 to 90 days to determine eligibility. For 2 additional cases, Rehabilitation did not maintain the documentation necessary to show whether it had met the timeline for determining eligibility. In 4 of the above cases, Rehabilitation's counselors did not follow its procedures for timely eligibility determination or complete the necessary forms to extend the eligibility determination period. For the remaining case, Rehabilitation did not document the date on which it received a student's application for program services submitted by a local school

district. Students can submit applications at their schools through a joint project administered by Rehabilitation and state and local education agencies to help special education students make the transition to vocational rehabilitation services. When Rehabilitation does not ensure that it determines an applicant's eligibility within the required 60 days, it cannot ensure that clients promptly receive the services they require.

## **RECOMMENDATIONS**

To make sure that applicants receive program services promptly, Rehabilitation should determine eligibility within the required time period. In addition, Rehabilitation should take the necessary steps to ensure that school districts promptly refer program applicants to it for processing.

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

Rehabilitation acknowledges it needs to continue its efforts to meet eligibility determination timelines and has taken steps to improve in this area through a collaborative effort with district administrators and rehabilitation supervisors. In fiscal year 1999-2000, Rehabilitation will take the following steps:

- In the next few months, all district administrators will be trained on the revised case recording requirements pertaining to eligibility determinations and will be directed to share these requirements with rehabilitation supervisors. District administrators will then train their staff at the district level and will include the required 60-day eligibility timeline and documentation requirements in their training. The training also will include the required information needed in order to accept an application for vocational rehabilitation services. The assistant deputy directors will require district administrators to report on the training conducted in each district.
- Rehabilitation supervisors are currently responsible for reviewing and approving all eligibility determinations and extensions. Rehabilitation supervisors will be directed to enhance their review of eligibility determinations and work collaboratively with their counselors to ensure that the regulations are followed appropriately and that proper case file documentation exists. District administrators and rehabilitation supervisors will be provided monthly management information system reports to assist them in monitoring compliance related to eligibility determinations.
- Rehabilitation contract administrators will be directed to work in collaboration with their school programs on procedures to promptly provide rehabilitation counselors with signed client applications. In addition, by July 2000, the contract administrators will be trained on contract monitoring that will emphasize their responsibility to ensure school programs promptly refer program applicants to Rehabilitation for processing.

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Reference Number:	99-7-1
Federal Catalog Number:	84.048
Federal Program Title:	Vocational Education—Basic Grants to States
Federal Award Number and Calendar Year Awarded:	V048A60005; 1996
Category of Finding:	Earmarking
State Administering Department:	Department of Education

## **CRITERIA**

In our review of the Vocational Education—Basic Grants to States program (Vocational Education), we determined that the following compliance requirements apply to earmarking:

The Code of Federal Regulations, Title 34, Section 403.180(b), requires the State to reserve and use at least 7 percent of its Vocational Education allotment for the Single Parents, Displaced Homemakers, and Single Pregnant Women programs. It also requires that not more than 8.5 percent of the allotment be reserved and used for state programs and state leadership activities.

## **CONDITION**

The Department of Education (Education) did not meet its earmarking requirements for the 1996 Vocational Education grant. It used only \$5 million, or 5 percent of the grant funds, rather than the required 7 percent minimum for services related to Single Parents, Displaced Homemakers, and Single Pregnant Women programs. Consequently, these program areas did not receive the funding they were entitled to. Additionally, Education used more than \$10 million, or 10 percent of the grant, for leadership activities, instead of limiting these expenditures to 8.5 percent of the fiscal year allotment. Education did not meet its earmarking requirements in part because of poorly designed procedures it used in previous years to account for program expenditures, including those of other state departments that administer portions of the grant. However, Education states that it has modified these procedures to make sure that it is currently meeting the earmarking requirements.

## RECOMMENDATION

Education should make sure that its internal control procedures are adequate to ensure compliance with the earmarking requirements.

## DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Beginning with the 1997 Vocational Education grant, Education's Accounting Office assigned separate project numbers for each earmarking requirement. Budgets are established and monitored for each project number to ensure compliance with the Vocational Education earmarking requirements.

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Reference Number:	99-9-4
Federal Catalog Number:	84.243
Federal Program Title:	Tech-Prep Education
Federal Award Number and Calendar Year Awarded:	V243A980076; 1998
Category of Finding:	Suspension and Debarment
State Administering Department:	California Community Colleges, Chancellor's Office

## CRITERIA

In our review of the Tech-Prep Education (Tech-Prep) program, we determined that the following compliance requirements relate to suspension and debarment:

The Code of Federal Regulations, Title 34, Section 80.35, requires the California Community Colleges, Chancellor's Office (Chancellor's Office) to ensure that it does not make subawards to any parties who are debarred, suspended, or otherwise excluded from participation in federal assistance programs. Additionally, the Code of Federal Regulations, Title 34, Section 85.510(b), requires the Chancellor's Office to obtain certifications from participating organizations regarding debarment, suspension, ineligibility, and voluntary exclusion.

## CONDITION

The Chancellor's Office did not require all participants in the Tech-Prep program to submit signed suspension and debarment certifications. Without adequate controls, the Chancellor's Office runs the risk of unknowingly allowing suspended or debarred parties to participate in the Tech-Prep program. We used an alternative procedure to determine that this did not occur during the period we reviewed.

## RECOMMENDATION

The Chancellor's Office should implement procedures to ensure that Tech-Prep participants submit the required suspension and debarment certifications before approving contracts for funding.

## DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

The Chancellor's Office agrees with the finding and states that it will require all future participants to submit suspension and debarment certifications when they apply for federal program funds.

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Reference Number:	99-13-1
Federal Catalog Number:	84.002
Federal Program Title:	Adult Education—State Grant Program
Federal Award Number and Calendar Year Awarded:	V002A98006; 1998
Category of Finding:	Subrecipient Monitoring
State Administering Department:	Department of Education

## CRITERIA

In our review of the Adult Education—State Grant Program (Adult Education Program), we identified the following compliance requirements related to subrecipient monitoring:

The Code of Federal Regulations, Title 34, Section 461.46, requires the Department of Education (Education) to evaluate the effectiveness of programs, services, and activities provided by at least 20 percent of the subrecipients each year, so that it

evaluates 80 percent of all subrecipients once during the four-year period of the state plan. These evaluations must consider factors such as the projected goals of the subrecipient; the planning and content of the programs, services, and activities; and the extent to which educationally disadvantaged adults are being served.

## **CONDITION**

Education did not adequately monitor subrecipients of the Adult Education Program. Education's records showed that during fiscal year 1998-99, it conducted evaluations of 17 percent of the subrecipients instead of the required 20 percent. In addition, our review of five monitoring files revealed that three lacked sufficient evidence to show that the reviews complied with federal requirements.

Similarly, in our fiscal year 1997-98 audit, we reported that Education conducted reviews and evaluations on only 18 percent of the subrecipients; furthermore, some of these reviews did not fully comply with federal requirements. At that time, Education stated that they were trying to reconstruct the compliance review files and develop a database to record the results of the reviews. Education also stated that the database would be used to record review information and that during fiscal year 1998-99, its staff would conduct reviews of 20 percent or more of its Adult Education Program subrecipients.

## **RECOMMENDATIONS**

Education should ensure it evaluates the required number of subrecipients. Further, it should make sure the evaluations comply fully with federal requirements.

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

In fiscal year 1998-99, Education's Adult Education Office scheduled visits to 20 percent of the Adult Education Program subrecipients. However, based on initial guidance from the U.S. Department of Education, which was later reversed, Education scheduled eight of the reviews to occur after June 30, 1999, in conjunction with on-site audits to be conducted by Education's Audits and Investigations Division. In the future, Education will conduct all reviews of the Adult Education Program subrecipients before June 30 of each fiscal year. It should be noted that during fiscal year 2000, Education has scheduled reviews of **all** Adult Education Program subrecipients to monitor compliance with major reporting and funding changes.

In July 1999, Education staff completed the development of a new monitoring document that includes items for verifying the accuracy of the services claimed by providers. In addition, the Compliance Review Form, completed by Education staff

during each program review, has been revised to provide a place for identifying the specific documents and records examined during each program review. The use of these two revised documents will ensure that monitoring files contain sufficient evidence to show that the reviews complied with federal requirements.

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Reference Number: 99-13-2  
Category of Finding: Subrecipient Monitoring  
State Administering Department: Department of Education

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

## **CRITERIA**

In our review of federal programs, we identified the following requirement related to subrecipient monitoring:

The U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 400(d), requires the State to monitor the activities of subrecipients to ensure they use federal grant money for authorized purposes in compliance with laws and regulations.

## **CONDITION**

The Department of Education (Education) did not adequately monitor subrecipients of the Special Education—Grants to States program or of the Special Education—Preschool Grants program during fiscal year 1998-99. Specifically, Education discontinued reviewing these programs during its Coordinated Compliance Review (CCR) site visits. The CCR site visits were a significant component of Education’s monitoring efforts and included a review of subrecipients’ compliance with federal laws and regulations.

Although Education continues to follow up on findings from previous years, verify self-review assessments submitted by subrecipients, and investigate complaints filed by parents and schools, because they cover only certain federal requirement, these activities cannot replace the CCR site visits. According to Education, it suspended on-site reviews because it was developing a new monitoring model that it plans to implement during the spring of fiscal year 1999-2000.

## **RECOMMENDATION**

Education should adequately monitor the activities of its subrecipients to ensure their compliance with federal laws and regulations.

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

In fiscal year 1998-99, while Education's Special Education Division did not participate in scheduled CCR on-site validation reviews, it continued to monitor the federal special education activities of subrecipients using a variety of methods.

- Education collected various types of information about compliance from all local educational agencies (LEAs) and Special Education Local Plan Areas (SELPA), such as local plans, CCR self-reviews, complaints, and key performance indicators.
- Education reviewed and analyzed the information submitted. Education required immediate corrective action on noncompliance issues and identified low performing LEAs for participation in focused monitoring in fiscal year 1999-2000. Education also provided training and technical assistance on an individual, regional, and statewide basis.

In fiscal year 1999-2000, Education implemented its new review process called focused monitoring. Focused monitoring includes four types of reviews:

- Facilitated reviews are conducted with LEAs whose results in key performance indicators (KPIs) are most frequently in the lowest 15 percent of all LEAs. Facilitated reviews are conducted over a three-year period of time and include a four-day leadership seminar, an Education-conducted verification of data and compliance, an in-depth self-study of compliance and student outcomes, and preparation and implementation of a quality assurance plan that corrects noncompliance and promotes effective student outcomes.
- Collaborative reviews contain the same elements as facilitated reviews and are conducted over a two-year period of time with LEAs whose KPI data is less frequently in the lowest 15 percent of all LEAs.
- Verification reviews are conducted on a randomly selected sample of the LEAs scheduled for CCR on-site validation reviews.
- Preferred practices reviews are conducted on LEAs selected for review based on KPI data and additional criteria for demonstrating effectiveness.

Education staff continuously review complaint and compliance trends. If an LEA has a large number of complaints and/or noncompliance findings, Education initiates a review of the LEA's policies and procedures and provides technical assistance and guidance to correct systemic areas of noncompliance.

## U.S. DEPARTMENT OF EDUCATION

Federal Catalog Number: 84.027  
Federal Program Title: Special Education—Grants to States  
Federal Award Number and  
Calendar Year Awarded: H027A980116; 1998

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Federal Catalog Number: 84.173  
Federal Program Title: Special Education—Preschool Grants  
Federal Award Number and  
Calendar Year Awarded: H173A980120; 1998

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Reference Number: 99-13-4  
Category of Finding: Subrecipient Monitoring  
State Administering Department: California Community Colleges, Chancellor's  
Office

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

### CRITERIA

In our review of federal programs, we determined that the following compliance requirements relate to subrecipient monitoring:

The U.S. Office of Management and Budget, Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133), Section 200, requires community colleges expending \$300,000 or more annually in federal awards to have an audit conducted in accordance with the provisions described in the circular. In addition, Section 400(d)(4) requires the California Community Colleges, Chancellor's Office (Chancellor's Office), to ensure the community colleges have met the audit requirements. Section 400(d)(5) of the circular requires the Chancellor's Office to issue a management decision on audit findings within six months of receiving audit reports and to make sure that subrecipients take appropriate and timely corrective action.

## CONDITION

The Chancellor's Office did not sufficiently monitor the audit reports of the State's 71 community college districts for fiscal year 1997-98. Although the Chancellor's Office received all but six of the audit reports by the end of January 1999, as of the end of July 1999 it had not reviewed the majority of them for compliance with OMB Circular A-133. In addition, it had not issued management decisions on any of the reported audit findings that affect federal program funds. As a result, the Chancellor's Office could not ensure that the audits of community colleges were conducted in accordance with OMB Circular A-133 and that the reported findings were appropriately and promptly corrected.

## RECOMMENDATIONS

The Chancellor's Office should implement procedures to ensure that audit reports comply with federal requirements, should promptly issue management decisions, and should ensure community colleges take appropriate and prompt corrective action to resolve audit findings.

## DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

The Chancellor's Office agrees with the finding and states that staff shortages and redirection of priorities for other key staff working on these audit findings have caused delays. However, it states that it has hired an additional staff person and expects the internal structure of the Chancellor's Office to stabilize to the point that it will be able to show more progress during the coming year.

### U.S. DEPARTMENT OF EDUCATION

Federal Catalog Number:	84.048
Federal Program Title:	Vocational Education—Basic Grants to States
Federal Award Number and Calendar Year Awarded:	V048A70005; 1997
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Federal Catalog Number:	84.243
Federal Program Title:	Tech-Prep Education
Federal Award Number and Calendar Year Awarded:	V243A70076; 1997

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Reference Number: 99-13-6

Federal Catalog Number: 84.181

Federal Program Title: Special Education—Grants for  
Infants and Families with Disabilities

Federal Award Number and  
Calendar Year Awarded: H181A970032; 1997

Category of Finding: Subrecipient Monitoring

State Administering Department: Department of Developmental Services

## CRITERIA

In our review of federal programs, we found the following compliance requirements related to subrecipient monitoring:

The Code of Federal Regulations, Title 34, Section 80.40, states that grantees are responsible for managing the day-to-day operations of activities supported by grants and subgrants. The section further states that grantees must monitor these activities to assure that they comply with applicable federal requirements and meet performance goals. In addition, subgrant agreements with nonprofit corporations and public agencies that operate family resource centers require that they obtain a fiscal audit of the contract in accordance with generally accepted audit guidelines. The U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133), Section 400(d)(4), requires grantees to ensure that subrecipients spending \$300,000 or more in federally awarded funds meet OMB Circular A-133 audit requirements. OMB Circular A-133 further requires that subrecipients initiate timely corrective action related to audit findings as well as that grantees issue decisions to subrecipients on the adequacy of their corrective actions within six months of the receipt of audit reports.

## CONDITION

The Department of Developmental Services (Developmental Services) has not developed and implemented procedures to adequately monitor the activities of subrecipients of the Special Education—Grants for Infants and Families with Disabilities program (Early Intervention). During fiscal year 1998-99, Developmental Services allocated Early Intervention funds totaling approximately \$1.4 million to 19 nonprofit corporations and public agencies that provide program services through family resource centers. However, Developmental Services did not ensure that these subrecipients received fiscal audits required by subgrant agreements, nor did it use

the audit reports it received to monitor them. By not ensuring that the required audits were performed, Developmental Services lost some assurance that these subrecipients have used Early Intervention funds in accordance with the program requirements.

In addition, Developmental Services does not ensure that subrecipients receiving more than \$300,000 in federal funds receive audits required by OMB Circular A-133. Although Developmental Services informs the subrecipients of the audit requirement, it does not follow up with them to determine whether their total federal program receipts exceed \$300,000. As a result, it does not know if all of the subrecipients that are required to obtain OMB Circular A-133 audits have done so.

Finally, Developmental Services does not issue management decisions to subrecipients regarding their resolution of OMB Circular A-133 audit findings. Developmental Services enters into agreements with 21 regional centers throughout the State to provide Early Intervention program services. These regional centers are subject to the OMB Circular A-133 audit requirements. Although all 21 regional centers comply with the audit requirements, Developmental Services does not issue management decisions to the regional centers advising them whether their corrective action plans adequately address audit findings. Only recently has Developmental Services began a timely review system to ascertain whether the centers have adjusted their practices to address any reported audit findings.

## **RECOMMENDATIONS**

Developmental Services should develop and implement procedures to ensure that subrecipients obtain required audits and submit the related reports. In addition, Developmental Services should issue decisions on the adequacy of corrective actions proposed by subrecipients to resolve audit findings and should require them to take timely corrective action on any identified deficiencies.

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

Developmental Services concurs with the audit finding that it should issue decisions on the adequacy of corrective action proposed by the regional centers and subrecipients to resolve audit findings. However, Developmental Services currently requires, through contract language, that the regional centers and subrecipients obtain required annual audits and related reports (including OMB Circular A-133 requirements), and take timely corrective action to strengthen any weaknesses or rectify any areas of concern and ensure that audit recommendations have been implemented on any identified deficiencies. Developmental Services' Audit Section does review the annual audits received from the regional centers and requests that corrective action plans be developed that address any identified deficiencies.

As background, Developmental Services' Audit Section developed procedures to perform fiscal audits of each regional center no less than every two years and complete follow-up reviews of each regional center in alternate years. The follow-up reviews are to include a review of the status of corrective action plans submitted by the regional centers on any identified deficiencies. Developmental Services has implemented the performance of fiscal audits in fiscal year 1998-99 and will be starting the follow-up reviews in March 2000.

To help guide the regional centers, Developmental Services will strengthen the existing procedures to include the issuance of written constructive management comments regarding the adequacy of corrective action plans proposed by the regional centers and subrecipients. Developmental Services will also strengthen existing procedures to ensure that the Prevention and Children Services Branch, in collaboration with the Audit Section, performs a review of the subrecipient family resource centers to ensure that OMB Circular A-133 requirements are met and audit recommendations have been implemented on any identified deficiencies. Developmental Services will ensure that the strengthened procedures will be operational by April 1, 2000.

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Reference Number:	99-13-11
Federal Catalog Number:	84.011
Federal Program Title:	Migrant Education Program—Basic State Grant Program
Federal Award Number and Calendar Year Awarded:	S011A980005; 1998
Category of Finding:	Subrecipient Monitoring, Special Tests and Provisions
State Administering Department:	Department of Education

## CRITERIA

In our review of the Migrant Education—Basic State Grant Program (Migrant Education), we determined that the following requirements relate to subrecipient monitoring and the comparability of school services:

The U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133), Section 400(d)(3), requires the State to monitor the activities of subrecipients to ensure compliance with laws and regulations. Further, Section 400(d)(1) of this

circular requires the State to provide subrecipients certain information needed to identify the federal grants they receive. The U.S. Code of Education, Title 20, Section 6322(c), requires local educational agencies (LEAs) that receive Migrant Education grant funds to provide school services that are at least comparable to services provided by schools not receiving these funds.

## **CONDITION**

The Department of Education (Education) did not sufficiently monitor LEAs to ensure they complied with the comparability requirement. Furthermore, Education did not identify the Catalog of Federal Domestic Assistance number for Migrant Education, which may hamper subrecipients' ability to prepare required financial schedules accurately. Although Education informed LEAs about the requirement to provide services that are at least comparable to schools not receiving Migrant Education and received assurances from LEAs that they would observe the comparability requirement, it did not perform sufficient monitoring to ensure their compliance with the requirement.

In its response to a 1998 federal report issued by the U.S. Department of Education (USDE) identifying a similar finding, Education stated it relied on annual audits of LEAs that local auditors perform to satisfy the comparability requirement. Furthermore, Education stated that it reviewed the work papers supporting the audit of four LEAs. However, federal representatives indicated that, based on information provided by Education on this issue, relying on such audits is not sufficient to verify that LEAs are in compliance.

## **RECOMMENDATIONS**

Education should provide its subrecipients with the Catalog of Federal Domestic Assistance number for Migrant Education and monitor its subrecipients to make sure they comply with the comparability requirement.

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

On February 2, 2000, Education received direction from the USDE on resolving the 1998 Integrated Review finding on comparability. Education will be working with the USDE to resolve this issue before USDE's Integrated Review scheduled for May 2000. Once the issue of comparability is resolved satisfactorily for Title 1, Part A, it will also be resolved for all Title 1 programs, including Migrant Education.

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Reference Number:	99-14-1
Federal Catalog Number:	84.032
Federal Program Title:	Federal Family Education Loan Program
Year Awarded:	State fiscal year 1998-99
Category of Finding:	Allowable Costs and Special Tests and Provisions
State Administering Department:	California Student Aid Commission

## CRITERIA

The Code of Federal Regulations, Title 34, Section 682.418(b), discusses the following types of costs that are not allowable under the Federal Family Education Loan program (loan program):

- Compensation for personnel services to employees, officers, directors, trustees, or agents of the guarantee agency, such as the California Student Aid Commission (Student Aid), that exceeds a reasonable amount. This section defines the maximum allowable amount for personnel compensation as 118.05 percent of \$152,000, or approximately \$179,500.
- Entertainment, including amusement, diversion, hospitality suites, and social activities.
- Public relations activities, other than those ordinary and necessary for the fulfillment of an agency's responsibilities. It further explains that the agency may provide light meals and refreshments of a reasonable nature and amount to participants of training workshops and conferences.
- Relocation expenses that do not benefit the loan program.
- Travel expenses that are not in accordance with a written policy approved by the federal government or a state policy.

## CONDITION

An auxiliary organization administers the loan program on behalf of Student Aid. We found that the auxiliary paid almost \$58,000 for questionable or unallowable costs of the loan program. We identified the following problems:

- Our review of 20 operating expenses identified that the auxiliary spent almost \$9,400 of loan program funds for excessive and unreasonable lodging and meal expenses, duplicate travel and meal reimbursements, and unauthorized out-of-state activities. For example, the auxiliary paid over \$3,700 for a continental breakfast for 120 people attending a conference in Chicago. Although the regulations allow reimbursement of meals and refreshments of a reasonable nature and amount, at \$31 per person, we question whether the amount paid for this continental breakfast was reasonable. In a second example, the auxiliary paid lodging expenses of \$375 per night for a hotel suite in Chicago when the maximum allowable federal rate for that city was \$120 per night. This occurred, in part, because the auxiliary had not developed a formal travel policy for employees and was not sufficiently reviewing travel expense claims before reimbursing employees. In July 1999, the internal audits unit of Student Aid began performing an extensive and detailed review of the auxiliary's travel expenses and plans to issue a report in February 2000. However, the auxiliary has already developed detailed travel guidelines that received federal approval in November 1999. In December 1999, the auxiliary held training classes to ensure its employees fully understand and follow the new travel guidelines.
- Our review of personnel service costs found that the auxiliary paid its former president and chief executive officer (CEO) relocation expenses of \$36,400 and the related tax liability of \$33,600. The auxiliary's board of directors (board) approved the CEO's relocation from the Sacramento area, where its headquarters are located, to Southern California. Additionally, it agreed to pay certain expenses, such as costs related to the sale of the CEO's existing home and the purchase of a new home. Although this move clearly benefited the CEO, whose wife had accepted a job in Southern California, we question whether it benefited the loan program and thus, whether the related relocation expenses were eligible for reimbursement. In addition, the related tax liability is not an actual expense of the loan program; and therefore, is not an authorized reimbursement. Furthermore, according to our legal counsel, the tax liability represents compensation for personnel services and should be included in salaries and wages. When the tax liability reimbursement is combined with the CEO's monthly salary, benefits, and bonuses, the auxiliary paid the CEO a total of \$191,600 during fiscal year 1998-99, or \$12,100 over the federally established limit.

## **RECOMMENDATIONS**

Student Aid's internal audit unit should complete its review of the auxiliary's travel expenses and take the necessary steps to recover the inappropriate expenses. Additionally, the auxiliary should ensure its employees follow the new travel policies and closely monitor travel expense claims. Finally, the auxiliary should reimburse the federal government for the unallowable costs and it should ensure its employees' personnel service benefits do not exceed federally established compensation limits.

## DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

### *Travel Expense Claims:*

Student Aid stated that the travel guidelines in effect during the audit period may not have been applied consistently by all auxiliary staff since those guidelines were not sufficiently documented and/or the staff was not fully trained on them. New detailed travel guidelines were approved by the U.S. Department of Education in November 1999 and in December 1999, extensive training was provided to all auxiliary staff on the new travel guidelines.

Student Aid commented that it is recognized that federal funds are used for the expenses for travel and all other loan program-related activities. Student Aid and the auxiliary are resolved to ensure full compliance with federal regulations, but do so with a focus on economy and efficiency as well. In this regard, expenditures for lodging and meal expenses will be documented for the reason and amount of expenditure, especially where more expensive lodging occurs in out-of-state locations. Where conferences are held and a negotiated rate obtained, that information will be referenced on the travel claim.

Further Student Aid stated that the \$3,700 spent for a continental breakfast and training for 120 individuals attending a conference appears expensive because of the conference location, the provision of the conference room and its meeting equipment, and the high cost of such meals at that hotel site. In light of these factors/expense elements, this cost should not be viewed as excessive. Other expenditures disclosed in the report involving meetings and meals may not have been for training purposes, but the importance of the subject matter and level of management attending required an offsite location to better conduct the business at hand.

Student Aid and the auxiliary are aware of the regulations pertaining to light meals when training activities are involved. Policies and procedures are being written to address these offsite meetings and their related costs. All future expenditures of this nature will be carefully scrutinized to ensure that these costs are eligible and reasonable.

Student Aid also stated that one of the cited expenditures that was deemed excessive and questioned was the charge for refueling rental cars. The new travel guidelines require that the user refuel the vehicle prior to turning in the vehicle to the rental car company. The new guidelines cover almost every factor for travel reimbursement. Accordingly, the guidelines will be reviewed periodically for necessary changes.

In addition, Student Aid noted that where duplicate charges were identified, these will be paid back by the claimant and the funds returned to the federal fund.

*Relocation Expenses:*

According to Student Aid, the approval of relocation expenses by the auxiliary's board was consistent with the auxiliary's existing relocation policy and, based on Student Aid's review of the documentation, appears to be a business decision made in good faith. However, it acknowledges that Student Aid or a different board of directors may have reached a different decision. As a result, it agrees that these expenses should be repaid. Additionally, it states that it agrees with our finding and recommendation related to the tax liability because it is not certain that the board approved this payment.

Student Aid also states that it was not consulted nor was it aware of the CEO's relocation until well after the fact. The decisions to move the CEO and to pay the related expenses without Student Aid involvement reflect a structural flaw that existed at the time. Recognizing this flaw, Student Aid took legal and procedural steps during the spring of 1999 to rectify the situation. Additionally, the auxiliary instituted a new set of bylaws and revised the structure of its board. The auxiliary is under new leadership and a new operating agreement was executed between Student Aid and the auxiliary.

*Internal Audit:*

Student Aid's internal audit unit will continue to oversee and ultimately exercise its responsibility for completing the current review of the auxiliary's travel expenses. When complete, this audit will disclose a representative sample of all auxiliary travel expenses incurred by the pertinent auxiliary units. Questionable items will have been fully researched and inappropriate expenses will be reimbursed to the federal fund.

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Reference Number:	99-14-2
Federal Catalog Number:	84.032
Federal Program Title:	Federal Family Education Loans
Year Awarded:	State fiscal year 1998-99
Category of Finding:	Special Tests and Provisions
State Administering Department:	California Student Aid Commission

## CRITERIA

Under the Code of Federal Regulations (code), Title 34, Section 682.409(a)(1), a guarantee agency must promptly assign to the U.S. Department of Education (USDE) any loan that meets all of the following criteria as of April 15 of each year:

- The unpaid principal balance is at least \$100.
- The agency has held the loan for five years.
- The agency has not received a loan payment in the last year.
- A judgment has not been entered on the loan against the borrower.

The USDE provided the following additional criteria in a June 22, 1998, letter:

- The loan has not been assigned to the Federal Offset Program or the Internal Revenue Service Tax Refund Offset Program.
- The loan is not currently involved in bankruptcy proceedings.
- The loan has not been discharged (or a determination is pending) in connection with closed school, ability-to-benefit, or false certification.

## CONDITION

The auxiliary, which administers the Federal Family Education Loans program (loan program) on behalf of the California Student Aid Commission (Student Aid), has not developed procedures to ensure it assigns all eligible loans to the USDE. Instead of reviewing all loans that are at least five years old and for which a payment has not been received in the last year, the auxiliary reviews only defaulted loans that have been forwarded through all the stages of its collection process. By limiting its review to just those loans, the auxiliary has no assurance that it has identified all loans eligible for assignment.

We reported a similar finding in fiscal year 1997-98. At that time, Student Aid and the auxiliary stated that the volume of accounts in the portfolio makes it impractical, if not impossible, to assign all eligible loans to the USDE. They further stated that they would request the USDE to approve the auxiliary's process when they next assigned loans to the USDE. However, instead of submitting a description of the process to the USDE for approval, the auxiliary merely asked the USDE to indicate that its planned schedule for assigning loans met the requirements of Title 34, Section 682.409, of the code. As yet, the USDE has not done so. Furthermore, because it has not described its process, we do not believe the auxiliary has provided the USDE with sufficient information to make an informed decision.

## RECOMMENDATION

The auxiliary should either develop a system to identify and assign all eligible loans to the USDE or work with the USDE to develop an acceptable alternative.

## DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Student Aid concurs with the finding. Based upon verbal agreement with USDE staff, the auxiliary has been processing a total of 5,000 assignment-eligible accounts each month for subrogation to USDE. Student Aid also stated that attempts to clarify USDE's position on this practice will be strengthened and will result in either a written agreement with USDE or a determination that both the auxiliary and USDE will be required to expand current systems to accommodate the potentially larger volume of accounts eligible for subrogation. According to Student Aid, efforts are underway to accomplish either result.

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Reference Number:	99-14-3
Federal Catalog Number:	84.032
Federal Program Title:	Federal Family Education Loans
Year Awarded:	State fiscal year 1998-99
Category of Finding:	Special Tests and Provisions
State Administering Department:	California Student Aid Commission

## CRITERIA

In accordance with the Code of Federal Regulations, Title 34, Section 682.404(a-c), the federal government reimburses guarantee agencies, such as the California Student Aid Commission (Student Aid), a percentage of losses for defaulted loans. The federal government bases this percentage, called the reinsurance rate, on the claims paid during the fiscal year and the reported loans in repayment at the end of the prior fiscal year. If the total claims paid on defaulted loans during the fiscal year reach 5 percent of loans in repayment, the federal government pays the guarantee agency a lower reinsurance rate. The reinsurance rate drops again when the total claims reach 9 percent of loans in repayment. Additionally, federal regulations require guarantee agencies to report complete and accurate data to the federal government so that a correct reinsurance rate can be calculated.

Further, in accordance with the Code of Federal Regulations, Title 34, Section 682.610(c)(2), unless a school expects to submit a Student Status Change Request form within 60 days, it shall report changes in student status to Student Aid or the lender within 30 days of discovering that a borrower has dropped to less than half-time enrollment, failed to enroll on at least a half-time basis, or ceased to be enrolled on a full-time basis.

## **CONDITION**

Student Aid's auxiliary organization administers the loan program. The information the auxiliary reports to the federal government for computing the reinsurance rate is not always accurate; thus, the auxiliary may not be receiving the correct amount of funds. We reviewed 40 loans to determine if the auxiliary's records properly reflect the loans' status and found three instances in which the records were inaccurate. In all three cases, the auxiliary incorrectly reported that the borrowers were enrolled. The errors occurred because the borrowers' schools failed to report changes in student status within the time required by federal regulations.

Enrollment status affects the number of loans in repayment that the auxiliary reports to the federal government. This number is used to calculate the reinsurance rate. If the auxiliary does not report accurate information, the federal government may not reimburse the auxiliary the proper amount for defaulted loans.

Although we identified similar errors during our audits for fiscal years 1995-96 through 1998-99, we noted a marked decrease in exceptions in our samples from 40 percent in fiscal year 1995-96 to 7.5 percent in fiscal year 1998-99.

## **RECOMMENDATIONS**

Student Aid and the auxiliary should continue to work with schools to ensure they promptly report changes in enrollment status so they can report accurate information to the federal government. Additionally, Student Aid and the auxiliary should continue to review the status of loans in their system to ensure that its records reflect accurate information.

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

Student Aid agrees that there were three instances where schools' enrollment status did not correspond to the auxiliary's records. Student Aid states that these differences did not result in incorrect loan statuses. However, it recognizes that undetected enrollment discrepancies can eventually have an effect on federal reporting if they result in an inaccurate loan status.

Student Aid states that, internally, the auxiliary monitors the accuracy of the enrollment status data by editing the National Student Loan Data System's enrollment data against its own records, and then, if warranted, updating the borrower's record.

Externally, enrollment status reporting is monitored as part of the audit procedures performed by the auxiliary's program oversight auditors. Part of this process is an assessment of the timeliness of school reporting. If the auxiliary ascertains that a school is not reporting in a timely manner, it addresses the matter directly. However, the auxiliary does not have absolute control of school processes. While the auxiliary may counsel, ultimately it is limited to reporting findings to school management with the expectation that the school will address the matter.

Additionally, Student Aid indicates that the auxiliary will conduct further analysis to determine why these and any future enrollment statuses in its records vary from the school's records. While the auxiliary will work with the other entities involved in the process with the intent of achieving overall improvement, its primary role will be to ensure the full accuracy of its database.

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

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Reference Number: 99-9-1  
Category of Finding: Suspension and Debarment  
State Administering Department: Department of Education

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

**CRITERIA**

In our review of federal programs, we determined that the Code of Federal Regulations, Title 45, Section 76.225, and Title 34, Section 80.35, prohibits the State from contracting with any party that is suspended, debarred, or otherwise ineligible to participate in federal assistance programs. In addition, Title 45, Section 76.510, and Title 34, Section 85.510, requires the State to obtain certifications from participating organizations indicating that they are not suspended, debarred, ineligible, or voluntarily excluded from transactions by any federal agency.

**CONDITION**

The Department of Education (Education) did not always have signed suspension and debarment certifications for participants of the Child Care Mandatory and Matching Funds of the Child Care and Development Fund program and the Child Care and Development Block Grant program (Child Care and Development Fund), and the Migrant Education—Basic State Grant program (Migrant Education).

Education did not have any other procedures in place to make sure it was not awarding federal money to suspended or debarred parties. Specifically, for the Child Care and Development Fund programs, Education did not have certifications for 2 subrecipients in our sample of 40. Additionally, it did not have certifications for 13 subrecipients in our sample of 14 for the Migrant Education program. According to a program consultant for Migrant Education, Education neglected to include the suspension and debarment certification in the fiscal year 1998-99 assurance package it sent to participants. Although we found no evidence that any of the participants were suspended or debarred from participating in the federal program, without adequate controls, Education runs the risk of having this happen.

## RECOMMENDATIONS

Education should require all participants to submit signed suspension and debarment certifications and make sure it receives them before disbursing program funds.

## DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

In November 1998, Education took immediate action to ensure that it received suspension and debarment certification from all subrecipients applying to participate in the federal Child Care and Development Fund programs. The two child care subrecipients identified in this finding for whom Education did not have suspension and debarment certifications provided their contract certifications for fiscal year 1998-99 in June and July 1998, prior to Education's corrective action. When these contracts were renewed in 1999, the suspension and debarment certifications were obtained. Beginning with fiscal year 1999-2000, Education requires that all migrant offices submit suspension and debarment certifications as part of their regional applications and school district service agreements.

### U.S. DEPARTMENT OF EDUCATION

Federal Catalog Number:	84.011
Federal Program Title:	Migrant Education—Basic State Grant Program
Federal Award Number and Calendar Year Awarded:	S011A980005; 1998

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

Federal Catalog Number:	93.575
Federal Program Title:	Child Care and Development Block Grant
Federal Award Number and Calendar Year Awarded:	1999 G996005; 1998

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Federal Catalog Number:	93.596
Federal Program Title:	Child Care Mandatory and Matching Funds of the Child Care Development Fund
Federal Award Numbers and Calendar Year Awarded:	1999 G999004, 1999 G999005; 1998

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

Reference Number: 99-2-3

Category of Finding: Allowable Costs and Cost Principles

State Administering Department: Department of Health Services

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

## **CRITERIA**

In our review of the HIV Care Formula Grants and the HIV Prevention Activities—Health Department Based programs (HIV programs), we identified the following requirements related to allowable costs and cost principles:

The U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Tribal Governments* (OMB Circular A-87), Attachment B, Section 11h, establishes the standards for time distributions that support salaries and wages. Section 11h(3) requires that, where employees are expected to work solely on a single federal award, charges for salaries be supported by periodic certifications that employees worked solely on that program. The certifications are to be prepared at least semiannually and signed by the employee or a supervisor with first-hand knowledge of the work performed.

## **CONDITION**

Although the Department of Health Services (Health Services) notified its branch managers of the documentation required to support the salaries charged to federal programs, its Office of AIDS did not obtain the required semiannual certifications from employees who worked 100 percent of their time on a single program. Although all eight employees we selected to review had not submitted signed certifications, they described their duties and assured us that they worked 100 percent of their time on just one of the HIV programs. However, without the required time certifications, Health Services cannot adequately support the salaries charged to the federal programs.

## **RECOMMENDATION**

Health Services should ensure that its Office of AIDS adheres to the principles and standards in OMB Circular A-87 for supporting salaries charged to federal awards.

## DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Health Services' Office of AIDS agrees with the finding. The Office of AIDS states it will work with the Health Services' accounting office to establish a semiannual federal time reporting certification process that will satisfy OMB Circular A-87 and departmental accounting requirements.

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

Federal Catalog Number: 93.917  
Federal Program Title: HIV Care Formula Grants  
Federal Award Numbers and  
Calendar Years Awarded: 5X07HA00041-08; 1998  
5X07HA00041-09; 1999

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Federal Catalog Number: 93.940  
Federal Program Title: HIV Prevention Activities—Health  
Department Based  
Federal Award Numbers and  
Calendar Years Awarded: U62/CCU902019-13; 1998  
U62/CCU902019-14; 1999

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Reference Number: 99-3-2  
Federal Catalog Number: 93.563  
Federal Program Title: Child Support Enforcement  
Federal Award Number and  
Calendar Year Awarded: G-98-04CA4004; 1997  
Category of Finding: Cash Management  
State Administering Department: Department of Social Services

### CRITERIA

In our review of the Child Support Enforcement program, we found the following compliance requirements related to cash management:

Section 9 of the Cash Management Improvement Act Agreement (CMIA agreement) between the State of California and the U.S. Department of the Treasury establishes the requirements and methods for calculating federal and state interest liabilities.

To fulfill the responsibilities assigned to it by the CMIA agreement, the Department of Finance (Finance) requires state departments to report quarterly information regarding the transfers of federal funds so that it can calculate interest charges. The CMIA agreement requires the State to calculate interest due the federal government when it requests and receives federal funds before program disbursements are due. Similarly, when the State incurs costs for federal programs before receiving federal reimbursements, the CMIA agreement allows it to calculate interest due from the federal government. Under the CMIA agreement, certain types of transactions are not included in interest calculations.

## **CONDITION**

During fiscal year 1998-99, the Department of Social Services (Social Services) reported no interest days for two transactions of \$10 million and approximately \$22 million. However, the numbers of days between the date Social Services used state funds to pay for federal program costs and the date it drew program funds to reimburse the two expenditures were 161 and 71, respectively. Because Social Services did not maintain adequate documentation, we could not determine whether it was appropriate not to charge the federal government interest. Without an adequate system to collect and retain information regarding how it reports interest days for the transfers of federal program funds, Social Services cannot ensure that it provides the necessary information to Finance to comply with the provisions of the CMIA agreement.

## **RECOMMENDATION**

Social Services should develop and implement the necessary procedures to ensure that it provides Finance with the information necessary to comply with the CMIA agreement.

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

Social Services concurs with the recommendation. Although Social Services has procedures in place to comply with Finance's CMIA reporting requirements, written details supporting the loan transactions referenced in this finding were not adequate. Social Services has instructed staff to provide clear internal documentation for deviations from the standard CMIA reporting practices. Our investigation of these transactions disclosed it was not appropriate to charge the federal government interest.

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Reference Number: 99-3-4  
Category of Finding: Cash Management, Subrecipient Monitoring  
State Administering Department: Department of Education

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

## **CRITERIA**

In our review of federal programs, we identified the following requirements for cash management and subrecipient monitoring:

The Code of Federal Regulations, Title 45, Section 92.21(c), states that the Department of Education (Education) and its subrecipients must follow procedures for minimizing the time between the transfer of funds from the U.S. Department of the Treasury and disbursement whenever advance payment procedures are used. Further, Section 92.20(b)(2) states that subrecipients must maintain records that adequately identify the source and application of funds provided for financially assisted activities. Finally, Section 92.40(a) requires Education to monitor supported activities for grants and subgrants to assure compliance with federal requirements.

## **CONDITION**

Education allowed subrecipients of Child Care Mandatory and Matching Funds of the Child Care Development Fund program and the Child Care and Development Block Grant program to accumulate large amounts of federal and state funds in reserve accounts. The reserve accounts include funds advanced to subrecipients, based on a predetermined rate, that are in excess of the actual cost of providing eligible child care services. We identified 30 subrecipients that received federal funding during fiscal year 1998-99 with high reserve account balances as of June 30, 1998. Nine of these reported amounts were over \$200,000 each. We consider reserve accounts high when they exceed \$20,000 and 10 percent of the maximum amount of federal funds a subrecipient could receive for the fiscal year. Because Education does not require subrecipients to identify the source of funds in their reserve accounts, we could not determine the amount of federal funds in these accounts.

Education stated that the Region 9 Office of the U.S. Department of Health and Human Services (HHS) verbally agreed with Education's implementation of the federal requirements for cash management and subrecipient monitoring regulations. However, HHS headquarters office stated that it believed Education was not complying with federal regulations.

## RECOMMENDATIONS

Education should implement controls to ensure that it limits cash advances to the amounts necessary to fulfill subrecipients' immediate needs. Additionally, it should promptly recover excess reserve account balances. Finally, Education should require its subrecipients to maintain sufficient records to adequately identify the source of federal funds.

## DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Chapter 1171, Statutes of 1994 (Assembly Bill 2981), enacted Education Code, Section 8450 to encourage child development contractors to develop and maintain a reserve account within their child development fund, derived from earned but unexpended child development funds. The funds must remain in the contractors' reserve accounts and may only be used for allowable child development expenditures. Shortly after the enactment of Chapter 1171, Education contacted the HHS Region 9 Office to discuss the legality of reserving federal funds. HHS staff determined that allowing child development contractors to reserve federal funds in accordance with state law did not violate federal law. Education was, therefore, under the belief that child development reserve accounts were not a violation of federal law.

In response to this year's audit finding, Education contacted the HHS central office to obtain their opinion on the legality of child development reserve accounts. HHS requested that Education submit a written formal request for a determination by HHS General Counsel. Education plans to submit such a request and will take appropriate action upon receipt of HHS' determination.

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

Federal Catalog Number:	93.575
Federal Program Title:	Child Care and Development Block Grant
Federal Award Number and Calendar Year Awarded:	1999 G996005; 1998

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Federal Catalog Number:	93.596
Federal Program Title:	Child Care Mandatory and Matching Funds of the Child Care Development Fund
Federal Award Numbers and Calendar Year Awarded:	1999 G999004, 1999 G999005; 1998

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Reference Number:	99-8-1
Federal Catalog Number:	93.674
Federal Program Title:	Independent Living
Federal Award Number and Calendar Year Awarded:	G-9701-CA-1420; 1996
Category of Finding:	Period of Availability
State Administering Department:	Department of Social Services

### **CRITERIA**

In our review of the Independent Living program, we found the following compliance requirements related to period of availability:

The United States Code, Title 42, Section 677(f)(3), states that payments made to a state in a fiscal year shall be expended by the State in the same fiscal year or in the succeeding fiscal year. Additionally, the award agreement for the 1997 Independent Living program (ILP) grant required that the Department of Social Services (Social Services) expend (obligate and liquidate) the grant by September 30, 1998.

### **CONDITION**

Social Services spent \$815,896 in federal ILP funds after the period of availability for the grant had ended. Although Social Services was required to spend the ILP funds by September 30, 1998, it used these funds on March 30, 1999, to pay a vendor. The U.S. Department of Health and Human Services permits Social Services to draw ILP funds after the period of availability to reimburse costs it paid during the period of availability. However, because Social Services did not pay these invoices prior to September 30, 1998, these costs were not allowable under the period-of-availability requirements.

### **RECOMMENDATIONS**

Social Services should implement control procedures to ensure that it meets the period-of-availability requirements. As part of these procedures, Social Services should require that its vendors submit invoices during the period of availability. In addition, Social Services should adjust its charges to the 1997 ILP grant to exclude the costs that were found to be unallowable.

## DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Social Services concurs with this recommendation. Social Services will reverse the federal draw of \$815,896.23 against the federal fiscal year 1997 ILP grant since the costs were reimbursed by Social Services in March 1999. No further corrective action is needed on the federal financial report. However, Social Services will be discussing the draw down procedures policy for the ILP grant with the federal government and make any necessary changes to their procedures accordingly.

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Reference Number: 99-9-2  
Category of Finding: Suspension and Debarment  
State Administering Department: Department of Health Services

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

### CRITERIA

In our review of the HIV Care Formula Grants and HIV Prevention Activities—Health Department Based programs (HIV programs), we identified the following compliance requirements related to suspension and debarment:

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

### CONDITION

The Department of Health Services (Health Services) did not require participants applying for or receiving HIV program subawards to submit signed suspension and debarment certifications, nor did it have other procedures to ensure it was not providing federal grant awards to suspended or debarred parties. Without adequate controls, Health Services runs the risk of unknowingly allowing suspended or debarred parties to participate in the federal HIV programs. For the transactions we reviewed, we used an alternative test procedure to determine that these participants were not suspended or debarred.

## RECOMMENDATION

Health Services should require all HIV program participants to submit signed suspension and debarment certifications before approving their participation in the program.

## DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Health Services' Office of AIDS agrees with the finding. The Office of AIDS states that it will work with Health Services' contract management unit to develop and implement a plan that will identify and require subrecipients of federal awards to submit signed suspension and debarment certifications.

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

Federal Catalog Number:	93.917
Federal Program Title:	HIV Care Formula Grants
Federal Award Numbers and Calendar Years Awarded:	5X07HA00041-08; 1998 5X07HA00041-09; 1999

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Federal Catalog Number:	93.940
Federal Program Title:	HIV Prevention Activities—Health Department Based
Federal Award Numbers and Calendar Years Awarded:	U62/CCU902019-13; 1998 U62/CCU902019-14; 1999

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Reference Number:	99-9-3
Federal Catalog Number:	93.767
Federal Program Title:	State Children's Insurance Program
Federal Award Number and Calendar Year Awarded:	05-9805CA5021; 1998
Category of Finding:	Suspension and Debarment
State Administering Department:	Managed Risk Medical Insurance Board

## **CRITERIA**

In our review of the State Children's Insurance Program (program), we determined the following are among the compliance requirements related to suspension and debarment:

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

## **CONDITION**

The Managed Risk Medical Insurance Board (board) did not require participating health plans or the contractor that performs many of the program's administrative functions, such as determining eligibility and collecting premiums, to submit the required suspension and debarment certifications. Additionally, the board did not have other methods of ensuring it was not providing federal grant awards to suspended or debarred parties. Without adequate controls, the board runs the risk of unknowingly allowing suspended or debarred parties to participate in the federal program. For the transactions we reviewed, we used an alternative testing procedure to determine that this did not occur.

## **RECOMMENDATION**

The board should require all program participants to submit signed suspension and debarment certifications before approving their participation in the program.

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

The board concurs with our finding and states that it has modified its current procedures and its contractual requirements for future contracts to obtain the required certifications.

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Reference Number:	99-10-1
Federal Catalog Number:	93.767
Federal Program Title:	State Children's Insurance Program
Federal Award Number and Calendar Year Awarded:	05-9805CA5021; 1998
Category of Finding:	Program Income
State Administering Department:	Managed Risk Medical Insurance Board

## **CRITERIA**

In our review of the State Children's Insurance Program (program), we determined the following are among the compliance requirements that apply to program income:

The Code of Federal Regulations, Title 45, Section 74.24, states that program income earned during the project period shall be deducted from total allowable costs to determine the net allowable costs. Further, Section 74.21(b) requires the State to maintain a financial system that provides accurate, current, and complete disclosure of the program's financial status, as well as effective controls to safeguard all program assets to ensure they are used solely for authorized purposes. Further, it requires the State to maintain records, supported by source documentation, to adequately identify program assets, outlays, income, and interest.

## **CONDITION**

The Managed Risk Medical Insurance Board (board) does not prepare an adequate reconciliation to ensure that it receives all program income it has earned. Specifically, the board does not have a complete record of its income from the program that it can reconcile to the cash received from the contractor that collects premiums from program participants.

According to the board, limitations in its contractor's system prevent a complete and accurate accounting and reconciliation of program income. However, the board states that the contractor is currently redesigning its financial system to allow the board to verify its income. Specifically, the board states that the redesign, which began in September 1999, will include the development of a premium accounting data file and will allow the board to verify program income. The board expects the contractor to complete the data file by October 2000.

## RECOMMENDATION

The board should require its contractor to proceed as rapidly as possible in creating the new data file so that the board can reconcile its program income with the amounts its contractor receives.

## DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

The board concurs with the finding and is working with its contractor to rectify the condition. The board states that it is also in the process of implementing an interim reconciliation process that includes monthly meetings between fiscal staff of the board and contractor to review and resolve program income issues.

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Reference Number:	99-12-4
Federal Catalog Number:	93.767
Federal Program Title:	State Children's Insurance Program
Federal Award Number and Calendar Year Awarded:	05-9805CA5021; 1998
Category of Finding:	Reporting
State Administering Department:	Managed Risk Medical Insurance Board

## CRITERIA

In our review of the State Children's Insurance Program (program), we determined the following are among the compliance requirements that apply to reporting:

The Code of Federal Regulations, Title 45, Section 74.21, requires the State to maintain a financial system that provides accurate, current, and complete disclosure of the program's financial status. This includes accounting for all program funds received and spent each fiscal year. Further, the State Administrative Manual, Section 20014, requires agencies receiving federal funds to reconcile their federal financial reports with their official accounting records.

## **CONDITION**

The Managed Risk Medical Insurance Board (board) needs to improve its procedures to prepare accurate federal financial reports for the program. Specifically, the board overstated local assistance expenditures by \$47,698 on its third-quarter statement of expenditures because it did not reconcile this statement to its accounting records. Such a reconciliation would have enabled the board to identify the error.

## **RECOMMENDATION**

The board should implement procedures to reconcile the amounts it reports on the quarterly financial reports with its accounting records before submitting the reports to the federal government.

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

The board concurs with our finding and states that it has begun to use the information from its accounting system to prepare the quarterly financial reports.

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Reference Number:	99-12-5
Category of Finding:	Reporting
State Administering Department:	Department of Social Services

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

## **CRITERIA**

In our review of federal programs, we found the following compliance requirements related to reporting:

The Code of Federal Regulations, Title 45, sections 92.20(a)(1)(2) and 74.21(b), requires the State to maintain accurate accounting records and to properly report the financial activities related to federal grants. In addition, the State Administrative Manual, Section 20014, requires agencies receiving federal funds to reconcile federal financial reports with the official accounting records.

## **CONDITION**

The Department of Social Services (Social Services) did not reconcile quarterly reports of federal cash transactions (PMS272 reports) for fiscal year 1998-99 to its accounting records. As a result, Social Services lacks assurance that the amounts it reported for cash draws and related expenditures are accurate. Social Services did not reconcile the PMS272 reports to its accounting records for the Temporary Assistance for Needy Families program during fiscal year 1998-99, and it prepared reconciliations for the Independent Living program an average of five and one-half months after it submitted the PMS272 reports to the federal government.

In addition, Social Services did not accurately report expenditures and cash on hand in its June 30, 1999, PMS272 report. Rather, it combined the two amounts and reported the total as expenditures. As a result, Social Services overstated its expenditures and reported its cash on hand as zero. For example, although the PMS272 report showed no cash on hand for all grants, detailed records in its allotment expenditure ledger showed that it had approximately \$56 million on hand for the 1998 and 1999 Child Support Enforcement program grants alone.

We reported a similar finding for our audits of fiscal years 1993-94 through 1997-98. Although Social Services suggested, and agreed to use, specific procedures to correct this finding after the last audit, it has not consistently done so.

## **RECOMMENDATIONS**

Social Services should fully implement its reconciliation process and ensure that it performs all reconciliations before completing its federal reports. In addition, Social Services should ensure that it correctly identifies disbursements and cash on hand in its reports of federal cash transactions.

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

Social Services concurs with both of these recommendations. Social Services recognizes the importance of timely reconciliations on a consistent basis. After reorganizing staff to better meet the demands and time frames of all federal reconciliations, we have also re-emphasized to staff the importance of the due dates of these reconciliations. Due dates are as follows: California State Accounting and Reporting System to the allotment expenditure ledger (reflecting federal draws) reconciliations are due 30 days following the end of the month, while federal financial report to accounting records are due 90 days following the submission of the final quarterly report (equates to six months following the end of the quarter). Additionally, Social Services will revise its procedures to appropriately account for any cash-on-hand to be reported on the quarterly PMS272 report and accordingly categorize federal draws, disbursements, and cash-on-hand required by this report. The Child Support Enforcement program example cited in the report finding, however, is not a typical representation of cash-on-hand for a federal program managed by

Social Services. The Child Support Enforcement program grant is unique in that the federal government requires child support enforcement payments, collectible from absent parents, to be collected by Social Services and used to offset the cost of the program. Authorizations to disburse these collections (cash) are not received through the PMS272 process and so Social Services did not include these collections on the PMS272 report. We will pursue this matter with the Federal Financial Management Office.

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

Federal Catalog Number: 93.558

Federal Program Title: Temporary Assistance for Needy Families

Federal Award Numbers and  
Calendar Years Awarded: G-9701CATANF; 1996  
G-9801CATANF; 1997  
G-9901CATANF; 1998

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Federal Catalog Number: 93.674

Federal Program Title: Independent Living

Federal Award Numbers and  
Calendar Years Awarded: G-9401CA1420; 1993  
G-9501CA1420; 1994  
G-9601CA1420; 1995  
G-9701CA1420; 1996  
G-9801CA1420; 1997  
G-9901CA1420; 1998

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Federal Catalog Number: 93.563

Federal Program Title: Child Support Enforcement

Federal Award Numbers and  
Calendar Years Awarded: G-9704CA4004; 1996  
G-9804CA4004; 1997  
G-9904CA4004; 1998

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Reference Number: 99-13-7

Category of Finding: Subrecipient Monitoring

State Administering Department: Department of Health Services

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

## **CRITERIA**

In our review of the HIV Care Formula Grants and the HIV Prevention Activities—Health Department Based programs (HIV programs), we identified the following requirements related to subrecipient monitoring:

The U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133), provides the audit requirements for recipients of federal funds. Sections 200 and 320 require subrecipients spending \$300,000 or more annually in federal awards to submit audit reports to the State when the reports address findings related to the federal awards that the State administers. For subrecipients whose fiscal years began before July 1, 1998, the audit reports are due within 13 months following the end of the audit period; otherwise, the audit reports are due within 9 months following the end of the audit period. Further, Section 400(d) requires the State to ensure the subrecipients meet the audit requirements and issue management decisions on audit findings within 6 months of receiving audit reports and make sure subrecipients take appropriate and timely corrective action.

## **CONDITION**

The Department of Health Services' (Health Services) Office of AIDS does not adequately identify and track subrecipient audit reports. According to its log, the Office of AIDS did not receive audit reports from 4 of 25 nonprofit subrecipients of the HIV Care Formula Grants program. However, because it did not have a process to identify nonprofit subrecipients that spent \$300,000 or more in federal awards during fiscal year 1997-98, it cannot be sure that audits were even required. For the HIV Prevention Activities—Health Department Based program, the Office of AIDS had no system to track the required audit reports.

Without an effective system to track the required reports, Health Services cannot assure that its nonprofit subrecipients are meeting audit requirements, spending HIV program funds in compliance with applicable federal laws and regulations, and taking prompt and appropriate action to address audit findings.

## RECOMMENDATIONS

Health Services should implement procedures to identify HIV program subrecipients required to submit audit reports and ensure it complies with the monitoring requirements set forth in OMB Circular A-133.

## DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Health Services' Office of AIDS agrees with the finding. The Office of AIDS states that it has implemented a limited identification and tracking process in some of its programs but will expand the process to include all federally funded programs. The Office of AIDS also states that it will work with Health Services' contract management unit and internal audits office to identify the specific federal requirements and to develop a plan for complying with this finding.

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

Federal Catalog Number:	93.917
Federal Program Title:	HIV Care Formula Grants
Federal Award Numbers and Calendar Years Awarded:	BRX070041-97; 1997 5X07HA00041-08; 1998
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Federal Catalog Number:	93.940
Federal Program Title:	HIV Prevention Activities—Health Department Based
Federal Award Numbers and Calendar Years Awarded:	U62/CCU902019-12; 1997 U62/CCU902019-13; 1998

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Reference Number:	99-13-9
Federal Catalog Number:	93.674
Federal Program Title:	Independent Living
Federal Award Number and Calendar Year Awarded:	G-9801CA1420; 1997
Category of Finding:	Subrecipient Monitoring and Reporting
State Administering Department:	Department of Social Services

## **CRITERIA**

In our review of the Independent Living program (ILP), we found the following compliance requirements related to subrecipient monitoring and reporting:

The U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 400(d)(3), requires that grantees 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 met.

The United States Code, Title 42, Section 677(g), requires the State to submit an annual report of the programs carried out during the fiscal year. The report must include an accurate description of the activities of the programs, provide a complete record of the purposes for which funds were spent, and indicate the extent to which the funds spent achieved program purposes as described by the code section. It must also include a detailed statistical description of the number of individuals served and their characteristics, the results achieved, and recommendations for program modifications.

## **CONDITION**

The Department of Social Services (Social Services) has not developed and implemented a strategy to effectively monitor or report the activities of subrecipients of the federal ILP. Social Services provides ILP funds to county welfare departments to administer ILP activities, but it does not have an adequate means of ensuring that the counties use those funds for authorized purposes and in accordance with program requirements.

Although Social Services performs desk audits of quarterly county expenditure claims, these claims are summaries and do not provide evidence that the counties have used the ILP funds for allowable program activities and costs. Social Services also performs on-site reviews of the counties' plans for helping youths make the transition from foster care to independent living, with each county being reviewed every four years. These on-site reviews, however, also do not provide adequate assurance that counties are using program funds in accordance with ILP requirements. Further, although all counties receive annual financial and program compliance audits, as required by federal regulations, our examination of the audit reports for the 10 counties with the largest ILP subgrants found that ILP activities were not selected for review during any of those 10 audits. As a result, for fiscal year 1998-99, the independent audits of the counties did not provide assurance that they were complying with ILP requirements.

Finally, Social Services relies on counties' annual performance reports to provide evidence of their use of ILP funds. However, Social Services does not ensure that all counties provide these reports. Of the 56 counties that expended ILP funds, 7 did not submit a report for state fiscal year 1998-99. In addition, some of the annual performance reports that the counties submitted did not contain the required accurate description of program activities and services provided or the extent to which ILP funds helped youths make the transition to independent living. We reviewed annual reports for 13 counties and found that 2 counties did not include descriptions of their program activities. Further, none of the annual reports we reviewed indicated how counties had spent ILP funds.

Part of the reason that counties do not submit the required information is because Social Services does not effectively communicate the reporting requirements. In its County Fiscal Letter dated August 22, 1997, Social Services instructed counties to provide a description of program activities and statistical information relating to program youths. However, the letter did not instruct counties to include a statement regarding the extent to which ILP funds assisted youths in making the transition from foster care to independent living, and it also did not instruct them to provide a complete record of the purposes for which the funds were spent.

Because Social Services relies on information from the counties in preparing its annual statewide program performance report to the federal government, and because the information from the counties was incomplete, the report for federal fiscal year 1998 did not meet federal reporting requirements: It did not provide a complete list of the purposes for which funds were spent, nor did it provide a complete description of program activities or a statement regarding the extent to which the funds assisted youths in making the transition to independent living.

## **RECOMMENDATIONS**

Social Services should develop and implement an effective program monitoring strategy that provides assurance that counties use ILP funds in accordance with program requirements. Further, Social Services should require that the counties

report to Social Services on all required topics, and it should ensure that its program performance report includes all federally required information.

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

Social Services concurs and has already taken steps to address this recommendation. On December 13, 1999, Social Services issued ALL-County Letter 99-105 to provide information to counties regarding the completion and submission of the newly revised ILP Annual Narrative Report (annual report) for state fiscal year 1998-99. The annual report was revised to assist the counties in thoroughly reporting ILP activities and services in response to federal requirements. It will also serve as a monitoring tool to assure statewide compliance with all federal ILP reporting requirements.

The revised ILP annual report requires counties to provide an in-depth description of program activities, services, and characteristics. Counties must now report outreach activities to reach more youths including emancipated youths up to 21, program policies, transitional housing services available, and collaborative efforts with other agencies. Social Services has asked that the information provided is quantifiable data per federal mandates using the statistical report form, SOC 405A, sent out by the Data Operations Branch. Lastly, Social Services has implemented a budget component requiring counties to account for ILP expenditures in specific programmatic and administrative areas. Based on the ILP budget report, program staff will review county ILP expenditures quarterly to assure ILP funds are expended in accordance with program requirements. Social Services will follow up with counties who do not submit an ILP annual report to ensure reporting by all counties.

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Reference Number:	99-14-5
Federal Catalog Number:	93.563
Federal Program Title:	Child Support Enforcement
Federal Award Number and Calendar Year Awarded:	G-98-04-CA-4004; 1997
Category of Finding:	Special Tests and Provisions
State Administering Department:	Department of Social Services

## **CRITERIA**

In our review of the Child Support Enforcement program, we determined that the following were among the compliance requirements related to special tests and provisions:

The Code of Federal Regulations, Title 45, Section 303.7, requires that the Department of Social Services (Social Services) establish an interstate central registry for receiving, distributing, and responding to inquiries on all incoming cases involving interstate child support enforcement. The section also requires Social Services to establish and use procedures for managing its interstate child support caseload to ensure the provision of necessary services, as well as to periodically review the effectiveness of the central registry's handling of child support enforcement cases received from other states. In addition, the section requires the central registry to perform certain actions on such cases within 10 working days of receipt of the cases from other states.

## **CONDITION**

Social Services does not always require corrective action to ensure that the central registry processes newly received interstate child support enforcement cases within the required 10-day time frame. The Department of Justice (Justice) performs central registry duties on behalf of Social Services. The Child Support Program Assistance Bureau (CSPAB) at Social Services performs annual reviews of Justice's administration of the central registry. However, for its review of the period May 1997 through April 1998, CSPAB did not require that Justice take corrective action when it found that Justice's method of tracking interstate child support enforcement cases did not ensure that cases were processed within 10 days. CSPAB stated, in its October 1998 report to Justice, "Although the California Central Registry (Justice) is in compliance with the ten day requirement, it was apparent during our review of the entire review period that there are problems associated with timeliness. The California Central Registry tracks timeliness on a monthly basis rather than on a case-by-case basis. By not tracking cases to ensure that they meet the ten-day requirement, there are times during a month when cases are out of compliance."

CSPAB concluded that Justice was in compliance with program requirements for the review period because Justice had processed 93 percent of 275 interstate cases sampled from the period January 1998 through April 1998 within the 10-day limit. However, two other samples studied by CSPAB—one 175-case sample from the period May 1997 through April 1998 and another 217-case sample from the period May 1998 through July 1998—showed that Justice was within the 10-day limit in only 49 percent and 52 percent of the cases, respectively. Despite this evidence, CSPAB did not require Justice to correct its method of monitoring compliance with federal time requirements.

In a subsequent review of the period May 1998 through April 1999, CSPAB found that Justice was significantly out of compliance, meeting the 10-working day requirement only 22 percent of the time. CSPAB found that Justice did not manage its caseload in such a way as to track compliance with the 10-day requirement. As a result of this review, on December 21, 1999, CSPAB informed Justice that its finding of noncompliance required immediate corrective action and the submittal of a corrective action plan outlining the action to be taken and the time frame for completion.

## **RECOMMENDATION**

Social Services should ensure that it consistently requires prompt corrective action of weaknesses it identifies through reviews of program services provided by other agencies.

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

Social Services concurs with the recommendation. The CSPAB did not require Justice to take specific action to establish a tracking system to ensure compliance within the 10-day time frame, as a result of our review of cases processed by Justice during the fiscal year 1997-98 review period. However, as acknowledged in the Bureau of State Audits' finding, in a subsequent review of the fiscal year 1998-99 period, Justice was found significantly out of compliance and, as result, must take corrective action. The specific issue of the establishment of an appropriate tracking system was addressed and Social Services is insisting that Justice include this control in its corrective action plan. The new Department of Child Support Services will follow up to verify completion of this corrective action.

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Reference Number:	99-14-7
Federal Catalog Number:	93.778
Federal Program Title:	Medical Assistance Program
Federal Award Numbers and Calendar Years Awarded:	05-9805CA5048; 1998 05-9905CA5048; 1999
Category of Finding:	Special Tests and Provisions
State Administering Department:	Department of Health Services

## **CRITERIA**

In our review of the Medical Assistance Program (Medicaid), we identified the following compliance requirements related to the providers of medical services:

The Code of Federal Regulations, Title 42, Section 447.10, requires that the payments for Medicaid claims be made only to authorized providers. Also, Section 431.107 requires the State to provide for an agreement between the state agency administering the Medicaid program and each provider furnishing services. The provider must agree to disclose certain information, such as any significant ownership or controlling interest it has in any entity that is paid Medicaid funds, as outlined in sections 455.103 through 455.106. Further, Section 455.104 requires providers to update their disclosures when their facilities are surveyed or agreements are renewed.

## **CONDITION**

The Department of Health Services (Health Services) does not have adequate controls over Medicaid provider agreements and disclosures. Specifically, for 2 of the 30 provider files we reviewed, Health Services did not have the agreements that contain the required disclosures. According to its officials, the agreements could not be located and are assumed to be missing. As a result, we were unable to ascertain that Health Services had obtained the required agreements and disclosures for these 2 providers before paying their Medicaid claims.

Additionally, although we found no specific schedule for renewing these agreements, our review of the 28 agreements on file revealed that Health Services could improve its procedures by periodically renewing the agreements. Specifically, 20 of the agreements we reviewed were more than 5 years old; 10 were more than 10 years old. Consequently, Health Services is relying on potentially outdated provider information.

## **RECOMMENDATIONS**

Health Services should ensure that it retains the required agreements for all Medicaid providers. Furthermore, Health Services should periodically renew agreements so that the disclosures and other pertinent provider information are reasonably current.

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

Health Services agrees with our finding. Health Services states that it plans to resolve this issue by updating the provider files and ensuring that all agreements are on file. Health Services will require the providers to resubmit agreements when it identifies that an agreement is missing.

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Reference Number:	99-14-8
Federal Catalog Number:	93.778
Federal Program Title:	Medical Assistance Program
Federal Award Numbers and Calendar Years Awarded:	05-9805CA5048; 1998 05-9905CA5048; 1999
Category of Finding:	Special Tests and Provisions
State Administering Department:	Department of Health Services

## **CRITERIA**

In our review of the Medical Assistance Program (Medicaid), we identified the following compliance requirements related to suspected cases of fraud:

The Code of Federal Regulations, Title 42, Section 455.13, requires the state agency administering the Medicaid program to establish methods to identify and investigate suspected fraud. Section 455.14 clarifies that the agency must conduct a preliminary investigation to determine whether there is sufficient basis to warrant a full investigation. Further Section 455.15 states that if the preliminary investigation gives the agency reason to believe that an incident of fraud or abuse has occurred, it must refer the case to the State's Medicaid fraud control unit.

## **CONDITION**

The Department of Health Services (Health Services), which administers the Medicaid program, does not have adequate controls to ensure that potentially fraudulent activities are properly referred to the State's Medicaid fraud control unit, which is under the Department of Justice (Justice). Specifically, Health Services did not perform a preliminary investigation for the five cases we reviewed before it referred them to Justice, nor did it adequately monitor the cases it referred. Justice could only confirm receiving three of those five cases. Moreover, we selected five additional cases to trace from Justice's database to Health Services' list of referrals, but could only locate one of them.

Because Health Services did not perform adequate preliminary investigations of the suspected fraud cases, it cannot be certain that a referral and full investigation of each case was necessary. Furthermore, because it did not adequately monitor the suspected fraud cases it referred to Justice, it cannot assure that Justice ever

investigated potentially fraudulent activity for possible prosecution or recovery of state and federal medical assistance funds. Consequently, fraudulent activities may not be fully addressed and could still be ongoing.

## **RECOMMENDATIONS**

Health Services should perform preliminary investigations to distinguish between those cases involving fraudulent activity and those involving misinterpretation of policy. Further, Health Services should reconcile its fraud referral records to Justice's records to identify missing referrals. Finally, Health Services should monitor its referrals to ensure that suspected fraudulent activity is fully investigated and resolved.

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

Health Services concurs with our finding and states that it has met with Justice to establish guidelines and clarify the responsibilities for investigating cases. Additionally, Health Services plans to work with Justice to ensure Justice actually receives its referrals. Health Services also states that it has developed and implemented an improved process for monitoring potentially fraudulent activities.

## **CORPORATION FOR NATIONAL AND COMMUNITY SERVICE**

Reference Number: 99-13-8  
Federal Catalog Number: 94.006  
Federal Program Title: AmeriCorps  
Federal Award Number and  
Calendar Year Awarded: 94ASCCA005Y5-CO6; 1998  
Category of Finding: Subrecipient Monitoring and Reporting  
State Administering Department: California Conservation Corps

### **CRITERIA**

The following are among the compliance requirements related to subrecipient monitoring and reporting for the AmeriCorps program:

The Code of Federal Regulations, Title 45, Section 2541.400(a), requires grantees of the AmeriCorps program to monitor grant- and subgrant-supported activities for compliance with applicable federal requirements. Section 2541.410(b)(4) states that financial status reports are due 30 days after the reporting period, when reports are required on a quarterly or semiannual basis.

Section 1401 of the Fiscal Manual for the California Commission on Improving Life Through Service (commission) specifies that programs may submit claims for reimbursement of costs no more than once a month or no less than quarterly. Additionally, the agreement the California Conservation Corps (Conservation Corps) has with its service districts and AmeriCorps subgrantees (subgrantees) requires them to submit their invoices and required attachments no later than the 20<sup>th</sup> day of the month following the month in which the expenses were incurred.

### **CONDITION**

The Conservation Corps, a state grantee of the commission, administers the Cadre of Corps program, an element of the AmeriCorps program, through agreements with its service districts and subgrantees. These service districts and subgrantees submit invoices to the Conservation Corps for reimbursement of program and administrative costs. The Conservation Corps aggregates these expenses along with its own costs and submits monthly invoices to the commission.

The Conservation Corps reviews these invoices to ensure that all costs claimed are allowable and are in compliance with applicable federal requirements. This review is an important tool for monitoring the activities of service districts and subgrantees. However, we found that two of the three service districts, and all four of the subgrantees, submitted invoices up to seven months late. As a result, the Conservation Corps was unable to adequately monitor their fiscal activities. The untimely receipt of these underlying invoices also delayed the Conservation Corps' submission of aggregate invoices to the commission and its financial status report to the Corporation for National and Community Service.

## **RECOMMENDATIONS**

The Conservation Corps should ensure that its service districts and subgrantees submit monthly invoices in a timely fashion and abide by the terms and conditions of their AmeriCorps agreements. Further, the Conservation Corps should submit timely aggregate invoices to the commission and should ensure that it obtains all required financial information to completely and accurately report on AmeriCorps grant activities in a timely manner.

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

The Conservation Corps is working with service districts and subgrantees to streamline its process to ensure that invoices are submitted on a timely basis. To further strengthen its monitoring of subrecipients, it is also implementing a plan to conduct a minimum of two visits per site each year, which will include a fiscal review for compliance. Since August 1999, it has held three training sessions and conducted technical support visits at three of its service districts and subgrantees. The Conservation Corps planned to begin fiscal reviews in February 2000.

## **AUDITEE'S SECTION**

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## **Schedule of Federal Assistance**

**Prepared by  
Department of Finance**



**STATE OF CALIFORNIA  
SCHEDULE OF FEDERAL ASSISTANCE  
FISCAL YEAR ENDED JUNE 30, 1999**

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
<b>Department of Agriculture:</b>		
Agriculture Conservation Program	10.063	\$ 23,563
Forestry Incentives Program	10.064	6,000
Food Distribution	10.550	81,185,415 *
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	698,700,122
Child and Adult Care Food Program	10.558	178,912,640
State Administrative Expenses for Child Nutrition	10.560	14,712,621
Nutrition Education and Training Program	10.564	132,916
Commodity Supplemental Food Program	10.565	1,634,668
Nutrition Program for the Elderly	10.570	11,761,668
WIC Farmers' Market Nutrition Program (FMNP)	10.572	454,299
Team Nutrition Grants	10.574	67,724
Forestry Research	10.652	4,924
Cooperative Forestry Assistance	10.664	1,794,791
Schools and Roads—Grants to States	10.665	30,533,385
National Forest-Dependent Rural Communities	10.670	995,632
Resource Conservation and Development	10.901	36,079
Other—U.S. Department of Agriculture	10.999	3,376,878
<b>Food Stamp Cluster:</b>		
Food Stamps	10.551	1,681,649,698 *
State Administrative Matching Grants for Food Stamp Program	10.561	214,377,163
<b>Subtotal</b>		<b>1,896,026,861</b>
<b>Child Nutrition Cluster:</b>		
School Breakfast Program	10.553	178,627,586
National School Lunch Program	10.555	670,686,013

<b>Federal Agency/Program Title</b>	<b>Federal Catalog Number</b>	<b>Grant Amount Received</b>
Special Milk Program for Children	10.556	797,766
Summer Food Service Program for Children	10.559	18,261,424
<b>Subtotal</b>		868,372,789
<b>Emergency Food Assistance Cluster:</b>		
Emergency Food Assistance Program	10.568	33,521,290 *
<b>Department of Commerce:</b>		
Economic Development—Support for Planning Organizations	11.302	100,000
Special Economic Development and Adjustment Assistance Program—Sudden and Severe Economic Dislocation and Long-Term Economic Deterioration	11.307	854,996
Special Economic Development and Adjustment Assistance Program—Sudden and Severe Economic Dislocation	11.311	2,571,160 **
Anadromous Fish Conservation Act Program	11.405	284,410
Interjurisdictional Fisheries Act of 1986	11.407	144,524
Coastal Zone Management Administration Awards	11.419	2,757,500
Coastal Zone Management Estuarine Research Reserves	11.420	131,960
Marine Sanctuary Program	11.429	86,881
Habitat Conservation	11.463	2,319
Telecommunications and Information Infrastructure Assistance Program	11.552	106,441
Other—U.S. Department of Commerce	11.999	19,688
<b>Department of Defense:</b>		
Navigation Projects	12.107	43,153
Planning Assistance to States	12.110	486,595
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113	11,723,849
National Guard Military Operations and Maintenance (O&M) Projects	12.401	24,667,915
Community Economic Adjustment Planning Assistance	12.607	24,240
Other—U.S. Department of Defense	12.999	5,756,300

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
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**Department of Housing and Urban Development:**

Community Development Block Grants/Special Purpose Grants/Technical Assistance Program	14.227	21,400
Community Development Block Grants/State's Program	14.228	42,237,117
Emergency Shelter Grants Program	14.231	4,365,357
Supportive Housing Program	14.235	5,973,121 **
Supplemental Assistance for Facilities to Assist the Homeless	14.236	194,152
Home Investment Partnerships Program	14.239	65,613,193 **
Housing Opportunities for Persons with AIDS	14.241	2,449,529
Equal Opportunity in Housing	14.400	1,731,105
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	2,867,149
Other—U.S. Department of Housing and Urban Development	14.999	19,817

**Section 8 Project-Based Cluster:**

Lower Income Housing Assistance Program—Section 8 Moderate Rehabilitation	14.856	186,962
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**Section 8 Tenant-Based Cluster:**

Section 8 Rental Voucher Program	14.855	751,639
Section 8 Rental Certificate Program	14.857	1,838,808

**Subtotal** 2,590,447

**Department of the Interior:**

Small Reclamation Projects	15.503	323,005
Anadromous Fish Conservation	15.600	444,392
Environmental Contaminants	15.607	92,842
Endangered Species Conservation	15.612	503,142
Cooperative Endangered Species Conservation Fund	15.615	110,429
Wildlife Conservation and Appreciation	15.617	119,736

<b>Federal Agency/Program Title</b>	<b>Federal Catalog Number</b>	<b>Grant Amount Received</b>
Administrative Grants for Federal Aid in Sport Fish and Wildlife Restoration	15.618	221,602
Geological Survey-Research and Data Acquisition	15.808	136,054
Historic Preservation Fund Grants-In-Aid	15.904	1,687,601
Outdoor Recreation—Acquisition, Development and Planning	15.916	428,166
Research Information	15.975	381,245
Other—U.S. Department of the Interior	15.999	23,369,090
<b>Fish and Wildlife Cluster:</b>		
Sport Fish Restoration	15.605	8,816,086
Wildlife Restoration	15.611	5,703,444
<b>Subtotal</b>		<b>14,519,530</b>
<b>Department of Justice:</b>		
Juvenile Justice and Delinquency Prevention—Allocation to States	16.540	7,648,804
Juvenile Justice and Delinquency Prevention—Special Emphasis	16.541	2,102,609
Part E—State Challenge Activities	16.549	1,384,434
National Criminal History Improvement Program (NCHIP)	16.554	1,477,653
Justice Research, Development, and Evaluation Project Grants	16.560	1,017,465
Criminal Justice Discretionary Grant Program	16.574	4,002,204
Crime Victim Assistance	16.575	26,319,664
Crime Victim Compensation	16.576	31,381,000
Byrne Formula Grant Program	16.579	49,493,461***
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	336,431
Violent Offender Incarceration and Truth in Sentencing Incentive Grants	16.586	10,272,079
Violence Against Women Formula Grants	16.588	10,437,781
Rural Domestic Violence and Child Victimization Enforcement Grant Program	16.589	178,771
Local Law Enforcement Block Grants Program	16.592	778,354

<b>Federal Agency/Program Title</b>	<b>Federal Catalog Number</b>	<b>Grant Amount Received</b>
Residential Substance Abuse Treatment for State Prisoners	16.593	3,364,347
State Identification Systems Grant Program	16.598	2,433,997
Corrections—Technical Assistance/Clearinghouse	16.603	121,096
State Criminal Alien Assistance Program	16.606	350,850,779
Public Safety Partnership and Community Policing Grants	16.710	13,028,433
Other—U.S. Department of Justice	16.999	1,247,423
<b>Department of Labor:</b>		
Labor Force Statistics	17.002	6,146,229
Compensation and Working Conditions Data	17.005	598,530
Labor Certification for Alien Workers	17.203	4,749,454
Unemployment Insurance	17.225	3,081,432,272
Senior Community Service Employment Program	17.235	7,059,950
Trade Adjustment Assistance—Workers	17.245	5,912,807
Welfare-to-Work Grants to States and Localities	17.253	19,900,725
Occupational Safety and Health—State Program	17.503	18,800,000
Consultation Agreements	17.504	4,010,000
Mine Health and Safety Grants	17.600	216,088
Veterans' Employment Program	17.802	715,106
Other—U.S. Department of Labor	17.999	231,035
<b>Employment Services Cluster:</b>		
Employment Service	17.207	106,213,118
Disabled Veterans' Outreach Program	17.801	11,447,951
Local Veterans' Employment Representative Program	17.804	6,417,744
<b>Subtotal</b>		124,078,813
<b>JTPA Cluster:</b>		
Employment and Training Assistance—Dislocated Workers	17.246	290,197,451
Job Training Partnership Act	17.250	323,629,735
<b>Subtotal</b>		613,827,186

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
<b>Department of Transportation:</b>		
Boating Safety Financial Assistance	20.005	1,607,699
Airport Improvement Program	20.106	70,735
Highway Planning and Construction	20.205	1,736,976,373 **
Motor Carrier Safety	20.217	4,639,160
Motor Carrier Safety Assistance Program	20.218	46,239
Local Rail Freight Assistance	20.308	2,469,264
Federal Transit Technical Studies Grants	20.505	27,841,721
Public Transportation for Nonurbanized Areas	20.509	7,408,419
Pipeline Safety	20.700	802,096
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	485,207
Other—U.S. Department of Transportation	20.999	172,162
<b>Federal Transit Cluster:</b>		
Federal Transit Capital Improvement Grants	20.500	31,599,451
<b>Highway Safety Cluster:</b>		
State and Community Highway Safety	20.600	11,314,749
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	4,695,919
<b>Subtotal</b>		16,010,668
<b>Department of Treasury:</b>		
Other—U.S. Department of Treasury	21.999	55,957
<b>Equal Employment Opportunity Commission:</b>		
Employment Discrimination—State and Local Fair Employment Practices Agency Contracts	30.002	2,622,500
<b>General Services Administration:</b>		

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
Donation of Federal Surplus Personal Property	39.003	9,918,289 ***
<b>National Foundation on the Arts and the Humanities:</b>		
Promotion of the Arts—State and Regional Program	45.007	898,600
State Library Program	45.310	10,970,022
<b>National Science Foundation:</b>		
Education and Human Resources	47.076	379,550
<b>Small Business Administration:</b>		
Small Business Development Center	59.037	5,768,259
<b>Department of Veterans Affairs:</b>		
Grants to State for Construction of States Home Facilities	64.005	14,373,471
Veterans State Domiciliary Care	64.014	5,229,024
Veterans State Nursing Home Care	64.015	8,173,841
Veterans State Hospital Care	64.016	115,636
All Volunteer Force Educational Assistance	64.124	42,121
Other—U.S. Department of Veterans Affairs	64.999	873,979
<b>Environmental Protection Agency:</b>		
Air Pollution Control Program Support	66.001	6,142,432
Air Pollution Control Technical Training	66.006	35,750
State Indoor Radon Grants	66.032	68,249
Construction Grants for Wastewater Treatment Works	66.418	225,190
Water Pollution Control—State and Interstate Program Support	66.419	4,327,906
State Underground Water Source Protection	66.433	428,776

<b>Federal Agency/Program Title</b>	<b>Federal Catalog Number</b>	<b>Grant Amount Received</b>
Construction Management Assistance	66.438	417,432
Water Quality Management Planning	66.454	684,372
National Estuary Program	66.456	114,621
Capitalization Grants for State Revolving Funds	66.458	1,222,628,937 **
Nonpoint Source Implementation Grants	66.460	4,152,102
Wetlands Protection—Development Grants	66.461	276,192
EPA New Coastal Waters Program	66.462	56,438
National Pollutant Discharge Elimination System Related State Program Grants	66.463	709,485
Near Coastal Waters	66.464	179,459
Air Pollution-Control Research	66.501	3,206
Safe Drinking Water Research and Demonstration	66.506	4,444,487
Toxic Substances Research	66.507	373,197
Surveys, Studies, Investigations and Special Purpose Grants	66.606	708,619
Consolidated Pesticide Enforcement Cooperative Agreements	66.700	2,053,737
Toxic Substances Compliance Monitoring Cooperative Agreements	66.701	79,755
TSCA Title IV State Lead Grants—Certification of Lead-Based Paint Professionals	66.707	300,423
Pollution Prevention Grants Program	66.708	128,651
Hazardous Waste Management State Program Support	66.801	5,611,883
Superfund State Site—Specific Cooperative Agreements	66.802	2,603,013
State Underground Storage Tanks Program	66.804	613,449
Leaking Underground Storage Tank Trust Fund Program	66.805	3,208,939
Solid Waste Management Assistance	66.808	76,968
Brownfield Pilots Cooperative Agreements	66.811	1
Other—U.S. Environmental Protection Agency	66.999	333,831

**Department of Energy:**

State Energy Program	81.041	3,155,406
Weatherization Assistance for Low-Income Persons	81.042	4,070,714
Environmental Research and Impact Assessments	81.046	21,038
Energy Conservation for Institutional Buildings	81.052	1,170,405

<b>Federal Agency/Program Title</b>	<b>Federal Catalog Number</b>	<b>Grant Amount Received</b>
Regional Biomass Energy Programs	81.079	45,660
Conservation Research and Development	81.086	27,412
Renewable Energy Research and Development	81.087	1,568,791
Environmental Restoration	81.092	442,792
Technology Development for Environmental Management	81.104	34,264
National Industrial Competitiveness through Energy, Environment, and Economics	81.105	481,266
Other—U.S. Department of Energy	81.999	221,459
<b>Federal Emergency Management Agency:</b>		
Hazardous Materials Training Program for Implementation of the Superfund Amendment and Reauthorization Act (SARA) of 1986	83.011	202,260
Acquisition of Flood Damage Structures	83.502	70,809
Civil Defense—State and Local Emergency Management Assistance	83.503	652,668
State Disaster Preparedness Grants	83.505	252,813
Arson Prevention Grant	83.508	5,852
Earthquake Hazards Reduction Grants	83.521	226,034
Emergency Management—State and Local Assistance	83.534	8,063,691
Mitigation Assistance	83.535	855,646
Flood Mitigation Assistance	83.536	41,139
Crisis Counseling	83.539	229,649
Individual and Family Grants	83.543	725,000
Public Assistance Grants	83.544	435,073,179
First Responder Counter-Terrorism Training Assistance	83.547	25,877
Hazard Mitigation Grant	83.548	69,637,391
<b>Department of Education:</b>		
Adult Education—State Grant Program	84.002	31,400,697
Title I Grants to Local Educational Agencies	84.010	989,797,511
Migrant Education—Basic State Grant Program	84.011	92,912,436
Title I Program for Neglected and Delinquent Children	84.013	3,581,612
Services for Children with Deaf-Blindness	84.025	890,499

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
Special Education—Personnel Development and Parent Training	84.029	148,488
Public Library Services	84.034	1,274,918
Interlibrary Cooperation and Resource Sharing	84.035	98,952
Vocational Education—Basic Grants to States	84.048	105,019,106
Vocational Education—State Councils	84.053	205,929
State Student Incentives Grants	84.069	3,924,138
Rehabilitation Services—Vocational Rehabilitation Grants to States	84.126	223,365,167
Rehabilitation Services—Service Projects	84.128	1,028,516
Public Library Construction and Technology Enhancement	84.154	1,316,303
Immigrant Education	84.162	35,550,757
Independent Living—State Grants	84.169	2,075,670
Douglas Teacher Scholarships	84.176	137,832
Rehabilitation Services—Independent Living Services for Older Individuals Who Are Blind	84.177	165,696
Special Education—Grants for Infants and Families with Disabilities	84.181	40,070,911
Byrd Honors Scholarships and Communities	84.185	3,802,665
Safe and Drug-Free Schools and Communities—State Grants	84.186	61,878,404
Supported Employment Services for Individuals with Severe Disabilities	84.187	4,054,827
Bilingual Education Support Services	84.194	800,856
Education for Homeless Children and Youth	84.196	3,035,778
Even Start—State Educational Agencies	84.213	12,006,181
Fund for the Improvement of Education	84.215	495,779
Capital Expenses	84.216	1,608,531
State Grants for Assistive Technology	84.224	850,406
Tech-Prep Education	84.243	11,640,638
Rehabilitation Training—State Vocational Rehabilitation Unit In-Service Training	84.265	433,807
National Early Intervention Scholarship and Partnership	84.272	209,265
Goals 2000—State and Local Education Systemic Improvement Grants	84.276	21,389,308
School Career Implementation Grants	84.278	18,723,249

<b>Federal Agency/Program Title</b>	<b>Federal Catalog Number</b>	<b>Grant Amount Received</b>
Eisenhower Professional Development State Grants	84.281	35,342,098
Charter Schools	84.282	3,124,192
Innovative Education Program Strategies	84.298	40,492,219
Technology Literacy Challenge Fund Grants	84.318	41,133,789
Grants to States for Incarcerated Youth Offenders	84.331	142,184
<b>Student Financial Assistance Cluster:</b>		
Federal Family Education Loans	84.032	25,439,003,662 **
<b>Special Education Cluster:</b>		
Special Education—Grants to States	84.027	185,004,151
Special Education—Preschool Grants	84.173	27,573,047
<b>Subtotal</b>		<b>212,577,198</b>

**Department of Health and Human Services:**

Special Programs for the Aging—Title VII, Chapter 3— Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041	219,408
Special Programs for the Aging—Title VII, Chapter 2— Long Term Care Ombudsman Services for Older Individuals	93.042	354,590
Special Programs for the Aging—Title III, Part F—Disease Prevention and Health Promotion Services	93.043	1,522,893
Special Programs for the Aging—Title III, Part D—In- Home Services for Frail Older Individuals	93.046	887,807
Special Programs for the Aging—Title IV—Training, Research and Discretionary Projects and Programs	93.048	100,486
Grants for Residential Treatment Programs for Pregnant and Postpartum Women	93.101	2,918,781
Demonstration Grants for Residential Treatment for Women and Their Children	93.102	2,055,622
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances	93.104	1,539,556
Maternal and Child Health Federal Consolidated Programs	93.110	111,931
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	6,633,670

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
Mental Health Planning and Demonstration Project	93.125	58,916
Emergency Medical Services for Children	93.127	47,518
Grants for Technical Assistance Activities Related to the Block Grant for Community Mental Health Services—Mental Health Statistics Improvement Program	93.128	86,909
Primary Care Services—Resource Coordination and Development Primary Care Offices	93.130	306,758
Injury Prevention and Control Research and State and Community Based Programs	93.136	288,542
Projects for Assistance in Transition from Homelessness	93.150	1,680,031
Health Program for Toxic Substances and Disease Registry	93.161	911,908
Grants for State Loan Repayment	93.165	599,283
Disabilities Prevention	93.184	95,391
Cooperative Agreements for Drug Abuse Treatment Improvement Projects in Target Cities	93.196	6,694,519
Demonstration Cooperative Agreements for Development and Implementation of Criminal Justice Treatment Networks	93.229	921,171
Consolidated Knowledge Development and Application Program	93.230	299,832
Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	93.238	14,602
Immunization Grants	93.268	96,384,971 *
Centers for Disease Control and Prevention—Investigations and Technical Assistance	93.283	165,939
Family Preservation and Support Services	93.556	33,264,282
Temporary Assistance for Needy Families	93.558	3,357,131,368
Family Support Payments to States—Assistance Payments	93.560	2,994,049
Job Opportunities and Basic Skills Training	93.561	5,117,516
Child Support Enforcement	93.563	42,715,434
Refugee and Entrant Assistance—State Administered Programs	93.566	29,484,087
Low-Income Home Energy Assistance	93.568	47,733,525
Community Services Block Grant	93.569	47,137,871
Community Services Block Grant—Discretionary Awards	93.570	44,220
Community Services Block Grant Discretionary Awards—Community Food and Nutrition	93.571	217,039
Refugee and Entrant Assistance—Discretionary Grants	93.576	4,625,476

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
U.S. Repatriate Program	93.579	15,669
Refugee and Entrant Assistance—Targeted Assistance	93.584	7,146,183
Empowerment Zones Program	93.585	1,384,025
Refugee Assistance—Naturalization and Citizenship Activities	93.589	6,786
Community-Based Family Resource and Support Grants	93.590	1,800,318
Welfare Reform Research, Evaluations and National Studies	93.595	29,143
Grants to States for Access and Visitation Programs	93.597	1,298,134
Head Start	93.600	201,427
Developmental Disabilities Basic Support and Advocacy Grants	93.630	5,829,801
Children's Justice Grants to States	93.643	709,916
Child Welfare Services—State Grants	93.645	34,105,865
Social Services Research and Demonstration	93.647	123,894
Foster Care—Title IV-E	93.658	884,064,287
Adoption Assistance	93.659	107,736,587
Social Services Block Grant	93.667	245,452,845
Child Abuse and Neglect State Grants	93.669	1,648,147
Family Violence Prevention and Services/Grants for Battered Women's Shelters—Grants to States and Indian Tribes	93.671	6,092,161
Independent Living	93.674	13,200,868
State Children's Insurance Program	93.767	40,738,906
Medicare—Hospital Insurance	93.773	155,185
Medicare—Supplementary Medical Insurance	93.774	4,342,369
Health Care Financing and Research, Demonstrations and Evaluations	93.779	633,487
Medical Library Assistance	93.879	5,600
Model Comprehensive Drug Abuse Treatment Programs for Critical Populations	93.902	395
Model Criminal Justice Drug Abuse Treatment for Incarcerated Populations, Non-Incarcerated Populations and Juvenile Justice Populations	93.903	181,604
Grants to States for Operation of Offices of Rural Health	93.913	227,861
HIV Care Formula Grants	93.917	54,969,467
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Program	93.919	5,802,347

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
Demonstration Grants to States for Community Scholarships	93.931	11,700
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	680,869
HIV Prevention Activities—Health Department Based (HIV Prevention Program)	93.940	11,733,451
Prevention-Evaluation Study	93.943	349,029
Assistance Program for Chronic Disease Prevention and Control	93.945	101,351
Community-Based Comprehensive HIV/STD/TB Outreach Services for High Risk Substance Abusers Demonstration Program	93.949	189,460
Demonstration Grants to States with Respect to Alzheimer's Disease	93.951	854,680
Block Grants for Community Mental Health Services	93.958	34,432,358
Block Grants for Prevention and Treatment of Substance Abuse	93.959	180,109,361
Preventive Health Services—Sexually Transmitted Disease Control Grants	93.977	3,427,589
Preventive Health Services—Sexually Transmitted Diseases Research, Demonstrations, and Public Information and Education Grants	93.978	144,657
Mental Health Disaster Assistance and Emergency Mental Health	93.982	191,075
Health Program for Refugees	93.987	1,429,232
Cooperative Agreements for State-Based Diabetes Control Program and Evaluation of Surveillance Systems	93.988	948,434
Preventive Health and Health Services Block Grant	93.991	18,367,243
Maternal and Child Health Services Block Grant to the States	93.994	51,764,177
Other—Department of Health and Human Services	93.999	9,298,428
<b>Aging Cluster:</b>		
Special Programs for the Aging—Title III, Part B—Grants for Supportive Services and Senior Centers	93.044	29,024,785
Special Programs for the Aging—Title III, Part C—Nutrition Services	93.045	40,667,730
<b>Subtotal</b>		69,692,515

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
<b>Child Care Cluster:</b>		
Child Care and Development Block Grant	93.575	191,372,519
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	212,364,266
<b>Subtotal</b>		403,736,785
<b>Medicaid Cluster:</b>		
Medical Assistance Program	93.778	10,722,178,906
State Medicaid Fraud Control Units	93.775	7,267,729
State Survey and Certification of Health Care Providers and Suppliers	93.777	22,346,752
<b>Subtotal</b>		10,751,793,387
<b>Corporation for National and Community Service:</b>		
Service America/Higher Education	94.001	463,478
State Commissions	94.003	1,172,785
Learn and Serve America—School and Community Based Programs	94.004	2,011,398
AmeriCorps	94.006	19,806,969
<b>Foster Grandparent/Senior Companion Cluster:</b>		
Foster Grandparent Program	94.011	1,373,276
<b>Social Security Administration:</b>		
<b>Disability Insurance/SSI Cluster:</b>		
Social Security—Disability Insurance	96.001	175,179,633
<b>Miscellaneous Grants and Contracts:</b>		
Shared Revenue—Flood Control Lands	98.002	96,533
Shared Revenue—Grazing Land	98.004	140,943
Capital Outlay—Reed Act	98.012	28,535

Federal Agency/Program Title	Federal Catalog Number	Grant Amount Received
U.S. Department of the Interior—Fire Prevention/Suppression Agreement	98.014	134,000
U.S. Department of the Interior—Fire Prevention/Suppression Agreement	98.015	97,268
U.S. Department of Agriculture and Various Other U.S. Department—Fire Prevention/Suppression	98.016	11,533,622
Miscellaneous Federal Receipts	98.099	971,943
Miscellaneous Federal Receipts	98.999	2,641,234
<b>Total</b>		<b><u>\$ 56,439,883,267</u></b>

\* This amount includes or consists of the value of commodities or food stamps.

\*\* This amount includes the value of insurance in effect during the year and/or loan guarantees outstanding at year-end.

\*\*\* This amount consists of the value of donated property.

**NOTES TO THE SCHEDULE OF FEDERAL ASSISTANCE  
FISCAL YEAR ENDED JUNE 30, 1999**

**1. GENERAL**

The accompanying State of California Schedule of Federal Assistance presents the total amount of federal financial assistance programs received by the State of California for the fiscal year ended June 30, 1999. This schedule does not include expenditures of federal grants received by the University of California or the California State University. The expenditures of the University of California and California State University are audited by other independent auditors in accordance with the U.S. Office of Management and Budget, Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133).

The \$56,439,883,267 in total federal assistance consists of the following:

Grant amounts received	\$27,988,861,210
Noncash federal awards	1,876,065,471
Loans and/or loan guarantees outstanding	22,759,640,541
Insurance in-force	3,815,316,045
<b>Total</b>	<b>\$56,439,883,267</b>

**2. BASIS OF ACCOUNTING**

OMB Circular A-133, and the Single Audit Act of 1984 (Amended 1996) require the Schedule of Federal Assistance to present total expenditures for each federal assistance program. However, although the state accounting system separately identifies revenues for each federal assistance program, it does not separately identify expenditures for each program. As a result, the State prepares its Schedule of Federal Assistance on a revenue basis. The schedule shows the amount of cash and noncash federal assistance received, loans and loan guarantees outstanding, and insurance in force for the year ended June 30, 1999.

**3. UNEMPLOYMENT INSURANCE**

Of the \$3,081,432,272 in total unemployment insurance funds (federal catalog number 17.225) received by the Employment Development Department during fiscal year 1998-99, \$2,706,960,870 was State Unemployment Insurance funds that were drawn down from the Unemployment Trust Fund in the U.S. Treasury.

#### **4. OTHER**

The State was also loaned Federal Excess Personal Property (FEPP) from the U.S. Forest Service during the period July 1, 1998 to June 30, 1999. According to the State's Department of Forestry and Fire Prevention, the amount loaned between July 1, 1998, and June 30, 1999, was approximately \$23.2 million. The U.S. Forest Service and the State maintain the FEPP program at federal acquisition costs of the property.

# **Summary Schedule of Prior Audit Findings**

**Prepared by  
Department of Finance**

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## **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Reference Number:	<b>98-3-4</b>
Federal Catalog Number:	Various
State Administering Department:	Department of Finance
Fiscal Year Finding Initially Reported:	1997-98
Audit Finding:	<b>Cash Management.</b> The Department of Finance (Finance) issued instructions to agencies regarding Cash Management Improvement Act transactions that were inconsistent with the default procedures. As a result of Finance's faulty instructions, state agencies are not reporting all the pertinent information for uncashed warrants. Also, Finance understated the State's interest liability due to the federal government by \$52,452 due to not using the correct amount of funds drawn down in its calculation of advanced-funded payroll interest liability for the Rehabilitation Services – Vocational Rehabilitation Grants to States.
Status of Corrective Action:	<p>Corrective action taken on inconsistent instructions issued to state agencies. Finance provided agencies with new instructions on reporting claim corrections and funds drawn in error during annual training classes.</p> <p>The Rehabilitation Services – Vocational Rehabilitation Grants to States reporting errors have not been corrected. However, the reporting errors will be included as a prior year adjustment in the 1998-99 Annual Report that is due on December 31, 1999.<sup>1</sup></p>
Reference Number:	<b>98-12-3</b>
Federal Catalog Number:	All Programs
State Administering Department:	Department of Finance
Fiscal Year Finding Initially Reported:	1995-96
Audit Finding:	<b>Reporting Requirements.</b> Because of limitations in its automated accounting systems, the State has not complied with the provision of OMB Circular A-133 requiring a schedule showing total expenditures for each federal program. As a result, the schedule shows total receipts, rather than expenditures, by program.

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Footnotes begin on Page 161

Status of Corrective Action: The State's accounting system will require substantial modification to meet all federal and state requirements. The Department of Finance will address changes as priorities and resources permit.<sup>2</sup>

Reference Number: **98-5-2**

Federal Catalog Number: 10.558

State Administering Department: Department of Education

Fiscal Year Finding Initially Reported: 1996-97

Audit Finding: **Eligibility.** The State Department of Education (CDE) needs to improve its process for ensuring that institutions participating in the food program meet the applicable licensing or approval requirements. It could not demonstrate that it confirmed annually the license status of sites. The Bureau of State Audits reported a similar issue during the audit for fiscal year 1996-97.

Status of Corrective Action: As of August 6, 1999, CDE receives a Monthly Department of Social Services (DSS) License Report identifying the institutions that are no longer licensed to operate in California. CDE contacted the ten counties currently authorized to issue operating licenses within their jurisdiction and requested that the counties assist CDE in verifying license status of the institutions in their jurisdiction. Two counties will provide CDE with a monthly license status report on their institutions. Although the other eight counties are unable to provide CDE with monthly reports, they will provide CDE with periodic reports of institutions that are no longer licensed to operate in their county. Using the Monthly DSS License Reports and the periodic reports from the counties, CDE will ensure that institutions participating in the Child and Adult Care Food Program meet applicable licensing requirements.<sup>3</sup>

Reference Number: **98-12-4**

Federal Catalog Number: 10.550

State Administering Department: Department of Education

Fiscal Year Finding Initially Reported: 1997-98

Audit Finding:	<b>Reporting.</b> To ensure that subrecipients receive the donated food while they have nutritional value, the U.S. Department of Agriculture (USDA) requires the State Department of Education (CDE) to report, on the FNS-155 form, the commodities it stores in its two warehouses in excess of six months. However, CDE's system of internal controls is not sufficient to assure this data is complete, accurate, and adequately supported.
Status of Corrective Action:	The FNS-155 is required to ensure that CDE distributes donated foods to subrecipients while the foods have nutritional value, generally, within six months for most commodities. CDE agrees that clerical errors were made on the three FNS-155 reports identified by the auditors. However, CDE ensures that all commodities are distributed to subrecipients within six months. In 1998, USDA changed its reporting procedures to allow states to base excess inventory estimates on "projected usage" instead of "past usage" and to require that the FNS-155 report be submitted only twice a year, on June 30 and December 30, instead of monthly. In the past, even though almost all commodities would have been distributed within a six-month period, the FNS-155 reports would indicate an excess because they were prepared reporting past usage, not projected usage. Incorporating the changes made by USDA, CDE now prepares the FNS-155 report using projected usage. There are, therefore, only a few items listed on the FNS-155 report, indicating that nearly all donated foods are being distributed within six months, eliminating many clerical errors.
Reference Number:	<b>98-3-3</b>
Federal Catalog Number:	10.558; 84.048
State Administering Department:	Education
Fiscal Year Finding Initially Reported:	1997-98
Audit Finding:	<b>Cash Management.</b> To fulfill its responsibilities assigned by the Cash Management Improvement Act (CMIA) Default Procedures, the Department of Finance (Finance) requires state departments to report quarterly financial information related to the transfers of federal funds so that it can calculate interest charges. However, during fiscal year 1997-98, the State Department of Education (CDE) omitted 22 transfers of federal funds totaling \$21,600,000 from its quarterly reports. As a result, Finance

understated the State's interest liability for transfers related to these programs by \$49,000.

Status of Corrective Action: CDE agrees with this finding and has modified its reporting system to include all transfers of federal funds, including those for the Vocational Education – Basic Grants to States and Child and Adult Care Food programs.<sup>1</sup>

Reference Number: **98-13-4**

Federal Catalog Number: 10.550; 10.558; 84.002; 93.596

State Administering Department: Department of Education

Fiscal Year Finding Initially Reported: 1996-97

Audit Finding: **Subrecipient Monitoring.** The State Department of Education (CDE) lacks adequate procedures to ensure that it promptly receives all required audit reports from nonprofit subrecipients. Without an effective system to make sure nonprofit subrecipients submit audit reports on time, CDE lacks the assurance that they comply with federal laws and regulations.

Status of Corrective Action: CDE has engaged a private contractor to prepare a Feasibility Study Report (FSR) for expanding CDE's audit report tracking system. The FSR should be completed by September 30, 1999, at which time CDE will prepare a Request for Proposal for the expansion of the audit report tracking system. CDE has also taken action to ensure that subrecipient audit reports are promptly submitted to CDE. Subrecipients who do not submit their audit reports on time are immediately sent an overdue letter. CDE also sends a second overdue letter to the subrecipient, if necessary. CDE staff also place telephone calls to subrecipients requesting their overdue audit report. If, after the transmission of two overdue letters, the subrecipient still has not submitted an audit report, CDE staff in the Audits and Investigations Unit notifies program and fiscal staff to withhold funding payments until the subrecipient submits their required audit report.<sup>4</sup>

Reference Number: **98-7-1**

Federal Catalog Number: 15.605; 15.611

State Administering Department: Department of Fish and Game

Fiscal Year Finding Initially Reported: 1997-98

Audit Finding: **Matching, Reporting.** The Department of Fish and Game (Department) lacked adequate documentation to support the shared costs it reported for sport fish restoration and wildlife restoration projects under the federal grants. To demonstrate it met its cost-sharing requirements, the Department reported the costs it incurred as well as in-kind contributions from third parties, including donated volunteer services. Without adequate support for its cost-sharing requirements, the Department cannot be certain its financial participation in projects meets requirements.

Status of Corrective Action: Implementation in progress. The Department federal grant coordinators and accounting staff have developed a draft In-kind Match Documentation form for department-wide use to record all third party in-kind contributions. Project managers are reviewing the form and attendant requirements, prior to official department policy adoption. The Department anticipates issuing a department bulletin standardizing match documentation in October 1999. Furthermore, Department accounting staff has reviewed cost documentation procedures to ensure accurate reporting. The Department is reviewing current grant records to test implementation procedures.<sup>5</sup>

Reference Number: **98-2-4**

Federal Catalog Number: 16.579

State Administering Department: Office of Criminal Justice and Planning

Fiscal Year Finding Initially Reported: 1995-96

Audit Finding: **Allowable Costs and Cost Principles.** The Office of Criminal Justice Planning (OCJP) did not comply with the federal requirements to document or certify salaries and wages it charges to the Byrne Grant. Specifically, OCJP allocates personal service costs to activities based on budget estimates rather than on actual time worked. In addition, OCJP does not prepare semiannual certifications for employees working solely on the Byrne grant. Also, OCJP did not always appropriately allocate indirect costs

to the federal programs. One of its indirect cost pools did not allocate costs in a manner consistent with its cost allocation plan. Moreover, although OCJP developed statistical data as a basis for its cost allocation plan, it could not support the statistics. As a result, the Bureau of State Audits could not determine if OCJP's cost allocation was reasonable, updated as necessary, or contained any material omissions.

Status of Corrective Action:

The audit findings are in the process of being corrected. The Budget Branch is currently working with OCJP staff in work groups to design the time reporting system. A preliminary draft design of the time reporting document has been developed, modeled after the State Water Resources Control Board time sheet. After feedback from OCJP staff, and review and approval by the Human Resources Branch, the time reporting system will be tested in November and December 1999. The OCJP is developing improved controls to ensure appropriate allocation of federal overhead charges. The Budget Branch is working with the CALSTARS accounting system to correct and identify problems with the cost allocation plan. The corrective action plan includes better filing of working papers, and the examination of both over and under cost allocation pools. The Budget Branch will review the cost pools on a quarterly basis and make appropriate adjustments.

Reference Number:

**98-14-6**

Federal Catalog Number:

16.579

State Administering Department:

Office of Criminal Justice and Planning

Fiscal Year Finding Initially Reported:

1994-95

Audit Finding:

**Special Tests and Provisions** . The Office of Criminal Justice Planning (OCJP) did not comply with the four-year rule when it awarded \$1.6 million of its 1997 Byrne grant to four subrecipients. Because the four projects were either not exempt from the four-year rule or were not categorized as multijurisdictional, as required during fiscal year 1997-98, OCJP is out of compliance.

Status of Corrective Action:

Corrective action taken.

Reference Number: **98-2-1**

Federal Catalog Number: 83.548

State Administering Department: Office of Emergency Services

Fiscal Year Finding Initially Reported: 1997-98

Audit Finding: **Allowable Costs.** Of the 40 fiscal year 1997-98 payments the Bureau of State Audits tested, the Office of Emergency Services (OES) paid a request for reimbursement that included \$35,351 in indirect costs related to one Hazard Mitigation Grant project. These indirect costs represent less than 0.5 percent of the total payments tested.

Status of Corrective Action: The OES disagrees with the finding. The OES states that it does not have the authority to withhold payments from applicants for costs incurred in accordance with a federally approved project. In this instance, the Federal Emergency Management Agency approved the budget for the project, which included approximately \$940,000 in overhead or indirect costs. Thus, OES states it must reimburse the applicant for those costs. Therefore, OES believes that a corrective action plan is unnecessary.

Reference Number: **98-3-1**

Federal Catalog Number: 83.544 (formerly 83.516)

State Administering Department: Office of Emergency Services

Fiscal Year Finding Initially Reported: 1996-97

Audit Finding: **Cash Management.** To fulfill its Cash Management Improvement Act (CMIA) Default Procedures, the Department of Finance (Finance) requires state departments to report quarterly financial information related to the transfers of federal funds so that it can calculate interest charges. However, during fiscal year 1997-98, the Office of Emergency Services omitted 14 transfers of federal funds totaling \$70,800,000 from the quarterly reports for the Public Assistance Grants. As a result, Finance understated the State's interest liability for transfers related to its program by \$177,000. The Bureau of State Audits reported a similar issue during the audit for fiscal year 1996-97.

Status of Corrective Action: Staff preparing the CMIA reports was made aware of the audit finding. Clarification was received from Finance

with regard to the reporting of refunds relating to Public Assistance Grants. Also, additional training was provided to ensure a complete understanding of the report requirements.<sup>1, 6</sup>

Reference Number: **98-12-1**

Federal Catalog Number: 83.544 (formerly 83.516)

State Administering Department: Office of Emergency Services

Fiscal Year Finding Initially Reported: 1997-98

Audit Finding: **Reporting.** The Office of Emergency Services (OES) did not ensure that it obtained all required quarterly progress reports from subrecipients. The Federal Emergency Management Agency (FEMA) uses these reports to monitor projects funded with Public Assistance Grants. The reports address the status of funded projects and identify changes in project costs, schedules, and scope of work. Without these reports, OES' and FEMA's ability to monitor the projects is diminished.

Status of Corrective Action: The OES' Public Assistance Technical Support Unit manager has conducted multiple meetings with the Resources Branch and FEMA to obtain their input on strategies to change the quarterly report process. Subgrantees have been able to submit quarterly reports via the Internet for some time. The goal now is to boost subgrantee compliance by simplifying the quarterly reporting process. Both FEMA and OES are principally concerned with obtaining information on those projects where supplemental funding or a time extension may be required in the future. This will allow FEMA and OES to address possible problems before they affect funding. Discussions continue, and OES expects to make some changes in the quarterly reporting process by January 2000.<sup>7</sup>

Reference Number: **98-12-2**

Federal Catalog Number: 83.544 (formerly 83.516)

State Administering Department: Office of Emergency Services

Fiscal Year Finding Initially Reported: 1997-98

Audit Finding: **Reporting.** The Office of Emergency Services (OES) did not reconcile receipts and disbursements reported on its

federal cash transaction reports to those recorded in its official accounting records. As a result, the Bureau of State Audits cannot determine if the amount of receipts and disbursements reported on quarterly federal cash transaction reports agrees with OES' accounting records.

Status of Corrective Action: Due to increased workloads as a result of new disasters, vacancies, and lack of staff with expertise in the area of federal trust funds, the procedures are still being developed. The OES is currently reviewing this situation and making recommendations to management for additional staff and training to bring this area into compliance.<sup>8</sup>

Reference Number: **98-13-1**

Federal Catalog Number: 83.544 (formerly 83.516)

State Administering Department: Office of Emergency Services

Fiscal Year Finding Initially Reported: 1996-97

Audit Finding: **Subrecipient Monitoring.** The Office of Emergency Services (OES) did not make management decisions regarding resolution of audit findings within six months of receiving audit reports. The Bureau of State Audits reported a similar issue during the audit for fiscal year 1996-97.

Status of Corrective Action: The OES will submit a fiscal year 1999-00 Budget Change Proposal that includes additional staffing to ensure compliance with the federal requirement to resolve findings contained in subrecipient single audit reports. No corrective action can be implemented until additional staffing is approved.<sup>9</sup>

Reference Number: **98-1-2**

Federal Catalog Number: 84.002

State Administering Department: Department of Education

Fiscal Year Finding Initially Reported: 1997-98

Audit Finding: **Activities Allowed or Unallowed** For 2 subrecipients in the Bureau of State Audits' sample of 40, the State Department of Education (CDE) did not take adequate precautions to ensure subrecipients use the funds for only

activities authorized by federal laws and regulations. Specifically, in one instance, CDE requested additional information from a community-based organization (CBO) after it determined that the CBO's fiscal year 1997-98 application did not sufficiently describe the program activities, services, and other required components. Even though CDE never received the additional information, it awarded the CBO \$69,500. Furthermore, when additional funds became available during the fiscal year, CDE increased the original grant award to \$325,750. In the other instance, CDE paid \$560 for activities not allowed.

Status of Corrective Action: Partially corrected. The first subrecipient identified in this finding did not sufficiently describe program activities and services for their fiscal year 1997-98 application. Two CDE consultants made a visit on August 27, 1997, to this subrecipient to provide the technical assistance needed for the subrecipient to become compliant with federal requirements. CDE staff is reviewing adult education records to locate documentation of the visit. CDE records indicate that this subrecipient served a larger number of students than originally projected. CDE augmented this subrecipient's grant based on the larger number of students served. The second subrecipient requested reimbursement of \$560 for activities not authorized by federal law and regulations. CDE has billed this subrecipient for the \$560. The adult education office has a new manager who reorganized the office, creating a central filing system and requiring documentation of all contact with subrecipients. The new reorganization will ensure that CDE has documentation to support all grant awards and that identified problems are immediately resolved.

Reference Number: **98-2-2**

Federal Catalog Number: 84.027

State Administering Department: Department of Education

Fiscal Year Finding Initially Reported: 1996-97

Audit Finding: **Allowable Costs and Cost Principles.** The State Department of Education (CDE) charged costs to the Special Education – Grants to States (Special Education) program that are not specific to the federal grant. Specifically, in fiscal year 1997-98, CDE charged the Special Education grant award approximately \$715,000 for costs incurred by its Education Finance Division when allocating state funds. The Bureau of State Audits

reported a similar issue during the audit for fiscal year 1996-97.

Status of Corrective Action: The CDE does not agree with this finding and believes that it is fully complying with the rules and regulations governing Special Education, including charging the federal grant for the costs of allocating state funds in support of the federal program. Further, CDE does not believe that it needs advance approval from the U.S. Department of Education to continue this practice. For these reasons, CDE believes that a corrective action plan is unnecessary.<sup>10</sup>

Reference Number: **98-3-2**

Federal Catalog Number: 84.243

State Administering Department: California Community Colleges, Chancellor's Office

Fiscal Year Finding Initially Reported: 1997-98

Audit Finding: **Cash Management.** When it disbursed federal grant awards to 13 subrecipients, the California Community Colleges, Chancellor's Office (Chancellor's Office) did not minimize the time that elapsed between their receiving and spending federal funds. Specifically, the Chancellor's Office disbursed approximately \$990,000, or 75 percent, of its fiscal year 1997-98 awards, totaling \$1,320,000 between October and November 1997 without determining the immediate cash needs of the subrecipients. As of December 31, 1997, the subrecipients had used between 4 percent and 55 percent of the funds, totaling approximately \$316,000.

Status of Corrective Action: The Chancellor's Office agrees with the finding and states it will review its procedures for cash advances and will strengthen them as needed.<sup>11</sup>

Reference Number: **98-5-1**

Federal Catalog Number: 84.126

State Administering Department: Department of Rehabilitation

Fiscal Year Finding Initially Reported: 1996-97

Audit Finding: **Eligibility.** The Department of Rehabilitation (Department) did not always determine applicant eligibility within the required 60 days. When the

Department does not follow the regulations, it cannot ensure clients promptly receive required services.

Status of Corrective Action:

Corrective action taken, except the training for all rehabilitation supervisors on the streamlined case recording requirements. The Department reevaluated the planned statewide training for rehabilitation supervisors and determined the training would be conducted more cost effectively at the local district level. Therefore, the district administrators will be trained on the streamlined case recording requirements at a statewide district administrator meeting in October 1999. The district administrators will then provide training at the local level to all rehabilitation supervisors. This training will include the required 60-day eligibility timeline and documentation requirements. The assistant deputy directors will ensure the district training is provided on a timely basis by requiring district administrators to report back on the training conducted in each district.<sup>12</sup>

Reference Number:

**98-9-1**

Federal Catalog Number:

84.048; 84.243

State Administering Department:

California Community Colleges, Chancellor's Office

Fiscal Year Finding Initially Reported:

1997-98

Audit Finding:

**Suspension and Debarment.** The California Community Colleges, Chancellor's Office (Chancellor's Office) did not require participants in the Vocational Education and Tech-Prep programs to submit signed suspension and debarment certifications, nor did it have any other procedures in place to make sure it was not providing federal grant awards to suspended or debarred parties.

Status of Corrective Action:

The Chancellor's Office now require all subgrantees to submit, as part of their application, the following signed certifications: (a) Certification Regarding Lobbying; (b) Debarment, Suspension and Other Responsibility Matters; and (c) Drug Free Workplace Requirements. These certifications are maintained in the individual application file for each subgrantee and are part of the Chancellor's Office audit file.<sup>13</sup>

Reference Number: **98-13-2**

Federal Catalog Number: 84.276

State Administering Department: Department of Education

Fiscal Year Finding Initially Reported: 1997-98

Audit Finding: **Subrecipient Monitoring, Activities Allowed and Cash Management.** The State Department of Education (CDE) did not sufficiently monitor subrecipients to make sure they used federal grant funds only on allowable activities or received advances only in the minimum amounts necessary. Additionally, CDE did not provide subrecipients the Catalog of Federal Domestic Assistance number.

Status of Corrective Action: CDE has strengthened its fiscal monitoring of subrecipients receiving Goals 2000 funds. First, CDE assigned an additional analyst to the Reading and Mathematics Policy and Leadership Office to increase the amount of staff time devoted to the review of budgets submitted by applicants and preliminary and final expenditure reports submitted by subrecipients. Second, CDE has implemented procedures for advancing funds to subrecipients. To ensure that cash advances to subrecipients are limited to the amount needed by the subrecipient to fulfill its immediate needs, CDE distributes funds on a monitored, quarterly basis. Third quarter payments are not made until CDE has received and reviewed a semiannual expenditure report. Fourth quarter payments are not made until CDE has received and reviewed the final expenditure report.

Reference Number: **98-13-3**

Federal Catalog Number: 84.048; 84.243

State Administering Department: California Community Colleges, Chancellor's Office

Fiscal Year Finding Initially Reported: 1995-96

Audit Finding: **Subrecipient Monitoring.** The California Community Colleges, Chancellor's Office (Chancellor's Office) did not sufficiently monitor the fiscal year 1996-97 audit reports of the State's 71 community college districts. Because the Chancellor's Office did not follow its procedures for resolving audit findings, it cannot ensure that it will be able to take timely corrective action. The

Bureau of State Audits reported a similar issue during the audit for fiscal year 1996-97.

Status of Corrective Action: The Chancellor's Office agrees with the finding and as stated in the fiscal year 1996-97 single audit, it implemented a process to photocopy audit citations and distribute this information to the various program units for follow-up. The Chancellor's Office has received authorization for additional staff to assist in subrecipient monitoring and expects its internal structure to stabilize to the point that it will be able to show more progress.<sup>14</sup>

Reference Number: **98-13-5**  
Federal Catalog Number: 84.002  
State Administering Department: Department of Education  
Fiscal Year Finding Initially Reported: 1997-98

Audit Finding: **Subrecipient Monitoring.** The State Department of Education (CDE) did not adequately monitor subrecipients in the Adult Education Program. CDE's records showed that during fiscal year 1997-98, it conducted reviews and evaluations of 18 percent of the subrecipients instead of the required 20 percent. In addition, the Bureau of State Audit's review of CDE's monitoring files for these subrecipients revealed deficiencies.

Status of Corrective Action: CDE concurs with this finding. CDE staff is currently attempting to reconstruct the compliance review files for fiscal year 1997-98 and are developing a subrecipient database to record the results of compliance reviews. The database will be used to record compliance information for fiscal year 1998-99. In addition, for fiscal year 1998-99, CDE staff will conduct compliance reviews of 20 percent or more of its Adult Education subrecipients.<sup>15</sup>

Reference Number: **98-14-1**  
Federal Catalog Number: 84.032  
State Administering Department: California Student Aid Commission  
Fiscal Year Finding Initially Reported: 1996-97

Audit Finding: **Special Tests and Provisions.** In fiscal year 1996-97, the Bureau of State Audits reported that the California Student Aid Commission (Commission) did not have a system to provide adequate oversight of the activities of its

auxiliary. Nor did the Commission retain sufficient staff to adequately protect the public funds entrusted to it. While these conditions persisted in fiscal year 1997-98, the Commission has taken a number of steps to improve its oversight of the auxiliary and to ensure the operation of each is adequately separated from the other. Despite the improvements, recent litigation may jeopardize the Commission's continued progress. The auxiliary obtained a restraining order to prevent the commission from reconstituting the auxiliary's governing board. Until this controversy is resolved, it is unlikely the commission will be able to provide the oversight needed.

Status of Corrective Action:

The Commission has continued to work diligently to establish an adequate system of controls over its auxiliary. Also, it has taken various steps to carry out its responsibilities as guarantor and to enforce the provisions of the operating agreement. The Commission has completed the following:

- Hired an Associate Accounting Analyst, Technology Consultant, and a Staff Services Analyst to assist the manager of the Loan Program Oversight Division with enforcement of the operating agreement and general oversight activities.
- The legal matters between the Commission and its auxiliary, EdFund, have been resolved.
- A new operating agreement between the Commission and its auxiliary was approved on September 3, 1999, effective October 1, 1999 to September 30, 2000. This agreement established the distinct roles of each entity and the governance role of the Commission as guarantor over its auxiliary.
- The manager of the Loan Program Oversight Division is working closely with the management of EdFund and various managers in the Commission to ensure the provisions of the operating agreement are in compliance.

Reference Number:

**98-14-2**

Federal Catalog Number:

84.032

State Administering Department:

California Student Aid Commission

Fiscal Year Finding Initially Reported:

1997-98

Audit Finding:

**Special Tests and Provisions** . The auxiliary, which administers the loan program on behalf of the California Student Aid Commission (Commission), had not

developed procedures to ensure it assigns all eligible loans to the U.S. Department of Education (USDE). Instead of reviewing all loans that are at least five years old or for which a payment has not been received in the last year, the auxiliary reviews only defaulted loans that have completed all the stages of its collection process. By limiting its review to just those loans, the auxiliary has no assurance that it has identified all loans eligible for assignment.

Status of Corrective Action:

The Commission in concurrence with its auxiliary, commented that the volume of accounts within the portfolio makes it impractical, if not impossible, to assign all eligible loans to USDE. It is the Commission's understanding that USDE cannot accept all submissions. On May 9, 1999, as a group of loans was subrogated to USDE, a letter was submitted to USDE requesting that the Commission's current subrogation process be acknowledged as an acceptable alternative to Section 428 (c)(8) of the Higher Education Act and 34 Code of Federal Regulations Section 682.409. As of September 10, 1999, the Commission has not received approval from USDE regarding their request. The commission will re-submit its request with the next scheduled assignment of accounts to USDE.<sup>16</sup>

Reference Number:

**98-14-3**

Federal Catalog Number:

84.032

State Administering Department:

California Student Aid Commission

Fiscal Year Finding Initially Reported:

1996-97

Audit Finding:

**Special Tests and Provisions** . The information the California Student Aid Commission's (Commission) auxiliary, which administers the loan program, reports to the federal government for computing the reinsurance rate is not always accurate, and thus, the Commission may not be receiving the correct amount of funds. The Commission's records did not reflect accurate information because it did not receive the information on the change in loan status from the lender. The Commission recognizes that its system does not always reflect accurate information about its loans. As a result, it completed a reconciliation project for loans guaranteed before January 1, 1995, to ensure that the data in its system is accurate and matches that of the lender. Even though the Commission completed the reconciliation, its system continues to reflect inaccurate loan status information.

Status of Corrective Action: The Commission places a high priority on the accuracy of its database. This accuracy, however, is tempered by the accuracy of the information report to the Commission. Its database, Financial Aid Processing System (FAPS) reflects the most current status reported by the lenders. The Commission is currently working with lenders on a second phase reconciliation for all loans guaranteed subsequent to January 1, 1995. This second phase will supplement the lenders' status change reporting by utilizing the lenders' quarterly files used by the Commission's auxiliary to report to the National Student Loan Data System (NSLDS). This mechanism will assist lenders in reporting the most current loan status to FAPS. It will also provide greater integration between NSLDS and FAPS. The Commission and its auxiliary will continue to use current technology and improved communications with lenders to ensure the status differences are brought within acceptable standards.<sup>17</sup>

Reference Number: **98-9-2**

Federal Catalog Number: 84.027; 84.173; 93.596

State Administering Department: Department of Education

Fiscal Year Finding Initially Reported: 1997-98

Audit Finding: **Suspension and Debarment.** The State Department of Education (CDE) did not always require participants of the Child Care Mandatory and Matching Funds of the Child Care and Development Fund, Special Education – Grants to States, and Special Education – Preschool Grants programs to submit signed suspension and debarment certifications. Further, CDE did not have any other procedures in place to make sure it was not awarding federal money to suspended or debarred parties.

Status of Corrective Action: CDE has taken immediate action to ensure that it has suspension and debarment certifications from all federal program subrecipients.<sup>18</sup>

Reference Number: **98-2-3**

Federal Catalog Number: 93.778

State Administering Department: Department of Health Services

Fiscal Year Finding Initially Reported: 1997-98

Audit Finding: **Allowable Costs and Cost Principles.** Health care providers do not always maintain documentation to support the services for which they request reimbursement. Using state health care specialists to review 16 of the Medicaid claims the Bureau of State Audits tested, they found that 3 were not supported by medical records or other evidence indicating that the service was actually rendered.

Status of Corrective Action: DHS reviewed the providers' paid claims data for the three unsupported claims and determined that either an expanded audit or sanctions against the providers were not warranted. Consequently, a corrective action plan does not appear indicated.

Reference Number: **98-2-6**

Federal Catalog Number: 93.778

State Administering Department: Department of Health Services

Fiscal Year Finding Initially Reported: 1997-98

Audit Finding: **Allowable Costs and Cost Principles.** The Department of Health Services (DHS) did not always ensure that it made correct payments to the providers of Medicaid services and that it refunded the federal share of overpayments to the federal government. Specifically, the DHS automated Medicaid claims processing system (System) incorrectly paid a crossover claim for psychological services. A crossover claim is eligible for both Medicaid and Medicare; it is reimbursed by Medicare first and then crosses over to Medicaid. The error occurred because DHS did not have the proper procedure code in its system.

Status of Corrective Action: DHS is working with its fiscal intermediary, Electronic Data Systems, to validate, refine, and test the erroneous payment correction on crossover claims for psychological services. There were four problem statements involved, all of which were corrected in June 1999, and a number of complicating factors with implementing the erroneous payment corrections. DHS is working closely with its fiscal intermediary to assure that all processing of the subject claims is done correctly. It is estimated that it will take until the end of November 1999 to complete the erroneous payment correction. DHS will refund the federal government its share of overpayments as soon as the process is completed and the actual overpayment is identified.

Reference Number: **98-12-5**

Federal Catalog Number: 93.561

State Administering Department: Department of Social Services

Fiscal Year Finding Initially Reported: 1993-94

Audit Finding: **Reporting.** The Department of Social Services (DSS) did not reconcile all of its quarterly financial status reports for fiscal year 1997-98 to its accounting records. Specifically, DSS did not prepare a reconciliation for the Job Opportunities Basic Skills Training (JOBS) program. As a result, the Bureau of State Audits could not determine if the total grant expenditures shown on its financial status report agreed with its accounting records. The Bureau of State Audits reported a similar issue during the audits for fiscal years 1993-94 through 1996-97. Although DSS has made significant progress in implementing its reconciliation process, it still has not completed the reconciliation for its JOBS program.

Status of Corrective Action: The DSS completed its reconciliation of the JOBS program in April 1999. The DSS continues to prepare reconciliations of all major programs.<sup>19</sup>

Reference Number: **98-14-4**

Federal Catalog Number: 93.777

State Administering Department: Department of Health Services

Fiscal Year Finding Initially Reported: 1997-98

Audit Finding: **Special Tests and Provisions .** The Department of Health Services (DHS) does not have adequate controls to ensure that providers requesting Medicaid payments are licensed in accordance with federal laws. In addition, DHS does not have adequate controls to ensure providers make required disclosures to the State.

Status of Corrective Action: DHS has corrected the license numbers for the two providers found to have them incorrectly listed on file. In regards to the missing agreement, DHS requested and received the provider agreement. Quality control procedures will be developed and implemented to provide verification of the review and key entry processes. DHS has developed a regulation to incorporate 42 Code of Federal Regulations, Section 455, which includes disclosure requirements. In addition, DHS has developed

provider agreements and procedures to obtain background checks. DHS is continuing to work with the Department of Consumer Affairs to update licensing information for all active providers. Also, DHS will continue the periodic sampling of the agreements and require the providers to resubmit agreements when it identifies that an agreement is missing or needs updating.<sup>20</sup>

Reference Number: **98-14-5**

Federal Catalog Number: 93.778

State Administering Department: Department of Health Services

Fiscal Year Finding Initially Reported: 1997-98

Audit Finding: **Special Tests and Provisions** . The Department of Health Services (DHS) does not have adequate controls to ensure all potentially fraudulent activities are properly referred to the Department of Justice (DOJ).

Status of Corrective Action: Corrective action taken. DHS has established an improved, centralized, fraud-referral tracking system that includes a confirmation from DOJ for all referral transmittals. Also, DHS has established a position to monitor and closely track referrals. In addition, DHS will verify that DOJ had received the prior-year referrals identified in the audit report.<sup>21</sup>

Reference Number: **98-2-5**

Federal Catalog Number: 94.006

State Administering Department: California Conservation Corps

Fiscal Year Finding Initially Reported: 1996-97

Audit Finding: **Allowable Costs, Subrecipient Monitoring, Reporting** . The California Conservation Corps (CCC), a state grantee of the California Commission on Improving Life Through Service (Commission), administers the Cadre of Corps program, an element of the AmeriCorps program, through agreements with its service districts and AmeriCorps subgrantees. These service districts and subgrantees submit invoices to CCC for reimbursement of program and administrative costs. The CCC uses information from the invoices, rather than data from its accounting records, to prepare financial reports of AmeriCorps grant activities. The CCC did not always ensure the service districts and

subgrantees properly supported their invoices before it forwarded them to the commission for reimbursement. Further, CCC did not verify the invoices included allowable costs that complied with the program requirements. The CCC also did not receive timely invoices from service districts and subgrantees, which further prevents it from adequately monitoring their fiscal activities. As a result, CCC cannot produce reports on AmeriCorps grant activities that are accurate, complete, and supported by its accounting records.

Status of Corrective Action:

The CCC sent out a memorandum to the Headquarters' Managers and Project Coordinators, dated December 24, 1997, requiring that supporting documentation be submitted with the request for billing to Headquarters. All Project Coordinators were also reminded that they are responsible for maintaining the same documentation in an appropriate filing system locally. The CCC established a standard checklist for Headquarters and field staff to follow when submitting invoices to accounting for payment. The Headquarters' Cadre of Corps Project Coordinator position was vacant until July 1999. The new Project Coordinator is currently working on processing invoices based on actual expenditures. With a new Project Coordinator, CCC expects to process bills monthly. Furthermore, the Accounting Office staff is working on a standard billing package for all AmeriCorps programs, with an expected completion date of June 30, 2000.<sup>22</sup>

Reference Number:

**98-12-6**

Federal Catalog Number:

94.006

State Administering Department:  
Service

California Commission on Improving Life Through

Fiscal Year Finding Initially Reported:

1997-98

Audit Finding:

**Reporting and Subrecipient Monitoring.** The California Commission on Improving Life Through Service (Commission) did not provide complete and accurate financial reports of AmeriCorps grant activities. The Commission prepared its December 31, 1997, financial report from subgrantee reports without reconciling the data to its program or accounting records. As a result, the Commission was unaware the financial report did not include any expenditures for four subgrantees nor final quarter expenditures for five other subgrantees because the subgrantees did not submit this information. While the Commission notified the

Corporation for National and Community Service (Corporation) of the missing information, it did not file an amended report when it received the data. As of April 1999, the Commission also had not filed a final financial report for the grant. Furthermore, there were differences between the grant-funded expenditures subgrantees report and the Commission's records of grant funds paid to those subgrantees.

Status of Corrective Action:

Corrective action taken. The Commission required AmeriCorps programs to review their financial records and financial status reports and, if necessary, submit revised financial status reports for the program years 1994-95, 1995-96, and 1996-97. These revised reports, along with explanations for the original differences, were received by the Commission in late June 1999 and transmitted to the Corporation in July 1999, along with the financial status reports that were originally omitted from the Commission's December 31, 1997, aggregate financial report. Furthermore, the Commission has implemented an internal policy of verifying each AmeriCorps financial status report submitted against grant funds paid. Since August 1, 1998, California's AmeriCorps programs have also been using WBRS, the Web-based Reporting System, an on-line national database through which quarterly progress and financial reports are submitted. The WBRS system will help to ensure accurate reporting because programs enter actual expenditures information into the system and this data generates the financial status report.

## FOOTNOTES – AUDITOR COMMENTS

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<sup>1</sup> The Department of Finance adjusted its 1998-99 CMIA Annual Report to correct the understatement of the State's fiscal year 1997-98 interest liability caused by these errors or omissions.

<sup>2</sup> The status of this issue remains unchanged. Please refer to reference number **99-12-6** for additional information.

<sup>3</sup> Although Education is attempting to correct the weaknesses we identified in our audit of fiscal year 1997-98, it did not consistently obtain monthly lists from the Department of Social Services identifying institutions that are no longer licensed to operate in California. Further, it has not completed its modifications to ensure full compliance with federal laws and, therefore, we reported this weakness again in our audit of fiscal year 1998-99. Please refer to reference number **99-5-1** for additional information.

<sup>4</sup> We reviewed the status of this issue during our audit of fiscal year 1998-99 and found that Education had not implemented procedures to ensure full compliance with federal laws and, therefore, we report a similar weakness. Please refer to reference number **99-13-3** for additional information.

<sup>5</sup> We reported a similar weakness during our audit of fiscal year 1998-99. Please refer to reference number **99-7-2** for additional information.

<sup>6</sup> We reported a similar weakness during our audit of fiscal year 1998-99. Please refer to reference number **99-3-1** for additional information.

<sup>7</sup> We reported a similar weakness during our audit of fiscal year 1998-99. Please refer to reference number **99-12-1** for additional information.

<sup>8</sup> We reported a similar weakness during our audit of fiscal year 1998-99. Please refer to reference number **99-12-2** for additional information.

<sup>9</sup> The Department of Finance rejected the Budget Change Proposal (BCP) in July 1999. The OES will submit another BCP to increase staffing in fiscal year 2000-2001. Please refer to reference number **99-13-5** for additional information.

<sup>10</sup> We disagree with Education's position. Additionally, because Education has not implemented any corrective action plan, we reported this weakness again in our audit of fiscal year 1998-99. Please refer to reference number **99-2-2** for further information.

<sup>11</sup> We reported a similar weakness during our audit of fiscal year 1998-99. Please refer to reference number **99-3-5** for additional information.

<sup>12</sup> Rehabilitation has taken action to correct the noncompliance issues we identified on our fiscal year 1997-98 audit. However, we noted similar noncompliance during our audit of fiscal year 1998-99. Please refer to reference number **99-5-2** for additional information regarding eligibility requirements.

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<sup>13</sup> The Chancellor's Office is correcting the weaknesses that we identified in our audit of fiscal year 1997-98. However, it has not completed its modification to ensure full compliance with federal laws and, therefore, we reported this weakness again in our audit of fiscal year 1998-99. Please refer to reference number **99-9-4** for additional information.

<sup>14</sup> We reported a similar weakness during our audit of fiscal year 1998-99 audit. Please refer to reference number **99-13-4** for additional information.

<sup>15</sup> We reported a similar weakness during our audit of fiscal year 1998-99. Please refer to reference number **99-13-1** for additional information.

<sup>16</sup> We reported a similar weakness during our audit of fiscal year 1998-99. Please refer to reference number **99-14-2** for additional information.

<sup>17</sup> We reported a similar weakness during our audit of fiscal year 1998-99. Please refer to reference number **99-14-3** for additional information.

<sup>18</sup> We reviewed the status of this issue during our audit of fiscal year 1998-99 and found that Education's procedures were not sufficient to ensure signed suspension and debarment certifications were received from all federal program participants. Therefore, we reported a similar weakness for this program. Please refer to reference number **99-9-1** for additional information.

<sup>19</sup> We disagree that Social Services continues to prepare reconciliations of all major programs. Please refer to reference number **99-12-5** for additional information regarding federal financial reporting.

<sup>20</sup> Health Services has taken steps to correct some of the weaknesses we identified in our audit of fiscal year 1997-98. However, the department continues to pay providers even though it has no agreement on file that provides the disclosure required. Please refer to reference number **99-14-7** for additional information.

<sup>21</sup> Although Health Services developed improved procedures for referring and tracking suspected fraud cases to the Department of Justice, because Health Services did not implement them until June 1999, we reported a similar weakness for fiscal year 1998-99. Please refer to reference number **99-14-8** for additional information.

<sup>22</sup> Although CCC made some improvements, we reported a similar weakness during our fiscal year 1998-99 audit. Please refer to reference number **99-13-8** for additional information.

*Agency's comments provided as text only.*

DEPARTMENT OF FINANCE  
OFFICE OF THE DIRECTOR  
STATE CAPITOL, ROOM 1145  
SACRAMENTO, CA 95814-4998

March 10, 2000

Ms. Mary P. Noble  
Acting State Auditor  
555 Capitol Mall, Suite 300  
Sacramento, CA 95814

Dear Ms. Noble:

STATE OF CALIFORNIA: INTERNAL CONTROL AND STATE AND FEDERAL COMPLIANCE  
AUDIT REPORT FOR THE YEAR ENDED JUNE 30, 1999

Thank you for the opportunity to respond to the internal control and state and federal compliance audit report. This report was the result of your examination of the state's general purpose financial statements for the fiscal year ended June 30, 1999, and will be part of the Single Audit Report covering this period. We accept the reported findings and recommendations. Although our internal controls and administration of federal awards can always be improved, the conclusion that none of the findings were material weaknesses is evidence of the state's effective fiscal oversight.

California provides its citizens with numerous state and federal programs and activities and is much more complex and vast than most economic entities in the world. Such complexity, along with ever-present budget constraints, challenges us to meet the requirements of those programs and activities efficiently and effectively. Moreover, such operations must exist within a system of internal and administrative control that safeguards assets and resources and produces reliable financial information. Attaining these objectives and overseeing the financial and business practices of the state continues to be an important part of the Department of Finance's leadership.

In meeting our responsibility for financial leadership and oversight, the Department of Finance conducts internal control reviews of state departments and also reviews areas of potential weakness in the state's fiscal systems. In addition, we provide oversight of departmental internal audit units by issuing audit guidelines and conducting quality assurance reviews. Further, we have an ongoing process of issuing Audit Memos to departments that establish statewide policy and provide technical advice on various audit related issues. We will soon issue an Audit Memo concerning the results of the fiscal year 1998-99 Single Audit.

Ms. Mary P. Noble  
March 10, 2000  
Page 2

The head of each state department is responsible for establishing and maintaining a system of internal accounting and administrative control within their department. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified for changing conditions. Moreover, all levels of state management must be involved in assessing and strengthening their system of internal accounting and administrative controls to minimize fraud, errors, abuse, and waste of government funds.

Individual departments have separately responded to the report's findings and recommendations. Accordingly, their viewpoints and corrective action plans are included in the report. We will monitor the findings and reported corrective actions to identify potential changes in statewide fiscal procedures.

The Department of Finance will continue to provide leadership to ensure the proper financial operations and business practices of the state, and to ensure that internal controls exist for the safeguarding and effective use of assets and resources.

If you have any questions concerning this letter, please contact Samuel E. Hull, Chief, Office of State Audits and Evaluations, at (916) 322-2985.

Sincerely,

*( Signed by: B. Timothy Gage )*

B. TIMOTHY GAGE  
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